



Meeting Date: 06 / 13/ 06

ACTION	TYPE OF ITEM
<input type="checkbox"/> Approved Recommendation	<input checked="" type="checkbox"/> Info/Consent
<input type="checkbox"/> Ord. No(s). _____	<input type="checkbox"/> Report
<input type="checkbox"/> Res. No(s). _____	<input type="checkbox"/> Public Hearing (Info/consent)
<input type="checkbox"/> Other _____	<input type="checkbox"/> Other _____

Prepared By: Ernie Whitaker *Ernie* Agenda Item No. I-6
 Reviewed By: City Manager City Attorney Finance Other (Specify)

DATE: June 2, 2006

TO: City Council

FROM: S.D. Gonzalez, Housing Director *[Signature]*
Housing Department

SUBJECT: Loan Agreement with Las Cortes, Inc. (Las Cortes)

RECOMMENDATION

That the City Council:

- 1) Approve and authorize the Mayor to execute a Loan Agreement (A-6700) with Las Cortes, Inc. (Las Cortes) providing initial funds for the operation of Las Cortes in the amount of \$590,000.
- 2) Approve the appropriation of funds in the amount of \$590,000 from the housing In-Lieu Fee Fund balance for the loan.

DISCUSSION

At its meeting on January 24, 2006, the Housing Authority Board of Commissioners (Commission) granted the Housing Authority (HA) permission to form a non-profit corporation for the purpose of developing the 31-1, The Courts project. The Commission also approved the makeup of the initial Board of Directors (Board) for the non profit to consist of three HA Board of Commissioners, three members from the community at large, and the Executive Director of the HA. At it's March 7, 2006 meeting, the Commission appointed the initial board members and approved the name of the non-profit corporation to be Las Cortes, Inc.

The HA must form a non-profit corporation under section 501 (c) (3) of the Internal Revenue Code in order for the project to obtain financing in the form of tax credits and multi-family housing revenue bonds. This non-profit must be an entity separate from the HA and the City. While Las Cortes was initially established by action by the Commission, it is not an agency of the local government, but has a close working relationship with the City Council, the Commission, and City and HA staff.

As mentioned above, Las Cortes' initial project is the redevelopment of 260 housing units within the 31-1, The Courts revitalization project. The proposed rental units will be owned and operated by Las Cortes, in place of the HA. The HA will continue to own the land, but will ground lease the land to Las Cortes for a period of 65 years for a nominal sum. All public housing tenants currently living at 31-1, The Courts, will be offered first priority to move into the new units, and it is anticipated that the tenants will receive Section 8 replacement vouchers from HUD to occupy the proposed units or available low income rental units within the City. The targeted rent level for the nonprofit units is 45% of median income, which is consistent with income of tenants at the project currently.

It is anticipated that funding for the project will come from several sources. Sources include Multifamily Revenue Bonds, Low Income Tax Credits, grant funds including Farmworker grants, Multifamily Housing Program Loan, and debt service secured by Section 8 project based vouchers.

Las Cortes has requested City assistance in a loan amount of \$590,000 to cover its initial operations, including predevelopment of the nonprofit units. Staff has reviewed Las Cortes' pro forma and budget, and has determined that this request is reasonable. Construction on the nonprofit units is scheduled to begin early 2008 and be completed in 2010. At that time, it is anticipated that Las Cortes will have income from rental payments and its project developer fee to begin loan repayments to the City.

FINANCIAL IMPACT

The financial assistance to this project consists of a \$590,000 loan to be disbursed in three installments, on a yearly basis. Repayments will begin at the end of three years. Interest will accrue on the balance from the date of disbursement, and will be charged at 2% per annum above the rate earned by the City on its investments in the Local Agency Investment Fund. The source of funds is the Housing In-Lieu Fund 371 which has a current balance of \$2.6 million. A new project account will be established for these funds.

MH

- Attachment #1 - Las Cortes, Inc. Three Year Budget
- #2 - 31-1, The Courts Pro Forma (Nonprofit units)
- #3 - Special Budget Appropriation
- #4 - Loan Agreement
- #5 - Promissory Note

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**LAS CORTES
PROJECTED THREE YEAR BUDGET**

Description	Year 1	Year 2	Year 3	Total	Notes
Stationary	\$ 800	\$ 100	\$ 100	1,000	
Office space	2,400	2,400	2,400	7,200	\$200/mo
Office supplies	2,500	1,250	1,250	5,000	(postage, pencils, paper, etc.)
Office equipment	1,500			1,500	printer, fax
Misc sundry	1,000	500	500	2,000	fed ex fees, etc
Insurance	9,500	9,500	9,500	28,500	
Special counsel	25,000	10,000	10,000	45,000	
Staff time	150,000	150,000	150,000	450,000	1.5 staff equivalent (\$30/hour*1.45 benefits rate *2080 hours*1.5 staff persons=\$150,0000)
Travel	3,400	3,300	3,300	10,000	
Training	1,000	1,000	1,000	3,000	
Professional services	10,000	10,000	10,000	30,000	audits, tax preparation, misc studies (i.e. cost study)
501(c)(3) filing fee	500			500	
non-profit minimum tax	1,000	1,000	1,000	3,000	
phone lines	650	650	600	2,000	~\$50/mo
TOTAL	\$ 209,250	\$ 189,700	\$ 189,650	\$ 588,700	

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RESPONSIBILITIES

- Naming of project
- Develop/monitor proforma
- Budget report review
- Lease-up of 260 non-profit units
- Staffing support for non-profit
- Rental management plan
- Implementation of the DDA for Non-Profit Housing including ground lease
- Develop operating budget
- Community center
- Operating policies
- Setup accounting systems?

Sources & Uses

The Courts, Oxnard (Non Profit Housing - Phase I - 117 Units)

Steadfast Companies

Steadfast Residential Properties

At Close Through Construction PeriodSourcesEquity

Tax Credit Equity	7,370,937
Total Equity	7,370,937

Debt

Construction Loan	15,134,161
Total Debt	15,134,161

Total Sources	22,505,098
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UsesDevelopment Costs

Consultant Fees	1,191,374
3rd Party Reports	23,000
Impact Fees	1,380,704
Relocation	468,000
Demo, Grading, Utilities	4,264,196
Const Hard Costs	12,215,177
Other	456,748
Legal	500,000
Developer Fee	-
Subtotal Development Costs	20,499,200

Financing Costs

General Financing Costs	373,600
Interest	1,321,889
Operating Reserve	310,409
Subtotal Financing Costs	2,005,898

Total Uses	22,505,098
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At ConversionSourcesEquity

Tax Credit Equity	8,743,698
Total Equity	8,743,698

Debt & Soft Sources

Construction Loan - Tax Exempt Bond	-
Permanent Loan	2,688,047
MHP Funds	5,993,116
AHP Funds	1,000,000
Joe Serna Funds	640,000
Total Debt & Soft Sources	10,321,163

Other Sources

Section 8 Debt	1,803,210
Contribution from Home Builder	2,961,560
Construction Period Cash Flow	-
Deferred Developer Fee	2,961,560
Total Other	7,726,331

Total Sources	26,791,191
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Shortfall / (Excess) -

UsesDevelopment Costs

Consultant Fees	1,191,374
3rd Party Reports	23,000
Impact Fees	1,380,704
Relocation	468,000
Demo, Grading, Utilities	4,264,196
Const Hard Costs	12,215,177
Other	456,748
Legal	500,000
Developer Fee	4,161,560
Subtotal Development Costs	24,660,760

Financing Costs

General Financing Costs	498,134
Interest	1,321,889
Operating Reserve	310,409
Subtotal Financing Costs	2,130,432

Total Uses	26,791,191
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Annual Operating Budget Analysis

The Courts, Oxnard (Non-Profit Housing / Phase I / 117 Units)

Steadfast Companies

Steadfast Residential Properties

Total Units: 117

	Annual Growth	Operating Statement		Operating Statement	
		2004 Base Yr.	Per Unit	2007 Stabilized	Per Unit
Income					
TCAC / Target Net Rent	2.5%	910,248	7,780	980,238	8,378
General Vacancy (5.00%)		(45,512)	(389)	(49,012)	(419)
Subtotal: Net Rental Income		864,736	7,391	931,226	7,959
Other Income (\$0.00 per unit)	2.5%	-	-	-	-
Effective Gross Income		864,736	7,391	931,226	7,959
Operating Expenses					
Management Fee (4.00%)		34,589	296	37,249	318
Salaries & Benefits	3.5%	113,373	969	125,699	1,074
Advertising & Promotion	3.5%	1,872	16	2,076	18
Administrative	3.5%	74,061	633	82,113	702
Utilities	3.5%	111,852	956	124,012	1,060
Repairs & Maintenance	3.5%	29,367	251	32,560	278
Turnover Costs	3.5%	5,967	51	6,616	57
Fixed: Property Taxes	2.0%	-	-	-	-
Fixed: Assmnts., Ins., Permits	2.0%	6,786	58	7,201	62
Insurance	3.5%	36,738	314	40,732	348
Other	3.5%	30,303	259	33,597	287
Community Center	3.5%	60,750	519	67,355	576
Total Operating Expense		505,658	4,322	559,209	4,780
Fees & Reserves					
Audit Fee (\$1,000 / mo.)	0.0%	12,000	103	12,000	103
Replacement Reserve (\$575 / unit)	0.0%	67,275	575	67,275	575
Trustee Fee (\$280 per month)	0.0%	3,360	29	3,360	29
CSCDA Fee (0.125%)	0.0%	18,918	162	18,918	162
Total Fees & Reserves		101,553	868	101,553	878
Net Operating Income					
		257,524	2,201	270,464	2,502
Section 8 Excess Rents					
Project Based Excess Rent	2.5%	437,148	3,736	470,761	4,024
Voucher Based Excess Rent	2.5%	716,016	6,120	771,071	6,590
General Vacancy (5.00%)		(57,658)	(493)	(62,092)	(531)
Management Fee (4.00%)		(43,820)	(281)	(49,673)	(425)
Total Section 8 Excess Rent		1,095,506	9,363	1,130,067	9,658
Project Based Net Rent Only		397,805	3,400	428,392	3,661
Summary					
Income					
Total Income		910,248	7,780	980,238	8,378
Vacancy		(45,512)	(389)	(49,012)	(419)
Total Income		864,736	7,391	931,226	7,959
Expenses					
Management Fee		34,589	296	37,249	318
Operating Expenses		471,069	4,026	521,960	4,461
Reserves		67,275	575	67,275	575
Fees		34,278	293	34,278	103
Total Expenses		607,211	5,190	660,762	5,457
Net Operating Income					
		257,524	2,201	270,464	2,502
Total Section 8 Excess Rent					
		1,095,506	9,363	1,130,067	9,658

Online:	Mar-2009	72,152
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Sources & Uses

The Courts, Oxnard (Non Profit Housing / Phase II A / 60 Units)

Steadfast Companies

Steadfast Residential Properties

At Close Through Construction Period**Sources**

Equity	
Tax Credit Equity	6,368,625
Total Equity	6,368,625

Debt

Construction Loan	5,228,462
Total Debt	5,228,462

Uses

Development Costs	
Consultant Fees	610,961
3rd Party Reports	23,000
Impact Fees	672,796
Relocation	120,000
Demo, Grading, Utilities	2,180,357
Const. Hard Costs	6,276,996
Other	404,743
Legal	475,000
Developer Fee	-
Total Development Costs	10,763,853

Financing Costs

General Financing Costs	222,626
Interest	498,525
Operating Reserve	112,084
Total Financing Costs	833,234

Total Sources **11,597,087****Total Uses** **11,597,087****At Conversion****Sources**

Equity	
Tax Credit Equity	8,491,500
Total Equity	8,491,500

Debt & Soft Sources

Construction Loan	-
Permanent Loan	2,376,894
MHP Funds	-
AHP Funds	-
Joe Sema Funds	-
Total Debt & Soft Sources	2,376,894

Other Sources

Section 8 Debt	731,289
Contribution from Home Builder	1,633,028
Construction Period Cash Flow	-
Deferred Developer Fee	-
Total Other	2,364,317

Uses

Development Costs	
Consultant Fees	610,961
3rd Party Reports	23,000
Impact Fees	672,796
Relocation	120,000
Demo, Grading, Utilities	2,180,357
Const. Hard Costs	6,276,996
Other	404,743
Legal	475,000
Developer Fee	1,579,967
Total Development Costs	12,343,820

Financing Costs

General Financing Costs	278,282
Interest	498,525
Operating Reserve	112,084
Total Financing Costs	888,890

Total Sources **13,232,710****Total Uses** **13,232,710**

Shortfall / (Excess) -

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Annual Operating Budget Analysis

The Courts, Oxnard (Non-Profit Housing / Phase II A - 60 Units)

Steadfast Companies
Steadfast Residential Properties

Total Units: 60

	Annual Growth	Operating Statement		Operating Statement	
		2004 Base Yr.	Per Unit	2009 Stabilized	Per Unit
Income					
TCAC / Target Net Rent	2.5%	555,492	9,258	628,488	10,475
General Vacancy (5.00%)		(27,775)	(463)	(31,424)	(524)
Subtotal: Net Rental Income		527,717	8,795	597,064	9,951
Other Income (\$0.00 per unit)	2.5%	-	-	-	-
Effective Gross Income		527,717	8,795	597,064	9,951
Operating Expenses					
Management Fee (4.00%)		21,109	352	23,883	398
Salaries & Benefits	3.5%	58,140	969	69,052	1,151
Advertising & Promotion	3.5%	960	16	1,140	19
Administrative	3.5%	37,980	633	45,108	752
Utilities	3.5%	57,360	956	68,128	1,135
Repairs & Maintenance	3.5%	15,060	251	17,887	298
Turnover Costs	3.5%	3,060	51	3,634	61
Fixed: Property Taxes	2.0%	-	-	-	-
Fixed: Assmnts., Ins., Permits	2.0%	3,480	58	3,842	64
Insurance	3.5%	18,840	314	22,376	373
Other	3.5%	6,360	106	7,554	126
Community Center	3.5%	31,154	519	37,001	617
Total Operating Expense		253,503	4,225	299,603	4,993
Fees & Reserves					
Audit Fee (\$1,000 / mo.)	0.0%	12,000	200	12,000	200
Replacement Reserve (\$575 / unit)	0.0%	34,500	575	34,500	575
Trustee Fee (\$0 per month)	0.0%	-	-	-	-
CSCDA Fee (0.000%)	0.0%	-	-	-	-
Total Fees & Reserves		46,500	775	46,500	775
Net Operating Income					
		227,715	3,795	250,961	4,183
Section 8 Excess Rents					
Project Based Excess Rent	2.5%	199,524	3,325	225,743	3,762
Voucher Based Excess Rent	2.5%	296,592	4,943	335,567	5,593
General Vacancy (5.00%)		(24,806)	(413)	(28,065)	(468)
Management Fee (4.00%)		(18,852)	(314)	(22,452)	(374)
Total Section 8 Excess Rent		471,310	7,855	533,244	8,887
Project Based Net Rent Only					
		181,567	3,026	205,426	3,424
Summary					
Income					
Total Income		555,492	9,258	628,488	10,475
Vacancy		(27,775)	(463)	(31,424)	(524)
Total Income		527,717	8,795	597,064	9,951
Expenses					
Management Fee		21,109	352	23,883	398
Operating Expenses		232,394	3,873	275,720	4,595
Reserves		34,500	575	34,500	575
Fees		12,000	200	12,000	200
Total Expenses		300,003	5,000	346,103	5,768
Net Operating Income					
		227,715	3,795	250,961	4,183
Total Section 8 Excess Rent					
		471,310	7,855	533,244	8,887

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Sources & Uses

The Courts, Oxnard, Non Profit Housing - Phase II B - 83 Units & Community Center)

Steadfast Companies

Steadfast Residential Properties

At Close Through Construction Period**Sources****Equity**

Tax Credit Equity	6,814,383
Total Equity	6,814,383

Debt

Construction Loan	14,198,421
Total Debt	14,198,421

Total Sources	21,012,804
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Uses**Development Costs**

Consultant Fees	1,186,308
3rd Party Reports	23,000
Impact Fees	930,702
Relocation	166,000
Demo, Grading, Utilities	3,215,327
Const. Hard Costs	12,857,437
Other	425,727
Legal	475,000
Developer Fee	-
Total Development Costs	19,279,501

Financing Costs

General Financing Costs	321,767
Interest	1,249,191
Operating Reserve	162,345
Total Financing Costs	1,733,303

Total Uses	21,012,804
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At Conversion**Sources****Equity**

Tax Credit Equity	8,210,100
Total Equity	8,210,100

Debt & Soft Sources

Construction Loan	-
Permanent Loan	2,627,916
MHP Funds	5,450,000
AHP Funds	1,000,000
Joe Sema Funds	2,870,000
Total Debt & Soft Sources	11,947,916

Other Sources

Section 8 Debt	-
Contribution from Home Builder	1,959,044
Construction Period Cash Flow	-
Deferred Developer Fee	2,162,044
Total Other	4,121,089

Total Sources	24,279,104
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Shortfall / (Excess)	-
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Uses**Development Costs**

Consultant Fees	1,186,308
3rd Party Reports	23,000
Impact Fees	930,702
Relocation	166,000
Demo, Grading, Utilities	3,215,327
Const. Hard Costs	12,857,437
Other	425,727
Legal	475,000
Developer Fee	3,159,044
Total Development Costs	22,438,545

Financing Costs

General Financing Costs	429,023
Interest	1,249,191
Operating Reserve	162,345
Total Financing Costs	1,840,559

Total Uses	24,279,104
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Annual Operating Budget Analysis

The Courts, Oxnard (Non Profit Housing - Phase II B / 83 Units & Community Center)

Steadfast Companies

Steadfast Residential Properties

Total Units: 83

	Annual Growth	Operating Statement		Operating Statement	
		2004 Base Yr.	Per Unit	2009 Stabilized	Per Unit
Income					
TCAC / Target Net Rent	2.5%	724,104	8,724	819,257	9,871
General Vacancy (5.00%)		(36,205)	(436)	(40,963)	(494)
Subtotal: Net Rental Income		687,899	8,288	778,294	9,377
Other Income (\$0.00 per unit)	2.5%	-	-	-	-
Effective Gross Income		687,899	8,288	778,294	9,377
Operating Expenses					
Management Fee (4.00%)		27,516	332	31,132	375
Salaries & Benefits	3.5%	80,427	969	95,522	1,151
Advertising & Promotion	3.5%	1,328	16	1,577	19
Administrative	3.5%	52,539	633	62,400	752
Utilities	3.5%	79,348	956	94,241	1,135
Repairs & Maintenance	3.5%	20,833	251	24,743	298
Turnover Costs	3.5%	4,233	51	5,027	61
Fixed: Property Taxes	2.0%	-	-	-	-
Fixed: Assmnts., Ins., Permits	2.0%	4,614	58	5,315	64
Insurance	3.5%	26,062	314	30,953	373
Other	3.5%	15,106	182	17,941	216
Community Center	3.5%	43,096	519	51,185	617
Total Operating Expense		355,302	4,281	420,036	5,061
Fees & Reserves					
Audit Fee (\$1,000 / mo.)	0.0%	12,000	145	12,000	145
Replacement Reserve (\$575 / unit)	0.0%	47,725	575	47,725	575
Trustee Fee (\$280 per month)	0.0%	3,360	40	3,360	40
CSCDA Fee (0.125%)	0.0%	17,748	214	17,748	214
Total Fees & Reserves		80,833	974	80,833	720
Net Operating Income		251,764	3,033	277,425	3,597
Section 8 Excess Rents					
Project Based Excess Rent	2.5%	300,096	3,616	339,531	4,091
Voucher Based Excess Rent	2.5%	432,636	5,212	489,488	5,897
General Vacancy (5.00%)		(36,837)	(441)	(41,451)	(499)
Management Fee (4.00%)		(27,844)	(239)	(33,161)	(400)
Total Section 8 Excess Rent		668,252	8,148	754,407	9,089
<i>Project Based Net Rent Only</i>		<i>273,087</i>	<i>3,290</i>	<i>308,973</i>	<i>3,723</i>
Summary					
Income					
Total Income		724,104	8,724	819,257	9,871
Vacancy		(36,205)	(436)	(40,963)	(494)
Total Income		687,899	8,288	778,294	9,377
Expenses					
Management Fee		27,516	332	31,132	375
Operating Expenses		327,786	3,949	388,905	4,686
Reserves		47,725	575	47,725	575
Fees		33,108	399	33,108	145
Total Expenses		436,135	5,255	500,869	5,780
Net Operating Income		251,764	3,033	277,425	3,597
Total Section 8 Excess Rent		668,252	8,051	754,407	9,089

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CITY OF OXNARD
REQUEST FOR SPECIAL BUDGET APPROPRIATION

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To the City Manager:

May 31, 2006

Request is hereby made for an appropriation of total

\$ 590,000

Reason for appropriation:

<u>FUND</u>	<u>DESCRIPTION/ACCOUNT</u>	<u>AMOUNT</u>
Housing In-Lieu (371)	Las Cortes 371-51xx-826-8209 (0651xx)	\$ <u>590,000</u>
	Net Estimated Change to Housing In-Lieu Fund Balance	\$ <u>(590,000)</u>



 Manager

REQUIRES CITY COUNCIL APPROVAL

DIRECTOR OF FINANCE



Disposition

Approved _____

Rejected _____

Transfer by Journal Voucher _____

 City Manager

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ATTACHMENT NO. 3

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LOAN AGREEMENT**(LAS CORTES)**

This Loan Agreement ("Agreement") is made as of _____, 2006 by and between the City of Oxnard, a California municipal corporation (the "City"), on the one hand, and Las Cortes, Inc., a California Non-Profit Corporation ("Las Cortes"), on the other hand.

RECITALS

1. On or about March 7, 2006, the Authority authorized the formation of Las Cortes, a non-profit corporation, to create and pursue affordable housing activities in the City of Oxnard.

2. Las Cortes was incorporated on March 16, 2006. Las Cortes' initial project is the acquisition and operation of what are now 260 units of public housing, which will become affordable housing developments operated by Las Cortes (the 31-1 Project).

3. The parties to this Agreement anticipate that, in connection with its acquisition of the 31-1 Project and its pursuit of other projects, Las Cortes will hire staff and secure premises and supplies for the operation of its business.

5. Las Cortes desires to obtain from the City and the City is willing to advance to Las Cortes funds to commence and support Las Cortes operations, such funds to be used for no other purpose.

AGREEMENT

The parties agree as follows:

1. City will advance up to the sum of \$590,000 to Las Cortes, such funds only to be used to pay operating expenses of Las Cortes. Advances will be repayable as provided in the Promissory Note ("Note") to be executed by Las Cortes in connection with this Agreement. All then outstanding advances will be payable no later than eight (8) years from the date of execution of this Agreement, except as provided hereinbelow, and advances shall bear interest at the rate paid to City on its investments in the Local Agency Investment Fund ("LAIF") plus two (2) percent per annum, all as set forth more particularly in the promissory note executed concurrently herewith, described in paragraph 3 below.

2. Advances will be made within 10 days of written request by Las Cortes stating the amount and purpose of the request and containing sufficient information and supporting documentation to enable City, acting reasonably, to determine that the purpose of the request is in

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the reasonable estimate of City's City Manager to obtain funds necessary and appropriate for operations.

3. Las Cortes shall, concurrently with the execution of this Agreement, execute and deliver the Note to the City in the principal sum of \$590,000. The Note, together with this Agreement, memorializes and states, among other things, the obligation of Las Cortes to repay advances made pursuant to this Agreement. The advances made under this agreement are sometimes hereafter referred to as the "Loan." Las Cortes shall be subject to all terms, conditions and agreements set forth in the Note whether or not they are described in this Agreement.

4. Notwithstanding the stated due date of the Note, the Note shall become due and payable upon any "event of default" described hereinbelow.

5. Upon making an advance, City shall record the same in its records, indicating the date and amount of the advance. It may thereafter, within 10 days, send notice of the date and amount of the advance, and of the total amount advanced under this Agreement to Las Cortes ("City Notice"). If Las Cortes does not agree with any information set forth in the City Notice it shall within 10 days provide written notice of its disagreement and the basis therefore to City. In the event that Las Cortes does not provide such notice, the City Notice shall be deemed correct as against any assertion to the contrary by Las Cortes in any context, action, or proceeding.

6. Payments of principal and interest and other amounts due under the Note and this Agreement shall be payable without deduction of any present and future taxes, levies, duties, imposts, deductions, charges or withholdings imposed by any existing or future law, rule, regulation, treaty, directive or requirement whether or not having the force of law, which amounts shall be paid by Las Cortes.

REPRESENTATIONS AND WARRANTIES OF LAS CORTES

7. In addition to the representations and warranties of Las Cortes set forth above, Las Cortes makes the following representations and warranties. All representations and warranties made by Las Cortes in this Agreement will remain effective until payment in full of all amounts owing under the Note and this Agreement:

a. Las Cortes has the power and authority to execute and deliver this Agreement, the Note and all other documents and instruments required hereunder to be executed by Las Cortes and to comply with the terms hereof and thereof. All of such documents have been duly authorized, executed and delivered by Las Cortes and constitute the legal, valid and binding obligations of Las Cortes, enforceable in accordance with their respective terms.

b. As of the date hereof, there is no violation or asserted violation of any law or governmental regulation concerning Las Cortes or the operation of its business. Las Cortes is not aware of any action or proceeding pending or threatened before any court or government agency with respect to its present or contemplated business operations.

c. Neither the entry into nor the performance of this Agreement, the Note or any other instrument executed by Las Cortes pursuant hereto or thereto will result in any violation of, or be in conflict with, or result in the creation of, any mortgage, deed of trust, lien or encumbrance upon any of the properties or assets of Las Cortes pursuant to, or constitute a default under, any mortgage, deed of trust, indenture, contract, agreement, or instrument to which Las Cortes is a party or to which any of its property is subject, or constitute a violation of any permit, judgment, decree, order, statute, rule or regulation applicable to Las Cortes.

d. There is no action, proceeding or investigation pending or threatened (or any basis therefor) which questions or affects, directly or indirectly, the validity of this Agreement, the Note or any other documents pertaining to the Loan or any action taken or to be taken pursuant hereto or thereto, or which adversely affects Las Cortes.

e. Las Cortes has not dealt with any person, firm or corporation who is or may be entitled to any finder's fee, brokerage commission, loan commission or other sum in connection with the Loan. Las Cortes hereby agrees to indemnify and defend City and hold City harmless against any and all loss, liability, cost or expense, including reasonable attorneys' fees, which City may suffer or sustain should such warranty or representation prove inaccurate in whole or in part.

f. Neither this Agreement, nor any document, certificate or statement furnished to City in connection with the loan or Las Cortes, whether or not referred to herein, contains any material misrepresentation or omits to state a material fact.

g. Las Cortes is a corporation which is duly organized, validly existing, and in good standing under the laws of the State of California. Las Cortes has the full power and authority to own its properties and to transact the businesses in which it is presently engaged or presently proposes to engage. Las Cortes also is duly qualified as a foreign corporation and is in good standing in all states in which the failure to so qualify would have a material adverse effect on its businesses or financial condition.

h. No litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Las Cortes is pending or threatened, and no other event has occurred which may materially adversely affect Las Cortes' financial condition or properties, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by Lender in writing.

i. To the best of Las Cortes' knowledge, all tax returns and reports of Las Cortes that are or were required to be filed, have been filed, and all taxes, assessments and other governmental charges have been paid in full, except those presently being or to be contested by Las Cortes in good faith in the ordinary course of business and for which adequate reserves have been provided.

j. Each employee benefit plan as to which Las Cortes may have any liability complies in all material respects with all applicable requirements of law and regulations, and (i) Las

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Cortes has not withdrawn from any such plan or initiated steps to do so, and (ii) no steps have been taken to terminate any such plan.

k. Las Cortes understands and agrees that City is relying upon the above representations and warranties in extending Loan Advances to Las Cortes. Las Cortes further agrees that the foregoing representations and warranties shall be continuing in nature and shall remain in full force and effect until such time as Las Cortes' Loan and Note shall be paid in full, or until this Agreement shall be terminated in the manner provided above, whichever is the last to occur.

ADDITIONAL COVENANTS OF LAS CORTES

8. In addition to the covenants contained elsewhere in this Agreement and in other Loan Documents, Las Cortes agrees as follows:

a. Las Cortes shall cause to be furnished to City within 30 days of demand, the most recent financial statements of Las Cortes, all in reasonable detail and prepared in accordance with accounting principles consistently applied by independent certified public accountants of recognized standing acceptable to City.

b. Las Cortes shall keep, at its principal place of business, the records, books of accounting and all other documents, reports and papers relating to the use of moneys advanced under this Agreement. City shall be entitled, at any reasonable time, to inspect and the books and other financial records of Las Cortes, and Las Cortes shall cooperate with City in enabling City to accomplish such inspection and permit City to make such copies as City may request. This authority is for City's protection only and City shall not be deemed to have assumed any responsibility to Las Cortes or any third party as a result of any such action.

c. Las Cortes shall promptly inform City in writing of (a) all material adverse changes in Las Cortes' financial condition, and (b) all litigation and claims and all threatened litigation and claims affecting Las Cortes or any Guarantor which could materially affect the financial condition of Las Cortes or the financial condition of any Guarantor.

d. Las Cortes shall maintain its books and records in accordance with generally accepted accounting principles, applied on a consistent basis.

e. Las Cortes shall maintain fire and other risk insurance, public liability insurance, and such other insurance with respect to Las Cortes' properties and operations, in form, amounts, coverages and with insurance companies reasonably acceptable to City. Las Cortes, upon request of City, will deliver to City from time to time the policies or certificates of insurance in form satisfactory to City.

f. Las Cortes will comply with all terms and conditions of all other agreements, whether now or hereafter existing, between Las Cortes and any other party and notify

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City immediately in writing of any default in connection with any other such agreements.

g. Las Cortes will pay and discharge when due all assessments, taxes, governmental charges, levies and liens, of every kind and nature, imposed upon Las Cortes or its properties, income, or profits, prior to the date on which penalties would attach, and all lawful claims that, if unpaid, might become a lien or charge upon any of Las Cortes' properties, income, or profits; provided however, Las Cortes will not be required to pay and discharge any such assessment, tax, charge, levy, lien or claim so long as (a) the legality of the same shall be contested in good faith by appropriate proceedings, and (b) Las Cortes shall have established on its books adequate reserves with respect to such contested assessment, tax, charge, levy, lien, or claim, in accordance with generally accepted accounting practices. Las Cortes, upon demand of City, will furnish to City evidence of payment of the assessments, taxes, charges, levies, liens and claims and will authorize the appropriate governmental official to deliver to City at any time written statement of any assessments, taxes, charges, levies, liens and claims against Las Cortes' properties, income, or profits.

h. Las Cortes will perform and comply with all terms, conditions, and provisions set forth in this Agreement and in all other instruments and agreements between Las Cortes and City in a timely manner, and promptly notify City if Las Cortes learns of the occurrence of any event which constitutes an Event of Default under this Agreement.

DEFAULTS BY LAS CORTES

9. The occurrence of any one or more of the following shall constitute an "Event of Default":

i. Las Cortes' failure to pay when due any payment required under any of the Note or any other document evidencing or securing the Loan (any default under this Section 10a. shall be deemed to be a monetary default); or

j. The failure of Las Cortes to comply with any other covenant contained in any of the Loan Documents; or

k. The appointment of a receiver, trustee, conservator, or liquidator of the Las Cortes; or

l. A filing by Las Cortes of (i) a voluntary petition in bankruptcy, seeking reorganization or rearrangement or taking advantage of any debtor relief laws, or (ii) an answer admitting the material allegations of a petition filed against Las Cortes, any Guarantor or General Partner in any bankruptcy, reorganization, insolvency, conservatorship, or similar proceeding, or (ii) an admission in writing confirming the inability to pay its debts as they become due; or

m. The making by Las Cortes of a general assignment for the benefit of their creditors; or

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n. The entry of an order, judgment or decree by any court of competent jurisdiction adjudicating Las Cortes as bankrupt or insolvent, or approving a petition seeking reorganization of Las Cortes, or an arrangement of the debts of any of them, or appointing a receiver, trustee, conservator, or liquidator of Las Cortes, or any portion of the Levy Parcel or any other property of any of them; or

o. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Las Cortes or any creditor or by any governmental agency; or

p. Any of the preceding events occurs with respect to any Guarantor of any of the indebtedness or such Guarantor dies or becomes incompetent, and the City is not provided with a substitute guarantor of similar financial condition within ninety (90) days.

q. Should City determine, applying Generally Accepted Accounting Principles that there is a reasonable probability that Las Cortes will not be able to continue its operations as a going concern.

10. Upon the occurrence of any Event of Default, City shall be entitled to declare the Note and all sums due under this Agreement immediately due and payable and exercise all other remedies provided to City under the Note or any other document or assignment evidencing or securing the Loan or otherwise available under California law or set forth herein, including, without limitation, (a) the appointment of a receiver or the institution of a suit in equity or other appropriate proceedings for specific performance or an injunction against a violation of this Agreement.

MISCELLANEOUS PROVISIONS

11. Any notice given hereunder shall be given in the manner prescribed in the Note.

12. Las Cortes shall not assign any of its rights under this Agreement and any purported assignment in violation of this Agreement shall be void.

13. Time is of the essence hereunder.

14. The captions and headings of various sections of this Agreement are for convenience only and are not to be considered as defining and limiting in any way the scope or intent of the provisions hereof.

15. This Agreement shall be binding upon and shall inure to the benefit of all successors and permitted assigns of the parties.

16. City shall not be deemed to be a partner or joint venturer with Las Cortes in connection with the Loan or any action taken under this Agreement and Las Cortes shall indemnify,

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hold City harmless and defend City from and against any and all loss, cost, damage, expense or liability, including reasonable attorneys' fees, arising out of or resulting from such a construction of the parties and their relationship. The provisions of this Section shall survive payment of the Loan.

17. This Agreement shall continue in full force and effect so long as Las Cortes remains obligated to City under this Agreement, the Note or any other Loan Documents.

18. No failure on City's part at any time to require the performance by Las Cortes of any term of this Agreement shall in any way affect City's rights to subsequently enforce such term, nor shall any omission on City's part to notify Las Cortes of any event which with notice or the passage of time or both would constitute an Event of Default be construed as a waiver of such Event of Default or any right or remedy of City, nor shall any waiver by City of any term hereof be taken or held to be a waiver of any other term hereof.

19. This Agreement is executed in, and payments to be made herein are payable in the City of Oxnard, County of Ventura, State of California. This Agreement shall be interpreted and enforced under the laws of the State of California. Las Cortes consents to the personal jurisdiction of the appropriate state or federal court located in Ventura County, California and waives its right of trial by jury.

20. This Agreement may be executed in one or more counterparts, each of which together shall constitute one and the same instrument.

21. All expenditures by City permitted under this Agreement, the Note and any other document executed by Las Cortes in connection with the Loan shall be deemed to be disbursements under the Loan from the date made. In the event the total disbursements under the Loan exceed the maximum amount of the Loan, Las Cortes and City acknowledge and authorize that such excess amount shall be deemed an additional loan to Las Cortes, payable on demand, and bear interest at 10% per annum.

22. In the event that an attorney be employed or expense be incurred to compel payment of the Loan or any portion thereof or in connection with any default hereunder or under the Note, whether or not any action or proceeding is commenced by City, Las Cortes promises to pay all such expenses and attorneys' fees, including but not limited to, attorneys' fees incurred in any bankruptcy (including, without limitation, any action for relief from the automatic stay of any bankruptcy proceeding) or judicial or nonjudicial foreclosure proceedings.

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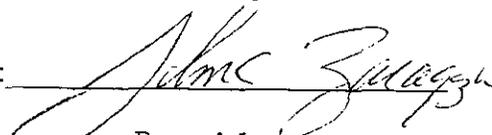
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23. The obligations of Las Cortes under this Agreement are, in addition to, and are supplemented by the obligation of Las Cortes under the Note.

LAS CORTES, INC.

By: 
Its: President

DATED: 6-06-06

CITY OF OXNARD

By: _____
DR. THOMAS E. HOLDEN,
MAYOR

DATED: _____

ATTEST:

By: _____
DANIEL MARTINEZ,
CITY CLERK

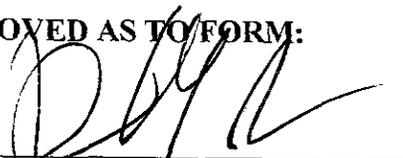
DATED: _____

APPROVED AS TO CONTENT:

By: _____
EDMUND F. SOTELO,
CITY MANAGER

DATED: _____

APPROVED AS TO FORM:

By: 
GARY GILLIG,
CITY ATTORNEY

DATED: _____

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PROMISSORY NOTE

\$ 590,000

Oxnard, California

(June 1, 2006)

FOR VALUE RECEIVED, the undersigned, Las Cortes, Inc., a California non-profit corporation (the "Borrower"), hereby promises to pay to the order of The City of Oxnard, a Municipal corporation (the "Lender"), the principal sum of \$590,000 U.S. (or so much of such sum as has been advanced by City under that certain below described Loan Agreement of even date herewith), with interest on the unpaid balance thereof from the date of advance until repaid at the rate of two percent per annum above the rate earned by City on its investments in the Local Agency Investment Fund ("LAIF"), both principal and interest payable as hereinafter provided in lawful money of the United States of America to Lender, at 300 W. Third Street, Oxnard, California 93030, Attn: City Manager, or at such other place as from time to time may be designated by the holder of this Note.

This Note ("Note") is referred to in that certain Loan Agreement of even date herewith (the "Loan Agreement") between Borrower and Lender, and is entitled to all of the benefits of the Loan Agreement. The term "Loan" as used herein, means the Loan evidenced by this Note and the Loan Agreement. All capitalized terms not otherwise defined herein shall have the meanings set forth in the Loan Agreement.

1. **PAYMENTS**. Borrower promises to pay interest and principal as follows:

a. All money advanced, together with all unpaid interest and any other charges due hereunder are payable on the eighth anniversary of the date of this Note, except as otherwise provided in the Loan Agreement or herein.

b. Payments shall commence three years from the date of this Note and shall be made quarterly.

c. Payments shall consist of operating capital after senior debt service (if any) and reasonable operating expenses. Borrower shall provide lender with financial statements and documentation showing the amount available for payment concurrent with each payment. In the event of dispute concerning the amount of available operating capital, Lender's City Manager shall determine such amount, provided, however, that nothing herein shall impact the right of Borrower to seek judicial review of such determination.

2. **PAST DUE PRINCIPAL AND INTEREST**. Any amount of principal or interest on the Loan or any fee or expense or other amount payable hereunder or under the Loan

Agreement or any other Loan documents, shall, to the extent permitted by law, bear interest from such due date until paid at the rate of 10% per annum, which interest shall be immediately due and payable.

3. **NO DEDUCTIONS, NO OFFSETS**. All payments of principal and interest hereunder shall be made without deduction of any present and future taxes, levies, duties, imposts, deductions, charges or withholdings imposed by any existing or future law, rule, regulation, treaty, directive or requirement whether or not having the force of law, which amounts shall be paid by Borrower. Borrower will pay the amounts necessary such that the gross amount of the principal and interest received by Lender is not less than that required by this Note. All stamp and documentary taxes shall be paid by Borrower. If, notwithstanding the foregoing, Lender pays any such taxes, Borrower will reimburse Lender for the amount paid, as additional interest, within five (5) days of Lender's demand for payment. Borrower will furnish Lender official tax receipts or other evidence of payment of all such amounts.

4. **ABSENCE OF USURY**. Borrower and Lender intend that the Loan be exempt from the restrictions contained in the California usury law and be in strict compliance with any applicable usury law. In furtherance thereof, Borrower and Lender stipulate and agree that none of the terms and provisions contained in this Note, or in any other instrument executed in connection herewith, shall ever be construed to create a contract to pay for the use, forbearance or detention of money, or interest at a rate in excess of the maximum interest rate permitted to be charged by applicable law. Therefore, if a court ultimately determines that the Loan is not exempt from the California usury law, or if a court determines that the usury law of another jurisdiction should be applied to the Loan: (a) neither Borrower nor any endorsers or other parties now or hereafter becoming liable for payment of this Note shall ever be required to pay interest on this Note at a rate in excess of the maximum interest that may be lawfully charged under applicable law, and the provisions of this Section shall control over all other provisions of this Note and any other instruments now or hereafter executed in connection herewith; (b) if the maturity hereof shall be accelerated for any reason or if the principal of this Note is paid prior to the end of the term of this Note, and as a result thereof the interest received for the actual period of existence of the Loan would be unlawful, the holder of this Note shall refund to Borrower the amount of such excess or shall credit the amount of such excess against the principal balance of the Note then outstanding; and (c) in the event that Lender or any other holder of this Note shall collect monies which are deemed to constitute interest which would increase the effective interest rate on this Note to a rate in excess of that permitted to be charged by applicable law, all such sums deemed to constitute interest in excess of the legal rate shall, upon such determination, at the option of the holder of this Note, be first, credited against the principal balance of this Note then outstanding, and second, returned to the Borrower.

5. **MATURITY DATE**. All unpaid principal and interest, and any other amounts due under this Note, to the extent not previously paid, shall be due and payable on the eighth anniversary of the execution hereof ("Maturity Date").

6. **PREPAYMENT.** This Note may be prepaid in whole or in part without penalty or charge.

7. **ATTORNEY'S FEES.** Should the indebtedness represented by this Note or any part thereof be collected at law or in equity or through any bankruptcy (including, without limitation, any action for relief from the automatic stay or any other bankruptcy proceeding) receivership, probate or other court proceedings or by any judicial or nonjudicial foreclosure proceeding, or if this Note is placed in the hands of attorneys for collection after default, the Borrower and all endorsers, guarantors and sureties of this Note jointly and severally agree to pay, in addition to the principal and interest due and payable hereon, reasonable attorneys' fees and collection costs and expenses. Should any action be brought to construe, clarify, or obtain a declaration as to the terms of this Note or the parties' obligations under it, the prevailing party in such action shall recover its reasonable attorneys' fees.

8. **WAIVER OF PRESENTMENT.** Borrower, and any and all endorsers, guarantors and sureties of this Note, and all other persons liable or to become liable on this Note, jointly and severally waive presentment for payment, demand, notice of demand and of dishonor and nonpayment of this Note, notice of intention to accelerate the maturity of this Note, protest and notice of protest, diligence in collecting, and the bringing of suit against any other party, and agree to all renewals, extensions, modifications, partial payments, releases or substitutions of security, in whole or in part, with or without notice, before or after maturity. The pleading of any statute of limitations as a defense to any demand against the makers, endorsers, guarantors and sureties is expressly waived by each and all such parties to the extent permitted by law.

9. **LOSS OF NOTE.** Upon notice from any holder to Borrower of the loss, theft, destruction or mutilation of this Note and, upon receipt of indemnity reasonably satisfactory to Borrower from any holder of this note (except that if Lender is the holder of this Note, an indemnification from Lender shall be sufficient) or, in the case of mutilation hereof, upon surrender of the mutilated Note, Borrower will make and deliver a new note of like tenor in lieu of this Note.

10. **SUCCESSORS AND ASSIGNS.** This Note shall be binding upon and shall inure to the benefit of Borrower and Lender, and their successors and assigns.

11. **SEVERABLE PROVISIONS.** Every provision of this Note is intended to be severable. If any term or provision hereof is declared by a court of competent jurisdiction to be illegal, invalid or unenforceable for any reason whatsoever, such illegality, invalidity or enforceability shall not affect the balance of the terms and provisions hereof, which terms and provisions shall remain binding and enforceable.

12. **NOTICES.** Notices shall be given under this Note in conformity with applicable statutory notice requirements. If none are in effect or apply, then notices, demands, requests, elections, approvals, disapprovals, consents or other communications given under this Note shall be in writing and shall be given by personal delivery, mail or telegram or facsimile and addressed, if to Lender, 300 W. Third Street, Oxnard, California 93030, Attn: City Manager, at the

Payment Address, or if to Borrower, at USA Transport, Inc., 18402 Road 320, Springville, California 93265. Notice by personal delivery shall be deemed effective upon the delivery of such notice to the party for whom it is intended at the recipient's address. Notice by mail shall be deemed effective two (2) business days after depositing such notice, certified or registered mail, postage prepaid, properly stamped and sealed, with the United States Postal Service, properly addressed regardless of whether or when the notice is actually received by the addressee. Notice by telegram shall be deemed effective upon the transmission of the telegram, telegraph charges prepaid, to the party for whom it is intended at the recipient's address. Notice by facsimile shall be effective upon transmission. Notice by overnight guaranteed delivery service shall be deemed effective one (1) business day after depositing such notice with said service, charges prepaid and properly addressed. Either party may give notice of any change of address in accordance with the notice procedures described above.

13. **JOINT AND SEVERAL.** The obligations of Borrower in this Note shall be joint and several obligations of Borrower and of each Borrower, if more than one, and of each of Borrower's heirs, devisees, legatees, administrators, executors, personal representatives, successors and assigns.

14. **GENDER.** In this Note, whenever the context so requires, the masculine gender includes feminine and/or neuter, and the singular number includes the plural.

15. **TIME OF ESSENCE.** Time is of the essence in this Note and the performance of each of the covenants and agreements contained herein.

16. **GOVERNING LAW.** This Note shall be construed and enforced in accordance with the laws of the State of California.

17. **CAPTIONS AND REFERENCES.** The captions of the Paragraphs of this Note are for the purposes of convenience only and are not intended to be part of this Note and shall not be deemed to modify, explain, enlarge or restrict any of the provisions hereof. All "Paragraph" references are to the paragraphs of this Note, unless otherwise indicated.

DISCLOSURES. BORROWER HEREBY ACKNOWLEDGES THAT INTEREST IN THIS NOTE MAY AT TIMES TO BE CALCULATED BY HOLDER ON THE BASIS OF A THREE HUNDRED SIXTY (360) DAY YEAR AND IS FULLY AWARE THAT SUCH CALCULATIONS MAY RESULT IN AN ACCRUAL AND/OR PAYMENT OF INTEREST IN AMOUNTS GREATER THAN CORRESPONDING INTEREST CALCULATIONS BASED ON A THREE HUNDRED SIXTY-FIVE (365) DAY YEAR.

LAS CORTES, INC.

By: 
Its: President

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