

## MANAGEMENT AGREEMENT

THIS MANAGEMENT AGREEMENT ("Agreement") is made effective as of July 13 2010 by and between The Redevelopment Agency of the County of Monterey ("Owner") and South County Property Management Corporation ("Agent").

### RECITALS

A. Owner is the owner of certain real property and the improvements thereon commonly known as "Kents Court" and consisting of 19 units located at 1 Kents Court, Pajaro, CA 95076 ("Property").

B. Owner desires to obtain the services of Agent for the purpose of managing and operating the Property and Agent desires to provide such services.

C. Agent holds a real estate brokerage license through an authorized officer, as required by the laws of the State of California.

### AGREEMENT

NOW, THEREFORE, in consideration of the promises and covenants herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Owner and Agent agree as follows:

1. Appointment of Agent. Owner hereby appoints Agent and Agent hereby accepts appointment on the terms and conditions set forth below as Owner's exclusive agent to manage, operate, supervise, and lease the Property and, except as otherwise provided herein, to perform actions necessary to fulfill Owner's obligations to government agencies with authority over the Property and parties with interests in the Property pursuant to limited partnership agreements or other contracts, copies of which shall be provided to Agent by Owner. The Owner acknowledges that there are no other parties with interests in the Property.

2. Term. This Agreement shall commence on July 1, 2010, and expire on June 30, 2011, subject to up to four (4) one-year extensions at the option of the Owner, until May 25, 2015.

3. Compensation. The compensation of Agent for its services hereunder shall be as provided in Exhibit A attached hereto and incorporated herein by this reference. Exhibit A may be amended, from time to time, in a writing signed by both parties. Agent Fees and Expenses are payable in accordance with Section 9 herein. In the event of commencement or termination of this Agreement other than on the first (1<sup>st</sup>) or last day of a month, the compensation of Agent shall be prorated to the effective date of such commencement or termination. Proration shall be calculated based upon a thirty (30) day month. Agent is not required to advance monies due under this Agreement, whether for fee and cost reimbursement due to Agent or others; however, if Agent does advance monies, Agent is entitled to interest at the rate of ten percent (10%) per annum or the maximum amount allowed by law from the date such monies

are advanced. Any monies advanced must be pre-approved in writing by Owner. For purposes hereof, email notification of approval by Owner to Agent is acceptable.

4. Duties and Responsibilities of Agent.

a. General Responsibilities of Agent. Subject to the provisions of this Agreement, Agent is hereby authorized to manage, operate and lease the Property in accordance with the standards of practice of professional managers of similar affordable properties in the location of the Property and to provide other customary management services at the Property for the ordinary and usual business and affairs of the Property as are consistent with the management, operation, leasing, and maintenance of similar properties. For the purpose of this Agreement, "similar properties" means properties generally serving the same population of residents and operating pursuant to similar regulatory restrictions or financing programs. "Customary management services," however do not include the provision of social services to residents, but are limited to the proper leasing of the Property, the collection of rents, the preparation of budgets and reports, the payment of appropriate bills and the proper maintenance of the Property.

b. Specific Duties and Responsibilities of Agent. Agent agrees and is hereby granted authority to do the following:

i. Implementation of Business Plan/Budget. Agent shall implement a business plan and/or budget set in collaboration with Owner on an annual basis. If Owner requests Agent to perform services beyond the ordinary and usual business and affairs of the Property, Agent shall be entitled to additional compensation for same, which compensation shall be negotiated by the parties.

ii. Collection and Disbursement of Funds. Agent shall use commercially reasonable and lawful efforts and means to collect the rents and other charges due from tenants and all other revenues originated by the operations of the Property. When deemed appropriate by Agent and approved by Owner, Agent shall institute legal proceedings on behalf of Owner for collection in connection with the operation of the Property. Owner authorizes Agent to request, demand, collect, and receive funds for collection thereof in accordance with all applicable laws, regulations, ordinances or administrative grievance procedures and for the lawful dispossession of tenants, guests, and other persons from the Property. Counsel shall not be used for actions taken in small claims court. Expenditures for these actions shall be approved in advance. For purposes hereof, email notification of approval by Owner to Agent is acceptable. Amounts as approved and expended by Agent for use of non-employee consultants or experts, including attorneys, in the performance of these duties are the responsibility of Owner and shall be billed as set forth below.

iii. Books, Records, and Documentation. Agent shall maintain, either at its principal office or the Property as determined by Agent in its sole discretion, complete and separate books, records and documents relating to the management and operation of the Property, including without limitation all contracts, original leases, amendments and other agreements relating to contracts and leases, tenant files,

correspondence with tenants and prospective tenants, computations of rental adjustments, maintenance and preventive maintenance programs, construction records, inventories of personal property and equipment, correspondence with vendors, job descriptions, correspondence with federal, state and local authorities, brochures, and accounts held or maintained by Agent (all such books, records, and documents being referred to herein as "Books, Records, and Documents"). For the purposes hereof, Agent may use a hosted accounting software service or similar remote access recordkeeping service, and by use of such service is deemed to maintain the books of the Property at Agent's principal office.

(a) Unless otherwise instructed by Owner in writing, books and records of account shall be maintained in conformity with Generally Accepted Accounting Principles consistently applied at Agent's sole expense. Except as approved in writing by Owner, all accounting functions shall be performed by employees of Agent whose compensation is payable solely by Agent without reimbursement by Owner. Except as otherwise provided herein, Owner shall have the right to examine, audit and make copies of said Books, Records and Documents at Agent's principal office at reasonable times and with prior reasonable notice. Owner acknowledges that all electronic data created and/or maintained by Agent shall be the sole and exclusive property of Agent. Unless specifically agreed to by Agent in writing, Agent shall have no obligation to supply any electronic data from Agent's database to either Owner or another property management company, provided, however, that Agent shall produce useable hard copy data.

(b) Upon request, and with prior reasonable notice, Agent shall make all Books, Records and Documents available for examination, audit, inspection and copying by duly authorized representatives of the County of Monterey or other authority with regulatory power and/or jurisdiction over the Property to the extent required by federal or state law.

iv. Financial Reporting. Agent shall prepare and provide to Owner, on or before:

(a) the twentieth (20<sup>th</sup>) day after the end of each month, an income statement and balance sheet as of the end of the prior month.

(b) the sixtieth (60<sup>th</sup>) day after the end of each fiscal year of the Property, a preliminary annual report.

(c) the ninetieth (90<sup>th</sup>) day after the end of each fiscal year, a final annual report and annual financial statements.

At the request of Owner and with prior reasonable notice, Agent also shall furnish such further accounting and fiscal information in a manner sufficient to respond to Owner's financial information requirements.

v. Repairs and Maintenance. Agent shall use due professional care to maintain the condition of the Property in the condition prescribed by Owner, shall regularly inspect the readily accessible areas of the Property, shall take ordinarily

prudent precautions against fire, vandalism, burglary and trespass on the Property, and shall arrange to make all necessary repairs. Agent shall make no expenditures for repairs in excess of \$2,500 without the prior written consent of Owner, unless the expenditure for such repairs has been approved by the annual budget or such repairs are emergency repairs to the Property immediately necessary for the preservation or safety of the Property or for the safety of other persons or required to avoid suspension of necessary services to the Property. For purposes hereof, email notification of consent by Owner to Agent is acceptable. Agent shall notify Owner immediately of any emergency repairs. Agent shall notify Owner and provide a recommendation for any proposed expenditure not deemed an emergency repair as outlined above or approved in the annual budget, for repairs in excess of \$2,500.

vi. Capital Assets. Unless Agent has Owner's prior approval, Agent shall make no expenditures in excess of \$2,500 for alterations, capital improvements, renovations or replacements of furniture, fixtures or equipment, unless such expenditure is contained in the annual budget or deemed an emergency replacement immediately necessary for the preservation or safety of the Property or for the safety of other persons or required to avoid suspension of necessary services to the Property. Notwithstanding the above, the approved annual budget with proper documentation shall be deemed authorization for Agent to make budgeted expenditures without prior approval by Owner, provided that (a) the amount of the expenditure is within fifteen percent (15%) or \$2,500 of the originally approved amount, whichever is less; and (b) Agent submits evidence of expenditure satisfactory to Owner. Other than replacements, Agent shall make no disposition of fixed assets, as determined in accordance with Owner's Chart of Accounts, with a value in excess of \$2,500 without Owner's prior written approval. For purposes hereof, email notification of approval by Owner to Agent is acceptable. Agent shall notify Owner and provide a recommendation for any proposed capital improvement, renovation or replacement expenditure in excess of \$2,500.

vii. Contracts, Equipment Leases and Credit Accounts. Owner hereby authorizes Agent to make and enter into contracts for budgeted services and supplies, equipment leases and credit accounts on behalf of Owner, as necessary in the ordinary course of business for the operation, maintenance and service of the Property. Owner also hereby authorizes Agent to pay amounts due under such contracts, leases and accounts on Owner's behalf. Agent shall be authorized to enter into unbudgeted contracts and leases in amounts up to \$2,500 without the prior approval of Owner if Agent is faced with circumstances that reasonably constitute an emergency and Agent has attempted but is unable to contact and secure Owner's prior approval.

viii. Supplies and Inventory. Within the approved budget, Agent shall, on behalf of Owner, purchase such supplies and expendable items as are necessary to operate the Property. When taking bids or issuing purchase orders, Agent shall use its commercially reasonable and prudent efforts to secure for Owner's benefit any discounts, commissions, or rebates obtainable in connection with such purchases.

ix. Insurance. On behalf of Owner, Agent shall obtain and keep in force all usual and customary insurance for the ownership and operation of the

Property as rental housing. Owner waives all rights of subrogation against Agent and Agent shall secure such coverage, the cost of which shall be expensed through the Property's Operating Account. Specifically:

(a) On behalf of Owner, Agent shall obtain and keep in force policies with the following coverage: (i) fire and extended coverage insurance to protect against direct physical loss or damage to the Property; (ii) Loss of Income insurance; (iii) Comprehensive General Liability (CGL) insurance with respect to the Property and its operations and in amounts not less than \$1,000,000 per occurrence of bodily injury and property damage and not less than \$3,000,000 policy general aggregate, or such higher amounts as agreed upon by the parties to sufficiently insure Owner's obligations to hold Agent harmless for claims arising from the operation of the Property; (iv) additional named insured status for Agent that provides Agent with 30-day prior notice of cancellations or material change in coverage; and (v) assurance that Owner's insurance is the primary insurance and that any insurance provided by Agent is excess and non-contributing.

(b) Agent shall not knowingly permit the use of the Property for any purpose which might void any policy of insurance relating to the Property, increase the premium otherwise payable or render any loss thereunder uncollectible.

(c) Agent shall cause to be placed and kept in force workers' compensation insurance up to the statutory limit, including broad form, all-states coverage and employer's liability of at least \$1,000,000, and Agent shall furnish Owner certificates evidencing coverage upon request by Owner. Owner shall reimburse Agent for its pro-rata share of workers' compensation insurance expenses associated with employees of Agent employed for the direct benefit of Owner or the Property as per the approved budget, and pursuant to approved Agent Fees and Expenses approved by Owner as part of the Monthly Invoice. All corporate employees of Agent shall be covered at the expense of Agent.

x. Debt Service, Taxes and Assessments. For and on behalf of Owner, Agent shall pay taxes, impositions, or assessments relating to the ownership or operation of the Property, including, without limitation, improvement assessments, real estate taxes, personal property taxes, taxes on income or rents, or any charges similar to or in lieu of any of the foregoing. Upon request by Owner, Agent shall:

(a) verify bills for real estate, personal property or other taxes, improvement assessments, and other similar charges which are or may become liens against the Property or which may be levied on the basis of ownership or operation of the Property;

(b) make an annual review of and/or submit a report on all real estate, personal property and other taxes and all assessments affecting the Property;

(c) timely file all personal property tax returns after execution of such returns by Owner including the filing of annual welfare exemption forms to exempt the Property from state property taxes.

xi. Compliance with Legal Requirements. Agent shall use reasonable means to become aware of, and shall take such actions as Agent deems prudent and necessary to comply with any laws, orders, public housing agency plans or requirements affecting the use or operation of the Property by any federal, state, county, or municipal agency or authority, including but not limited to compliance with and participation in administrative grievance procedures, provided that, if the cost of compliance in any instance exceeds the amount budgeted herefor, Agent shall not expend funds for compliance without Owner's prior written consent. For purposes hereof, email notification of consent by Owner to Agent is acceptable. Owner shall provide Agent with all information necessary for Agent to be fully informed as to the nature and extent of all programs applicable to the Property, including but not limited to providing copies of regulatory agreements, use permits, restrictive covenants or other instruments, whether or not recorded against the Property, which contain operating covenants or restrictions. Agent shall promptly notify Owner in writing of any orders, notices, plans or requirements requiring expenditure of non-budgeted amounts. Agent, however, shall not take any action as long as Owner is contesting, or has affirmed its intention to contest and promptly institutes proceedings contesting any law, order, plan or requirement. Agent shall prepare, execute, and, after obtaining the written approval of Owner, thereby file any customary and standard reports and documents required by an applicable governmental authority. Agent covenants and agrees to obtain and maintain all licenses and permits necessary for the conduct of its business as Agent of the Property. Amounts expended by Agent for use of non-employee consultants or experts, including attorneys, in the performance of these duties shall be reimbursed by Owner only if budgeted or pre-approved and pursuant to Paragraph 9, concerning Billing and Payment for Services.

xii. Tenant Compliance. Agent shall attempt to secure full compliance by each tenant with the terms of the tenant's lease. Mandatory compliance shall be emphasized. Agent may lawfully terminate any tenancy when, in Agent's judgment, sufficient cause (including but not limited to non-payment of rent) for such termination occurs under the terms of the tenant's lease. Agent is authorized to consult with and retain legal counsel of its choosing for such legal actions as Agent reasonably believes to be necessary, including, but not limited to bringing actions for eviction and executing notices to vacate and judicial pleading incident to such actions. Such actions may be brought in the name of Agent as agent for Owner. Agent shall notify Owner immediately in regard to any claims relating to the Property in any way and shall cooperate with Owner in providing a defense, but shall receive prior authorization from Owner before engaging legal counsel for a defense of a claim unrelated to eviction. For purposes hereof, email notification by Owner to Agent, or by Agent to Owner, is acceptable. Attorney's fees and other necessary costs incurred in connection with the prosecution or defense of any claims related to the Property, including attorneys' fees and, where necessary, the retention of experts, shall be paid pursuant to Paragraph 9, concerning Billing and Payment for Services.

xiii. Energy Conservation. Agent shall use prudent and customary means to use and control utilities at the Property in a manner designed to minimize total costs and satisfy Owner's obligations to tenants.

xiv. Advertising. Agent shall advertise the Property for rent at such times and by use of such media as it deems necessary and in compliance with fair housing laws and regulations; subject to the annual budget approved by Owner or Owner's prior written approval.

xv. Employment of Personnel. Agent shall hire, train, supervise, direct the work of, pay, and discharge all personnel necessary for operation of the Property, subject to the following terms and conditions:

(a) Such personnel shall in every instance be employees of Agent and not of Owner. Owner shall have no right to supervise or direct such employees. All costs associated with the employment of personnel necessary for the on-site operation of the Property, including, but not limited to, the proportional amount of salaries, wages, other compensation and fringe benefits (including without limitation social security, taxes, worker's compensation insurance, unemployment insurance and the like), shall be the subject of an approved annual budget and be paid pursuant to Paragraph 9 relating to Billing and Payment for Services. Any litigation costs or expenses, including attorney's fees and costs and wage penalties relating to the employment of on-site personnel are the responsibility of Agent and not Owner, unless a court or arbitrator determines Owner to be responsible by reason of non-payment for legitimate services. The terms "employees" or "personnel" shall be deemed to mean and include employment of a casual, temporary, or part-time nature.

(b) The salaries, wages, other compensation, and benefits (including but not limited to social security, taxes, worker's compensation insurance, funding of annuity benefits, payroll processing fees and the like), of all on-site, field, or maintenance employees of Agent working on or with respect to the Property shall be reimbursable to Agent by Owner and paid pursuant to Paragraph 9 relating to Billing and Payment of Services. Reimbursements shall not include entertainment or training, but can include travel for property manager supervisors, equipment and other expenses if approved as part of the budget process. Travel expense may not exceed the amounts allowed under Monterey County's travel policy.

(c) The salaries, wages, other compensation, benefits, travel, entertainment, and other expenses with respect to the following persons working on or in respect to the Property shall be non-reimbursable expenses of Agent:

(i) executive personnel of Agent charged with general administration of Agent's performance of this Agreement; and

(ii) off-site recordkeeping personnel.

xvi. Leasing. Agent shall make diligent efforts to secure and/or retain tenants for the Property consistent with the character and status of the Property

as outlined in any resident selection criteria established by Owner, and using the form of lease attached to this Agreement as Exhibits C and D. Agent shall make diligent efforts to assure that all leases and leasing practices conform to all laws, ordinances and regulations applicable to the Property and approved by Owner. The costs of customary financial responsibility, criminal background, or general reputation investigations of prospective residents shall be charged to the Property's Operating Account. Owner has the discretion to vary the terms of the form lease attached as Exhibit D (Kents Court Temporary Relocation Housing lease), in any case of exceptional hardship.

5. Duties and Responsibilities of Owner.

a. General Responsibilities of Owner. In addition to the specific obligations set forth elsewhere in this Agreement, Owner agrees to cooperate with Agent in the fulfillment of Agent's obligations under this Agreement including, but not limited to, promptly providing and/or executing all certificates, documents, information and funding necessary for Agent's management of the Property. Further, Owner shall not require Agent to act in a manner that would violate any applicable laws, regulations or program requirements and so requiring such conduct is an express violation of this Agreement by Owner. Owner hereby represents and warrants that it is the owner of the Property and that it understands and acknowledges the legal and financial duties and responsibilities of property ownership.

b. Specific Duties and Responsibilities of Owner. Owner agrees to do the following:

i. Contact with Regulatory Agencies. Owner shall timely submit certificates, documents, and information to appropriate regulatory agencies, with copies to Agent, and shall at all times maintain in good order all licenses, permits, registrations, or other authorizations applicable to the ownership and operation of the Property. Owner shall also copy Agent on correspondence or other communications with regulatory agencies with respect to the Property.

ii. Housing Program. Owner shall provide a description of the housing program to be implemented by Agent. The housing program shall be as provided in Exhibit B attached hereto and incorporated herein by this reference. Owner may, from time to time, amend Exhibit B, in writing, and any such amendment shall be effective thirty (30) days after written notice thereof is given to Agent.

iii. Provision of Working Capital. Owner shall cause to be maintained funding in the General Account in an amount sufficient to maintain a minimum balance of \$15,000 (the "Working Capital"). Agent may use Working Capital to pay for expenses in accordance with the annual budget and pursuant to Paragraph 9 concerning Billing and Payment for Services. The amount of the Working Capital in the General Account may be changed at any time upon thirty (30) days notice to Agent but in no case will be no less than the lesser of \$15,000 or the average budgeted expenses for two (2) months.



iv. Asset Management. Owner shall act as a responsible owner and asset manager for the Property and ensure sufficient financing is in place for the benefit of the Property. Owner shall designate a representative with accounting knowledge who is qualified to review the financial statements and other reports provided by Agent.

v. Property Condition. Owner shall be responsible for providing sufficient funds to address property condition, habitability and disability access, accommodation and modification issues at the Property.

6. Expenses of Owner. Except as otherwise provided in this Agreement, all contractual obligations incurred to third parties in the course of managing the Property pursuant to this Agreement, which are generally reflected in the approved budget, shall be obligations of Owner and shall be for its account. In no event shall Agent be obligated to advance funds on behalf of Owner. All expenses incurred by Agent shall be commercially reasonable in the rental housing industry for similar properties. All reasonable expenses, including fees for necessary legal advice, incurred by Agent in its performance as property manager under this Agreement, except for those related to the negotiation or interpretation of this Agreement, shall be reimbursed by Owner and paid in accordance with Paragraph 9 relating to Billing and Payment for Services. Owner's responsibility for such expenses, including future attorneys' fees and costs relating to issues arising during the term of this Agreement, shall remain in full force and effect until resolution of the issues even if this Agreement is terminated before such resolution.

7. Expenses of Agent. Agent agrees to pay all salaries, wages and other compensation and fringe benefits of all personnel described in Section 4.b.xv (c). (Duties and Responsibilities of Agent; Specific Duties and Responsibilities of Agent; Employment of Personnel) above as an expense of Agent without reimbursement by Owner. Agent shall pay expenses which are expressly not reimbursable hereunder, such as costs of providing corporate office facilities and supplies for such off-site corporate personnel and other expenses incurred by Agent which are not incurred in the performance of duties and obligations required by this Agreement.

8. Bank Accounts.

a. Establishment of Accounts. Agent shall establish the following bank or money fund accounts (as designated by Owner) in its name in banks or other institutions approved or selected by Owner:

i. An "Operating Account" which shall be used for the deposit of all funds, whether received by Owner or Agent, from the operation of the Property, including Unrestricted Cash and funds provided by a public housing agency or authority. At Owner's request, the Operating Account shall also be used as an impound account for reserves for taxes and insurance. "Unrestricted Cash" refers to cash funds that are not restricted by purpose or by law and are available for payment of operational expenses pursuant to this Agreement.

In the event of a projected negative balance in the Operating Account, Agent shall notify Owner at least thirty (30) days prior to the date of the anticipated shortfall. For purposes hereof, email notification by Agent to Owner is acceptable. Agent shall include sufficient information and appropriate back-up to Owner to support Agent's request. Upon receipt of Agent's notice, Owner shall promptly deposit sufficient funds in the Operating Account to prevent the anticipated shortfall. In the event of a positive balance in the Operating Account at the end of any month, Agent shall distribute to Owner the excess, if any, of such positive balance over the sum of \$5,000.00.

ii. A "General Account" which is a centralized disbursement account containing funds used to pay the normal and reasonable expenses incident to the operation and maintenance of the Property, excluding payment of Agent's compensation. The General Account may also be used to pay insurance premiums and ad valorem taxes on real and personal property. The General Account may also be used for disbursements of excess cash to Owner, if applicable.

iii. A "Security Deposit Account" is a Restricted Cash account for the retention of security deposits delivered in connection with leases of any portion of the Property. "Restricted Cash" refers to cash funds that are restricted by purpose or by law and are not available for payment of operational expenses pursuant to this Agreement.

iv. The Operating Account and Security Deposit Account are to be established solely for the Property, and shall contain no funds other than money collected from, or intended for use in connection with operation of the Property, and Agent shall not commingle any of its own funds with the funds of Owner. All funds deposited in these two accounts are the property of Owner held in trust for Owner by Agent. These accounts shall be subject to the control of both Agent and Owner, either of whom may draw checks thereon, provided that Agent may only disburse funds from the Operating Account to pay Agent's fees and expenses with the prior written authorization of Owner. For purposes hereof, email notification of authorization by Owner to Agent is acceptable.

vi. Agent may also maintain a petty cash fund from money in the General Account and make payments from such account in a manner consistent with the usual course of dealing with such funds in the property management business. Such petty cash fund shall be limited to no more than \$200 and shall be subject to the same rules and restrictions set forth above as are applicable to the bank accounts.

vii. As appropriate, and after Owner approval of Agent's Monthly Invoice (described below), Agent shall transfer funds in the Operating Account to the General Account in the amount of disbursements made on behalf of the Property from this account.

b. Funds Provided by Owner. If the funds collected by Agent from operation of the Property are not sufficient to pay the expenses incurred and authorized to be paid in operation of the Property and to make all reimbursements to Agent

pursuant hereto, Agent shall submit to Owner a statement showing such shortfall and identifying the bills and charges requiring payment. In addition to providing the Working Capital required under Section 5.b.iii. (Duties and Responsibilities of Owner; Specific Duties and Responsibilities of Owner; Provision of Working Capital) above, Owner shall, within thirty (30) days of notification, deposit funds to the Operating Account accessible to Agent sufficient to pay fees and expenses as set forth below.

9. Billing and Payment for Services.

a. Monthly Invoice. No later than the twentieth (20<sup>th</sup>) day of each month, Agent shall submit an invoice for services rendered and expenses incurred during the prior month ("Monthly Invoice"). The Monthly Invoice shall separately identify expenses paid to third party vendors (such as for utilities, insurance, and necessary repairs) ("Third Party Fees and Expenses") from incurred expenses payable to Agent (such as for employee compensation, management services and other fees) ("Agent Fees and Expenses"). Owner shall have ten (10) business days to review such Monthly Invoices. Upon approval, Agent shall be authorized to transfer the approved amounts into the General Account. Owner approval of Agent Fees and Expenses shall operate as written authorization for Agent to pay itself from the Operating Account. For purposes hereof, email notification of authorization by Owner to Agent is acceptable.

b. Cash Flow. The Parties agree that the General Account has a balance of approximately \$15,000, as of the date of this Agreement. The funds in the General Account shall be used as a means of cash-flow for the payment of Third Party Fees and Expenses pending the approval by Owner of Monthly Invoices. Payment of Third Party Fees and Expenses, especially recurring fees and expenses such as utility bills, insurance premiums, and the like, are authorized to be "cash-flowed" in this manner. In addition, Agent's monthly fees for management services of \$50 per unit may be billed and authorized for payment in advance. All other Agent Fees and Expenses may only be paid after Owner approval of Monthly Invoices.

10. Annual Budgets.

a. Submission of Budgets. At the commencement of this Agreement, and thereafter, at least sixty (60) days prior to the beginning of each fiscal year, Agent shall prepare and submit to Owner for Owner's approval proposed budgets of (i) the estimated income and expenses of the Property and (ii) the estimated capital expenditures for the Property for the next fiscal year or other operating period as may be agreed by the parties. The proposed budgets shall be made assuming accrual basis accounting or such basis as prescribed, in writing, by Owner. Agent shall provide an explanation for the numbers used in such budgets.

b. Submission of Other Reports. Owner may request that Agent submit the following additional reports when submitting proposed budgets: rental rate recommendations with analysis if appropriate; a listing of all capital improvement and all repair, maintenance, renovation and replacement expenditures (together with estimated costs for each item) anticipated to be made in the upcoming operating period; a payroll analysis including a salary or wage description; including any fringe benefits

reimbursable hereunder, for every on-site employee of Agent whose compensation is reimbursable hereunder.

c. Approval of Budgets. Owner agrees that if objection to the proposed budgets is not given within thirty (30) days after Owner's receipt of said budgets, Agent may assume approval and operate within the proposed budget until notified otherwise by Owner in writing. To the extent reasonable, Agent shall eliminate or revise any item or amount in the budgets which is disapproved by Owner to the extent necessary to obtain Owner's approval.

d. Compliance with Budgets. Budgets approved by Owner shall be used by Agent as a guide for the actual operation of the Property. Notwithstanding the foregoing, Agent is hereby authorized to make any expenditure for the habitability, maintenance or operation of the Property without Owner's prior written approval, unless such expenditure shall cause (i) a particular budget category to be exceeded by the greater of \$2,500 or more than ten percent (10%), or (ii) the total budget for the Property to be exceeded by more than five percent (5%).

11. Early Termination. Notwithstanding Section 2 (Term) above, this Agreement and the obligations of the parties hereunder shall cease upon the occurrence of any of the following:

a. Owner Breach. If Owner fails to comply, after notice and an opportunity to cure, with any rule, order, determination, ordinance or law of any federal, state, county, municipal authority, or governing agency as determined by that entity, Agent may terminate this Agreement upon ten (10) business days written notice to Owner unless Owner is in good faith contesting same.

b. Default. If either party defaults in the performance of any of its obligations hereunder and such default continues for thirty (30) days after written notice to the defaulting party specifying such default, the party not in default may terminate this Agreement upon ten (10) business days written notice to the defaulting party. Notwithstanding the above, if a cure has commenced and the defaulting party is diligently pursuing said cure within said thirty (30) day period, then the party not in default shall not provide notice of termination.

c. Termination at Will. Either party may terminate this Agreement, for any reason or no reason, upon six (6) months' prior written notice to the other party. It is understood that the respective rights and obligations of the parties shall continue to be governed by this Agreement until the effective date of such termination.

d. Notice. Notwithstanding any of the time periods set forth above, for properties receiving any form of subsidy or subject to any state or federal agreements, Owner and Agent hereby agree to give sufficient notice to the other to allow Owner and Agent to comply with all regulatory notice requirements.

12. Duties Upon Termination. Upon termination of this Agreement for any reason, the following shall apply:

a. Owner Funds. Agent shall have no further right to act on behalf of Owner or to disburse any of Owner's funds as of the effective date of the termination.

b. Delivery of Books, Records and Documents. On or before the last day of the first full calendar month following the termination date, Agent shall deliver to Owner all Books, Records, and Documents (as herein defined) maintained by it pursuant to this Agreement and do all that is reasonably necessary to facilitate the orderly transition of management of the Property.

c. Final Accounting. Agent shall render to Owner an accounting of all funds of Owner held by Agent relating to the Property and shall immediately cause such funds to be paid to Owner. Agent shall perform all reporting and accounting functions hereunder for the period from the date of the last report or accounting to the date of termination.

13. Environmental Conditions. Owner represents and warrants to Agent that, to the best of Owner's knowledge, without any duty of investigation or inquiry, Owner is not aware of any toxic or hazardous substances in the soil or groundwater on the Property that exceed federal, state or local action levels.

14. Relationship. It is understood and agreed that all contracts and obligations entered into by Agent with respect to the Property as provided for, and consistent with, this Agreement (other than employment agreements) shall be the obligations of Owner. Agent and Owner shall not be construed as joint venturers or partners, and neither shall have the power to bind or obligate the other party except as set forth in this Agreement. Agent understands and agrees that its relationship with Owner is that of independent contractor working on behalf of Owner and that it shall not represent to anyone that its relationship to Owner is other than that of independent contractor. Notwithstanding the foregoing, Agent acknowledges and understands that its relationship with Owner is that of a fiduciary and, as such, Agent owes Owner the duties inherent in said relationship. If it is determined that liability has accrued due to Agent's negligence, misconduct or breach of fiduciary duty to Owner, Agent shall hold Owner harmless from all liabilities and costs of defense.

15. Assignment. This Agreement shall not be assigned by Agent without the prior written approval of Owner, which approval may be withheld in Owner's sole and absolute discretion.

16. Benefits and Obligations. Subject to the provisions of Section 15 (Assignment) above, the covenants and agreements herein contained shall inure to the benefit of, and be binding upon, the parties hereto and their respective heirs, executors, successors, and assigns.

17. Indemnification.

a. Indemnification of Agent. Owner shall indemnify, defend and hold harmless Agent, its officers, directors, affiliates, partners, agents, servants, employees,

independent contractors, or those acting on behalf of Agent ("Agent Indemnified Parties") from and against any claim, judgment, loss or settlement for damage or injuries to property or persons arising out of or connected with this Agreement or Owner's ownership of the Property except for claims or injuries due to the negligence or misconduct of Agent or Agent's Indemnified Parties. Owner and Agent agree that to the extent either Owner or Agent deems it necessary or prudent to have separate counsel from that of Owner, Owner shall initially bear all fees, costs, and expenses associated with retention of such separate counsel, subject to the right of reimbursement after a determination of liability.

b. Indemnification of Owner. Agent shall indemnify and hold harmless Owner, its officers, directors, employees, independent contractors, or those acting on behalf of Owner other than Agent ("Owner Indemnified Parties") from and against any and all claims, judgments, losses or settlements for damage or injuries to property or persons arising out of or connected with this Agreement or Agent's management of the Property as described in the Agreement, except for any act of gross negligence or willful misconduct by Owner or Owner Indemnified Parties.

c. Conditions. The obligations of either party to indemnify and hold harmless the other under this Agreement are subject to the following conditions:

i. the party to be indemnified shall promptly notify the indemnifying party of any matter with respect to which indemnity is required; and

ii. the indemnifying party shall not take any actions, including an admission of liability, which would bar the indemnifying party from enforcing any applicable coverage under policies of insurance held by the indemnifying party or would prejudice any defense of the indemnifying party in any appropriate legal proceedings pertaining to any such matter or otherwise prevent the indemnifying party from defending itself with respect to any such matter.

d. Excluded Matters. Notwithstanding the foregoing, neither party shall be required to indemnify, hold harmless, or reimburse the other with respect to any loss to the extent such loss resulted from the sole negligence of the party seeking indemnification. Owner shall not be required to indemnify, hold harmless, or reimburse Agent for actions taken by Agent outside the scope of Agent's authority under this Agreement.

e. Survival. The provisions of this Section 17 (Indemnification) shall survive the expiration and any termination of this Agreement.

18. Limitation of Liability. Except in connection with a party's indemnification obligations with respect to third parties, neither party shall be liable to the other for any indirect, incidental, consequential, special, punitive or exemplary damages arising from its performance of this Agreement, including but not limited to lost revenue, lost profits or lost business opportunity, provided that Agent can be held liable for fraud or embezzlement by Agent or Agent's employees.

19. Owner Approval. Except where specifically stated to be at Owner's sole discretion, Owner's approval or consent when required shall not be unreasonably withheld, conditioned or delayed.

20. Notices. All notices provided for in this Agreement shall be in writing and served by registered or certified mail, postage prepaid, at the following addresses, or delivered in such other manner as may be expressly provided herein, until such time as written notice of a change of address is given to the other party:

TO OWNER:           Redevelopment Agency of the County of Monterey  
168 West Alisal Street, 3<sup>rd</sup> Floor  
Salinas, CA 93901  
Attn: Jane Royer Barr

TO AGENT:           South County Property Management Corporation  
16500 Monterey Road, Suite 200  
Morgan Hill, CA 95037  
Attn: Laura Ellenberger

21. Entire Agreement. This Agreement and its exhibits represent the entire agreement between the parties with respect to the subject matter hereof. No alteration, modification, or interpretation of this Agreement shall be binding unless in writing and signed by both parties. Titles of articles, sections and paragraphs are for convenience only and neither limit nor amplify the provisions of this Agreement.

22. Severability. If any provision of this Agreement, or its application to any person or circumstance, shall be determined by any court of competent jurisdiction to be invalid and unenforceable to any extent, the remainder of this Agreement, or the application of such provision to any person or circumstance other than those as to which it is so determined to be invalid or unenforceable, shall not be affected thereby and each provision hereof shall be valid and shall be enforced to the fullest extent permitted by law.

23. Dispute Resolution. Any dispute, controversy or claim arising out of or relating to this Agreement, including any dispute relating to interpretation of or performance under this Agreement ("Dispute"), shall be resolved in the manner set forth below. The parties specifically waive, to the fullest extent permitted under applicable law, any right to a jury trial of any dispute between them.

a. Negotiation. The parties will attempt in good faith to resolve the Dispute promptly by negotiations between senior representatives of the parties who have authority to settle the Dispute (each a "Representative").

b. Judicial Reference. In the event the Representatives are not able to resolve the Dispute within fifteen (15) days following the date one party first notifies the other party of the Dispute in writing, the Dispute shall be resolved by a reference proceeding in accordance with the provisions of California Code of Civil Procedure

Sections 638 et seq. (or any similar successor statute) for a determination to be made which shall be binding upon the parties as if tried before a court or jury. The parties agree specifically as to the following:

i. Within five (5) business days after service of a demand by a party hereto, the parties shall agree upon a single referee who shall then try all issues, whether of fact or law, and report a finding and judgment thereon. The referee shall be a retired judge of the Superior Court of California or any federal district court, and shall not have previously been retained by either party in any capacity. If the parties are unable to agree upon a referee, either party may seek to have a referee appointed pursuant to California Code of Civil Procedure Section 640 (or any similar successor statute), by the presiding judge or any other sitting judge of the Superior Court of the County.

ii. The compensation of the referee shall be such charge as is customarily charged by the referee for like services. The cost of the referee and any facilities used for the proceeding for which the parties are charged shall be borne equally by the parties. However, the prevailing party in such proceedings shall be entitled, in addition to costs recoverable by law, which are not expressly allocated hereunder, to recover reasonable attorney's fees and any reporter fees for the cost of the proceeding as an item or items of damages and/or recoverable costs.

iii. If a reporter is requested by either party, then a reporter shall be present at all proceedings, and the fees of such reporter initially shall be borne equally by the parties, subject to adjustment as provided for above. Such fees shall be an item of recoverable costs. Only a party shall be authorized to request a reporter.

iv. The referee shall apply all California Rules of Procedure and Evidence and shall apply the substantive law of California in deciding the issues to be heard. Notice of any motions before the referee shall be given, and all matters shall be set at the convenience of the referee.

v. The referee's decision under California Code of Civil Procedure Section 644 shall stand as the judgment of the court, subject to appellate review as provided by the laws of the State of California.

vi. The parties agree that they shall in good faith endeavor to cause any such dispute to be decided within ninety (90) days. The date of hearing for any proceeding shall be determined by agreement of the parties and the referee, or if the parties cannot agree, then by the referee alone. The venue for any such hearing shall be in Monterey County, unless the parties jointly agree otherwise.

vii. The referee shall have the power to award injunctive relief and damages, subject to the limitations specified in this Agreement.

24. Applicable Law. This agreement shall be construed and enforced in accordance with the laws of the State of California.



25. Agent. The term "Agent" as used in this Agreement shall include any corporate subsidiaries or affiliates of Agent who perform service, in, on or about the Property in connection with this Agreement.

26. Attorneys' Fees. If any dispute, litigation or arbitration between the parties arises out of this Agreement, the losing party in such dispute, litigation or arbitration shall pay to the prevailing party all costs of such dispute, including without limitation, reasonable attorneys' fees.

27. Non-Waiver. No delay or failure by either party to exercise any right under this Agreement, and no partial or single exercise of that right, shall constitute a waiver of that or any other right, unless otherwise expressly provided in this Agreement.

28. Headings. All headings in this Agreement are for convenience only and shall not be used to interpret or construe its provisions.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties have entered into this Agreement as of the date first written above.

OWNER:

REDEVELOPMENT AGENCY OF THE COUNTY OF MONTEREY

By:  \_\_\_\_\_

Name:

Title:

AGENT:

SOUTH COUNTY PROPERTY MANAGEMENT CORPORATION

By:  \_\_\_\_\_

Name: Dennis Lalor

Title: CEO/President

EXHIBIT A  
COMPENSATION

Management Services

As compensation for its management services under the Agreement, Agent shall receive a sum equal to \$50.00 per unit per month, for an annual total of \$11,400.00.

Payroll Processing Fee

Agent shall receive as payroll processing fees a sum equal to 2.4% of the gross payroll expense per month with respect to employees of Agent described in Section 4.b.xv.(a).

Bookkeeping Fee

Agent shall receive a bookkeeping fee of \$2,166 per year for accounting and bookkeeping services.

Software Hosting Fee

Agent shall receive a fee for the cost of accounting software hosting services in the amount of \$836.00 per year.

**EXHIBIT B**  
**HOUSING PROGRAM**

A. Nine (9) units shall be designated for occupancy by low-income tenants in accordance with criteria established by Owner as follows:

- (1) Units. Unit nos. 9, 13, 14, 15, 16, 17, 18, 19, and 71 shall be used for this purpose.
- (2) Qualification. Income levels up to 80% of AMI.

B. Nine (9) units shall be designated for occupancy as code enforcement relocation housing in accordance with criteria established by Owner as follows:

- (1) Units. Unit nos. 1, 2, 4, 6, 12, 20, 21, 22, and 24 shall be used for this purpose.
- (2) Qualification. Income levels up to 80% of AMI.
- (3) Procedures. Owner shall develop and provide to Agent the specific procedures, if any, for management of code enforcement units.

C. One (1) unit shall be designated for occupancy by an on-site property manager. Unit no. 11 shall be used for this purpose.

D. Rents. Except as otherwise provided in this Exhibit B, rent shall be as published by HUD/HCD and based upon 60% of AMI and adjusted periodically as issued by HUD/HCD.

- (1) Initial rents shall be as follows:

<u>Gross Rents</u>	<u>2 Bedroom</u>	<u>3 Bedroom</u>
60%	\$892	\$1,031
<u>Utility Allowance</u>	68	74
<u>Net Rents</u>		
60%	\$824	\$957

(2) Unit nos. 13, 14, 15, 16, 17, 18, and 19 listed in section A above are currently occupied and the rent for such units shall be as follows:

The rent currently being charged will continue until 12/31/10. On or before 9/30/10, tenants will be re-qualified for income eligibility. If a tenant qualifies below 80% of AMI, the rent level for that unit will be adjusted to 60% of AMI effective 1/1/11. If a tenant's income level is above 80% of AMI, that tenant will be given notice to vacate. Tenants will be given notice of rent adjustment or notice to vacate a minimum of sixty (60) days in advance.

E. The term of any tenant lease, excepting the site manager's unit no. 11 under paragraph C above, shall be limited to a maximum period of three (3) months for code enforcement units and six (6) months for all other units.