



State of Washington
STATE FINANCE COMMITTEE

MIKE PELLICCIOTTI, Chair
State Treasurer
JAY R. INSLEE
Governor
DENNY HECK
Lieutenant Governor

- AGENDA -

**STATE FINANCE COMMITTEE
AND
PUBLIC DEPOSIT PROTECTION COMMISSION**

June 13, 2024, at 10:30 AM

Via Zoom

With public participation via Zoom, telephonically,
and in-person at the Office of the State Treasurer,
Legislative Building, Second Floor, Room 230, Olympia, Washington

I. STATE FINANCE COMMITTEE

Call to Order.

1. Approval of minutes of the February 20, 2024, State Finance Committee meeting.
2. Resolution No. 1283: Authorizes the issuance and sale by Fircrest Properties of bonds for the purpose of permitting, designing, and constructing a nursing facility and related improvements on the Fircrest Residential Rehabilitation Center campus pursuant to a financing contract with the Department of Social and Health Services.
3. Informational Item: Bond sale and market update.
4. Public Comments.

Adjourn.

II. PUBLIC DEPOSIT PROTECTION COMMISSION

Call to Order.

1. Approval of minutes of the November 14, 2023, Public Deposit Protection Commission meeting.
2. Informational Item: Termination Public Depository Financial Institution Update: Letter of authorization issued by the Chair authorizing termination request of financial institution for public depository status in accordance with Resolution 2018–3 dated November 13, 2018.
3. Informational Item: Financial Institutions and PDPC program update.
4. Public Comments

Adjourn.

Public Zoom Access Information:

To join virtually, please select the following

<https://us02web.zoom.us/j/86354395724?pwd=OWNONjIzZdTIzQWJ4c1pJeWs4WEhydZ09>

Passcode: 530861

Public Dial-in Access Information:

Participants who wish to participate telephonically, please use the following dial-in information:

Dial-in: (253) 215-8782 or 877 853 5257 (Toll Free)

Meeting ID: 863 5439 5724

- BRIEFING BOOK -

State Finance Committee

June 13, 2024, Meeting

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- SECTION 1 -

State Finance Committee

June 13, 2024, Meeting



State of Washington
STATE FINANCE COMMITTEE

MIKE PELLICCIOTTI, Chair
State Treasurer
JAY R. INSLEE
Governor
DENNY HECK
Lieutenant Governor

STATE FINANCE COMMITTEE MINUTES

February 20, at 1:00 PM

Via Zoom

**With public participation via Zoom, telephonically,
and in-person at the Office of the State Treasurer,
Legislative Building, Second Floor, Room 230, Olympia, WA**

The State Finance Committee met virtually via Zoom in a special meeting after notice was duly given to the public.

Present: State Treasurer Mike Pellicciotti, Chair
Governor Jay Inslee, Member
Lieutenant Governor Denny Heck, Member

Also Present Virtually: Jason Richter, Office of the State Treasurer, Secretary
Nona Snell, Office of Financial Management
Dallas Roberts, Office of the Lieutenant Governor
Sharon James, Office of the Attorney General
Scott Forbes, Office of the Attorney General
Tammie Nuber, Office of the State Treasurer
Anna Borris, Office of the State Treasurer
Austin Goble, Office of the State Treasurer
Aaron Sherman, Office of the State Treasurer
Dawn Leopardo, Office of the State Treasurer
Danni Colo, Office of the State Treasurer
Molly Johannessen, Office of the State Treasurer

Chair Pellicciotti called the meeting to order at 1:00 PM. Chair Pellicciotti stated for the record that all three members of the State Finance Committee were present, and a quorum was established. Chair Pellicciotti stated this meeting was being streamed by TVW.

Item 1: Approval of Minutes

Chair Pellicciotti introduced the draft minutes from the November 14, 2023, State Finance Committee meeting for approval. No corrections or amendments were requested. Motion – Lieutenant Governor Heck; Second – Governor Inslee; the minutes were approved unanimously.

Item 2: Informational Item – Underwriting Pool Update, Request for Qualifications for Underwriter Services

Chair Pellicciotti asked Secretary Richter to provide an update on the Underwriter RFQ.

Secretary Richter described the Request for Qualifications (“RFQ”) for Underwriter Services that was issued in January and summarized the review and selection process. Secretary Richter then gave an overview of the twelve firms that had been selected for the state’s 2024 underwriter pool and described how the underwriter pool is expected to be used.

Lieutenant Governor Heck asked if there were any changes in this 2024 pool from the prior underwriter pool.

Secretary Richter responded that there were some changes from the prior pool. One notable change is that Citigroup elected to leave the municipal market and will not be included in the state’s 2024 underwriter pool.

Lieutenant Governor Heck asked how many firms from this list are new to the pool.

Secretary Richter provided the changes to the pool’s composition.

Item 3: Informational Item – Refinancing Update, Build America Bonds (“BABs”)

Chair Pellicciotti asked Secretary Richter to provide an update on the state’s Build America Bonds.

Secretary Richter summarized the state’s outstanding Build America Bonds, described the ongoing decrease in the BABs interest subsidy as a result of federal sequestration, and provided an overview of the potential refunding to replace the BABs with tax-exempt MVFT/VRF GO Bonds.

The Office of the State Treasurer (“OST”) is finalizing a Request for Proposals, in conjunction with the recently completed underwriter RFQ, to select an underwriting syndicate for a potential negotiated sale. With the support of the state’s municipal advisors, bond counsel, and the underwriting syndicate, OST may execute a refinancing of the BABs in the spring of 2024 if market conditions remain favorable.

Governor Inslee asked who is objecting to the BABs program and what is the nature of the criticism.

Secretary Richter responded that the program has been impacted by sequestration since 2013 and more recently, is now potentially at risk of being terminated as it is viewed as a cost to the federal government. By eliminating the cost, federal deficits can be narrowed and funds redeployed elsewhere.

Governor Inslee asked if most states are refinancing their BABs.

Secretary Richter responded that there are a small number of issuers that have already executed refinancings and that Washington State could find itself as one of many issuers that may elect to refinance their BABs.

Lieutenant Governor Heck asked if the SFC needs to take action on this agenda item at this time.

Chair Pellicciotti confirmed that no action is needed by this committee at this time.

Item 4: Informational Item – 63-20 Financing Update, Fircrest Nursing Facility

Chair Pellicciotti asked Secretary Richter to provide an update on the DSHS Fircrest Nursing Facility project.

Secretary Richter summarized the plan for a 63-20 financing for the DSHS Fircrest Nursing Facility, described how a 63-20 financing is different from other financing contracts and general obligation bonds, and summarized the next steps for the financing.

Item 5: Informational Item – HB 1777 Implementation Update; “Energy as a Service” Public Private Partnership

Chair Pellicciotti asked Secretary Richter to provide an update on the energy as a service program implementation.

Secretary Richter summarized the details of HB 1777, the “Energy as a Service” (“EaaS”) Public Private Partnership program, and the progress made to-date in assisting the Department of Enterprise Services (“DES”) with implementing the legislation. To comply with requirements regarding the use of financing contracts under RCW 39.94, it is expected that the EaaS contracts will need to be reviewed and approved in form by the State Finance Committee (SFC). However, this has not yet happened as DES, who is tasked with managing the program, has not yet provided a completed version of the contract for review.

Governor Inslee asked if this is the normal course of the project.

Secretary Richter responded that DES continues to work through the process of developing the financing documents for the project and OST is standing by, ready to assist when they complete this work.

Item 6: Informational Item – Bond Sales and Market Update

Chair Pellicciotti asked Secretary Richter to provide an update on the bond sale and market update.

Secretary Richter summarized recent bond and COP sales since the last market update in November and provided an update on interest rates.

Secretary Richter indicated that the state plans to sell new money COPs and bonds in the summer of 2024. The size and timing of these issuances will be primarily dependent upon the number and size of state and local financing contracts, and the state's capital budget and transportation budget cash-flow needs. In addition to new money financings, OST actively monitors the state's debt portfolio for refinancing opportunities.

Chair Pellicciotti commented that recent bond issuances have occurred at the low mark of interest rates, matching the "dip" in the graphs provided in the meeting's materials, and acknowledged the work of the debt team to secure favorable borrowing rates.

Item 7: Public Comment

Chair Pellicciotti opened the meeting up for public comment. There was no public comment requested.

Having no further business before the State Finance Committee, Chair Pellicciotti adjourned the meeting at 1:29 PM.

STATE FINANCE COMMITTEE STATE OF
WASHINGTON

By _____
Mike Pellicciotti
State Treasurer and Chair

By _____
Jay Inslee
Governor and Member

By _____
Denny Heck
Lieutenant Governor and Member

ATTEST:

Jason P. Richter,
State Finance Committee Secretary

- SECTION 2 -

State Finance Committee

June 13, 2024, Meeting



State of Washington
STATE FINANCE COMMITTEE

MIKE PELLICCIOTTI, Chair
State Treasurer
JAY R. INSLEE
Governor
DENNY HECK
Lieutenant Governor

June 13, 2024

MEMORANDUM

TO: The Honorable Mike Pellicciotti
The Honorable Jay R. Inslee
The Honorable Denny Heck

FROM: Jason P. Richter
Deputy State Treasurer

RE: **Proposed Resolution No. 1283** authorizes the issuance and sale of lease revenue bonds by Fircrest Properties

Resolution Purpose

Proposed Resolution No. 1283 authorizes the issuance and sale by Fircrest Properties of lease revenue bonds for the purpose of permitting, designing, and constructing a nursing facility and related improvements on the Fircrest Residential Habilitation Center campus pursuant to a financing contract with the Department of Social and Health Services (DSHS).

Background

The Fircrest School Residential Habilitation Center is located on a 90-acre campus in Shoreline, WA. Fircrest has operated as a facility serving individuals with development disabilities since 1959. The facility operates two independent Medicaid certified programs: 1) Intermediate Care Facility and 2) Skilled Nursing Facility (SNF). Two hundred individuals currently reside at Fircrest, approximately 110 of them at the SNF.

Fircrest SNF residents have a developmental or intellectual disability. Staff provides support for these 110 individuals 24 hours a day, seven days a week.

The existing nursing facility was constructed in the 1960's and consists of six buildings. Due to the lack of separate rooms for residents, staff create private spaces using draperies. The facility must maintain a constant climate for the residents for their care needs, as well as meeting Medicaid certification requirements. However, the age of the buildings and the outdated type of construction makes it challenging to meet the required climate consistency.

The existing facility will be replaced with one building of nearly 125,000 square feet. The building is designed to better meet the needs of the residents, to facilitate operational efficiency, and to provide support spaces for treatment services, offices, and staff training.

Despite the climate control issues, the SNF continually receives Medicaid certification from inspectors, a requirement for continuing to receive 50% federal matching funds for operational costs. This is due to the skill and dedication of the nursing team and support staff, who are committed to providing excellent care for the vulnerable people they serve.

Authorization

The 2023-25 Capital Budget authorized a financing contract for DSHS to construct a nursing facility on their Fircrest campus in an amount not to exceed \$175,888,000 in total project costs, plus financing costs and expenses, required reserves, and capitalized interest. The authorization permits the department to lease purchase or lease develop the facility. DSHS has consulted with the Office of Financial Management and the Office of the State Treasurer (OST) and selected to move forward with 63-20 financing.

63-20 as a Financing Tool

Named after IRS Revenue Ruling 63-20, the structure allows a nonprofit corporation to issue tax-exempt bonds “on behalf” of a municipal entity. This allows certain capital projects to maintain the benefits of a tax-exempt financing, while shifting certain risks to a private development team through a guaranteed maximum price, thereby better incentivizing time and cost savings. The approach also provides a built-in budget for operating and maintenance costs by including those expenses in the annual lease amount.

History of 63-20 Use in the State

The state previously has financed two 63-20 projects, the 1500 Jefferson building in Olympia in 2009 and the Edna Goodrich building in Tumwater in 2004.

Recommended Action

OST recommends, and the State Treasurer concurs, that the State Finance Committee adopt Resolution No. 1238 which approves a form of Lease Agreement between DSHS and Fircrest and the issuance by Fircrest of the Bonds in the aggregate principal amount not to exceed \$235,000,000. The not to exceed amount is sized conservatively to fund the project cost and allow for capitalizing interest during the construction phase, set aside reserves (if needed) and pay costs of issuance.

Counsel and Advisors

Assistance in preparing Proposed Resolution No. 1283 was provided by:

Bond Counsel:	Cynthia Weed, K&L Gates LLP
Financial Advisor:	Thomas Toepfer, PFM Financial Advisors, LLC

STATE FINANCE COMMITTEE

OLYMPIA, WASHINGTON

RESOLUTION NO. 1283

A RESOLUTION OF THE STATE FINANCE COMMITTEE OF THE STATE OF WASHINGTON RELATING TO THE PROPOSED ISSUANCE AND SALE BY FIRCREST PROPERTIES OF BONDS FOR THE PURPOSE OF PERMITTING, DESIGNING AND CONSTRUCTING A NURSING FACILITY AND RELATED IMPROVEMENTS ON THE FIRCREST RESIDENTIAL HABILITATION CENTER CAMPUS PURSUANT TO A FINANCING CONTRACT WITH THE DEPARTMENT OF SOCIAL AND HEALTH SERVICES.

ADOPTED: JUNE 13, 2024

STATE FINANCE COMMITTEE

OLYMPIA, WASHINGTON

RESOLUTION NO. 1283

A RESOLUTION OF THE STATE FINANCE COMMITTEE OF THE STATE OF WASHINGTON RELATING TO THE PROPOSED ISSUANCE AND SALE BY FIRCREST PROPERTIES OF BONDS FOR THE PURPOSE OF PERMITTING, DESIGNING AND CONSTRUCTING A NURSING FACILITY AND RELATED IMPROVEMENTS ON THE FIRCREST RESIDENTIAL HABILITATION CENTER CAMPUS PURSUANT TO A FINANCING CONTRACT WITH THE DEPARTMENT OF SOCIAL AND HEALTH SERVICES.

WHEREAS, the State of Washington (the “State”) Department of Social and Health Services (“DSHS”) is in need of additional facilities for the care of patients; and

WHEREAS, subject to the approval of the State Finance Committee, under the authority of Ch. 474 sec. 8002(4), Laws of 2023 (the “Legislative Authorization”), DSHS was authorized to enter into a financing contract for an amount of up to \$175,888,000 plus costs and financing expenses, required reserves and capitalized interest pursuant to Chapter 39.94 RCW (the “Act”) to lease-develop or lease purchase a nursing facility and related facilities (the “Project”) on the Fircrest residential habilitation center campus, in the City of Shoreline on property leased from the State’s Department of Natural Resources; and

WHEREAS, after soliciting proposals from potential developers, DSHS selected Fircrest Properties, a Washington nonprofit corporation that has been determined to be exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, for the purpose, *inter alia*, of undertaking the design, financing and construction of the Project, all consistent with the Articles of Incorporation and Bylaws of Fircrest Properties, copies of which are on file with the State Finance Committee; and

WHEREAS, the stated purposes of Fircrest Properties include assisting in the design, construction, erection and maintenance of public buildings, monuments, facilities, housing or works and undertaking activities which lessen the burdens of government within the meaning of Treasury Regulation Section 1.1501(c)(3)-1(d)(2); and

WHEREAS, DSHS has represented to the State Finance Committee that the undertaking of the Project by Fircrest Properties will lessen the burdens of the State in respect of the undertaking of the Project; and

WHEREAS, Fircrest Properties proposes to issue tax-exempt bonds (the “Bonds”) to pay the costs of the Project; and

WHEREAS, Fircrest Properties has represented to DSHS that the Bonds will be issued by Fircrest Properties in accordance with the proceedings approved by its board of directors and the Indenture (defined below); and

WHEREAS, Fircrest Properties has represented to DSHS, and DSHS has represented to the State Finance Committee, that Bonds issued in a principal amount of not to exceed \$235,000,000 will be applied to pay all costs of the Project, certain capitalized interest and costs of issuance of the Bonds and to fund required reserves; and

WHEREAS, Fircrest Properties has further represented to DSHS, and DSHS has represented to the State Finance Committee, that the Bonds will be the debt and obligation of Fircrest Properties, payable solely from the trust estate under the Indenture (defined below), including rent payments to be made by DSHS under the terms of a Lease Agreement substantially in the form on file with the State Finance Committee (the “Lease”); and

WHEREAS, the Project will be leased to DSHS under the terms of the Lease, which will provide, *inter alia*, for the payment of Monthly Rent (as defined in the Lease) by DSHS in an amount sufficient to pay debt service on the Bonds; and

WHEREAS, the Lease is structured as a financing contract within the meaning of the Act, specifically as the term “financing contract” is defined by RCW 39.94.020(2);

NOW, THEREFORE, BE IT RESOLVED BY THE STATE FINANCE COMMITTEE OF THE STATE OF WASHINGTON, as follows:

Section 1. Bond Issuance by Fircrest Properties. The State Finance Committee hereby approves the issuance of tax-exempt Bonds by Fircrest Properties subject to the following conditions.

(a) *Manner of Sale.*

1. The Bonds will be sold by means of a negotiated sale to one or more underwriters, further identified in subsection (a)(3) below.

2. The rating process for the Bonds shall be managed by the Office of the State Treasurer in consultation with Fircrest Properties.

3. The Deputy State Treasurer has appointed BofA Securities, Inc., Barclays Capital Inc., J.P. Morgan Securities LLC and Loop Capital Markets (collectively, the “Underwriters”) as the underwriters for the Bonds and shall negotiate, together with Fircrest Properties, the terms of a bond purchase contract with the Underwriters.

4. The preparation of the public offering materials and information (including, but not limited to, the preliminary official statement, the official statement and investor presentations, if any) shall be managed by the Office of the State Treasurer.

5. The date and time of closing and closing conditions for delivery of the Bonds shall be as determined by the Deputy State Treasurer in consultation with Fircrest Properties.

(b) *Administrative Matters.*

1. The Bonds shall be delivered with the approving legal opinion of bond counsel acceptable to Fircrest Properties and the State.

2. The total principal amount of the Bonds shall not exceed \$235,000,000.

3. The final maturity of the Bonds shall be not later than the date that is the 30th anniversary of the Effective Date of the Lease (as defined in the Lease).

4. The Bonds shall have received a rating of at least “Aa3” by Moody’s Investors Service, Inc. or a rating of at least “AA-” by S&P Global Ratings.

5. The Bonds shall be issued not later than June 30, 2025.

6. The amount of proceeds of the Bonds deposited in the Project Fund under the Indenture to pay costs of the Project (excluding costs and financing expenses, required reserves and capitalized interest) shall be no more than \$175,888,000.

7. U.S. Bank Trust Company, National Association, in its capacity as fiscal agent for the State, shall be designated as the trustee for the Bonds (the “Trustee”) under the terms of an Indenture of Trust between Fircrest Properties and the Trustee (the “Indenture”) and subject to terms approved by the Deputy State Treasurer.

8. Agreements for ongoing disclosure under Securities and Exchange Commission Rule 15c2-12 with respect to the Bonds shall be subject to review and approval by the Deputy State Treasurer.

9. The sale and issuance of the Bonds shall be subject to the further terms and conditions set by the Deputy State Treasurer as he deems appropriate. The Bonds shall not be delivered to the Underwriters unless the Deputy State Treasurer has confirmed in writing that the conditions established in and pursuant to this Section 1 have been met (or waived) in the sole discretion of the Deputy State Treasurer.

(c) *Security for the Bonds.* The Bonds shall be limited obligations of Fircrest Properties, payable solely from the security granted to the Trustee under the Indenture (the “Trust Estate”). Fircrest Properties is a single purpose entity, is not a governmental unit and has no taxing power. Fircrest Properties has no source of funds available to pay debt service on the Bonds other

than the Trust Estate, and neither Fircrest Properties nor the Trustee is obligated to use funds from any source other than the Trust Estate to pay debt service on the Bonds.

The State's sole obligation is to pay Rent (as defined in the Lease) and perform its other obligations as provided in the Lease. The obligation of the State to pay Rent and perform its other obligations under the Lease is a limited obligation of the State payable solely from the sources and subject to the limitations set forth in the Lease. The State payments under the Lease do not constitute a general obligation of the State and neither the full faith and credit nor the taxing power of the State is pledged to the payment of Rent or the performance of its other obligations under the Lease. Payments of Rent by the State are subject to appropriation by the Legislature and Executive Order reduction by the Governor. A determination by the Legislature not to appropriate or any Executive Order reduction by the Governor would not constitute a default under the Indenture or the Lease. The preliminary and final Official Statements for the Bonds also shall include language to that effect.

Section 2. Approval of Lease. The State Finance Committee hereby approves the execution of the Lease substantially in the form on file with the State Finance Committee as of this date, together with only such modifications as may be approved by the Secretary of DSHS that do not materially change the substantive terms of the Lease from the form on file with the State Finance Committee and that are consistent with the requirements of the Legislative Authorization and this resolution. The term of the Lease shall not exceed thirty years as required by RCW 39.94.030(1).

The Lease shall include language to the effect that the obligation of DSHS to make Rent payments thereunder is subject to appropriation by the State Legislature and to Executive Order reduction by the Governor under certain circumstances, and such obligation to make Rent payments does not constitute a debt of the State or any agency or subdivision thereof, or the contracting of indebtedness by the State, or a pledge of the faith and credit or taxing power of the State, for purposes of the constitutional limitation upon debt or the contracting of indebtedness.

Section 3. Approval of Nonprofit Corporation. For the sole purpose of providing for the financing, constructing, equipping and operating of the Project, the State Finance Committee approves Fircrest Properties, the purposes and activities of Fircrest Properties as described in Section 4.1 of its Articles of Incorporation, and the tax-exempt Bonds to be issued by Fircrest Properties pursuant to Revenue Ruling 63-20, as updated by Revenue Procedure 82-26 of the United States Treasury, subject to the following additional conditions:

(a) Fircrest Properties shall at all times operate as a nonprofit corporation under the laws of the State;

(b) Fircrest Properties' income shall in no event inure to the benefit of any private person; and

(c) Upon the payment and retirement of the Bonds and any refunding bonds issued by Fircrest Properties, Fircrest Properties shall convey all right, title and interest in the Project to the State free and clear of any encumbrance or obligation of any kind (other than those created or

otherwise approved by the State). The terms of the Lease shall include this commitment by Fircrest Properties.

Section 4. Delivery of Project on Payment of Bonds. The State Finance Committee, on behalf of the State, agrees to accept title to the Project by the State, including any additions to the Project when the Bonds and any refunding bonds have been paid or their payment fully provided for.

ADOPTED by the State Finance Committee of the State of Washington this 13th day of June, 2024.

STATE FINANCE COMMITTEE
STATE OF WASHINGTON

By _____
Mike Pellicciotti
State Treasurer and Chair

By _____
Jay Inslee
Governor and Member

By _____
Denny Heck
Lieutenant Governor and Member

ATTEST:

Jason P. Richter,
Deputy State Treasurer and Secretary

CERTIFICATE

I, Jason P. Richter, the duly appointed, qualified and acting Deputy State Treasurer and Secretary of the State Finance Committee of the State of Washington, certify that the foregoing is a true and correct copy of Resolution No. 1283 of such Committee, adopted at an open public meeting thereof held on this 13th day of June, 2024, after notice of such meeting was duly and regularly given as required by law, and that such resolution has been entered in the records of such Committee held on such date and remains in effect as of this date.

DATED: _____, 2024.

Jason P. Richter, Deputy State Treasurer
and Secretary

LEASE AGREEMENT

between

FIRCREST PROPERTIES,
a Washington nonprofit corporation

as Landlord

and

STATE OF WASHINGTON,
Acting through the Department of Social and Health Services

as Tenant

DATED: [_____, 2024]

Fircrest Nursing and Laundry Facility
Shoreline, Washington

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Exhibits:

Exhibit A	Monthly Rent
Exhibit B	Project Schedule
Exhibit C	Legal Description of Land
Exhibit D	Confirmation of Commencement and Expiration Dates
Exhibit E	Memorandum of Lease
Exhibit F	Dispute Resolution Procedure
Exhibit G	Permitted Exceptions
Exhibit H	Form of Notice of Election of Option to Purchase
Exhibit I	Minimum Insurance Requirements for Developer
Exhibit J	Minimum Insurance Requirements for Design-Builder

LEASE AGREEMENT

This Lease Agreement (“Lease”) is dated for reference purposes as of [_____, 2024] and is made by and between FIRCREST PROPERTIES, a Washington nonprofit corporation (“Landlord”), and the STATE OF WASHINGTON, acting through the Department of Social and Health Services (“Tenant”).

1. Definitions. The definitions set forth in this Section 1 and any substantive provisions hereof are a part of this Lease. As used in this Lease, the following capitalized terms shall have the following meanings:

ADA means the Americans With Disabilities Act of 1990, as amended from time to time.

Additional Rent means the Operating Costs, Taxes, and Utilities, each as defined herein, the costs of maintenance and repair of the Premises (as provided in Section 10.1 hereof), and any other monetary sum to be paid by Tenant to Landlord or to third parties under the provisions of this Lease (other than Monthly Rent).

Annual Maintenance and Repair Reserve Payment has the meaning set forth in 10.2(d) of this Lease.

Archaeological Artifacts means any human remains, artifacts, or other items of archaeological significance that trigger additional requirements under applicable Laws or Permits.

Architect means DLR, the Architect for the Project selected by Landlord and Developer with Tenant’s approval.

Architect’s Agreement means the agreement between the Design-Builder and the Architect with respect to the Project.

Biennium means the fiscal period of the State of Washington.

Bond Closing refers to the date the Bond proceeds are first made available to the Trustee.

Bond Purchase Contract means the Bond Purchase Contract with respect to the Bonds between Landlord and the Representative, on behalf of itself and as representative of the Underwriters, as underwriters.

Bonds means those tax-exempt obligations to be issued by Landlord which satisfy the requirements of Revenue Ruling 63-20, Revenue Procedure 82-26 and other regulations, interpretations and letter rulings issued by the Internal Revenue Service with respect to such financing, from the proceeds of which Landlord intends to pay, among other things, the Fixed Price.

Business Day means a day (i) other than a day on which banks located in the state of Washington, the City of New York, New York, or the city in which the Corporate Trust Office of the Trustee is located are required or authorized to close and (ii) on which the New York Stock Exchange is not closed.

Capital Expenditures means the acquisition of a prior non-existing asset (including Financed FF&E) or the repair or replacement of a pre-existing asset (other than personal property, or removable trade fixtures) which (i) are not characterized as an operating cost or expense under generally accepted accounting principles, (ii) maintains the value of the Premises over its usual life and (iii) is permanently affixed to, or otherwise used in conjunction with the real estate.

Code means the Internal Revenue Code of 1986, as amended, or any successor federal income tax statute or code. Any reference to a provision of the Code shall include the applicable Department of Treasury regulations.

Commencement Date means the date of Substantial Completion of the Project.

Construction Contracts means (i) the Design-Build Contract and (ii) all other contracts for construction services entered into between Landlord, or Developer, on behalf of and acting as agent for Landlord, and any Contractor, including the Design-Builder, for construction of any other portion of the Project not covered by the Design-Build Contract.

Construction Documents means the Construction Drawings and Detailed Specifications approved by the Landlord with input from Tenant pursuant to Section 9.3 below, for the construction of the Project, including technical drawings, schedules, diagrams, plans and specifications setting forth in detail the requirements for construction of the Project and providing information customarily required for the use of the building trades.

Construction Drawings means Drawings setting forth in detail the requirements for the construction of the Project. As used herein, "Drawings" include all graphic and pictorial documents depicting the design, location and dimensions of the elements of the Project and include plans, elevations, sections, details, schedules and diagrams for the Project.

Contract Documents means the Construction Documents, the Construction Contracts and the other documents identified as Contract Documents in the Design-Build Contract.

Contractors means the Design-Builder and any other construction contractors with whom Landlord enters into direct contracts upon the written recommendation of Developer, or with whom the Developer on behalf of and acting as the Landlord's agent, contracts for the Project.

Design-Build Contract means the agreement between the Landlord and the Design-Builder for the construction of the Project.

Design-Builder means Kiewit Building Group Inc., a Delaware corporation.

Detailed Specifications means all written detailed requirements for materials, equipment, construction systems, standards and workmanship for the construction of the Project.

Developer means Anchor Fircrest Developer, L.L.C., a Washington limited liability company and its successors and permitted assigns under the Development Agreement.

Developer Obligation Date means the date that is [910] calendar days after the later of the following to occur: (a) execution of the Bond Purchase Contract, and (b) Landlord's delivery of the notice to proceed under the Design-Build Contract. The Developer Obligation Date shall be extended to the extent of (i) Unavoidable Delays; provided, however, that extensions due to Unavoidable Delays shall not exceed ninety (90) days; (ii) Owner-Caused Delays; and (iii) delays incurred as a result of the remediation of any Pre-Existing Hazardous Substances or work performed to address the presence of Archaeological Artifacts, provided that Developer shall use reasonable efforts to minimize the impact on the Project Schedule due to such remediation. Absent any such extensions, Developer expects Substantial Completion of the Project to occur on or before [_____, 202__].

Development Agreement means that certain Development Agreement of even date herewith, as amended from time to time, between Developer and Landlord which provides for the development, design, permitting and construction of the Project.

Differing Site Condition Cost means any increases in the Guaranteed Maximum Price (as defined in the Design-Build Contract) that the Design-Builder is entitled to due to a Differing Site Condition, as defined in and pursuant to Section 4.2 of the General Conditions that are attached as Exhibit A to the Design-Build Contract.

Differing Site Condition Delay means any increase in the Contract Time (as defined in the Design-Build Contract) that the Design-Builder is entitled to due to a Differing Site Condition, as defined in and pursuant to Section 4.2 of the General Conditions that are attached as Exhibit A to the Design-Build Contract.

Effective Date means the date that this Lease is fully executed, acknowledged and delivered by Landlord and Tenant.

Environmental Laws means, as amended from time to time, the Federal Resource Conservation and Recovery Act of 1976, 42 U.S.C. § 6901 *et seq.*, Federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980, 42 U.S.C. § 9601 *et seq.*, Federal Hazardous Materials Transportation Control Act, 49 U.S.C. § 5101 *et seq.*, Federal Clean Air Act, 42 U.S.C. § 7401 *et seq.*, Federal Water Pollution Control Act, Federal Water Act of 1977, 33 U.S.C. § 1251 *et seq.*, Federal Insecticide, Fungicide and Rodenticide Act, Federal Pesticide Act of 1978, 7 U.S.C. § 136 *et seq.*, Federal Toxic Substances Control Act, 15 U.S.C. § 2601 *et seq.*, Federal Safe Drinking Water Act, 42 U.S.C. § 300f *et seq.*, Washington Water Pollution Control Act, RCW ch. 90.48, Washington Clean Air Act, RCW ch. 70A.15, Washington Solid Waste Management Recovery and Recycling Act, RCW ch. 70A.205, Washington Hazardous Waste Management Act, RCW ch. 70A.300, Washington Hazardous Waste Fees Act, RCW ch. 70A.218, Washington Model Toxics Control Act, RCW ch. 70A.305, Washington Nuclear Energy and Radiation Act, RCW ch. 70A.388,

Washington Radioactive Waste Storage and Transportation Act of 1980, RCW ch. 70A.390, Washington Underground Petroleum Storage Tanks Act, RCW ch. 70A.325, Washington Worker and Community Right to Know Act, RCW 49.70, Washington Oil and Hazardous Substance Spill Prevention and Response Act, RCW 90.56.

Event(s) of Default has the meaning set forth in Section 22 of this Lease.

Excess Known Environmental Condition Costs means any cost or expenses to remediate, remove, dispose of or otherwise address Known Environmental Conditions in excess of the amount included in the Fixed Price.

Expiration Date means the earliest of: (i) the date which is twenty-five (25) years after the Effective Date; or (ii) the date on which the Ground Lease is terminated as a result of payment or defeasance in full of the Bonds; or (iii) any date under which this Lease terminates in accordance with its terms.

Final Acceptance means that the following events have occurred:

(a) The City of Shoreline has issued a temporary certificate of occupancy, such that Tenant is permitted to and could, pursuant to such issued certificates of occupancy, physically occupy the Project for the Permitted Use;

(b) Design-Builder shall have issued its "Certificate of Substantial Completion" together with its Affidavit of Payment of Debts and Claims (AIA Forms 706 and 706A), together with final waivers and releases of lien in form satisfactory to Landlord from all Contractors and their subcontractors performing work on site;

(c) Landlord, Developer and the Tenant shall have agreed upon the estimated costs of the Punch List items and 150% of such estimated cost shall be withheld by the Trustee in the Bond Proceeds Account until the Punch List items have been completed to the reasonable satisfaction of Landlord and Tenant. When the Punch List items have been completed, the Development Agreement shall require that the Developer shall notify Landlord and, upon Landlord's reasonable satisfaction that the Punch List items have been completed, Landlord shall deliver its requisition to the Trustee for payment of the funds withheld by the Trustee under Section 12(d)(iii) of the Development Agreement;

(d) Developer shall have submitted its final Project Application for Payment (as defined in the Development Agreement) together with evidence reasonably satisfactory to Landlord that all construction costs have been paid in full, including evidence of full payment for any personal property installed on the Land as part of the Project Costs;

(e) The period for filing construction liens has expired or releases or discharges of construction liens in form and substance satisfactory to Landlord have been obtained by the Developer from all Contractors and their subcontractors performing work on site in accordance with all Construction Contracts;

(f) Architect shall have issued its “Certificate of Final Completion” and the Landlord shall have received the certificate of any other architect or engineer requested by the Landlord;

(g) The Design-Builder shall have issued a certificate that (i) the Project has been finally completed in substantial accordance with the Contract Documents, and (ii) no Hazardous Substances as defined in said certificate were incorporated into the structure of the Project;

(h) Developer shall have delivered to Landlord a written report showing the allocation of Project Costs among the categories of the Project Budget and the remaining specified dollar amount of the Tenant’s Contingency, Project Contingency and the undisbursed portion of the Developer’s Fee;

(i) Landlord and Trustee have each received an updated title commitment dated at least ninety (90) days after Substantial Completion of the Project, that (i) confirms that no liens for labor or materials have arisen in connection with the construction of the Project, and (ii) shows no additional exceptions to such title policy other than those approved by or arising through Landlord;

(j) Developer shall have delivered to Landlord and Tenant its affidavit that the Construction Contracts with Contractors and subcontractors of such Contractors for the Project required such parties to pay the prevailing wage in accordance with Section 34 below; and

(k) Developer shall have completed and delivered the matters required under Section 14 of the Development Agreement.

Final Payment means payment to the Developer, the Design-Builder and any other Contractors by Landlord following Final Acceptance of the Project.

Financed FF&E means the furniture, fixtures, equipment and movable property described in the Construction Documents as being part of the Project, the costs of which will be included in Project Costs and in the Fixed Price and will be financed with proceeds of the Bonds. The Financed FF&E is identified in Exhibit J attached to the Development Agreement.

Fiscal Year means a period of twelve (12) consecutive months commencing July 1 and terminating June 30th of each year during the Term.

Fixed Price means [\$ _____] the total amount to be paid by Landlord for Project Costs, excluding Tenant’s Contingency, Other Costs, and Remedial Work Costs, for the completion of the design, development, permitting and construction of the Project, and is the price to be paid by Landlord for such Project Costs. The Fixed Price does not include Tenant’s Contingency, Other Costs, Remedial Work Costs, Excess Known Environmental Condition Costs or Differing Site Condition Costs. A detailed description of Project Costs by line item and category is set forth in the Project Budget.

Ground Lease means the long-term ground lease entered into of even date herewith or to be entered into, by Fircrest Properties, as tenant, and the State of Washington, acting through the Department of Social and Health Services, as landlord, for the Land described on the attached Exhibit C.

Hazardous Substance(s) means any material, waste, substance, industrial waste, toxic waste, chemical contaminant, petroleum, asbestos, polychlorinated biphenyls, radioactive materials, or other substances regulated or classified by Environmental Laws as hazardous, toxic or lethal to persons or property.

Indenture means the indenture of trust pursuant to which Landlord will cause the issuance of the Bonds.

Inspecting Engineer has the meaning set forth in 10.2(d)(ii) of this Lease.

Inspection Report has the meaning set forth in 10.2(d)(ii) of this Lease.

Land means the real property located in the City of Shoreline, King County, Washington, as more particularly described in Exhibit C attached hereto and by this reference incorporated herein.

Landlord means Fircrest Properties, a Washington nonprofit corporation, its successors and permitted assigns.

Laundry Facility means a laundry facility consisting of a 1-story building containing approximately [6,336] square feet of area to be constructed on the Land, as described on Exhibit B attached to the Development Agreement and as more fully described in the Plans and Specifications. The Laundry Facility shall be designed, constructed and certified to at least a LEED Silver.

Laws mean any constitution, statute, ordinance, regulation, rule, resolution, judicial decision, administrative order or other requirement of any federal, state, county, municipal or other governmental agency or authority having jurisdiction over the parties or the Premises, or both, in effect either at the time of execution of this Lease or at any time during the Term, including without limitation, any regulation or order of a quasi-official entity or body (e.g., board of fire examiners or public utilities) including, but not limited to Environmental Laws and all rules, laws and regulations issued thereunder, as the same may be amended from time to time.

Lease Year means each succeeding year of the Term, commencing with the Commencement Date and ending with the date which is one (1) day less than one (1) year later.

Liens mean any lien, charge, security interest or encumbrance, except the Indenture and the Mortgage, which may be attached to, upon or against the Premises or any portion thereof. Liens shall specifically exclude (i) those permitted exceptions affecting the Land as of the date hereof and more specifically described on the attached Exhibit G, and (ii) any subsequent equipment or financing leases, purchase money security interests, or other financial liens against the Premises or any fixtures constructed as part of the Project therein that are

specifically approved in writing in advance by Tenant hereunder and by the State, as landlord under the Ground Lease.

Monthly Rent means the monthly rent payable by Tenant under this Lease from the Commencement Date and thereafter during the Term in the amounts set forth on the Schedule of Monthly Rent annexed hereto as Exhibit A and by this reference incorporated herein, as such Schedule of Monthly Rent may be adjusted from time to time in accordance with the provisions of this Lease.

Mortgage means the: (i) Construction Leasehold Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing, executed by Landlord in connection with the issuance of the Bonds; (ii) Assignment of Leases and Cash Collateral, executed by Landlord in connection with the issuance of the Bonds; (iii) applicable Uniform Commercial Code financing statements; and (iv) other security documents executed by Landlord in connection with or to secure the Bonds.

Notice Address means, as to each of the Notice Parties, its respective address as specified in or pursuant to Section 33.7 of this Lease.

Notice Parties means each of Landlord, OST, Tenant and Trustee.

Nursing Facility means a nursing facility consisting of a 3-story building, plus a partial basement, containing [120] beds and approximately [126,808] square feet of area to be constructed on the Land, as described on Exhibit B attached hereto and as more fully described in the Plans and Specifications. The Nursing Facility shall be designed, constructed and certified to at least a LEED Silver.

OFM means the State Office of Financial Management and shall include any agency of the State succeeding to the functions of OFM.

Operating Costs has the meaning given to it in Section 5 of this Lease.

OST means the Office of State Treasurer and shall include any agency of the State succeeding to the functions of OST.

Other Costs means the costs totaling [\$_____] listed under the heading "Other Costs" on the Project Budget attached to the Development Agreement as Exhibit C, Tenant FF&E (as defined in the Development Agreement), and Landlord's miscellaneous costs such as auditing and construction oversight and Tenant's administrative costs. Other Costs are not part of the Fixed Price.

Owner-Caused Delay means any period of delay in the overall progress of design, construction, and completion of the Project after the exercise of reasonable due diligence by Developer and Design-Builder to mitigate the effects thereof, that is caused by (i) Landlord initiated change orders to the Design-Build Contract, (ii) Landlord's failure to approve, disapprove, decide, or otherwise respond to Developer with respect to a particular item for which Landlord's response is required under the Development Agreement or under the Design-Build Contract, (iii) Landlord's failure to deliver plans, information, specifications, or other

information within the time frames required under the Development Agreement or the Design-Build Contract, (iv) Landlord's failure to provide Tenant FF&E or Public Art by the required delivery dates established in the Project Schedule, only to the extent that such items are necessary to obtain the temporary certificate of occupancy for the Project and such failure delays Substantial Completion, or (v) any other delay caused by Landlord's failure to comply with its obligations in this Agreement or in the Design-Build Contract. However, Owner-Caused Delay shall not include: (a) delay to the extent caused by Developer's failure to provide, within the time frames allowed under the Development Agreement, draw requests, architect's certifications, progress completion certifications, copies of change orders and supporting documentation, shop drawings, schedules, costs, invoices, job progress reports, or other documents or information which Landlord is entitled to receive under the Development Agreement or which is reasonably requested by Landlord in connection with any such decision or response, or (b) delay to the extent caused by the existence of reasonable cause to suspect that construction of the Project or any other services provided by Developer under the Development Agreement have not been performed in accordance with Construction Documents and other requirements under the Development Agreement, in which case Owner-Caused Delay shall not include the amount of additional time reasonably needed by Landlord to determine whether such construction or other services conform to all requirements under the Development Agreement, so long as Landlord proceeds with all reasonable diligence to make such determination. To facilitate timeliness in Landlord's communications with Developer over matters relating to design or construction of the Project and to minimize the possibility of Owner-Caused Delay, Developer shall alert Landlord to deadlines for approvals, decisions or other responses that Landlord must provide under the Development Agreement, including, among other methods, attachment of "deadline cover sheets" on any submissions to Landlord that require response by a particular deadline or distribution of weekly calendars that show deadlines imposed on Landlord. If Developer at any time believes that an instance of Owner-Caused Delay has occurred that has directly caused or will directly cause an increase in Project Costs or extension of the Developer Obligation Date, Developer shall send a written notification to Landlord within five (5) days of the occurrence of such alleged Owner-Caused Delay explaining the alleged event that constituted such Owner-Caused Delay, specifying the period of alleged Owner-Caused Delay, describing how the alleged Owner-Caused Delay adversely impacted the Project Schedule and identifying any incremental increase in Project Costs that are identifiable or reasonably foreseeable as a direct result of such Owner-Caused Delay. Any disputes between Developer and Landlord over Project Costs attributable to Owner-Caused Delay shall not be a reason to stop or delay construction of the Project and shall be resolved by the parties as expeditiously as possible, either by mutual agreement of Developer and Landlord or in accordance with the dispute resolution mechanisms described in Section 24 of the Development Agreement. Where additional Project Costs are incurred or the Project Schedule is adversely impacted as a result of a combination of Owner-Caused Delay and (A) failure of Developer to provide, within the time frames allowed under the Development Agreement, draw requests, architect's certifications, progress completion certifications, copies of change orders and supporting documentation, shop drawings, schedules, costs, invoices, job progress reports, or other documents or information which Landlord is entitled to receive under the Development Agreement or which is reasonably requested by Landlord in connection with any such decision or response required thereunder, or (B) delay caused by the existence of reasonable cause to suspect that construction of the Project or any other services provided by Developer under the Development Agreement have not been

performed in accordance with Construction Documents and other requirements under the Development Agreement, then, notwithstanding any other provision of the Development Agreement to the contrary, (I) Costs Resulting From Owner-Caused Delay shall be only the portion of such costs fairly attributable to the actions or omissions of Landlord and (II) any extension of the Developer Obligation Date shall be permitted only to the extent fairly attributable to the actions or omissions of Landlord.

Permitted Termination Date means the date upon which a Permitted Termination Event is effective, as stated in a written notice from Tenant to Landlord.

Permitted Termination Event means the occurrence of the following: (i) either of the events described in Section 37(a) or Section 37(b) of this Agreement, and (ii) the Tenant delivers written notice to the Landlord and Trustee within five days following the enactment of such budget or within 30 days following such an emergency reduction in funding, as the case may be, describing the failure to appropriate the necessary funds or insufficiency of funds as a result of an emergency reduction in funding and stating the Permitted Termination Date.

Permitted Use has the meaning given to it in Section 7 of this Lease.

Plans and Specifications are the most recent renditions for the Project, a schedule of which plans and specifications are attached to the Development Agreement as Exhibit D and incorporated herein by this reference.

Premises means the Land, the Nursing Facility, and the Laundry Facility and any other improvements to be constructed on the Land pursuant to the Development Agreement.

Project means the total design and construction, including, without limitation, demolition of existing improvements on the Land, site work, including Required Road and Offsite Improvements, all Remedial Work, utility relocation and installation of utilities as required to serve the Project, all professional design services, and all labor, materials and equipment (including Financed FF&E, Tenant FF&E and Public Art) used or incorporated in such design and construction of the Nursing Facility, Laundry Facility and Surface Parking Spaces on the Land. The Project must be designed, constructed and certified to at least LEED silver standards for maximum energy efficiency and lower operating and maintenance costs. The Project shall include work that is consistent with and reasonably inferable from the approved Plans and Specifications as being necessary to produce the intended results.

Project Budget means the budget for development of the Project attached to the Development Agreement as Exhibit C, as revised from time to time by Developer and Landlord, in accordance with the Development Agreement.

Project Contingency means the contingency by that name set forth in the Project Budget.

Project Costs means all costs for the completion of the development, design, permitting and construction of the Project, including, without limitation, all demolition costs, all site work, all Required Road and Offsite Improvements, all Remedial Work Costs, utility relocation and installation of utilities as required to serve the Project, all permit fees, all costs of

the HVAC, electrical and other building systems, storage and installation costs for Tenant FF&E and Financed FF&E, purchase and procurement costs of Financed FF&E, all costs of architectural services provided by the Design-Builder or by the Architect under the Architect's Agreement, all other professional design and other services provided by Contractors or other professionals engaged by the Developer or the Design-Builder, all amounts paid to Design-Builder under the Design-Build Contract including all labor, material, and equipment used or incorporated in such design and construction, all amounts paid to other Contractors and subcontractors, if any, under any other Construction Contract or subcontract entered into by Landlord upon the written approval of Developer or by the Developer on behalf of and acting as the Landlord's agent in connection with the Project, including all labor, material, equipment used or incorporated in such design and construction, services provided by engineers, environmental consultants, surveyors and other professionals and consultants retained by Developer in connection with the Project, Tenant's Contingency, Other Costs, Developer's General Conditions, Developer's Fee, insurance, bonds (other than the Bonds), real estate brokerage and leasing commissions (if any), purchase, procurement, storage and installation costs for Public Art, applicable state and local retail sales, business and occupation and other taxes (including real property taxes and assessments accruing from Commencement of Construction to Substantial Completion of the Project), plus the Project Contingency; excluding only (i) costs of procuring Tenant's Personal Property and Tenant's FF&E and any taxes thereon (which shall be paid by Tenant at its sole cost and expense), (ii) Financing Costs, (iii) costs of removing or remediating any Hazardous Substances in, on or emanating from the Land; and (iv) Costs Not To Be Reimbursed. Remedial Work Costs are a Project Cost but is not included in the Fixed Price.

Project Schedule means the schedule for development and construction of the Project as revised from time to time by Developer and Landlord; provided, however, that in no event shall the Project Schedule provide for Substantial Completion of the Project to occur later than [910] days after full execution of the Bond Purchase Contract, without the concurrence of Tenant. The initial Project Schedule is set forth in Exhibit B attached hereto and by this reference incorporated herein.

Public Art means art selected in accordance with Section 4(k) of the Development Agreement to be installed as part of the Project in accordance consistent with the spirit and intent of the Washington State Arts Commission Art in Public Places program.

Punch List means a list of items required to be completed prior to Final Acceptance that are minor items which do not affect Landlord's ability to lease the Premises to Tenant and do not affect Tenant's ability to use the Premises for their Permitted Use.

Remedial Work has the meaning set forth in Section 7(k) of the Development Agreement.

Remedial Work Costs has the meaning set forth in Section 7(k) of the Development Agreement.

Rent means Monthly Rent and Additional Rent, each as defined herein.

Representative means BofA Securities, Inc.

Required Road and Offsite Improvements means those road improvements and other off-site improvements required under Permits (including the master development plan approved by the City of Shoreline) as a condition to or in connection with the development and construction of the Project and identified in Exhibit I attached to the Development Agreement.

Requirements of Law means all requirements relating to land and building construction (including those specifically applicable to the Permitted Use), including, without limitation, planning, zoning, subdivision, environmental, air quality, flood hazard, fire safety, accessibility, and other governmental approvals, permits, licenses and/or certificates as may be necessary from time to time to comply with all the foregoing and other applicable statutes, rules, orders, regulations, laws, ordinances, and covenants, conditions and restrictions, which now apply to and/or affect the design, construction, existence, intended use, operation and/or occupancy of the Land, the Premises or any part thereof.

State means the State of Washington.

State Nonprofit Corporation Act means the Washington Nonprofit Corporation Act, Chapter 24.03 RCW, as amended from time to time.

Substantial Completion of the Project means that each of the following events shall have occurred with respect to the Project:

(a) Developer shall have notified Landlord in writing that the Project is Substantially Complete in substantial accordance with the Contract Documents, subject only to the completion of normal Punch List items;

(b) Architect shall have issued its "Certificate of Substantial Completion" (AIA Document G704) stating that the work under the Design-Build Contract is sufficiently complete in substantial accordance with the Contract Documents to permit Tenant to occupy or utilize the Project for the Permitted Use;

(c) The City of Shoreline has issued a temporary certificate of occupancy such that the Tenant is permitted to and could, pursuant to such issued certificate of occupancy, physically occupy the Premises for the Permitted Use;

(d) Landlord has received evidence from the Developer satisfactory to Landlord that all real property taxes and assessments on the Premises payable by Developer that were due and owing have been paid;

(e) Design-Builder shall have issued its "Certificate of Substantial Completion" together with its "Affidavit of Payment of Debts and Claims," (AIA Forms 706 and 706A).

(f) Design-Builder shall have provided the executed partial waivers and releases of lien for work required from Design-Builder under the Design-Build Contract in connection with the last application for progress payment submitted to Landlord prior to the date of its "Certificate of Substantial Completion"; and

(g) Landlord, with Tenant's concurrence, shall have accepted the Project as Substantially Complete, subject to completion of the Punch List items agreed upon by Landlord, with Tenant's concurrence.

Substantially Complete or Substantially Completed means that the Project has been constructed in substantial accordance with the Contract Documents and: (i) all elements required for the functioning of the Project shall be operational and in good working order and condition including satisfying applicable ADA building requirements and the Washington State Law Against Discrimination, RCW ch. 49.60, as well as regulations adopted thereunder; (ii) the Project shall be weather tight and waterproof; (iii) the fire and life safety systems within the Project shall be operational and in good working order and condition; (iv) the elevators in the Project shall operate and function in good working order and condition, but may still require touch up installation and cleaning; (v) the mechanical, electrical and other building systems in the Project, including the HVAC system, shall be individually tested and in good working order able to support the Project and shall also be tested to assure that Project systems operate on an integrated basis, but the HVAC system may still require final balancing work; (vi) the finish work in the Project is substantially completed, including, but not limited to public lobbies, elevators, HVAC, plumbing, fire and life safety, sprinkler and electrical systems, doors, partitions, cabinetry, carpet and base, including removal of all construction debris; (vii) all site utilities, sidewalks and landscaping within the Project are substantially completed and construction barricades and equipment have been removed; (viii) all Required Road and Offsite Improvements and the Surface Parking Spaces have been substantially completed; and (ix) the access and security systems for the Project are installed and operational, except in each case for minor Punch List items which do not materially affect use and occupancy of the Project for the Permitted Use. Notwithstanding anything to the contrary in this Agreement, the following are not conditions to or requirements for Substantial Completion of the Project: (a) the procurement and installation of Financed FF&E, Tenant FF&E or Public Art, except to the extent that any such item is necessary to obtain the temporary certificate of occupancy for the Project, and (b) the licensure, certification or similar approvals of the Project by DSHS or the State of Washington Department of Health.

Surface Parking Spaces means 117 total surface parking spaces (20 existing and 97 new spaces) to be constructed on the Land.

Taxes means all real property taxes and assessments (including assessments for public improvements), license and permit fees, charges for public utilities, leasehold excise taxes, other excise taxes, levies, sales, use and occupancy taxes, any tax or charge assessed against the Rent or fair market value of the Premises and any taxes levied or assessed in addition to or in lieu of, in whole or in part, such taxes, assessments or other charges and all other governmental impositions and charges of every kind and nature, general and special, ordinary and extraordinary, foreseen and unforeseen of every character (including interest and penalties thereon) which at any time from and after the Commencement Date of this Lease may be imposed, levied upon or assessed against or which arise with respect to or constitute a lien upon the Premises (or any part thereof), the leasehold estate created by this Lease or any part thereof, or any estate, right or interest therein, or any occupancy, use or possession of or activity conducted on the Premises or any part thereof. Taxes shall not include any tax computed on the basis of Landlord's net income.

Tenant means State of Washington, acting through the Department of Social and Health Services and its successors and permitted assigns as tenant under this Lease.

Tenant's Construction Representative means the Secretary of the Department of Social and Health Services or the Secretary's designee as may be named in a notice from Tenant to Landlord given from time to time.

Tenant's Contingency means the contingency in the amount of [\$ _____] which may be used to cover any changes in the Project resulting from (i) any material improvements or deviation requested by Tenant from the design or level of quality reflected in the Plans and Specifications as set forth in Section 9.4 below, (ii) Remedial Work Costs, and (iii) for Project Costs resulting from changes to the Project requested by Tenant that exceed Project Costs. Tenant's Contingency is not included in the Fixed Price.

Tenant FF&E means the portion of Tenant's Personal Property that is being separately provided by Tenant and for which Developer is responsible for ensuring the installation. The Tenant FF&E is identified in Exhibit J attached to the Development Agreement.

Tenant's Personal Property means Tenant's furniture, equipment, and movable personal property to be placed in the Premises. Tenant shall provide Tenant's Personal Property at Tenant's sole cost and expense, and the cost of procuring Tenant's Personal Property shall not be included in the Fixed Price, but the cost of installation of Tenant FF&E is included in the Fixed Price. Other than the Tenant FF&E, Tenant shall be responsible for installation of Tenant's Personal Property. For the avoidance of doubt, Financed FF&E does not constitute Tenant's Personal Property.

Term means the period beginning on the Effective Date and ending on the earliest to occur of (i) termination of this Lease pursuant to Section 9.16 below, (ii) termination of this Lease pursuant to Section 20 or 24 below, (iii) a Permitted Termination Date, or (iv) the Expiration Date.

Title Policies means, collectively, the policy of title insurance, if any, issued to Landlord and insuring its leasehold interest in the Land (herein the "Landlord's Title Policy") and the lender's policy of title insurance, if any, issued to the Trustee upon the recording of the Mortgage (the "Lender's Title Policy").

Trustee means U.S. Bank Trust Company, National Association, as the bond trustee under the Indenture or any duly authorized successor thereto appointed pursuant to the Indenture.

Unavoidable Delays means any delay in the performance by Developer or Design-Builder of their obligations with respect to construction of the Project caused by strikes (other than those directly caused by the failure of the Design-Builder or Developer to negotiate in good faith), acts of God, Unusually Severe Weather Conditions, unavoidable casualties, acts of the public enemy, acts of terrorists, government embargo restrictions or other causes beyond the reasonable control of Developer or the Design-Builder which, after the exercise of due diligence to mitigate the effects thereof, delay construction of the Project, other than such delays

resulting from (i) Developer's or the Design-Builders failure to comply with the terms and provision of the Development Agreement or the Design-Build Contract, (ii) increased prices, or (iii) unavailability of funds, provided the Fixed Price is paid in accordance with Section 9 of the Development Agreement. The Development Agreement shall provide that Unavoidable Delays will entitle Developer and the Design-Builders to an extension of the Developer Obligation Date but will in no way entitle Developer to additional compensation.

Underwriters means, collectively, the Representative, Barclays Capital Inc., J.P. Morgan Securities LLC, and Loop Capital Markets.

Unusually Severe Weather Conditions means the occurrence, within a calendar month, of any of the following scenarios of precipitation, low temperature, windstorms, or snow or ice on a number of days in excess of the Weather Days (as defined in the Development Agreement), but only if the building shell has not been sealed from weather or there remains substantial external work or other conditions (such as no access to the job site) that are affected by adverse weather and that will adversely affect the Developer's ability to achieve Substantial Completion by the Developer Obligation Date:

(a) Daily rainfall equal to or greater than 0.80 inch within any 24 hour period.

(b) Daily rainfall equal to or greater than 0.50 inch during any "rainy season month" (i.e., October through June) in which the total monthly rainfall (at the end of such month) is at least 115% but less than 150% of the total average monthly rainfall for such month.

(c) Daily rainfall equal to or greater than 0.30 inch during any rainy season month in which the total monthly rainfall (at the end of such month) is at least 150% but less than 200% of the total average monthly rainfall for such month.

(d) Daily rainfall equal to or greater than 0.20 inch during any rainy season month in which the total monthly rainfall (at the end of such month) is at least 200% of the total average monthly rainfall for such month.

(e) Daily maximum temperature less than 35 degrees Fahrenheit for two or more consecutive weekday days which impacts critical components of the work.

(f) A combination of temperature and precipitation that results in snowfall in excess of 3 inches on a particular day that does not melt and substantially disappear (but for isolated shaded areas) by 7:00 a.m. on the next work day, or that results in a coating of ice during the bulk of the workday (not merely morning frost) that makes walking, transporting or loading of materials, or operation of equipment or vehicles hazardous or significantly slowed.

(g) Maximum wind gusts exceeding 50 mph at any time during the work day.

(h) Maximum wind gusts exceeding 35 mph during each hour of a continuous four hour period during the work day.

(i) Any other unusually inclement weather condition which causes the construction site to be in a condition such that the Design-Builder orders the workers to not work on the construction site.

Weather conditions shall be measured at Seattle Sand PT WSFO, Washington, by the Environmental Data and Information Service of the National Oceanic and Atmospheric Administration of the U.S. Department of Commerce. However, if Developer wishes to monitor weather at a location on or nearer to the Project site, Developer may make a proposal to install and operate, through Project Contingency, a weather monitoring station at the Premises or in the vicinity of the Premises, monitored by an independent consultant, and Landlord shall not unreasonably withhold its approval to utilization of the weather data from such closer site so long as the equipment and independent consultant appear to be capable and trustworthy and the results obtained from such monitoring appear to be reasonably reliable.

Utilities means all utilities and services furnished to the Premises, including without limitation, gas, electricity, water, sewer, storm water, garbage collection, and telephone service.

Warranty Period shall mean that period commencing on the date of Substantial Completion of the Project and expiring one (1) year thereafter.

Capitalized terms used in this Lease and not set forth above or otherwise defined herein shall have the meaning given such terms in the Development Agreement or if not defined therein, as defined in the Indenture.

2. Premises. Pursuant to RCW 39.94, Landlord leases to Tenant and Tenant leases from Landlord the Premises for the Term.

3. Term. The Term shall commence on the Effective Date and shall expire on the Expiration Date, unless sooner terminated as provided herein; provided, however, that the obligation of the Tenant to pay Monthly Rent shall not commence until the Commencement Date. Landlord and Tenant shall confirm the Commencement Date by executing within fifteen (15) days after the Commencement Date, a written Confirmation of Commencement Date in the form attached hereto as Exhibit D, which Confirmation of Commencement Date shall become a part of this Lease and be binding upon Landlord and Tenant to establish the actual Commencement Date of the Term. Landlord shall notify the OST once the Commencement Date has occurred. Notwithstanding that the obligation of Tenant to pay Monthly Rent under this Lease shall not commence until the Commencement Date, all of the other terms and provisions of this Lease shall be effective from and after the Effective Date (except as otherwise provided herein).

4. Monthly Rent. Tenant's obligation to pay Monthly Rent shall commence on the Commencement Date and continue until the expiration of the Term of this Lease. Landlord does hereby irrevocably authorize and direct Tenant to make all payments of Monthly Rent directly to the Trustee. The first payment of Monthly Rent shall be paid by the Tenant to the Trustee on the Commencement Date, and shall be prorated for the remainder of the month in which the Commencement Date occurs in the event that the Commencement Date is not the first day of a

month. Beginning with the first month following the Commencement Date, Tenant shall pay to the Trustee at the Trustee's address set forth in Section 33.7 and without deduction, offset, prior notice or demand in advance on or before the first day of each month during the Term an amount equal to Monthly Rent; provided, however, that the Monthly Rent payments immediately following the Commencement Date may be reduced, based upon reports provided by the Trustee, by amounts on hand in the Bond Fund and available to pay principal on the Bonds in which event the Landlord shall prepare a revised Schedule of Monthly Rent which shall be substituted for the Schedule of Monthly Rent currently annexed hereto as Exhibit A. Semiannually (expected to be the Monthly Rent payments due on January 1 and July 1), the amount of Monthly Rent payable for such month shall be reduced by an amount equal to the interest earnings adjustment referenced below which is available to pay principal and interest on the Bonds. The Indenture shall provide that Monthly Rent paid by the Tenant prior to the date due shall be deposited by the Trustee in the Revenue Fund and shall be invested at the direction of the Landlord until such funds are disbursed to Bond Owners. Tenant acknowledges that time is of the essence in payment of Monthly Rent since Landlord intends to use Monthly Rent to make principal and interest payments on the Bonds.

For recordkeeping purposes, Landlord shall provide Tenant with monthly invoices on or before the 23rd day of each month during the Term setting forth the amount of Monthly Rent due for the following month, and, based upon accumulated interest earnings in the Revenue Fund reported by the Trustee to the Landlord, the invoice setting forth the amount of Monthly Rent due shall be adjusted semiannually (expected to be the January 1 and July 1 Monthly Rent payments) to take into account accumulated interest earnings in the Revenue Fund so that the amount paid by the Tenant for such month(s) together with accumulated interest earnings will be equal to the Monthly Rent amount due for such month as set forth on the Schedule of Monthly Rent annexed hereto as Exhibit A. All such invoices shall be sent to Tenant at the address set forth in Section 33.7 below, attention DSHS Facilities Manager [Confirm].

Monthly Rent for any partial month shall be prorated on a daily basis at the rate of 1/30 of the Monthly Rent. All payments of Rent under this Lease shall be paid in lawful money of the United States and in immediately available funds. In the event that the date on which Rent is due is not a Business Day, such Rent shall be due on the preceding Business Day.

The aggregate Monthly Rent allocable to the payment of the aggregate principal amount of the Bonds shall not exceed [\$_____]. The parties understand and agree that the amount of Monthly Rent payable under this Lease during the Term shall be equal to the amount of debt service payable under the Bonds, which Monthly Rent cannot be finally determined until the Bonds are sold, but that annual Monthly Rent payable under this Lease during any Lease Year shall not exceed the aggregate estimated amount of Monthly Rent for such Lease Year as set forth on the estimated schedule of Monthly Rent attached hereto as Exhibit A. Once the Bonds are sold, the Representative shall prepare and submit to Landlord, Tenant and Trustee the final schedule of Monthly Rent which shall include Monthly Rent that on an aggregate basis in any Lease Year does not exceed the aggregate amount of Monthly Rent payable in such Lease Year as set forth in the estimated schedule of Monthly Rent. Such schedule of Monthly Rent shall be substituted for the estimated schedule of Monthly Rent attached to this Lease as Exhibit A on the Effective Date. Thereafter all references in this Lease to Monthly Rent shall mean the amount of Monthly Rent as set forth on the revised schedule of Monthly Rent which

shall be attached to this Lease as Exhibit A, as such schedule may hereafter be revised from time to time in accordance with the provisions of this Lease.

So long as no Event of Default has occurred and is continuing under this Lease, Tenant shall have the right to direct Landlord to select maturities of Bonds to be optionally redeemed pursuant to [Section 3.01(a)] of the Indenture, to apply amounts redeemed against scheduled mandatory redemption payments pursuant to [Section 3.01(b)] of the Indenture, to direct the purchase of Bonds for cancellation pursuant to [Section 3.05] of the Indenture, and to direct the issuance of Future Parity Bonds pursuant to [Section 2.08] of the Indenture. The schedule of Monthly Rent (Exhibit A) amended by agreement of Landlord and Tenant to reflect such redemption, purchase for cancellation or issuance of Future Parity Bonds, shall be substituted for the schedule of Monthly Rent then attached to this Lease.

5. Additional Rent; Payment of Operating Costs, Taxes and Utilities.

5.1 Absolute Net Lease. Tenant acknowledges that this Lease is an absolute net lease. From and after the Commencement Date, Tenant shall (a) pay costs of maintenance and operation of the Premises in accordance with Section 10.1 hereof, (b) pay Taxes, (c) pay Utilities, and (d) reimburse Landlord for all Operating Costs in accordance with the remainder of this Section 5. In consideration of Tenant's payment of Operating Costs, Landlord shall at all times use its best efforts to operate the Premises in an economically reasonable manner and control such Operating Costs in accordance with reasonable commercial standards prevailing in the market place for facilities comparable to the Premises. Prior to the Commencement Date of this Lease, Taxes (if any) and Utilities relating to the Premises shall be paid by Landlord or Developer pursuant to the provisions of the Development Agreement.

5.2 Operating Costs. In accordance with Section 5.7 hereof, Tenant shall pay as Additional Rent amounts sufficient to reimburse Landlord for all Operating Costs incurred by Landlord and identified in this Section 5.2. Operating Costs means any and all costs and expenses directly related to ownership and operation of the Premises actually incurred by Landlord from and after the Commencement Date of this Lease in connection with:

(a) amounts incurred by Landlord in connection with the repair, replacement, operation, and maintenance of the Premises, including, without limitation, interior and exterior maintenance, all exterior doors and windows, elevators, sidewalks, driveways, interior perimeter and interior partition walls and finishes (including periodic painting thereof), exterior wall finishes, broken glass in exterior and interior doors and windows, roof, floor covering, window frames, gutters and downspouts, HVAC system, landscaping and all other areas used in connection with the Premises, excluding, however those costs described in Section 5.3 below;

(b) the issuer administrative fee paid Landlord under the operating budget and the property management fees paid to any third party entity or entities managing the Premises under property management contracts which meet the requirements of Section 10.2 of this Lease;

(c) the auditing fees incurred by Landlord in connection with the preparation of the financial statements required under Section 10.2 of this Lease;

(d) all costs of services furnished by third parties engaged by Landlord (if any) in connection with the Premises (provided, however, Landlord shall be required to obtain such services at rates generally competitive in the marketplace), including parking management, janitorial, security, if any, in connection with the Premises, gardening, landscaping, and related costs and expenses, licenses, permits, and inspection fees, the cost of supplies, materials, equipment, and tools used in connection with the maintenance, operation, repair or replacement of the Premises and all other reasonable, necessary and customary costs and expenses directly related to the operation, maintenance, repair and replacement of the Premises;

(e) Utilities until such time as the account for any such Utility is established in the name of Tenant with Tenant's concurrence pursuant to Section 6, and security and fire alarm monitoring fees and related costs;

(f) any damage to the Premises (but not to Tenant's Personal Property) caused by breaking and entering or other criminal act not covered by insurance;

(g) all costs of compliance with Laws or the board of fire underwriters (or similar organization) now or hereafter constituted as applicable to the Premises;

(h) all insurance premiums for insurance required to be carried under this Lease;

(i) all rent and other payments owing by Landlord under the terms of the Ground Lease;

(j) all costs or liabilities that Landlord may incur under the Development Agreement, including but not limited to Costs Resulting from Owner-Caused Delay, as a result of decisions, determinations, change orders, delays, failure to make timely decisions, or other actions or omissions made by Tenant, but excluding any such costs: (i) paid from the Tenant Contingency or (ii) incurred as a result of Landlord's negligence, Landlord's intentional misconduct, or Landlord's direct breach of provisions of the Development Agreement;

(k) the Annual Maintenance and Repair Reserve Payment to be deposited in the Capital Repairs Fund pursuant to Section 10.2(d);

(l) the amount of any deductible payable under any insurance policy described herein as a result of repairs or replacements attributable to fire or other casualty;

(m) all other costs reasonably incurred by Landlord in connection with the ownership, maintenance, and upkeep of the Premises in order to: (i) prevent any dangerous or unsafe condition on the Premises that could result in liability to Landlord or its officers, employees, directors, or other agents or (ii) comply fully with and to avoid or to cure any default under the Indenture, Mortgage and other documents relating to the Bonds, and all Requirements of Law;

(n) all costs of compliance with federal, state or local laws, regulations or permits pertaining to storm water pollution, prevention plans and all National Pollution Discharge Elimination System laws or regulations adopted or to be adopted by the United States Environmental Protection Agency;

(o) any Administrative Fees and Expenses, any Rebatable Arbitrage (as defined in the Indenture), payable with respect to the Bonds, and costs payable in connection with any prepayment of Base Rent and any defeasance or redemption of the Bonds;

(p) any Trustee fees and expenses payable by Landlord in accordance with the Indenture;

(q) all reasonable attorney's fees and other costs incurred by Landlord at the written request of the Tenant in efforts to enforce the provisions of the Development Agreement, any Construction Contract or other agreements relating to the Project, to remove construction liens from the Premises or to bond against them in the event of a good faith contest or to enforce product or workmanship warranties given by the Developer, the Design-Builder or other Contractors or suppliers of equipment or materials (unless the Tenant directs that Landlord instead assign such claims and warranties to the Tenant in accordance with Section 5.11 hereof) but only to the extent that such costs cannot be paid from any contingency accounts, reserve accounts or funds on deposit in any account held by the Trustee and established under the Indenture or reimbursed by or recovered from Developer, Design-Builder, any other Contractor or any other party who may be obligated to Landlord;

(r) all costs of the Inspection Report to be prepared every fifth Fiscal Year; and

(s) all reasonable attorney's fees and other costs incurred by Landlord, in amending or modifying the provisions of the Ground Lease, this Lease, the Development Agreement, the Design-Build Contract, the Indenture, or other agreements relating to the Project, at the request of Tenant, or enforcing or administering such contracts in connection with claims and insurance awards following damage, destruction, or a covered liability, any condemnation proceeding, any future renovations to or alterations of the Premises requested by Tenant, any future financings undertaken at the request of Tenant, or any other consents, approvals, or other actions requested or taken by Landlord under any such agreements in response to requests by the Tenant.

5.3 Exclusions from Operating Costs. Operating Costs shall not include:

(a) costs incurred in connection with the original construction of the Premises;

(b) routine legal, accounting or financial fees and costs incurred in administering the terms of the Development Agreement or this Lease;

(c) costs paid by Tenant to third parties in connection with the repair, replacement, operation, and maintenance of the Premises;

- (d) costs arising from Landlord's political or charitable contributions;
- (e) fines, penalties and interest penalties incurred as a result of Landlord's negligence, inability or unwillingness to make payments when due or take such other actions as may be required;
- (f) principal and/or interest payments required under any debt secured by a mortgage or deed of trust on the Premises;
- (g) costs and expenses incurred in complying with Environmental Laws, except costs or expenses incurred as a result of Tenant activities (as such Environmental Laws exist as of the date of Substantial Completion of the Project);
- (h) legal fees, accountant's fees and other expenses incurred in connection with (i) disputes with Tenant or associated with the enforcement of the terms of this Lease (unless otherwise provided for herein to be paid by Tenant); (ii) arising out of Landlord's violation of the terms of this Lease; or (iii) the defense of Landlord's title to or interest in the Premises;
- (i) cost of any service provided to Tenant for which Landlord is reimbursed, or any other expense for which Landlord is or will be reimbursed by another source (i.e., expenses covered by insurance or warranties);
- (j) fees to Landlord or Developer for goods or services in excess of the fees that would typically be charged by unrelated, independent persons or entities for similar goods and services;
- (k) Taxes and Utilities paid by the Tenant directly to the applicable government authority or utility provider pursuant to the provisions of Section 5.4 and Section 6 of this Lease;
- (l) repairs or replacements made to rectify or correct any latent defect(s) in the original design, materials or workmanship of the Project, as originally constructed;
- (m) repairs or replacements attributable to fire or other casualty to the extent covered by the proceeds of insurance required hereunder;
- (n) repairs or replacements necessitated by the negligence or willful misconduct of Landlord, Landlord's employees, contractors or agents;
- (o) losses incurred by Landlord under [Section 8.01(h)] of the Indenture or other indemnification obligations of Landlord under the Indenture, the Ground Lease, this Lease or the Development Agreement, or any other agreement related to the Project or the Bonds, which losses shall be made whole for the benefit of the Tenant from Landlord's own funds; or

(p) expenses of security to, or costs of operation and repair of, to the Premises to the extent that the responsibility for such costs and expenses are assumed by Tenant pursuant to Section 10.2(f) below.

5.4 Payment of Taxes by Tenant. From and after the Commencement Date, Tenant shall pay all Taxes directly to the applicable governmental agency prior to delinquency and shall provide proof of such payment promptly to Landlord. To the extent Taxes or other charges can be paid in installments, Tenant may pay such Taxes in installments and shall only be liable for Taxes which accrue from and after the Commencement Date. With respect to any general or special assessments which may be levied against or upon the Premises, or which under the Laws then in force may be evidenced by improvement or other bonds or may be paid in annual installments, only the amount of such annual installment, and interest due thereon, shall be included within the computation of Taxes.

5.5 Real Property Tax Statements. Tenant shall make appropriate arrangements to receive directly from the applicable governmental agency assessment notices and real property tax statements for the current year and Tenant shall provide a copy thereof promptly to Landlord.

5.6 Right to Contest Taxes. If Landlord receives prior notice that an appraisal of the Premises, or any portion thereof, will be conducted for real property tax purposes, Landlord shall so notify Tenant and permit Tenant to be present during such appraisal if Tenant so elects. Tenant shall have the right in Landlord's name and stead, and at Tenant's sole expense, to contest the validity or amount of any real property taxes. Landlord shall cooperate with Tenant and provide reasonable assistance with respect to any such contest, including, without limitation, such information and supporting documents as may be reasonably requested by Tenant. Notwithstanding any provision of this Lease to the contrary, Tenant shall not be required, nor shall Landlord have the right, to pay, discharge or remove any such real property tax so long as no Event of Default has occurred and Tenant is contesting the existence, amount, applicability or validity thereof by appropriate proceedings conducted in good faith with due diligence. In the event Landlord shall obtain a tax refund as a result of any such tax appeal or other proceedings Tenant shall be entitled to, and Landlord shall promptly pay to Tenant, all such tax refunds.

5.7 Payment of Operating Costs. From and after the Commencement Date of this Lease Tenant shall pay the Operating Costs to Landlord in the following manner. Tenant shall pay monthly, as Additional Rent, in advance, commencing on the Commencement Date, and on the first day of each month during the Term thereafter, an amount equal to one twelfth (1/12th) of the Operating Costs for each Fiscal Year occurring from and after the Commencement Date of this Lease as reasonably estimated by Landlord. Landlord shall develop an annual operating budget for the Premises and shall submit a copy of such budget to Tenant no later than ninety (90) days prior to the anticipated Commencement Date and the commencement of each Fiscal Year thereafter during the Term for review and approval by Tenant for the purpose of determining the amount of estimated Operating Costs expected to be incurred in connection with the Premises for the upcoming Fiscal Year. If Tenant requests and Landlord does not give Tenant an estimate within the time period stated above, then Tenant shall continue to make estimated payments based upon the preceding Fiscal Year's estimate until the new estimate is

received. In the event that, during any Fiscal Year included within the Term, Landlord reasonably determines that the actual Operating Expenses for such year will exceed the estimated Operating Expenses, Landlord may revise such estimate by written notice to Tenant, and Tenant shall pay to Landlord, concurrent with next installment of Additional Rent due following the receipt of the revised estimate, an amount equal to the increase in the estimated installment of Additional Rent multiplied by the number of months expired during such Fiscal Year to and including the month of such payment. Subsequent installments of Additional Rent due for the balance of the then Fiscal Year shall continue at the same rate until the next Fiscal Year's estimate is prepared and submitted to Tenant as hereinabove provided. Within ninety (90) days after the end of each Fiscal Year occurring during the Term (or, if applicable, the Expiration Date), Landlord shall furnish to Tenant a reconciliation statement of the actual Operating Costs for the preceding Fiscal Year and Tenant's actual payment of the estimated Operating Costs. The reconciliation statement shall be prepared, signed and certified to be correct by Landlord. If the actual Operating Costs for that Fiscal Year exceed the monthly payments of estimated Operating Costs made by Tenant, Tenant shall pay Landlord the deficiency within thirty (30) days after receipt of the reconciliation statement. If Tenant's payments of estimated Operating Costs made during that Fiscal Year exceed the actual Operating Costs, the excess shall be credited by Landlord to the Additional Rent next due and payable; provided, however, that such excess sum which is more than three (3) months of then estimated Operating Costs shall be paid to Tenant in cash via Landlord's check within thirty (30) days after the reconciliation statement.

5.8 Proration. Operating Costs shall be prorated on the basis of a 365 day year to account for any fractional portion of a Fiscal Year included in the Term at its commencement and expiration

5.9 Right to Audit. Each Fiscal Year, within that period expiring one hundred twenty (120) days after Tenant's receipt of the reconciliation statement provided under Section 5.7 herein, Tenant shall have the right to audit Landlord's books and records pertaining to the accuracy of the computation of Operating Costs. Copies of such audit shall be delivered to Landlord. If, after consultation with Landlord to determine such accuracy, any such audit, conducted in accordance with generally accepted accounting principles, reveals a discrepancy between Landlord's statement of the actual Operating Costs for a Fiscal Year and the amount determined by such audit, then Landlord shall reimburse to Tenant the excess amount paid by Tenant (or Tenant shall pay to Landlord the deficiency), if any; and, if such discrepancy exceeds three percent (3%) or more, Landlord shall pay for the cost of such audit.

Tenant shall also have the right either before or after Final Acceptance to cause Landlord to undertake an audit of the books and records of Developer or any Project Contractor in accordance with Section 18(b) of the Development Agreement and to submit the results of any such audit to Tenant. Costs incurred by Landlord in connection with any such audit shall be reimbursed by Tenant.

5.10 Warranties. During the Term of this Lease, Landlord shall exert its good faith and diligent efforts to enforce any and all applicable warranties, express or implied, in connection with defects which may arise in the original design, materials or workmanship of the Premises as originally constructed. At Tenant's request, Landlord shall assign to Tenant any

warranty rights held by Landlord with respect to the design, materials or workmanship of the Premises, as originally constructed.

5.11 Assignment of Certain Rights; Claims Against Third Parties. So long as Tenant is not in default under this Lease, and in the event Tenant, in its sole and absolute discretion, determines that Landlord may have a claim for damages, specific performance or other remedy at law or equity under the Development Agreement, the Architect's Agreement, any Construction Contract, any product or service warranty provided by any subcontractor or supplier, or any other contract or undertaking with respect to the Project (each a "Claim"), the Tenant may do any one of the following:

(a) Direct Landlord to take such action as the Tenant may reasonably require in pursuit of such Claim, with the costs of such action being included as part of Operating Costs;

(b) Join in any action commenced by Landlord (whether at the direction of the Landlord or otherwise); or

(c) Direct Landlord to assign its right to such Claim to the Tenant or the Tenant's designees.

Landlord shall cooperate with the Tenant and provide reasonable assistance with respect to any such Claim, including, without limitation, such information and supporting documents as may be reasonably requested by the Tenant. Tenant shall reimburse Landlord for the reasonable costs and expenses incurred by Landlord in taking any action directed by the Tenant, its agents and employees in pursuit of any Claim. Any attorneys, consultants or other experts engaged by Landlord whose fees will be reimbursed by the Tenant shall be reasonably acceptable to the Tenant and approved in writing by the Tenant in advance. Except in emergency circumstances where Landlord reasonably believes there is a risk of immediate or irreparable harm to persons or property, Landlord shall not take any action in respect of a Claim without first consulting with the Tenant.

6. Utilities. From and after the Commencement Date of this Lease, Tenant shall be solely responsible for and shall pay separately for all charges for Utilities used or consumed in the Premises. It is understood that Landlord shall not be required to provide any Utilities to Tenant, and Tenant shall make any necessary arrangements to have all such Utilities billed directly to and paid directly by Tenant.

7. Use. Tenant intends to use the Premises for a nursing and laundry facility and may use the Premises for any other lawful use consistent with the provisions of this Section 7 (the "Permitted Use"). Tenant acknowledges that the aggregate square footage of leasable space in the Project that is subleased by Tenant to private persons shall not exceed eight percent (8%) of leasable space unless Landlord, Trustee and Tenant receive an opinion of nationally recognized bond counsel that any such lease and/or sublease will not adversely affect the tax-exempt status of interest payable on the Bonds. Tenant has determined to its satisfaction that the Premises can be used for the Permitted Use. Tenant's use of the Premises shall be in accordance with the following:

7.1 No Insurance Cancellation. Tenant shall not do, bring, or keep anything in or about the Premises that will cause a cancellation of any insurance covering the Premises.

7.2 Compliance with Laws.

(a) Prior to the Commencement Date of the Lease, liability for Hazardous Substances on the Land shall be determined in accordance with the provisions of Section 24 of the Ground Lease or the Development Agreement, as applicable.

(b) From and after the Commencement Date of this Lease, or such earlier date as Tenant occupies the Premises, Tenant shall comply with all Laws concerning the Premises and Tenant's use of the Premises, including without limitation, Environmental Laws, and Tenant shall not use the Premises for the transportation, storage or generation of any Hazardous Substances in violation of Environmental Laws. From and after the Commencement Date of this Lease or such earlier date as Tenant occupies the Premises, and to the extent permitted by law, Tenant shall be liable for claims

now or hereafter arising in connection with the presence, transportation, storage, disposal or handling of Hazardous Substances located in, on or about the Premises caused by or resulting from the actions of Tenant, its agents or employees after the Commencement Date of this Lease or such earlier date as Tenant occupies the Premises, excluding (a) any Hazardous Substances present on the Premises prior to the Commencement Date of this Lease; (b) any such debt, demand, obligation, lien, judgment, claim, liability, loss, damage, cleanup cost or expense resulting from the actions or omissions of Landlord, Developer, the Design-Builder and their respective agents, employees, contractors, subcontractors or invitees; or (c) any debt, demand, obligation, lien, judgment, claim, liability, loss, damage, cleanup cost or expense as a result of Landlord's violation of any contractual obligation under this Lease, the Indenture, or any other document executed by Landlord in connection with a Mortgage incurred in connection with Section 11 of this Lease. "Claims" as used in this section means any financial loss, claim, suit, action, damage, expenses, costs, fees (including attorneys' fees), fines, penalties, or judgments attributable to bodily injury, sickness, disease, or death, or injury or damages to tangible property caused to third parties. "Damages to tangible property" includes, but is not limited to, physical injury to the Premises, diminution in value, and/or damages resulting from loss of use of the Premises. Tenant's obligations pursuant to this Section 7.2 shall survive the Expiration Date of this Lease.

7.3 No Waste, Nuisance or Damage. Tenant shall not use the Premises in any manner that will constitute waste of the Premises or nuisance and Tenant shall not do anything on the Premises that will cause damage to the Premises.

7.4 Tax Covenants. At all times from and after the Effective Date, Landlord (a) shall maintain its purposes and engage only in activities which are in furtherance of its purposes and which are permitted by the State Nonprofit Corporation Act; (b) will maintain its status as a nonprofit corporation under the State Nonprofit Corporation Act and as an organization described in Section 501(c)(3) of the Code whose income does not inure to the benefit of any private person; (c) shall not encumber, pledge, hypothecate or grant a security interest in all or any part of the Premises (except for the Indenture and the Mortgage which

comply with the provisions of Section 11 of this Lease) or except as consented to by Tenant and Trustee in writing; (d) shall not engage in any activities related to the Premises or the Mortgage (except those specifically set forth in Sections 9 and 11 of this Lease) which would cause the transaction contemplated under this Lease to constitute an unrelated trade or business determined by applying Section 513(a) of the Code; and (e) will not take any action or omit to take any action which, if taken or omitted, would adversely affect the tax-exempt status of interest payable on the Bonds. At all times during the term of this Lease, Landlord shall not assign its rights under this Lease (except to Trustee pursuant to the Indenture and the Mortgage) without the prior written consent of Tenant and Trustee (given in accordance with Section 9.07 of the Indenture) and the opinion of nationally recognized bond counsel to the effect that such assignment will not adversely affect the tax-exempt status of interest payable on the Bonds. At all times from and after the Effective Date of this Lease, Tenant covenants that it will not take any action or omit to take any action which, if taken or omitted, would adversely affect the tax-exempt status of interest payable on the Bonds.

8. Liens.

8.1 Covenant Against Liens. Except for the Indenture and the Mortgage incurred by Landlord in compliance with the provisions of Sections 9 and 11 of this Lease to secure the Bonds, Landlord covenants and agrees that it shall not during the Term of this Lease suffer or permit any Liens to be attached to, upon or against the Premises, or any portion thereof or any Rent payable under this Lease for any reason, including without limitation, Liens arising out of the possession, use, occupancy, acquisition, construction, repair, or rebuilding of the Premises or by reason of the furnishing of labor, services, materials or equipment to the Premises or to Landlord. Tenant acknowledges that Landlord shall cause Developer, Design-Builder and their respective agents, employees and subcontractors to keep the Premises free and clear of all construction liens resulting from the initial construction of the Project (including the right to contest same by appropriate proceedings conducted in good faith with due diligence) under the terms of the Development Agreement and/or the Construction Contracts prior to the Commencement Date. If Developer, Design-Builder and their respective agents, employees and subcontractors shall fail to do so, Landlord shall protect, defend, indemnify and hold Tenant harmless against any such Liens. Landlord agrees to indemnify, protect, defend and hold Tenant and the Premises harmless from and against all liabilities, losses, damages, expenses and costs (including reasonable attorneys' fees and costs) incurred in connection with any such Lien. Landlord's obligations pursuant to this Section 8.1 shall survive the Expiration Date of this Lease.

8.2 Covenant to Remove Liens. Landlord will promptly, and in all events within thirty (30) days following the attachment of same, remove and discharge any and all Liens which attach to, upon or against the Premises or any portion thereof, or any leasehold interest of Tenant created under this Lease (other than liens or encumbrances arising through the actions of Tenant). Landlord reserves the right to contest the validity or amount of any such Lien in good faith provided that, within thirty (30) days after the filing of such Lien, Landlord discharges said Lien of record or records a bond which complies with the requirements of RCW 60.04.161 eliminating said Lien as an encumbrance against the Premises. In the event Landlord shall fail to so remove any such Lien, Tenant may take such action as Tenant shall reasonably determine to remove such Lien and all costs and expenses incurred by Tenant including, without limitation,

amounts paid in good faith settlement of such Lien and attorneys' fees and costs shall be paid by Landlord to Tenant together with interest thereon at the rate of twelve percent (12%) interest per annum from the date advanced until paid. Landlord's obligations pursuant to this Section 8.2 shall survive the Expiration Date of this Lease.

8.3 Tenant's Disclaimer. Notwithstanding the consent or request of Tenant, express or implied, for the performance of any labor or services or for the furnishing of any materials or equipment for any construction, alteration, addition, repair or demolition of or to the Premises (or any part thereof), NOTICE IS HEREBY GIVEN THAT TENANT WILL NOT BE LIABLE FOR ANY LABOR, SERVICES, MATERIALS OR EQUIPMENT FURNISHED OR TO BE FURNISHED TO LANDLORD, OR ANYONE HOLDING AN INTEREST IN THE PREMISES (OR ANY PART THEREOF) THROUGH OR UNDER LANDLORD, AND THAT NO CONSTRUCTION OR OTHER LIENS FOR ANY SUCH LABOR, SERVICES, MATERIALS OR EQUIPMENT SHALL ATTACH TO OR AFFECT THE INTEREST OF TENANT IN THE PREMISES. Nothing in this Section 8.3 shall relieve Tenant of its obligations to pay Rent hereunder.

9. Construction of Project. Tenant would not have entered into this Lease but for the agreement by Landlord to undertake, at Landlord's sole cost and expense, the Project, including without limitation (i) the obtaining of financing for the Project, (ii) the acquisition of a leasehold interest in the Land by way of the Ground Lease, and (iii) the construction and equipping of the Premises for use by Tenant for the Permitted Use. It is of critical importance to Tenant that the construction of the Project on the Land be completed in a timely manner, within the Project Budget and thereafter professionally managed by Landlord. Accordingly, Landlord shall diligently cause the Project to be designed, constructed and prosecuted to completion in a good and workmanlike manner and in accordance with the provisions of this Section 9, free and clear of all Liens and otherwise in accordance with the requirements of this Lease.

9.1 Development Agreement. To meet the requirements of this Lease for completion of the Project, Landlord shall, simultaneously with the execution of this Lease by the parties, enter into a Development Agreement with Developer. As part of the Development Agreement, Landlord shall cause Developer to procure and maintain, at a minimum, for the duration of the Development Agreement, insurance as more particularly described in the attached Exhibit I, against claims for injuries to persons or damages to property which may arise from, or in connection with, the performance of work pursuant to the Development Agreement by Developer, its agents, representatives, employees and/or subcontractors. The cost of such insurance shall be paid by Developer or its subcontractors.

9.2 Schedule for Design and Construction. Landlord and Tenant acknowledge and agree that the dates set forth in the initial Project Schedule attached hereto as Exhibit B and by this reference incorporated herein, and as revised from time to time in accordance with the terms of the Development Agreement, shall serve as target dates for achieving the matters set forth therein. In order to ensure to the greatest extent practicable that the Project is designed, permitted and completed on or before the dates set forth in the Project Schedule and that Substantial Completion of the Project occurs on or before the Developer Obligation Date, Landlord and Tenant shall each proceed with all necessary due diligence and in good faith to complete such matters as require action or approval on the part of Tenant and

Landlord. Landlord shall, following consultation with Tenant, promptly and diligently respond to all questions and concerns raised by Developer or by the Architect, Contractors, engineers or other consultants.

(a) *Notices from Developer to Landlord.* To ensure that Tenant is fully apprised of decisions required of Landlord pursuant to the Development Agreement, Landlord shall require Developer to simultaneously provide to Tenant a copy of all notices, plans and specifications, change orders, Project Applications for Payment, progress reports, invoices, cash flow reports, documents or other agreements required to be delivered by Developer to Landlord under the Development Agreement and Landlord shall also simultaneously provide to Tenant a copy of all notices, plans and specifications, change orders, invoices, cash flow reports, documents or other agreements required to be delivered by Landlord to Developer under the Development Agreement. In addition, Tenant shall have the right, but not the obligation, to attend all meetings, including without limitation, design meetings with Developer, Architect, and all other design professionals as appropriate in the course of development of all Construction Documents.

(b) *Notices by Tenant to Landlord and Developer.* To ensure that Developer is fully apprised of Tenant's position on Project decisions to be made by Landlord, Tenant shall have the right to simultaneously provide to Developer a copy of any notice Tenant issues to Landlord hereunder. Such notice shall be sent to the Developer at the following address by messenger or email:

Anchor Fircrest Developer, L.L.C.
5353 N. 16th Street
Suite 130
Phoenix, AZ 85016
Attn: Eric Clayton, Director of Construction
Email: eclayton@anchorhealthproperties.com

(c) *Tenant's Construction Representative.* Landlord shall, and shall direct Developer to, direct all notices and submittals required to be sent to Tenant hereunder to the attention of Tenant's Construction Representative.

9.3 Plans and Specifications.

(a) *Plans and Specifications.* As of the date of this Lease, Tenant has reviewed and accepted the Plans and Specifications for the Project to be constructed on the Land, a schedule of which is attached to the Development Agreement as Exhibit D. In addition, Tenant has reviewed and accepted the Project Budget which sets forth a detailed itemization by line item and category for all Project Costs, including the Project Contingency, Tenant Contingency, Developer's General Conditions, and Developer's Fee.

(b) *Drawings and Detailed Specifications.* The Construction Drawings and Detailed Specifications for the Project have been approved by Tenant.

(c) *Changes to Construction Documents.* There shall be no material change in the Construction Documents except as provided in Section 8 of the Development Agreement. Accordingly, Landlord has directed that Developer provide Tenant a copy of all proposed changes in the Construction Documents requiring Landlord's review and/or approval pursuant to the Development Agreement, as and when such proposed changes are provided to Landlord. Tenant shall have the right to give notice to Landlord disapproving any such proposed changes in the Construction Documents within twenty-one (21) days of receipt of such proposal, specifying in the case of its disapproval, its reason therefor; provided that if the such proposed changes are of such complexity that they reasonably require more than twenty-one (21) days for a thorough review, Tenant shall be entitled to an extended review period. The duration of this extended review period shall be mutually agreed upon by Tenant, Developer and Design-Builder, taking into consideration the complexity and scope of the changes under review. If Tenant fails to issue such notice so as to allow Landlord to make timely objection or comment, any such change shall be deemed approved by Tenant. If Tenant timely disapproves any such proposed change, Tenant shall notify Landlord in writing specifying the reason for its disapproval and Landlord shall so notify Developer. Tenant shall only have the right to disapprove changes which (i) are not a consistent development of the Plans and Specifications in all material respects, (ii) do not meet the Plans and Specifications, (iii) do not comply with Requirements of Law, (iv) would violate the terms of any Permits, (v) would cause the Project Schedule to be adversely impacted as a result of such proposed changes, or (vi) involve proposed changes in work or materials which would result in a material change in appearance or diminution in quality of the Project. In the event that a dispute arises with respect to a proposed change in the Construction Documents, the parties shall attempt to resolve such dispute as expeditiously as possible and shall cooperate so that the progress of the construction of the Project is not delayed. If, however, the parties are unable to resolve the dispute within three (3) Business Days, either party may, by delivering written notice to the other, refer the matter to a dispute resolution mediator as set forth on the attached Exhibit F.

9.4 Tenant's Contingency. The Project Budget includes the Tenant's Contingency, which shall be allocated to Project Costs as provided herein. Tenant's Contingency is not an Other Cost and is not included in the Fixed Price. During the course of the Project, Tenant may request changes in the Project, but, if Tenant requires any material improvement or material deviation in the Construction Documents or the Detailed Specifications, any resulting increase in design or construction Project Costs and any costs resulting from a delay in the Project Schedule will be charged against the Tenant's Contingency until the Tenant Contingency is fully expended. No further design changes shall be permitted unless Tenant can demonstrate the availability of funds to reimburse Landlord for any resulting increase in Project Costs and for any costs resulting from a delay in the Project Schedule. Any portion of the Tenant's Contingency unexpended upon Final Acceptance of the Project shall be deposited in the Bond Fund.

9.5 Intentionally Omitted.

9.6 Intentionally Omitted.

9.7 Permits; Costs; Compliance with Legal Requirements. Landlord shall cause Developer to secure, at no cost to Tenant, all Permits, licenses, permissions, consents and

approvals required to be obtained from governmental agencies or third parties in connection with construction of the Project pursuant to Requirements of Law. Tenant shall join in the application for such permits or authorizations whenever such joinder is required; provided, however, Tenant shall incur no expense or liability in connection therewith. Landlord shall cause all work on the Premises during the Term to be performed in accordance with the Development Agreement and all Requirements of Law and all directions and regulations of all governmental agencies and the representatives of such agencies having jurisdiction over the Project and/or the Premises.

9.8 Construction Contracts. Landlord intends to contract for the construction of the Project directly with the Design-Builder and to cause Developer to serve as construction manager in connection therewith pursuant to the provisions of the Development Agreement. Landlord shall provide Tenant with a copy of the Design-Build Contract for Tenant's information. In addition, Tenant shall have the right to view, for its own information and to determine, prior to Landlord's entering into any Construction Contracts that such Construction Contract is consistent with the requirements of this Lease and the Construction Documents and the bids submitted by potential Contractors and subcontractors.

(a) *Design-Builder's Insurance.* By the date of the execution of the Design-Build Contract between Landlord and Design-Builder, Landlord shall cause the Design-Builder to procure and maintain, at a minimum, for the duration of the Design-Build Contract, insurance which is substantially equivalent to the insurance described in the attached Exhibit J against claims for injuries to persons or damages to property which may arise from, or in connection with the performance of work thereunder by the Design-Builder, and its agents, representatives, employees and/or subcontractors. The cost of such insurance shall be paid by the Design-Builder or its subcontractors.

(b) *No Assumption of Risk.* By requiring such minimum insurance, neither Landlord nor Tenant shall be deemed to, or construed to, have assessed the risks that may be applicable to the Design-Builder in the Design-Build Contract. The Design-Builder shall assess its own risks and, if it deems appropriate and/or prudent, maintain greater limits or broader coverage.

9.9 Construction of Project. Landlord shall use its reasonable best efforts to commence initial construction of the Project following receipt of [the clearing and grading permit and the foundation permit. Thereafter, following receipt of the building permit for the Project] [status of permits at closing to be confirmed], Landlord shall cause construction of the Project to be diligently and continuously prosecuted. All work shall be performed in a good and workmanlike manner, shall be free of defects in the work and materials and shall be constructed in substantial accordance with the Contract Documents, the requirements of this Lease and Requirements of Law. The Landlord shall use its reasonable best efforts to cause Substantial Completion of the Project on or before the Developer Obligation Date.

9.10 Payment of Project Costs and Other Costs Associated with the Project. Throughout the course of construction of the Project, Developer shall submit to Landlord on a monthly basis, Project Applications for Payment in the manner, and with all supporting documentation, described in the Development Agreement. Pursuant to Section 9.2(a) above, Landlord shall require Developer to simultaneously provide Tenant with a copy of all

such Project Applications for Payment and supporting documentation. Tenant shall have the right, but not the obligation, to give notice to Landlord objecting to any aspect of such submittals and Landlord shall notify Developer in the manner and within the time period set forth in the Development Agreement. If Tenant fails to give such notice so as to allow Landlord to make timely objection, Landlord shall be free to approve or to take such other action as it deems appropriate with respect to any such submittal. Any dispute with respect to Project Applications for Payment shall be subject to dispute resolution pursuant to Section 9.3 above.

9.11 Savings. Upon Final Acceptance of the Project, Landlord shall provide Tenant and Trustee a completion certificate in the form attached as [Exhibit B] to the Indenture and notice of the unexpended amount of the Tenant's Contingency and the unexpended amount of the Project Contingency. Landlord agrees that Tenant shall be entitled to 100% of the unexpended portion of the Tenant's Contingency and Landlord shall direct the Trustee to disburse Tenant's share of unexpended Tenant Contingency to be deposited in the Bond Fund. All unexpended portions of the Project Contingency remaining after payment of a portion of the Savings (as defined in the Development Agreement) to Developer as provided in Section 12(g) of the Development Agreement and funding of various holdbacks as provided in the completion certificate, shall likewise be disbursed by Trustee in accordance with the completion certificate with any remaining funds deposited by the Trustee in the Bond Fund.

9.12 As-Built Plans and Specifications; Manuals; Warranties; Permits and Licenses; and Survey. On or before Final Acceptance of the Project, Landlord shall provide Tenant with a conformed set of plans that illustrate the as-built conditions, "Red Line" drawings are not acceptable, and specifications for the Project (to be provided on CAD), together with copies of all other materials received from Developer pursuant to the Development Agreement including manuals, warranties, permits and licenses and an as-built survey.

9.13 Enforcement of Warranties. Landlord shall take all actions reasonably requested by Tenant to enforce or otherwise obtain the benefit of any warranty received from the Developer, the Design-Builder or any other Contractors or any subcontractor thereof, or any supplier, materialman or manufacturer relating to the Project; provided, however, that Landlord shall incur no additional expense or liability in that connection. After expiration of any applicable warranty period, Tenant acknowledges that it shall be fully responsible for the cost of the maintenance and repair of the Premises pursuant to the terms of this Lease.

9.14 Inspection by Tenant. Tenant shall have the right to inspect the on-going construction of the Project and the Contract Documents upon reasonable prior notice to Landlord. In addition, Tenant shall have the right to have an independent consulting architect, engineer or other appropriate consultant inspect the Project and the Contract Documents. Landlord shall cause Developer to provide Tenant's Construction Representative with all updates of the status of the construction of the Project issued to Landlord in accordance with the Development Agreement.

9.15 Delays. The Developer Obligation Date shall be extended to the extent of: (i) Unavoidable Delays; provided however that extensions due to Unavoidable Delays shall not exceed ninety (90) days; (ii) Owner-Caused Delays; (iii) delays incurred as a result of the remediation of any Pre-Existing Hazardous Substances; and (iv) delays caused by work

performed to address the presence of Archaeological Artifacts on, in, or under the Land, provided that Developer shall use reasonable efforts to minimize the impact on the Project Schedule due to such remediation or work performed. The existence of Unavoidable Delays of up to ninety (90) days shall excuse the Design-Builder and Developer for resulting delays and changes in the Project Schedule, provided however that there shall not be any adjustment to the Fixed Price for additional costs resulting therefrom.

(a) Without the prior written consent of Tenant, Landlord shall not take any action or omit to take any action that would result in an Owner-Caused Delay.

(b) In the event that Substantial Completion of the Project does not occur on or prior to the Developer Obligation Date, Landlord shall require that Developer pay to Trustee on the first day of each month an amount equal to the Monthly Rent that would have been payable under this Lease had Substantial Completion of the Project occurred on the Developer Obligation Date, until the earlier of the Commencement Date or termination of this Lease pursuant to Section 9.16 of this Lease. To the extent Landlord (or the Trustee on behalf of the Landlord) receives insurance proceeds under the Builder's Risk Insurance Policy described in Section 16(a)(v) of the Development Agreement to reimburse Landlord for loss of income and rents, such sums shall be paid to the Trustee and shall be credited against Developer's obligation to pay an amount equal to such projected Monthly Rent to the Trustee. The amount equal to such projected Monthly Rent paid by Developer shall be prorated if a partial month elapses before Substantial Completion of the Project occurs. Upon Final Acceptance and the making of all Final Payments (including the funding of the 150% holdback for uncompleted Punch List items and the holdback for LEED Certification), if there are funds remaining in the Project Fund (as defined in the Indenture) prior to the final distribution of said Fund (i.e., the sharing of contingency money), if Substantial Completion of the Project has failed to occur by the Developer Obligation Date, and if Developer has made the payments it is required to make pursuant to this Section 9.15 and Section 7(b) of the Development Agreement, the Developer and the Landlord, with written concurrence by the Tenant, shall determine and direct Trustee to pay to the Developer any additional interest earnings that accrued on the undisbursed Bond Proceeds Account as a direct result of such delay in excess of interest that would have accrued absent such delay.

9.16 Termination of Lease. Upon sixty (60) days' prior written notice to Landlord and in the event that Substantial Completion of the Project has not occurred for any reason whatsoever including, but not limited to, Unavoidable Delays, by [_____, 202_], [2 years after Developer Obligation Date] Landlord shall be in default under this Lease and Tenant shall have the right to terminate this Lease, without liability to Landlord, the Trustee, Bond Owners or any other party.

9.17 No Amendment of Documents. In the event Landlord desires to amend the Architect's Agreement, the Design-Build Contract, any Contract Document or the Development Agreement, Landlord shall submit a copy of such proposed amendment to Tenant and OST. In the event Tenant notifies Landlord within ten (10) Business Days following receipt of such proposed amendment of its objection to such proposed amendment, Landlord shall not enter into the proposed amendment unless Landlord first (i) responds to the concerns expressed by Tenant and (ii) any such amendment does not materially and adversely affect the Project.

10. Maintenance and Modification.

10.1 Maintenance and Repair. Except for warranty claims for which Developer is responsible as provided in the Development Agreement and except for damage caused by the negligent acts or omissions of Landlord, from and after the Commencement Date of this Lease, Tenant shall, at Tenant's sole cost and expense, maintain the Premises and appurtenances and every part thereof in good order, condition and repair and will take all action and will perform all interior and exterior, structural and non-structural, foreseen and unforeseen, ordinary and extraordinary, maintenance and repairs required to keep all parts of the Premises in good order, condition and repair, subject only to ordinary wear and tear. Except as otherwise expressly provided herein and except for warranty claims which Landlord shall cause Developer to cure or remedy in accordance with the provisions of the Development Agreement, Landlord shall not be required to pay for the cost required to maintain all or any part of the Premises in good order, condition and repair.

10.2 Management of Premises; Accounting.

(a) *Property Management.* Tenant may at any time following Substantial Completion of the Project, request that Landlord enter into a property management agreement in form and substance satisfactory to Landlord and Tenant under which the appointed property manager may assume some or all of the obligations of a property manager for all or a portion of the Premises. Landlord may also enter into a property management agreement in form and substance satisfactory to Landlord in accordance with the provisions of Section 10.3 of this Lease. Any such property management agreement shall comply with Revenue Procedure 2017-13 or any successor revenue procedure issued by the Internal Revenue Service governing management, operation or other service contracts in connection with the issuance of tax-exempt obligations, and upon signing of any property management contract, Landlord shall provide Tenant with an opinion of nationally-recognized bond counsel to the effect that the terms of that contract complies with such revenue procedures and will not adversely affect the tax-exempt status of the Bonds. The appointed property manager shall at all times operate the Premises in compliance with all Requirements of Law and in compliance with the terms and provisions of this Lease and the property management agreement. Such private property manager shall have experience managing facilities of comparable size and quality and shall be paid a management fee not in excess of the management fee customarily charged by other property managers who manage similar facilities. If a property management agreement is terminated in accordance with the provisions therein due to a material and uncured default by the property manager, Landlord shall have the ability to replace the property manager with a private professional property management company selected by Landlord and not unreasonably objected to by Tenant.

(b) *Financial Statements.* As soon as reasonably possible and in any event within 180 days after the close of each fiscal year of Landlord beginning with the fiscal year ending [_____, 202_]), Landlord shall deliver to Tenant and Trustee the (i) consolidated balance sheet of Landlord and the Premises as at the end of such fiscal year setting forth in comparable form the corresponding figures as at the end of the preceding fiscal year, certified as to accuracy by an officer of Landlord; (ii) statements of income, retained earnings and changes in financial position for such fiscal year of Landlord and the Premises setting forth in comparable form the corresponding figures for the previous fiscal year prepared

in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year or containing disclosure of the effect on financial position or results of operations of any change in the application of accounting principles during the year certified as to accuracy by an officer of Landlord; (iii) operating statement for the Premises for the preceding calendar year certified as to accuracy by an officer of Landlord; and (iv) certificate executed by an officer of Landlord certifying compliance by Landlord with the requirements of this Lease, the Mortgage, the Indenture and the Bonds. Such year-end balance sheet and income statements of the Landlord shall be accompanied by an unqualified report and audit opinion of independent public accountants of recognized standing selected by Landlord and not objected to by Tenant, which report and opinion shall be in accordance with generally accepted auditing standards relating to reporting, or, if qualified, the opinion shall not be qualified due to any departure from any generally accepted accounting principles.

(c) *Operating Budgets.* Landlord shall develop an annual operating budget for the Premises and shall submit a copy of such budget to Tenant no later than ninety (90) days prior to the commencement of each Fiscal Year for review and approval by Tenant for the purpose of determining the amount of estimated Operating Costs expected to be incurred in connection with the Premises for the upcoming Fiscal Year.

(d) *Maintenance and Repairs Fund; Work Plan.*

(i) *Monthly Reserve Payment.* Following the Commencement Date, concurrent with each payment of monthly Rent, Tenant shall pay to Trustee, as Additional Rent, one-twelfth (1/12) of the Annual Maintenance and Repair Reserve Payment. The "Annual Maintenance and Repair Reserve Payment" is an amount, determined by Landlord, in consultation with Tenant and the property manager for the Premises, sufficient to fund a reserve for performance of anticipated capital repairs, maintenance, replacements and improvements to the Premises during the term of the Lease. The Annual Maintenance and Repair Reserve Payment for the Premises for the first five (5) Fiscal Years following the Commencement Date is [\$_____] per year (i.e., \$2.00 per square foot of the combined area of the Nursing Facility and the Laundry Facility per year), but such amount is reviewable every fifth (5th) Fiscal Year following the Commencement Date and is subject to revision by mutual agreement of Landlord and Tenant. Landlord shall provide Trustee and Tenant with written notice of the amount of each Annual Maintenance and Repair Reserve Payment, including any modification of the initial Annual Maintenance and Repair Reserve Payment, as soon as practicable after each calculation thereof. The annual payment for the initial year and final year shall be prorated for any partial year. Such amount shall be transferred to the Capital Repairs Fund maintained by the Trustee under the terms of the Indenture. Amounts held in the Capital Repairs Fund shall be applied by Landlord at the direction of Tenant or as Tenant may otherwise direct in writing to the costs of any necessary capital repairs, maintenance, replacements or improvements included in any annual or supplemental operating budget approved by Tenant. The balance of any such approved costs shall be paid by Tenant. Tenant shall not be required to fund payments into the Capital Repair Reserve for Capital Expenditures which do not need to be completed within the five (5) years unless the Tenant agrees otherwise.

(ii) *Monthly Payment Recalculated Every Five Years Based on Inspection Report.* The amount of the Annual Maintenance and Repair Reserve Payment shall

be re-determined every fifth (5th) Fiscal Year following the Commencement Date based on the Inspection Report conducted by the Inspecting Engineer in accordance with the procedures set forth below. At least 90 days prior to the end of the fifth (5th) Fiscal Year following the Commencement Date, and every fifth (5th) Fiscal Year thereafter, Landlord shall select, in its sole discretion, an independent qualified structural engineering firm with at least five (5) years of experience inspecting buildings comparable to the Premises or other qualified construction professional mutually acceptable to Landlord with comparable levels of expertise ("Inspecting Engineer") to conduct a physical inspection of the condition of the Premises (including all major building systems). Any contract for such services must specifically be transferrable to Tenant upon conveyance of the Premises, and terminable by the Tenant by written notice within forty-five (45) days of conveyance of the Premises with or without cause. Within thirty (30) days following such inspection, the Inspecting Engineer shall deliver a copy of its report ("Inspection Report") to Landlord and Tenant, including a description of what Capital Expenditures, if any, need to be made to the Premises through the stated maturity date of the Bonds in order to maintain the Premises in substantially its present condition and state of repair as of Final Acceptance, normal wear and tear excepted (which may include recommendation for periodic maintenance or other preventive measures which should be taken to minimize Capital Expenditures and otherwise maintain the Premises in an economic and cost-effective manner) (the "Required Building Condition"), a recommended schedule of Capital Expenditures to be made during the next five (5) year period, and cost estimates to implement such schedule. Landlord shall determine the amount of the Annual Maintenance and Repair Reserve Payment based on the Inspection Report and shall provide written notice to Trustee and Tenant of the updated amount of the Annual Maintenance and Repair Reserve Payment as set forth above. Landlord shall inform Tenant of the anticipated cost of the Inspection Report at least six (6) months prior to the beginning of the Fiscal Year during which the Inspection Report will be prepared. If Landlord fails to inform Tenant of the anticipated cost of the Inspection Report, Tenant is not obligated to reimburse Landlord for the same.

(iii) *Intentionally deleted.*

(iv) *Disbursements from the Capital Repairs Fund.* Landlord or the property manager for the Premises shall from time to time as required to maintain the Premises in Required Building Condition prepare requests for disbursements from the Capital Repairs Fund for submission to the Trustee in accordance with the terms of the Indenture. Such requests shall be signed by both Landlord and Tenant. Disbursements made from the Capital Repairs Fund by Trustee pursuant to any such written request shall be presumed to be made properly and the Trustee shall not be required to verify (a) the propriety of any Capital Expenditure, (b) the application of any disbursement made from the Capital Repairs Fund, (c) the accuracy of any calculation of the Annual Maintenance and Repair Reserve Payment or (d) the purpose of any disbursement from the Capital Repairs Fund.

(v) *Determination of Capital Expenditure Amount.* The cost of a Capital Expenditure shall include construction and project management fees payable to Landlord and the property manager for the Premises as determined by Landlord and agreed to by Tenant in writing based upon the complexity of the Capital Expenditure project but not less than one percent (1%) and not to exceed a total of five percent (5%) of the hard construction costs associated with the Capital Expenditure. For reference, projects consisting of a purchase and

installation by a single vendor, without separate design costs or other contractors may have a lower construction and project management fee; projects requiring several contractors, special inspections, round the clock access, coordination with existing service providers, other contractors, or design professionals may have a higher construction management fee. The Issuer Administrative Fee shall not be assessed on payments into the Capital Repairs Fund. The acquisition of a prior non-existing asset requested by Tenant shall be paid for by Tenant as a tenant improvement at the time of such acquisition unless Landlord and Tenant agree that the acquisition of such asset can be paid for out of funds on deposit in the Capital Repairs Fund.

(vi) *Pledge to Budget and Seek Appropriations for Capital Expenditures in Excess of Capital Repairs Fund.* Landlord acknowledges that capital improvements of the Premises required to maintain the Premises in the Required Building Condition may require funding in addition to the amounts held in the Capital Repairs Fund and such funding is managed by the DSHS Office of Capital Programs as funded by the State Legislature through capital budget appropriations to the DSHS Office of Capital Programs. Landlord is not obligated to engage in significant repairs, upgrades, or capital improvements not funded by Tenant's capital budget appropriations. In the event of an emergency, Tenant will submit an Emergency Funding Request pursuant to RCW 43.88.250. Submission of Emergency Funding does not guarantee funding will be approved per RCW 43.88.250. Tenant pledges: (a) to include in its biennial budgets required by law to be submitted to OFM the cost of all Capital Expenditures in addition to the amounts held in the Capital Repairs Fund required by this Lease; (b) to submit such budgets timely to OFM in accordance with applicable law; (c) to use its best efforts to obtain appropriations by the State Legislature in amounts sufficient to pay all Capital Expenditures in addition to the amounts held in the Capital Repairs Fund required by this Lease; (d) to include all Capital Expenditures in addition to the amounts held in the Capital Repairs Fund in its statements of proposed expenditures for each fiscal period required by law to be submitted to OFM; and (e) to use its best efforts to obtain allotments by OFM of appropriated funds sufficient to pay all Capital Expenditures in addition to the amounts held in the Capital Repairs Fund. In addition, if and to the extent that all or portions of the Project are sublet by Tenant to other State agencies, Tenant will work with each sub-tenant to ensure that the sub-tenant(s) also comply with the obligations set forth in the previous sentence. If Tenant anticipates that such appropriations will not be available during any Biennium, the Tenant shall notify the Trustee immediately.

(vii) *Intentionally Deleted.*

(viii) *Remaining Balance of Capital Repairs Fund.* Any balance remaining in the Capital Repairs Fund not specifically allocated to Capital Expenditures in progress or already completed at the time of conveyance of the Premises to Tenant pursuant to Section 31 will be, at the Tenant's option, and in accordance with the Indenture, returned to Tenant within forty-five (45) days following conveyance by either the Landlord or Trustee.

(e) *Issuer Administrative Fee.* From and after Substantial Completion of the Project, and as compensation for its services in overseeing the management of the Premises, the preparation of financial statements and the preparation of an operating budget for the Premises, Tenant shall pay Landlord an issuer administrative fee equal to one percent (1%) of the Monthly Rent payable under this Lease. Such issuer administrative fee shall be included as

part of the operating budget as an Operating Expense, and paid monthly at the same time and in the same manner that Additional Rent is paid.

10.3 Landlord's Remedies. Tenant shall diligently pursue all necessary or appropriate maintenance and repairs in accordance with its obligations under Section 10.1 hereof, but failure to do so shall not constitute an Event of Default. However, if, based on inspections of the Premises permitted under Section 10.2 and Section 26 hereof, Landlord becomes aware of needed maintenance or repairs, Landlord shall provide Tenant written notice of any maintenance or repair required to the Premises. Tenant shall have sixty (60) days after receipt of notice from Landlord detailing the need for maintenance or repair, to commence to perform such maintenance and repair, except that Tenant shall perform its obligations as soon as reasonably possible if the nature of the problem presents a hazard or emergency. If Tenant does not perform such maintenance and repair within the time limitations set forth in this Section 10.3, provided written notice has been given to Tenant as provided in this Section 10.3, Landlord may perform such maintenance and repair and shall have the right to be reimbursed by Tenant for the sum it actually expends in the performance of such work. In connection with Landlord's exercise of default remedies under Section 22 hereof, Landlord shall have the right, but not the obligation, upon thirty (30) days' written notice to Tenant, to enter into a property management agreement in form and substance satisfactory to Landlord under which the appointed property manager shall assume all obligations of a property manager for the Premises. Any such property management agreement shall comply with the requirements of Section 10.2(a) hereof.

10.4 Modifications, Alterations and Additions. From and after the Commencement Date of this Lease, Tenant may, at Tenant's sole cost and expense, make modifications, alterations and additions to the Premises provided that such modifications, alterations and additions do not decrease the value of the Premises, and such modifications, alterations and additions shall be expeditiously completed in a good and workmanlike manner and in compliance with all applicable Laws and the requirements of all insurance policies required to be maintained by Tenant, without further consent from Landlord. Any modifications, alterations and additions made to the Premises by Tenant shall remain on and be surrendered with the Premises on expiration or termination of the Term.

10.5 Tenant's Personal Property. Tenant shall be responsible for providing such furniture, furnishings, equipment and other personal property that is not included as part of the Project at its sole cost and expense and shall have the right to sell, lease, finance, acquire, encumber, dispose, repair, replace, renovate, substitute, upgrade, enhance or improve Tenant's Personal Property at its discretion and from time to time without further notice to, or consent of, Landlord or the Trustee.

11. Landlord Financing of Project. Landlord shall not have the right to mortgage, pledge, encumber or assign its rights in the Premises in whole or in part or to assign its rights under the Development Agreement, the Design-Build Contract, any Contract Document, the Ground Lease, this Lease or any other document, contract or agreement entered into in connection with the Project or the Bonds without the prior written consent of the Tenant, except in connection with its financing of the Project through Bonds issued by Landlord pursuant to the Indenture and the Mortgage in compliance with the requirements of Revenue Ruling 63-20 and

Revenue Procedure 82-26 issued by the Internal Revenue Service. Copies of the Indenture and the Mortgage securing the Bonds, together with collateral assignments of the Development Agreement and other Contract Documents and Uniform Commercial Code financing statements shall be provided to and shall be approved by Tenant which approval shall not be unreasonably withheld provided Tenant receives an opinion from nationally recognized bond counsel acceptable to Tenant that the interest on the Bonds secured by such Mortgage is exempt from taxation under the provisions of the Code and the financing proposed by the Indenture and the Mortgage is otherwise in full compliance with all requirements of the Code in connection with the issuance of tax-exempt obligations which satisfy the requirements of Revenue Ruling 63-20, Revenue Procedure 82-26 and other regulations, interpretations and letter rulings issued by the Internal Revenue Service with respect to such financings. Landlord shall cause the Trustee to enter into a subordination, nondisturbance and attornment agreement in form and substance satisfactory to Tenant which shall, among other things, expressly provide that so long as Tenant is not in default under any of the terms, covenants or conditions of this Lease, the beneficiary under the Mortgage shall not disturb Tenant's possessory rights in the Premises in the event such beneficiary should foreclose the Mortgage. Landlord shall ensure that any preliminary or final official statement, offering circular or sales material relating to the Bonds includes language to the effect that (a) the Bonds are not a debt or a general obligation of the State or any agency or subdivision thereof, or the contracting of indebtedness by the State, or a pledge of the faith and credit or taxing power of the State, for purposes of any constitutional or statutory limitation upon debt or the contracting of indebtedness; and (b) the State's obligation to make payments under this Lease is subject to appropriation and to emergency reduction by the Governor, and that such obligation to make payments under this Lease does not constitute a debt obligation of the State or any agency or subdivision thereof, or the contracting of indebtedness by the State, or a pledge of the full faith and credit or taxing power of the State, for purposes of any constitutional or statutory limitation upon debt or the contracting of indebtedness.

Upon the issuance of the Bonds, Landlord shall provide Tenant and the OST with a certified transcript of proceedings of the Bonds, together with an opinion of nationally-recognized bond counsel, addressed to the State Finance Committee, to the effect that neither the Bonds nor the State's obligations to make payments under this Lease constitutes a debt obligation of the State or any agency or subdivision thereof, or the contracting of indebtedness by the State, or a pledge of the faith and credit or taxing power of the State, for purposes of any constitutional or statutory limitation upon debt or the contracting of indebtedness.

12. Construction Liens. From and after the Commencement Date of the Lease, Tenant shall pay all costs for modifications, alterations and additions done by it or caused to be done by it on the Premises as permitted by this Lease (other than the construction of the Project) and Tenant shall keep the Premises free and clear of all construction liens resulting from modifications, alterations and additions done by or for Tenant; provided, however, Tenant shall have the right to contest the correctness or validity of any such Lien by appropriate proceedings conducted in good faith with due diligence. Within thirty (30) days following written notice from Landlord, Tenant shall discharge said Lien of record or record a bond which complies with the requirements of RCW 60.04.161 eliminating said Lien as an encumbrance against the Premises if in the reasonable exercise of Landlord's judgment the protection of the Premises or Landlord's interest therein shall require such payment. In the event Tenant shall fail to so remove any such Lien, Landlord may take such action as Landlord shall reasonably determine to

remove such Lien and all costs and expenses incurred by Landlord including, without limitation, amounts paid in good faith settlement of such Lien and attorneys' fees and costs shall be paid by Tenant to Landlord. Tenant's obligations pursuant to this Section 12 shall survive the Expiration Date of this Lease.

Tenant acknowledges that Landlord shall cause Developer to keep the Premises free and clear of all construction liens resulting from the initial construction of the Project (including the right to contest same by appropriate proceedings conducted in good faith with due diligence) under the terms of the Development Agreement prior to the Commencement Date of this Lease. If Developer shall fail to do so, Landlord shall protect, defend, indemnify and hold Tenant harmless against any such liens.

13. Hold Harmless. To the extent permitted by law, Tenant shall be liable for any claims arising from the negligent or wrongful acts or omissions of itself and those of its employees, subtenants, contractors, and subcontractors, agents, invitees, guests, affiliates, licensees, or Permittees while operating under this Lease or at the Lease Area. "Claims" as used in this subsection means any financial loss, claim, suit, action, damage, expenses, costs, fees (including attorneys' fees), fines, penalties, or judgments attributable to bodily injury, sickness, disease, or death, or injury or damages to tangible property caused to third parties. "Damages to tangible property" includes, but is not limited to, physical injury to the Lease Area, diminution in value, and/or damages resulting from loss of use of the Lease Area. Tenant shall not be liable for the negligent or wrongful acts or omissions of Landlord. Nothing contained within this Section 13 shall affect and/or alter the application of any other provision contained within this Lease. Tenant's obligations pursuant to this Section 13 shall survive the Expiration Date of this Lease.

14. Minimum Scope of Insurance Coverage for Landlord.

14.1 Landlord's Coverages. During the Term of this Lease, Landlord shall at a minimum maintain: commercial general liability insurance (Insurance Services Office form number (CGL 00 01 10 01 form or its equivalent)), covering commercial general liability including coverage for completed operations/product liability and contractual liability with a limit of not less than \$2,000,000 combined single limit per occurrence; \$4,000,000 general aggregate. In addition, Landlord shall maintain business automobile liability (owned, hired or non-owned vehicles) covering the risks of bodily injury (including death) and property damage, including coverage for contractual liability and workers' compensation coverage as required by the Industrial Insurance Act of the State, statutory limits.

14.2 Deductibles and Self-Insured Retentions. Any deductibles or self-insured retentions must be declared to and approved by the Tenant. The deductible and/or self-insured retention of the policies shall not limit or apply to the Tenant and shall be the sole responsibility of the Landlord.

14.3 Other Insurance Provisions The insurance policies required by this Lease are also to contain or be endorsed to contain the following provisions where applicable:

(a) *Liability Policies:*

(1) The Trustee, and (with respect to Landlord's liability policy), the Tenant, its officers, officials, employees and agents are to be covered as additional insureds as respects liability arising out of activities performed by or on behalf of the Landlord in connection with this Lease.

(2) To the extent of the Landlord's negligence, insurance coverage shall be primary insurance as respects the Tenant, its officers, officials, employees and agents and shall include a severability of interests (cross liability). Any insurance and/or self insurance maintained by Tenant, its officers, officials, employees and agents shall not contribute with the Landlord's insurance or benefit the Landlord in any way.

(3) Landlord's insurance shall apply separately to each insured against whom a claim is made and/or lawsuit is brought, except with respect to the limits of the insurer's liability.

(b) *All Policies.* Coverage shall not be suspended, voided, canceled, reduced in coverage or in limits except by the reduction of the applicable aggregate limits by claims paid, until after forty-five (45) days' prior written notice has been given to the Landlord, Tenant and Trustee (ten (10) days for nonpayment of premiums).

(c) *Acceptability of Insurers.* Unless otherwise approved by Tenant:

(1) Insurance is to be placed with insurers with a Best's rating of no less than A:VIII, or, if not rated by Best's with a rating in one of the two highest categories maintained by Standard & Poor's Rating Group and Moody's Investors Service.

(2) If at any time any of the foregoing policies shall be or become unsatisfactory to Tenant, due to a change in form or substance, or if a company issuing any such policy shall be or become unsatisfactory to the Tenant, the Landlord shall, upon notice to that effect from Tenant promptly obtain a new policy and shall submit the same to Tenant with certificates and endorsements, for approvals.

15. Minimum Scope of Insurance Coverage for Tenant.

15.1 General Liability; Self-Insurance. From and after the Commencement Date, Tenant shall maintain, or cause to be maintained, in full force and effect, comprehensive general liability insurance covering the Premises in such amounts as may be established by Tenant from time to time but in any event not less than \$1,000,000 per occurrence. Tenant may provide all or a portion of any insurance by self-insurance. Such insurance shall be applied toward extinguishment or satisfaction of Tenant's liability under Section 13 of this Lease. Such insurance may also be carried under a blanket policy with umbrella coverage. It is understood that this insurance covers any and all liability of Tenant and its officials, officers, employees and agents, and the procurement thereof does not constitute a waiver of the defense of governmental immunity. Such insurance (i) shall include coverage for any accident resulting in personal injury to or death of any person and consequential damages arising therefrom; (ii) shall include comprehensive property damage insurance; (iii) shall, unless Tenant self-insures, be issued by a

financially responsible insurance company authorized to do business in the State and approved by OFM; (iv) shall name Landlord and Trustee as an additional insureds thereunder; (v) shall provide that the same may not be cancelled or given notice of non-renewal nor shall the terms of conditions thereof be altered, amended or modified without at least forty-five (45) days prior written notice being given by the insurer to Trustee (ten (10) days for nonpayment of premiums); and (vi) shall include contractual liability coverage. Tenant shall furnish to Trustee on or before the Commencement Date and on or before the effective date of any such policy a certificate of an officer of Tenant certifying that such insurance or self-insurance required by this Section 15.1 shall be in full force and effect on said effective date and that the premiums therefor have been paid.

15.2 Workers' Compensation. Tenant is self-insured for all of its workers' compensation liability exposure. Tenant agrees, at its own expense, to maintain through its self-insurance program coverage for its workers' compensation liability exposure for the duration of the Term of this Lease. Following the Commencement Date, Tenant agrees to provide Landlord and Trustee with at least thirty (30) days' prior written notice of any change in the Tenant's self-insured status and will provide Landlord and Trustee with a certificate of self-insurance as adequate proof of insurance.

16. Property Insurance. Following the Commencement Date, Tenant will carry or cause to be carried fire and extended coverage property insurance covering the Premises and all of Tenant's personal property in such amounts and covering such risks as Tenant may determine from time to time. Such insurance shall be carried with financially responsible insurance companies authorized to do business in the State and approved by OFM, and may be carried under a policy or policies covering other property owned or controlled by the State or may be accomplished through a program of self-insurance as provided for similarly situated facilities of the State. Tenant shall furnish to Landlord, on or before the effective date of any such policy, certificates of insurance or self-insurance evidencing that the insurance required by this Section 16 is in force and effect on the specified date and that the premiums therefor have been paid and shall furnish to Trustee a certificate of an officer of Tenant certifying that such insurance or self-insurance required by this Section 16 is in force and effect on the specified date and that the premiums therefor have been paid. Tenant agrees that such policies shall contain a provision that the same may not be cancelled or given notice of non-renewal nor shall the terms of conditions thereof be altered, amended or modified without at least forty-five (45) days' prior written notice being given by the insurer to Trustee (ten (10) days for nonpayment of premiums).

17. Waiver of Subrogation. Landlord and Tenant agree that they shall not make a claim against or seek recovery from the other party for any loss or damage to their property, or the property of others resulting from the perils for which property insurance coverage is provided, or required to be provided hereunder (or would have been provided had Tenant not elected to self-insure) and each hereby releases the other from any such claim or liability regardless of the cause of such loss or damage. Such waiver is conditioned upon the parties' ability to enter into such a waiver and is valid only to the extent allowed by their respective insurers.

18. Other Insurance Matters.

18.1 Insurance Requirements.

(a) At all times specified herein, Landlord and Tenant agree to procure and maintain in full force and effect for the duration of the Term of this Lease insurance or self-insurance as required by Section 14, Section 15 and Section 16 above.

(b) Unless otherwise approved by Landlord and Tenant, each insurance policy shall be written on an "occurrence" form.

(c) By requiring such minimum insurance as specified herein, neither party shall be deemed to, or construed to, have assessed the risks that may be applicable to the other party to this Lease. Each party shall assess its own risks and, if it deems appropriate and/or prudent, maintain greater limits or broader coverage.

(d) Nothing contained within these insurance requirements shall be deemed to limit the scope, application and/or limits of coverage afforded, which coverage will apply to each insured to the full extent provided by the terms and conditions of the policy(s). Nothing contained within this provision shall affect and/or alter the application of any other provision contained within this Lease.

(e) Each party shall furnish the other party with certificates of insurance and endorsements as required by this Lease. The certificates and endorsements for each policy are to be signed by a person authorized by that insurer to bind coverage on its behalf. The certificates and endorsements for Landlord's insurance are to be on forms approved by Tenant and are to be received and approved by Tenant prior to the Effective Date of this Lease. The certificate and endorsements for Tenant's insurance are to be received and approved by Landlord prior to the Commencement Date of this Lease. Tenant and Trustee each reserves the right to require complete certified copies of all required policies at any time.

18.2 Insurance Prior to the Commencement Date of this Lease. Prior to the Commencement Date of this Lease, Landlord and Tenant acknowledge, understand and agree that all liability and property insurance necessary in connection with the Premises (except for Tenant's comprehensive general liability insurance described in Section 15.1 of this Lease which can be self-insured by Tenant pursuant to Section 15.1 of this Lease and shall be provided by Tenant from and after the Commencement Date) shall be obtained and thereafter maintained in full force and effect by Landlord, Contractors and Developer in accordance with the provisions of the Development Agreement. Such insurance shall name Landlord, Tenant and Trustee as their respective interests may appear, shall name the Trustee and Tenant as additional insureds on all liability policies and shall name the Trustee as loss payee, where appropriate, and shall be in form satisfactory to Tenant.

19. Destruction. In the event the Premises are damaged or destroyed by fire or other casualty, this Lease shall not terminate nor shall there be any abatement of the Rent, if any, otherwise payable by Tenant hereunder. In the event the Premises are damaged or destroyed by fire or other casualty prior to the Commencement Date of this Lease, the risk of loss is on the Developer and Developer is solely responsible for repair and restoration of the Premises under

the Development Agreement. If such damage or destruction occurs after the Commencement Date of this Lease, then within 180 days following such damage or destruction, Tenant shall notify Landlord and Trustee of its election to either prepay the Monthly Rent or to rebuild the Premises. In the event Tenant elects to prepay the Monthly Rent, Tenant shall pay Trustee such portion of the insurance proceeds as is necessary to prepay the Bonds then outstanding in accordance with the special mandatory redemption provisions set forth in the Indenture. The balance of the insurance proceeds shall be retained by Tenant. In the event Tenant elects to rebuild the Premises, there shall be no abatement of Rent otherwise payable by Tenant hereunder. Tenant shall use such portion of the insurance proceeds as may be necessary to repair, rebuild or restore all or any portion of the Premises that may have been damaged or destroyed as nearly as practicable in full compliance with all legal requirements and to the same condition, character and at least equal value and utility to that existing prior to such damage or destruction. If the insurance proceeds are insufficient to pay in full the cost of any repair, restoration, modification, or improvement of any component of the Premises, Tenant may, subject to appropriation of sufficient funds, complete the work and pay any costs in excess of the amount of the insurance proceeds. Tenant shall not be entitled to any reimbursement therefor from Landlord or Trustee nor shall Tenant be entitled to any diminution of any Rent otherwise payable hereunder.

20. Eminent Domain Proceedings or Loss of Title.

20.1 Applicable Provisions. The following provisions shall apply with respect to eminent domain proceedings or loss of title affecting the Premises:

(a) *Total Taking.* If all of the Premises are taken by eminent domain or there is a total loss of title to the Premises which is insured under a policy or policies of title insurance, this Lease shall terminate as of the date when the condemning entity or third party has the right to possession of the Premises.

(b) *Partial Taking or Loss of Title.* If a taking of any part of the Premises by eminent domain or loss of title to any part of the Premises renders the Premises unsuitable, in the judgment of Tenant, for the construction of the Project, or following construction of the Project the use and occupancy of the Premises, this Lease may, at the option of Tenant, be terminated as of the date when the condemning entity or other person has the right to possession of the portion of the Premises so taken or lost, by written notice given to Landlord and Trustee not more than one hundred eighty (180) days after Tenant receives notice of the taking or loss.

(c) *Awards.* In any proceeding whereby all or part of the Premises are taken by eminent domain or there is a loss of title to all or part of the Premises, whether or not the Tenant elects to terminate this Lease, all of the condemnation award or payments received from the title insurance companies which insured title to the Premises shall be paid to the Tenant who shall, after deducting all costs and expenses incurred by the Tenant in connection with the negotiation, adjustment and collection of the award or payment, apply the award or payment as follows:

(i) In the event there is a complete failure of title to the Premises or all of the Premises are taken by eminent domain, or in the event of a partial loss of title or taking wherein Tenant has elected to terminate this Lease, Tenant shall pay Trustee such portion of the condemnation award or awards or title insurance payment or payments as is necessary to prepay the Bonds then outstanding in accordance with the special mandatory redemption provisions set forth in the Indenture. The balance of the award or awards or title insurance payment or payments, if any, shall be retained by Tenant. This provision shall survive termination of the Lease as a result of any such eminent domain proceeding or loss of title.

(ii) In the event of a partial loss of title or taking wherein Tenant has not elected to terminate this Lease, the award or awards of title insurance payments or condemnation awards shall be retained by Tenant.

20.2 Continuance of the Lease Following Less Than Substantial Condemnation or Loss of Title to the Premises. If there is a partial taking of the Premises by eminent domain or a partial loss of title to the Premises and Tenant elects not to terminate this Lease, this Lease shall not terminate as to the remainder of the Premises and there shall be no abatement of Rent otherwise payable by Tenant hereunder and Tenant shall proceed immediately and with due diligence, using such portion of the condemnation award or awards or title insurance payment or payments as may be necessary to repair, rebuild or restore all or any portion of the Premises that may have been taken as nearly as practicable (i) in full compliance with all legal requirements and (ii) to the same condition, character and at least equal value and utility to that existing prior to such condemnation or loss.

20.3 Insufficiency of Condemnation Award or Title Insurance Payments. If the condemnation award or title insurance payment is insufficient to pay in full the cost of any repair, restoration, modification or improvement of any component of the Premises, Tenant may, subject to appropriation of sufficient funds, complete the work and pay any cost in excess of the amount of the condemnation award or title insurance payment. Tenant shall not be entitled to any reimbursement therefor from Landlord or Trustee nor shall Tenant be entitled to any diminution of any Rent otherwise payable hereunder.

20.4 Temporary Taking. If the temporary use of all or any part of the Premises or the appurtenances thereto shall be taken, the term of this Lease shall not be affected in any way and Tenant shall continue to pay in full the Rent and other sums or sums of money herein provided to be paid by Tenant, and the entire award for such taking shall be paid to and retained by Tenant.

20.5 Personal Property and Moving Expenses. Any award or part of an award specifically paid as compensation for the taking of personal property, furniture or equipment owned by Tenant or any subtenant of Tenant or for the moving expenses of Tenant or any subtenant of Tenant, shall be payable to Tenant, or such subtenant, as the case may be.

20.6 Cooperation of Landlord. Landlord shall cooperate fully with Tenant at the expense of Tenant in filing any proof of loss with respect to any insurance policy covering the events described herein and in the prosecution or defense of any prospective or pending condemnation proceeding with respect to the Premises or any part thereof and, to the extent it

may lawfully do so, authorizes Tenant to litigate in any proceeding resulting therefrom in the name of and on behalf of Landlord. Without restricting Trustee's rights under the Mortgage, in no event will Landlord voluntarily settle, or consent to the settlement of, any proceeding arising out of any insurance claim or any prospective or pending condemnation proceeding with respect to the Premises or any part thereof without the written consent of Tenant.

21. Assignment of Project; Subletting. Landlord shall not assign its interest in the Ground Lease, this Lease or in the Premises (except to Trustee) without the prior written consent of Tenant and Trustee (given in accordance with Section 9.07 of the Indenture) and a written opinion from nationally recognized bond counsel that any such transfer, conveyance or assignment by Landlord of all or any portion of its interest in the Lease or the Premises will not have an adverse effect on the tax exempt status of interest payable on the Bonds and any attempted assignment in violation of the consent requirements under this Section 21 shall be null and void and shall constitute an event of default under the Indenture. Tenant shall not assign (except to another State agency) or encumber its interest in this Lease or in the Premises without the prior written consent of Landlord and Trustee (given in accordance with Section 9.07 of the indenture) together with an opinion of nationally recognized bond counsel that any such assignment will not adversely affect the tax exempt status of interest payable on the Bonds. Tenant may sublease the Premises or any portion thereof, to the extent and on the terms and conditions set forth under Section 7 of the Lease and so long as the execution of such sublease would not violate the provisions of Section 7 hereof; provided, however, that under no circumstances shall Tenant be released or relieved from any of its obligations hereunder. Any such assignment or sublease as provided for in this Section shall be in writing and shall require such assignee or subtenant to comply fully with the terms of this Lease, including, without limitation, the provisions of Section 7 regarding use of the Premises. Tenant shall provide Landlord and Trustee with written notice of any such assignment or sublease and a copy of any such assignment or sublease documentation.

22. Default by Tenant. The occurrence of any of the following shall constitute an Event of Default by Tenant under this Lease:

22.1 Payment. Failure (a) to make any Monthly Rent payments due under this Lease if the failure to pay is not cured within seven (7) days after written notice of such failure has been given by Trustee or Landlord to Tenant, or (b) failure to make any other payment required if the failure to pay is not cured within ten (10) days after written notice of such failure has been given by Landlord to Tenant.

22.2 Other Failure to Perform. Failure to perform any other provision of this Lease if the failure to perform is not cured within thirty (30) days after written notice of such default has been given by Landlord to Tenant. If the default cannot reasonably be cured within thirty (30) days, then Tenant shall not be in default under this Lease if Tenant commences to cure the default within thirty (30) days and diligently and in good faith continues to cure the default; provided, however, that if such default is of a nature such that it cannot be cured within ninety (90) days, Tenant shall obtain the written approval of Landlord and the Trustee to continue its efforts to cure such default following the ninety (90) day cure period.

22.3 Permitted Termination Event. A Permitted Termination Event (as described in Section 37 below) shall not constitute an Event of Default.

23. Late Charges; Interest on Past Due Monthly Rent. Tenant acknowledges that a late payment of Monthly Rent hereunder will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which is difficult to ascertain. Therefore, in the event Tenant shall fail to pay any installment of Monthly Rent due hereunder for fifteen (15) days after the date such amount is due, Tenant shall also pay Trustee a late charge equal to two percent (2%) of the amount then owing and past due together with interest on such past due amount at an interest rate of twelve percent per annum (12%) commencing eight (8) days after the date such amount is due until paid. Payment of such late charges and/or default interest shall not excuse or cure any default by Tenant under this Lease.

24. Remedies for Tenant Default. If Tenant commits a default and fails to cure such default within the applicable time period provided under Section 22 hereof, then Landlord, by providing Tenant with ten (10) days advance written notice, shall have the following remedies:

24.1 Termination. Solely with respect to any default by Tenant pursuant to Section 22.1, Landlord may cancel and terminate this Lease, evict the Tenant and re-enter the Premises, but notwithstanding such re-entry by Landlord, Tenant covenants and agrees to make good to Landlord any deficiency arising from a re-entry and reletting of the Premises at a lesser Monthly Rent than the Monthly Rent agreed to through the Term of this Lease, provided Landlord has taken all reasonable measures to ensure that a maximum rental rate was obtained for reletting. Landlord shall provide notice to Tenant of any amount by which rentals from such reletting are less than the Monthly Rent and the due dates of such Monthly Rent. The deficiency amount for each such Monthly Rent payment shall be paid by Tenant on or before the due date for such Monthly Rent payment.

24.2 Other Remedies. With respect to any default by Tenant pursuant to Section 22, Landlord shall have all rights and remedies provided under applicable law; provided, however, that in no event shall Landlord have the right to accelerate any Rent payments owing by Tenant under this Lease.

25. Signs. Tenant shall have the right to place identification signage, other signage, advertisements, awnings, banners or other exterior decorations on the exterior of the Premises without any further consent or approval from Landlord. Any sign that Tenant has the right to place, construct and maintain shall comply with all Laws, and Tenant shall obtain any approval required by such Laws. Landlord makes no representation with respect to Tenant's ability to obtain such approval.

26. Landlord's Right to Enter the Premises. Landlord, its agents, assigns, employees, workmen or any person entitled to inspect the Premises under the Mortgage shall have the right to enter the Premises at reasonable times during Tenant's normal business hours for the below listed purposes; provided, however, Landlord acknowledges and agrees to comply with Tenant's requests regarding security. Landlord shall conduct its activities on the Premises as allowed in this Section in a manner that will cause the least possible inconvenience, annoyance or disturbance to Tenant. Landlord shall not be liable in any manner for any

inconvenience, annoyance, disturbance, loss of business, nuisance, or other damage arising out of Landlord's entry on the Premises as provided in this Section, except damage resulting from the negligent acts or omissions of Landlord. Tenant shall not be entitled to an abatement or reduction of Rent if Landlord exercises any right reserved in this Section:

26.1 Condition. To determine whether the Premises are in good condition and whether Tenant is complying with its obligations under this Lease and to perform any required obligations under the Lease; or

26.2 Notices. To serve, post or keep posted any notices required or allowed under the provisions of this Lease.

27. No Encumbrances by Landlord. Except to the extent expressly authorized in Sections 11 and 21 of this Lease, Landlord shall not at any time during the Term of this Lease sell, transfer, lease (other than to Tenant pursuant to this Lease), convey, encumber (other than to Trustee pursuant to the Mortgage), pledge (other than to Trustee pursuant to the Indenture), hypothecate or otherwise grant a security interest in the Premises or any portion thereof.

28. Right to Estoppel Certificates. Each party, within fifteen (15) days after notice from the other party, shall execute and deliver to the other party, in recordable form, a certificate stating (a) that this Lease is unmodified and in full force and effect, or in full force and effect as modified and stating the modifications; (b) the date to which Rent has been paid; (c) whether or not there is any existing default by Tenant in the payment of any Rent or any other sum of money hereunder, and whether or not there is any other existing default by either party hereto with respect to which a notice of default has been served, and if there is any such default, specifying the nature and extent thereof; and (d) whether or not there are any setoffs, defenses or counterclaims against enforcement of the obligations to be performed hereunder existing in favor of the party requesting such certificate. Failure to deliver the certificate within such fifteen (15) day period shall be conclusive upon the party failing to deliver the certificate for the benefit of the party requesting the certificate and any successor to the party requesting the certificate, that this Lease is in full force and effect and has not been modified except as may be represented by the party requesting the certificate.

29. Limitation on Landlord's Liability. Notwithstanding any provision in the Lease to the contrary, Tenant agrees that it shall look solely to the estate and property of Landlord in the Premises, any insurance proceeds or condemnation proceeds payable to the Landlord under this Lease, and any sums paid to Landlord under the Development Agreement for the collection of any judgment requiring the payment of money by Landlord or for the enforcement of any other judgment or remedy against Landlord and no other assets of Landlord shall be subject to levy, execution or other procedure for the satisfaction of Tenant's remedies.

30. Intentionally Deleted.

31. Options to Prepay Lease and Purchase Premises; Surrender.

31.1 Option to Purchase. Provided that Tenant is not in default under this Lease, Tenant shall have the option to purchase the Premises and thereby terminate this Lease at

any time permitted by the Indenture. The purchase price of the Premises shall be an amount calculated pursuant to [Section 6.01] of the Indenture.

31.2 Exercise of Option. Tenant shall give Landlord and Trustee not less than sixty (60) days' prior written notice of its irrevocable election to exercise its option to purchase under Section 31.1 hereof in the form set forth in Exhibit H attached hereto. The purchase price and any Additional Rent then due and owing shall be paid in cash or same-day available funds by 10:00 a.m. Seattle time on the payment date specified in such notice (or such other date as Tenant, Trustee and Landlord may mutually agree).

31.3 Conveyance of Premises. On the payment date specified in the notice of election to exercise the purchase option, or such other date as Tenant, Trustee and Landlord may mutually agree, Landlord shall convey the Premises to the State by statutory warranty deed modified to convey all of Landlord's leasehold interest in the Land and its fee ownership interest in all improvements thereon constructed by Landlord, and this Lease shall terminate. Said deed may list as exceptions all covenants, conditions and restrictions then recorded against the Premises so long as such exceptions: (i) are set forth in Exhibit G attached hereto; (ii) consist of non-delinquent real estate taxes and assessments, or (iii) arise by reason of Tenant's activities. Tenant shall be responsible for the cost for any owner's policy of title insurance the State elects to obtain in connection with such purchase. Landlord shall not be required to make any representations regarding the conditions of the Premises and the State agrees to accept the Premises in an "as is" condition; provided, however, that nothing contained in this Section 31.3 shall constitute a waiver of Landlord's obligation to maintain the Premises in good condition and repair as provided elsewhere in this Lease. Nothing herein shall be construed to require Tenant to exercise the purchase option herein granted.

31.4 Surrender. Landlord shall, on the Expiration Date, surrender and deliver up the Premises, including all improvements then located thereon and the appurtenances thereto, into the possession of the State, in good order, condition and repair, free and clear of all lettings and occupancies, and free and clear of all liens and encumbrances other than those existing on the date of this Lease and those, if any, created by Tenant, without any payment or allowance whatsoever by the State. Landlord shall execute, acknowledge and deliver to the State such instruments of further assurance as in the opinion of the State are necessary or desirable to confirm or perfect the State's right, title and interest in and to all of the above-described property. The provisions of this Section shall survive the expiration or termination of this Lease.

32. No Brokers. Landlord and Tenant each represent to the other that neither is represented by any broker, agent or finder with respect to this Lease in any manner. Each party agrees, to the extent permitted by law, to be responsible for its own acts and/or omissions and those of its officers, employees and agents, including any and all liability, costs, damages, causes of action or other proceedings instituted by any other broker, agent or finder, licensed or otherwise, claiming through, under or by reason of the conduct of the responsible party in any manner whatsoever in connection with this Lease, which obligation shall survive the expiration of termination of this Lease.

33. Miscellaneous Provisions.

33.1 Entire Agreement. This Lease, including Exhibits A-J which are attached hereto and by this reference incorporated herein, sets forth the entire agreement of the parties as to the subject matter hereof and supersedes all prior discussions and understandings between them. This Lease may not be amended or rescinded in any manner except by an instrument in writing signed by a duly authorized officer or representative of each party hereto.

33.2 Governing Law. This Lease shall be governed by and construed and enforced in accordance with the laws of the State.

33.3 Severability. Should any of the provisions of this Lease be found to be invalid, illegal or unenforceable by any court of competent jurisdiction, such provision shall be stricken and the remainder of this Lease shall nonetheless remain in full force and effect unless striking such provision shall materially alter the intention of the parties.

33.4 Jurisdiction. In the event any action is brought to enforce the provisions of this Ground Lease, the venue of any such action shall be Thurston County, Washington, and the parties hereto hereby stipulate to the jurisdiction and venue of the Superior Court for Thurston County, Washington.

33.5 Waiver. No waiver of any right under this Lease shall be effective unless contained in writing signed by a duly authorized officer or representative of the party sought to be charged with the waiver and no waiver of any right arising from any breach or failure to perform shall be deemed to be a waiver of any future right or of any other right arising under this Lease.

33.6 Captions. Section captions contained in this Lease are included for convenience only and form no part of the agreement between the parties.

33.7 Notices. Any notices or other communication which Landlord or Tenant shall desire or be required to give pursuant to the provisions of this Lease shall be in writing and shall be personally delivered or sent by regular mail and registered or certified mail or by email transmission. The giving of such Notices shall be deemed complete on the third (3rd) Business Day after the same is deposited in a United States Post Office with postage charges prepaid or on the date when delivered or sent via email transmission during business hours to the email address listed below. All notices shall be addressed to the persons intended to be given such notice at the respective addresses set forth below or to such other address as such party may theretofore have designated by notice pursuant to this Article:

If to Landlord:	Fircrest Properties c/o Public Facilities Group 1700 Seventh Avenue Suite 2100, PMB 552 Seattle WA 98101 Attn: John Finke Email: johnfinke@publicfacilitiesgroup.org
-----------------	---

Telephone: 206-618-8864

With a copy to: Hillis Clark Martin & Peterson PS
999 Third Avenue, Suite 4600
Seattle, WA 98104
Attention: Matthew W. Markovich
Email: matt.markovich@hcmp.com
Telephone: 206-470-7629

If to Tenant: Department of Social and Health Services, State of
Washington
PO Box 45848
Olympia, WA 98504
Attention: Larry Covey, Director-Office of Capital
Programs
Email: Larry.Covey@dshs.wa.gov
Telephone: 360-628-6662

With a copy to: Department of Social and Health Services, State of
Washington
PO Box 45848
Olympia, WA 98504
Attention: Jeanne Rodriguez, Management Analyst
Office of Capital Programs
Email: Jeanne.Rodriguez@dshs.wa.gov
Telephone: 360-791-6862

If to Trustee: U.S. Bank Trust Company, National Association
1420 Fifth Avenue, 10th Floor
Seattle, WA 9101
PD-WA-T10W
Attn: Aaron Fong, Assistant Vice President
Email: aaron.fong@usbank.com
Telephone: 206.334.4009

And a copy to
OST at: State of Washington
Office of the State Treasurer
P.O. Box 40200
Olympia, Washington 98504-0200
Attention: _____
Email: _____
Telephone: _____

Any party may change the address to which notices shall be sent by notice to the other party in the manner and with the effect set forth in this Section 33.7.

33.8 Binding Effect. Subject to the provisions of Sections 11 and 21 hereof, this Lease shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. No permitted assignment of this Lease or Tenant's rights hereunder shall be effective against Landlord unless and until an executed counterpart of the instrument of assignment shall have been delivered to Landlord and Landlord shall have been furnished with the name and address of the assignee or successor. The term "Tenant" shall be deemed to include the assignee under any such permitted assignment. The term "Landlord" shall include any successors to or assigns of the Landlord's interest in the Premises following any foreclosure of the Mortgage, including Trustee or any purchaser at a trustee's or sheriff's sale of the Premises.

33.9 Gender and Number. As used in this Lease, the masculine shall include the feminine and neuter, the feminine shall include the masculine and neuter, the neuter shall include the masculine and feminine, the singular shall include the plural and the plural shall include the singular, as the context may require.

33.10 Nondiscrimination. Landlord and Tenant each agree it will not discriminate in employment at the Premises on the basis of race, color, religion, sex, national origin, veteran status, sexual orientation or physical and mental disability in regard to any position for which the prospective employee is qualified, nor will Landlord or Tenant maintain facilities which are segregated on the basis of race, color, religion, sex or national origin at the Premises.

33.11 Recording; Memorandum of Lease. Neither Landlord nor Tenant shall record this Lease without the written consent of the other; provided, however, that either Landlord or Tenant shall have the right to record a Memorandum of this Lease in the form attached hereto as Exhibit E and by this reference incorporated herein upon the Effective Date.

33.12 Time Is of the Essence. Time is of the essence in the performance of each party's obligations under this Lease. Each party will carry out its obligations under this Lease diligently and in good faith.

33.13 Nature of Relationship. The relationship between the Landlord and Tenant under this Lease shall be solely that of landlord and tenant of real property. It is not intended by this Lease to, and nothing contained in this Lease shall, create any partnership, joint venture or other arrangement between Landlord and Tenant. No term or provision of this Lease is intended to be, or shall be, for the benefit of any other person, firm, organization or corporation, nor shall any other person, firm, organization or corporation have any right or cause of action hereunder.

33.14 Fair Construction. The provisions of this Lease shall be construed as a whole according to their common meaning and not strictly for or against any party and consistent with the provisions contained herein in order to achieve the objectives and purposes of this Lease. Each party hereto and its counsel has reviewed and revised this Lease and agrees that the

normal rules of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be construed in the interpretation of this Lease. Each agreement, term and provision of this Lease to be performed by Landlord or Tenant shall be construed to be both a covenant and a condition.

33.15 Amendments or Modifications of this Lease. Subject to the limitations and conditions set forth in the Indenture, Landlord and Tenant may execute such amendments or modifications to this Lease, including any change in the legal description of Land, the granting of any easement or vacation of roads, streets or alleys as they may deem necessary or desirable from time to time and at any time without the consent of the owners of the Bonds or the Trustee. Landlord and Tenant agree to negotiate in good faith any amendment to this Lease that may be requested or required in connection with the issuance of the Bonds.

33.16 Counterparts. This Lease may be executed in counterparts, each of which constitutes an original and all of which constitute but one original.

34. Prevailing Wage. Landlord agrees and covenants with Tenant that the Development Agreement shall obligate Developer to require Contractors and subcontractors of such Contractors in connection with such contracts as may be let regarding the construction of the Project to pay the prevailing wage to the workmen, laborers and mechanics as may then be determined by the Washington State Department of Labor and Industries for the particular craft in the particular geographic area.

35. Authority. Landlord is a Washington non-profit corporation, duly organized, validly existing and in good standing under the laws of the State. Tenant is the State of Washington acting through the Department of Social and Health Services. By execution of this Lease, Landlord and Tenant represent that they have authority to enter into this Lease.

36. Sources of Funds for Obligations Hereunder.

36.1 Tenant Subleases to Other State Agencies. Tenant shall have the right to execute subleases of the Premises with State agency subtenants, and those subleases will provide for payment by the sub-tenants of their sub-rent from current appropriations of all amounts anticipated to be due and owing as sub-rent under such sublease(s) during the then current Biennium. Notwithstanding the foregoing, Tenant shall remain responsible under this Lease for paying Rent to Landlord for the entire Premises.

36.2 Pledge to Budget and Seek Appropriations for Rent. Tenant pledges:

(a) to include in its biennial budgets required by law to be submitted to OFM all Rent required by this Lease;

(b) to submit budgets timely to OFM in accordance with applicable law;

(c) to use its best efforts to obtain appropriations by the State Legislature in amounts sufficient to pay all Rent required by this Lease;

(d) to include all Rent in its statements of proposed expenditures for each fiscal period required by law to be submitted to OFM; and

(e) to use its best efforts to obtain allotments by OFM of appropriated funds sufficient to pay all Rent.

In addition, if and to the extent that all or portions of the Project are sublet by Tenant to other State agencies, Tenant will work with each sub-tenant to ensure that the sub-tenant(s) also comply with the obligations set forth in the previous sentence.

If Tenant anticipates that such appropriations will not be available during any Biennium, the Tenant shall notify the Trustee immediately.

36.3 Source of Funds to Pay Rent. Tenant's obligation to pay Rent is payable solely from funds, if any, appropriated by the State Legislature. Neither the full faith and credit nor the taxing power of the State is pledged to payment of Rent. The Tenant's obligation to pay Rent is subject to appropriation by the State Legislature and to Executive Order reduction by the Governor. The obligations of the Tenant under this Lease, including the obligation to pay Rent, is not a debt of the State within the meaning of Article VIII of the State Constitution.

36.4 Lease Nonterminable. Except as provided in Section 9.16 and Section 20.1(a) and (b), and except upon the occurrence of a Permitted Termination Event and the exercise of the rights granted in Section 37 hereof, this Lease shall not terminate, nor shall the State have any right to terminate this Lease or to be released or discharged from any obligations or liabilities hereunder for any reason, including, without limitation, damage or destruction of the Premises, it being the intention of the parties hereto that all Rent payable by the Tenant hereunder shall continue to be payable in all events in the manner and at the times herein provided unless the obligation to pay the same shall be terminated pursuant to the express provisions of this Lease.

37. Permitted Termination Event; Termination and Return of Premises. Each of the following constitutes a "Permitted Termination Event":

(a) the State Legislature elects not to appropriate sufficient funds within any biennial budget for the purpose of paying Rent due under this Lease during the next occurring biennium; or

(b) the Governor of the State issues an Executive Order mandating an emergency reduction in State funding below levels sufficient to pay Rent due under this Lease during the next occurring biennium.

If the State Legislature has elected not to appropriate sufficient funds, or if an Executive Order has reduced funding below the level sufficient to pay Rent under this Lease in the next occurring biennium, the Tenant shall deliver written notice to the Trustee and Landlord within five (5) Business Days after the enactment of such biennial budget or Executive Order, which notice must describe the Permitted Termination Event and state the Permitted Termination Date.

Within 30 days following delivery of notice of a Permitted Termination Event caused by the State Legislature electing not to appropriate sufficient funds as described above, the Tenant shall request a supplemental appropriation sufficient to pay Rent due under this Lease during the next occurring biennium. Within 30 days following delivery of notice of a Permitted Termination Event caused by an Executive Order reduction, the Tenant shall request that the Executive Order be withdrawn.

Upon the occurrence of a Permitted Termination Event, Tenant shall vacate the Premises and deliver possession and control thereof to the Landlord on the Permitted Termination Date. This Lease shall terminate and Tenant shall thereupon be released of all of its obligations under this Lease, including its obligations to make all further Rent payments hereunder with respect to the Premises. If Tenant returns possession of the Premises to Landlord pursuant to the terms of this Section, the Trustee shall be entitled to retain all sums theretofore transmitted to the Trustee by or on behalf of the Tenant (other than amounts then on deposit in the Capital Repairs Fund which shall be paid to Tenant).

The occurrence of a Permitted Termination Event does not constitute an Event of Default under this Lease and the remedies described above relating to the surrender of possession of the Premises are the sole remedies available to Landlord upon such occurrence. If the State Legislature provides a supplemental appropriation or the Executive Order is withdrawn prior to the date on which the Premises have been vacated and the Premises have not yet been re-let or otherwise disposed of, the Tenant may, by written notice to Landlord and the Trustee, revoke the notice of the Permitted Termination Event and the Permitted Termination Date, resume possession of the Premises and have all of the rights, duties and obligations of the Tenant under this Lease.

38. Tax Covenants.

38.1 Protection of Tax Exemption. Tenant covenants that (i) it will take, or require to be taken, all actions that may be required of Tenant for the interest payments under the Bonds to be and remain excluded from gross income for federal income tax purposes and from treatment as an item of tax preference for minimum tax imposed on individuals and corporations under the Code; (ii) it will not take or authorize to be taken any actions that would adversely affect the exclusion of interest on the Bonds under the Code; and (iii) it or persons acting for it, among other acts of compliance, will (1) apply the proceeds of the Bonds to the governmental purposes of the borrowing; (2) restrict the yield on investment property; and (3) refrain from certain uses of those proceeds and, as applicable, of the Project financed with such proceeds, all in such manner and to the extent necessary to assure such exclusion of said interest under the Code.

38.2 Use of Proceeds. Tenant covenants that it will use, and will restrict the use and investment of, the proceeds of the Bonds in such manner and to such extent as may be necessary so that (i) the Bonds will not (1) constitute private activity bonds, arbitrage bonds or hedge bonds under Section 141, 148 or 149 of the Code, or (2) be treated other than as bonds to which Section 103(a) of the Code applies, and (ii) the interest on the Bonds will not be treated as a preference item under Section 57 of the Code.

38.3 Bonds Not “Bank Eligible”. The Bonds shall not be “qualified tax-exempt obligations” for purchase by financial institutions pursuant to Section 265(b) of the Code.

38.4 Change in Use. No changes will be made in the use of the Project financed with the proceeds of the Bonds so as to impair the exclusion from gross income for federal income tax purposes of the interest paid under the Bonds.

38.5 Modification. This Section 38 may be modified upon receipt of an opinion of nationally recognized bond counsel to the extent necessary to ensure that this Lease or the Bonds are not classified as “private activity bonds” as defined in Section 141 of the Code.

All covenants of Tenant contained herein or in any tax compliance certificate or other instrument delivered by Tenant in connection with the execution and delivery of the Bonds, shall survive the execution and delivery hereof and the execution, sale and delivery of the Bonds as representations of facts existing as of the date of execution and delivery of the instrument containing such representation.

[Signature pages follow]

DATED the date first above written.

LANDLORD:

FIRCREST PROPERTIES,
a Washington nonprofit corporation

By _____
Name: John Finke
Title: President

APPROVED AS TO FORM:

TENANT:

STATE OF WASHINGTON,
Acting through the Department of Social and
Health Services

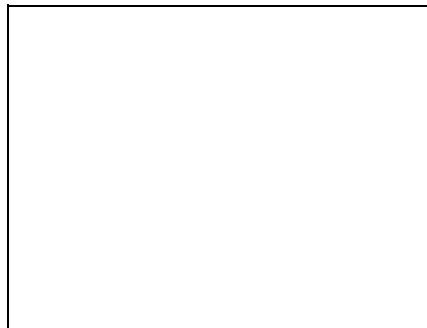
By _____
Name: _____
Title: Assistant Attorney General

By _____
Name: _____
Title: _____

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

I certify that I know or have satisfactory evidence that John Finke is the person who appeared before me, and said person acknowledged that he signed this instrument, on oath stated that he was authorized to execute the instrument and acknowledged it as the President of FIRCREST PROPERTIES, a Washington nonprofit corporation, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Given Under My Hand and Official Seal this _____ day of _____, 2024.



(Use this space for notarial stamp/seal)

Notary Public
Print Name _____
My commission expires _____

STATE OF WASHINGTON)
) ss.
COUNTY OF THURSTON)

I certify that I know or have satisfactory evidence that _____ is the person who appeared before me, and said person acknowledged that [he/she] signed this instrument, on oath stated that [he/she] was authorized to execute the instrument and acknowledged it as the _____ of the DEPARTMENT OF SOCIAL AND HEALTH SERVICES, STATE OF WASHINGTON, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Given Under My Hand and Official Seal this _____ day of _____, 2024.



(Use this space for notarial stamp/seal)

Notary Public
Print Name _____
My commission expires _____

EXHIBIT A
MONTHLY RENT

EXHIBIT B

PROJECT SCHEDULE

EXHIBIT C

LEGAL DESCRIPTION OF LAND

EXHIBIT D

CONFIRMATION OF COMMENCEMENT AND EXPIRATION DATES

In accordance with the provisions of Section 3 of the Lease as of this _____ day of _____, 20____, Landlord and Tenant acknowledge, agree and confirm the following:

The Commencement Date of this Lease is: _____.

The Expiration Date of this Lease is: _____.

The foregoing agreement and confirmation shall be binding upon Landlord and Tenant and shall supersede and control over any other provision in the Lease regarding the Commencement Date and Expiration Date which might be construed other than as set forth in this Confirmation.

AGREED the day and year first above written.

LANDLORD:

FIRCREST PROPERTIES,
a Washington nonprofit corporation

By _____
Name: John Finke
Title: President
Date: _____

APPROVED AS TO FORM:

TENANT:

STATE OF WASHINGTON,
Acting through the Department of Social and
Health Services

By _____
Name: _____
Title: Assistant Attorney General
Date: _____

By _____
Name: _____
Title: _____
Date: _____

EXHIBIT E

MEMORANDUM OF LEASE

*RECORDING REQUESTED BY AND
WHEN RECORDED RETURN TO:*

HILLIS CLARK MARTIN & PETERSON, P.S.
Attn: Matthew W. Markovich
999 Third Avenue, Suite 4600
Seattle, WA 98104

MEMORANDUM OF LEASE

GRANTOR: FIRCREST PROPERTIES

GRANTEE: STATE OF WASHINGTON,
Acting Through the Department of Social and Health Services

Legal Description:

Abbreviated form:

Additional legal on page Exhibit A of document

Assessor's Tax Parcel ID No(s):

Reference number(s) of Related Document(s):

(Additional on page ____ of document)

MEMORANDUM OF LEASE

THIS MEMORANDUM OF LEASE (the “Memorandum”) is executed this ____ day of _____, 2024 by and between FIRCREST PROPERTIES, a Washington nonprofit corporation (“Landlord”) and the STATE OF WASHINGTON, acting through the Department of Social and Health Services (“Tenant”).

1. Lease. Landlord has leased the real property described in Exhibit A attached hereto and by this reference incorporated herein (the “Premises”) to Tenant at a rent and on the terms and conditions set forth in that certain Lease Agreement dated [_____, 2024] by and between Landlord and Tenant (the “Lease”). The Lease is for a term of thirty (30) years commencing [_____, 2024] and shall expire [_____, 2054] unless sooner terminated pursuant to the terms of the Lease; provided, however, that the Tenant’s duty to pay Rent shall not commence until the Commencement Date.

2. Definition of Terms. All capitalized terms not otherwise defined herein shall have the same meaning as set forth in the Lease.

3. Purpose of Memorandum. This Memorandum is prepared for purposes of recordation only and does not set forth all of the terms and conditions set forth in the Lease. In the event there is any conflict between the terms and conditions of the Lease and this Memorandum, the Lease shall control.

DATED this ____ day of [_____, 2024.

LANDLORD:

FIRCREST PROPERTIES,
a Washington nonprofit corporation

By _____
Name: John Finke
Title: President

APPROVED AS TO FORM:

TENANT:

STATE OF WASHINGTON,
Acting through the Department of Social and
Health Services

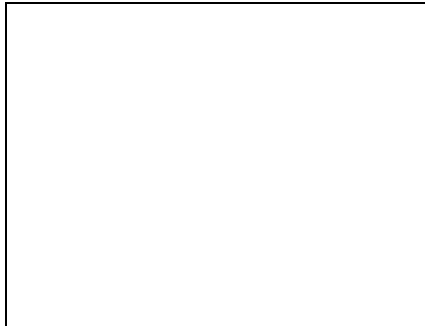
By _____
Name: _____
Title: Assistant Attorney General
Date: _____

By _____
Name: _____
Title: _____

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

I certify that I know or have satisfactory evidence that John Finke is the person who appeared before me, and said person acknowledged that he signed this instrument, on oath stated that he was authorized to execute the instrument and acknowledged it as the President of FIRCREST PROPERTIES, a Washington nonprofit corporation, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Given Under My Hand and Official Seal this _____ day of [____], 2024.



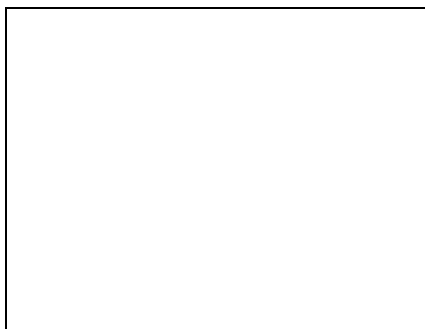
(Use this space for notarial stamp/seal)

Notary Public
Print Name _____
My commission expires _____

STATE OF WASHINGTON)
) ss.
COUNTY OF THURSTON)

I certify that I know or have satisfactory evidence that _____ is the person who appeared before me, and said person acknowledged that [he/she] signed this instrument, on oath stated that [he/she] was authorized to execute the instrument and acknowledged it as the _____ of the DEPARTMENT OF SOCIAL AND HEALTH SERVICES, STATE OF WASHINGTON, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Given Under My Hand and Official Seal this _____ day of [____], 2024.



(Use this space for notarial stamp/seal)

Notary Public
Print Name _____
My commission expires _____

EXHIBIT A

EXHIBIT F

DISPUTE RESOLUTION PROCEDURE

Landlord and Tenant shall act in good faith and deal fairly in performing their respective duties under this Lease in order to accomplish their mutual objectives and avoid disputes. If a dispute arises with respect to design or construction of the Project, the parties agree to utilize the dispute resolution process contained herein, which will be non-binding but a condition precedent to having said dispute decided in court by a judge or jury.

1. Mediation. Pursuant to Section 9.3 of this Lease, in the event a dispute arises between Tenant and Landlord with respect to design and/or construction of the Project the parties shall proceed in good faith to resolve such dispute as expeditiously as possible and shall cooperate so that the progress of the design and construction of the Project is not delayed. If, however, the parties are unable to resolve the dispute within three (3) Business Days, either party may refer the dispute to the Mediator named below.

1.1 Mediator. For any dispute which cannot be resolved by the parties, the mediator hereunder ("Mediator") shall be a mediator whom Landlord and Tenant have mutually designated to resolve such dispute. The Mediator is to act impartially and independently in the consideration of facts and conditions surrounding any dispute presented by Tenant and Landlord; however, the Mediator's recommendations concerning any such dispute are advisory only. The Mediator's recommendations shall be based on the pertinent Lease provisions, and the facts and circumstances involved in the dispute. The Mediator's recommendations shall be furnished in writing to the parties.

1.2 Tenant Responsibility. Tenant shall furnish the Mediator one copy of all documents it might have, other than those furnished by the Landlord, which are pertinent to the performance of the Mediator's duties hereunder.

1.3 Landlord Responsibility. Landlord shall furnish the Mediator one copy of all Contract Documents, including but not limited to the Plans and Specifications, applicable contracts, interpretative reports, progress schedule and updates, monthly progress reports, and other documents pertinent to the performance of the Lease and necessary to the performance of the Mediator's duties hereunder.

1.4 Term. Following execution of this Lease, the Mediator shall have authority to act hereunder upon written request from either Landlord or Tenant and such authority shall terminate upon Final Acceptance, after Final Payment has been made.

1.5 Payment. The fees charged by the Mediator shall be shared equally by the parties. The Mediator's compensation shall include compensation for all materials, supplies, travel, office assistance and support and incidentals necessary to provide the services described herein. Payment for services rendered by the Mediator will be at the Mediator's standard hourly rate as approved by Landlord and Tenant prior to commencement of the dispute resolution proceeding.

1.6 Legal Relationship. The Mediator, in the performance of the duties described herein, is acting in the capacity of an independent agent and not as an employee of either Tenant or Landlord. The Mediator is absolved of any personal or professional liability arising from the recommendations made hereunder, unless due to gross negligence or willful malfeasance.

EXHIBIT G

PERMITTED EXCEPTIONS

1. Ground Lease dated as of [____], 2024 by and between the State of Washington, acting through the Department of Social and Health Services and Fircrest Properties, a Memorandum of which shall be recorded in the real property records of King County, Washington
2. All exceptions set forth in that certain preliminary commitment for title insurance issued by [____] Title Company under its Order No. [____] dated [____], 2024, as amended from time to time.

EXHIBIT H

FORM OF NOTICE OF ELECTION OF OPTION TO PURCHASE

[Date]

TO: Landlord

You are hereby notified that the State of Washington, acting through the Department of Social and Health Services (“Tenant”), has elected to exercise on [date of payment] its option to purchase the Premises currently leased by the Tenant pursuant to the Lease Agreement (“Lease”) by and between Tenant and Landlord dated [_____], 2024. This purchase option is being exercised pursuant to Section 31 of the Lease. Tenant is now, and on the date set forth above for payment will be, in full compliance with all terms and conditions of the Lease. In accordance with Section 31 of the Lease, Tenant shall purchase the Premises for a price set forth in [Section 6.01] of the Indenture. On or prior to the date set forth above, Tenant shall also pay any Additional Rent then due and owing under the Lease.

APPROVED AS TO FORM:

TENANT:

STATE OF WASHINGTON,
Acting through the Department of Social and
Health Services

By _____
Name: _____
Title: Assistant Attorney General
Date: _____

By _____
Name: _____
Title: _____
Date: _____

EXHIBIT I

MINIMUM INSURANCE REQUIREMENTS FOR DEVELOPER

Coverage shall be at least as broad as:

(i) General Liability: Insurance Services Office form number (CG 00 01 10 01 form or its equivalent) covering Commercial General Liability, including coverage for completed operations/products liability and contractual liability with a limit of not less than [\$2,000,000] combined single limit per occurrence, [\$4,000,000] aggregate. Developer shall maintain such Commercial General Liability Insurance Policy for at least one (1) year after Final Acceptance.

(ii) Automobile Liability: Insurance Services Office form number (CA 00 01) covering Business Automobile Coverage, symbol 1 “any auto”; or the combination of symbols 2, 8, and 9, with a limit of not less than \$1,000,000 combined single limit per occurrence.

(iii) Workers’ Compensation: Workers’ Compensation coverage, as required by the Industrial Insurance Act of the State of Washington, statutory limits.

(iv) Employer’s Liability or “Stop Gap”: The protection provided by the Workers’ Compensation Policy, Part 2 (Employer’s Liability) or, in states with monopolistic state funds, the protection provided by the “Stop Gap” endorsement to the General Liability Policy in the amount of at least \$1,000,000.

(v) Excess/Umbrella Liability: With limits of not less than [\$10,000,000] each occurrence and aggregate applicable over the limits of the insurance required in (i) and (ii) above, which shall apply “per project”.

During the period of construction, Developer as construction manager shall also provide:

(vi) Builder’s Risk Insurance: Builder’s All Risk Coverage Form, including earth movement to agreed upon limits, covering 100% of the replacement cost of the Project and consistent with the requirements of the Development Agreement. Developer shall keep the Builder’s Risk Insurance in place from the commencement of construction of the Project until the Commencement Date defined in this Lease.

Deductibles and Self-Insured Retentions:

Any deductibles or self-insured retentions must be declared to and approved by Landlord and Tenant. The deductible and/or self-insured retention of the policies shall be the sole responsibility of Developer.

Other Insurance Provisions:

The insurance policies required under the Development Agreement are to contain or be endorsed to contain the following provisions where applicable:

(A) Liability Policies:

(i) Landlord, Tenant and Trustee and their officers, officials, employees and agents are to be covered as additional insureds as respects: liability arising out of activities performed by or on behalf of Developer in connection with the Development Agreement.

(ii) Developer's insurance coverage shall be primary insurance as respects Landlord, Tenant and Trustee, their officers, officials, employees and agents (but not necessarily as respects the Design-Builder) and shall include a severability of interests (cross liability). Any insurance and/or self-insurance maintained by Landlord and/or Tenant, their officers, officials, employees and/agents shall not contribute with Developer's insurance or benefit Developer in any way.

(iii) Developer's insurance shall apply separately to each insured against whom a claim is made and/or lawsuit is brought, except with respect to the limits of the insurer's liability.

(B) All Policies.

Coverage shall not be canceled until after forty-five (45) days' (10 days for non-payment of premiums) prior written notice has been given to Landlord, Trustee and Tenant.

(C) Acceptability of Insurers.

Unless otherwise approved by Landlord and Tenant, insurance is to be placed with insurers with a Best's rating of no less than A:VIII, or, if not rated by Best's, with minimum surpluses the equivalent of Best's surplus size VIII.

If, at anytime, any of the foregoing policies shall fail to meet the above minimum standards, Developer shall, upon notice to that effect from Landlord promptly obtain a new policy, and shall submit the same to Landlord, with certificates and endorsements, for approval.

(D) Verification of Coverage.

Developer shall furnish Landlord with certificates of insurance and endorsements required by the Development Agreement. The certificates and endorsements for each policy are to be signed by a person authorized by that insurer. The certificates are to be on standard insurance industry ACORD form 25-S or equivalent with required endorsements attached and are to be received and approved by Landlord and Tenant prior to the commencement of activities associated with the Development Agreement. Landlord and Tenant reserve the right to require Developer to request and deliver complete certified copies of all required policies at any time.

(E) Subcontractors.

Developer shall include a provision in the Design-Build Contract requiring that Design-Builder include all subcontractors as insureds under its policies, or shall furnish separate certificates of insurance and policy endorsements from each subcontractor. Insurance coverages

provided by subcontractors as evidence of compliance with the insurance requirements of the Design-Build Contract shall be subject to all of the requirements stated herein.

For All Coverages:

(A) Each insurance policy shall be written on an “occurrence” form, excepting that insurance for professional liability, errors and omissions, when required, may be acceptable on a “claims made” form.

(B) If coverage is approved (if such approval is required above) and purchased on a “claims made” basis, Developer warrants continuation of coverage, either through policy renewals or the purchase of an extended discovery period, if such extended coverage is available, for not less than three years from the date of completion of the work which is subject to said insurance.

(C) By requiring such minimum insurance, Landlord and/or Tenant shall not be deemed to, or construed to, have assessed the risks that may be applicable to Developer associated with the Development Agreement. Developer shall assess its own risks and, if it deems appropriate and/or prudent, maintain greater limits or broader coverage.

(D) Nothing contained within these insurance requirements shall be deemed to limit the scope, application and/or limits of coverage afforded, which coverage will apply to each insured to the full extent provided by the terms and conditions of the policy(ies). Nothing contained within this provision shall affect and/or alter the application of any other provision contained within the Lease Agreement.

EXHIBIT J

MINIMUM INSURANCE REQUIREMENTS FOR DESIGN-BUILDER

Nothing contained within these insurance requirements shall be deemed to limit the scope, application and/or limits of coverage afforded, which coverage will apply to each insured to the full extent provided by the terms and conditions of the policy(ies). Nothing contained within these provisions shall affect and/or alter the application of any other provision contained within Design-Build Contract.

Scope and Limits of Insurance: **[Under review – this matches the requirements in the current version of the Development Agreement]**

Coverage shall be at least as broad as:

(i) General Liability: Insurance Services Office form number (CG00 001) covering Commercial General Liability, with a limit of not less than: \$10,000,000 combined single limit per occurrence, \$10,000,000 aggregate. Design-Builder shall maintain such Liability Insurance for at least one (1) year after Final Acceptance.

The policy shall include but not be limited to:

- (a) coverage for premises and operations;
- (b) blanket contractual liability coverage;
- (c) a broad form property damage coverage endorsement;
- (d) independent contractors' coverage; and
- (e) personal and advertising injury coverage.

The policy shall not exclude:

(a) coverage for lateral support, underground, explosion or collapse hazards

(ii) Automobile Liability: Insurance Services Office form number (CA 00 01) covering Business Automobile Coverage, symbol 1 "any auto"; or the combination of symbols 2, 8, and 9, for a limit of not less than \$1,000,000 combined single limit per occurrence.

(iii) Workers' Compensation: Workers' Compensation coverage, as required by the Industrial Insurance Act of the State of Washington, statutory limits.

(iv) Employer's Liability or "Stop Gap": The protection provided by the Workers' Compensation Policy, Part 2 (Employer's Liability) or, in states with monopolistic state funds, the protection provided by the "Stop Gap" endorsement to the General Liability Policy in the amount of at least \$1,000,000.

Deductibles and Self-Insured Retentions:

Any deductibles or self-insured retentions must be declared to and approved by Landlord and Tenant. The deductible and/or self-insured retention of the policies shall not limit or apply to Landlord, Tenant or Developer and shall be the sole responsibility of the Design-Builder.

Other Insurance Provisions:

The insurance policies required by the Design-Build Contract are to contain or be endorsed to contain the following provisions where applicable:

(A) Liability Policies:

(i) Landlord, Tenant and Trustee and Developer, their officers, officials, employees and agents are to be covered as additional insureds as respects: liability arising out of activities performed by or on behalf of the Design-Builder in connection with the Design-Build Contract.

(ii) The Design-Builder's insurance coverage shall be primary insurance as respects Landlord, Tenant, Trustee and Developer, their officers, officials, employees and agents (but not necessarily as respects the Design-Builder) and shall include a severability of interests (cross liability). Any insurance and/or self-insurance maintained by Landlord, Tenant and Developer, their officers, officials, employees and/agents shall not contribute with the Design-Builder's insurance or benefit the Design-Builder in any way.

(iii) Design-Builder's insurance shall apply separately to each insured against whom a claim is made and/or lawsuit is brought, except with respect to the limits of the insurer's liability.

(B) All Policies.

Coverage shall not be suspended, voided, canceled, reduced in coverage or in limits except by the reduction of the applicable aggregate limit by claims paid, until after forty-five (45) days' (10 days for non-payment of premiums) prior written notice has been given to Landlord, the Trustee and Tenant.

(C) Acceptability of Insurers.

Unless otherwise approved by Landlord and Tenant:

Insurance is to be placed with insurers with a Best's rating of no less than A: VIII, or, if not rated by Best's, with minimum surpluses the equivalent of Best's surplus size VIII.

If at any time any of the foregoing policies fail to meet the above minimum standards, the Design-Builder shall, upon notice to that effect from Landlord, promptly obtain a new policy, and shall submit the same to Landlord, with certificates and endorsements, for approval.

(D) Verification of Coverage.

The Contractor shall furnish Landlord with certificates of insurance and endorsements required by this Agreement and the Design-Build Contract. The certificates are to be on standard insurance industry ACORD form 25-S with required endorsements attached and are to be received and approved by Landlord and Tenant prior to the commencement of activities associated with the Design-Build Contract. Landlord and Tenant reserve the right to require complete certified copies of all required policies at any time.

(E) Subcontractors.

Contractor may include all subcontractors as insureds under its policies, or may furnish separate certificates of insurance and policy endorsements from each subcontractor. The limits of liability required to be carried by any subcontractor shall be determined by the Design-Builder, subject to the approval of Landlord, Tenant and Developer.

Contractors Indemnification:

Within the Design-Build Contract between Landlord and the Design-Builder, Landlord shall include the following Design-Builder's indemnification provision (capitalized terms shall have the meaning set forth in the Design-Build Contract):

Design-Builder shall protect, defend, indemnify, and save harmless the Landlord, Developer, Tenant, Trustee and their respective officers, officials, employees, and agents (each, an "Indemnified Owner Party") from any and all claims, demands, suits, penalties, losses, damages, judgments, or costs of any kind whatsoever made by third parties, arising out of or in any way resulting from the Design-Builder's officers, employees, agents, and/or subcontractors of all tiers, negligence, willful misconduct or breach of the Design-Build Contract and the Contract Documents, to the maximum extent permitted by law, including RCW 4.24.115, as now enacted or as hereinafter amended.

For indemnity obligations that arise from professional errors and omissions, Design-Builder, to the fullest extent permitted by law, shall indemnify each Indemnified Party from and against claims, losses, damages, liabilities, including attorneys' fees and expenses, for non-party bodily injury, sickness, or death and non-party property damage or destruction (other than to the Work itself) but only to the extent resulting from the negligent acts or omissions of Design-Builder, Design Consultants, Subcontractors, anyone employed directly or indirectly by any of them or anyone for whose acts any of them may be liable.

The Design-Builder's obligations under this section shall include, but not be limited to:

(a) the duty to promptly accept tender of defense and provide defense to Landlord, Tenant and Developer at the Design-Builder's own expense.

(b) The duty to indemnify and defend each Indemnified Owner Party from any such claim, demand, and/or cause of action brought by or on behalf of any of Design-Builder's employees, or agents. If an employee of Design-Builder, Design Consultants,

Subcontractors, anyone employed directly or indirectly by any of them or anyone for whose acts any of them may be liable has a claim against an Indemnified Party, Design-Builder's indemnity obligations set forth above shall not be limited by any limitation on the amount of damages, compensation or benefits payable by or for Design-Builder, Design Consultants, Subcontractors, or other entity under any employee benefit acts, including workers' compensation or disability acts. SOLELY FOR THE PURPOSE OF GIVING FULL FORCE AND EFFECT TO THE INDEMNIFICATION OBLIGATIONS PROVIDED UNDER THIS AGREEMENT AND NOT FOR THE BENEFIT OF ANY EMPLOYEES OF EITHER PARTY, BOTH PARTIES EXPRESSLY WAIVE ANY IMMUNITY THAT MAY BE GRANTED THEM UNDER THE WASHINGTON STATE INDUSTRIAL INSURANCE ACT, TITLE 51 RCW, AND ALL OTHER APPLICABLE INDUSTRIAL INSURANCE/WORKER'S COMPENSATION ACTS OR THEIR EQUIVALENT IN THE APPLICABLE JURISDICTION. A PARTY'S WAIVER OF IMMUNITY UNDER THIS SECTION EXTENDS ONLY TO CLAIMS AGAINST THAT PARTY BY AN INDEMNITEE AND DOES NOT INCLUDE, OR EXTEND TO, ANY CLAIMS BY THAT PARTY'S EMPLOYEES DIRECTLY AGAINST THAT PARTY. THE PARTIES ACKNOWLEDGE THAT THIS WAIVER OF IMMUNITY WAS MUTUALLY NEGOTIATED

(c) To the maximum extent permitted by law, the Design-Builder shall indemnify and defend Landlord, Tenant and Developer from and be liable for all damages and injury which shall be caused to owners of property on or in the vicinity of the work or which shall occur to any person or persons or property whatsoever arising out of the performance of the Design-Build Contract, whether or not such injury or damage is caused by negligence of the Design-Builder or caused by the inherent nature of the work specified.

In the event an Indemnified Owner Party incurs any judgment, award, and/or costs arising from any third party claim to which they are entitled to be indemnified hereunder, including attorneys' fees, to enforce the provisions of this Section, all such reasonable fees, expenses, and costs shall be recoverable from the Design-Builder.

To the extent that RCW 4.24.115 is applicable to any indemnification obligation provided under the Contract Documents by either party, Design-Builder and Landlord agree that if a personal injury or property damage is caused by the joint or concurrent negligence of (a) the party providing an indemnity ("Indemnitor") or such Indemnitor's agents or employees, and (b) a party benefitting from such indemnity ("Indemnatee") or such Indemnatee's agents or employees, then the resulting claims, costs, charges, penalties, demands, losses, liabilities, damages, judgments, or fines shall be borne by the Indemnitor and the Indemnatee in proportion to the respective degrees of negligence. In no event shall an Indemnitor be obligated to indemnify an Indemnatee Parties against the sole negligence of Indemnatee or such Indemnatee's agents or employees.

An Indemnatee must give the Indemnitor from whom indemnification is sought written notice of such claim promptly after the Indemnatee receives any written notice of any action, lawsuit, proceeding, investigation or other claim (a "proceeding") against or involving the Indemnatee by a government entity or other third party, or otherwise discovers the liability, obligation or facts giving rise to such claim for indemnification; provided that the failure to notify or delay in notifying an Indemnitor will not relieve the Indemnitor of its obligations,

except to the extent that the Indemnitor's ability to defend against such claim is actually prejudiced thereby. Such notice shall contain a description of the claim and the nature and amount of such loss (to the extent that the nature and amount of such loss is known at such time).

GROUND LEASE

This GROUND LEASE (“Ground Lease”) is made and entered into as of [____], 2024 (the “Effective Date”) by and between the STATE OF WASHINGTON, DEPARTMENT OF SOCIAL AND HEALTH SERVICES, hereinafter called the “Ground Lessor” and FIRCREST PROPERTIES, a Washington nonprofit corporation, hereinafter called “Ground Lessee” with reference to the following facts:

RECITALS

A. The State of Washington, acting by and through the Department of Social and Health Services (“DSHS”) has been given authority, under ch. 474 sec. 8002, Laws of 2023, to enter into a financing lease for the construction of a new [120] bed nursing facility at the DSHS Fircrest Residential Habilitation Center campus in Shoreline, Washington (the “Project”).

B. DSHS has heretofore advertised for proposals for the design and construction of improvements for the Project including (i) the nursing facility, consisting of a 3-story building plus a partial basement, containing [120] beds, containing approximately [126,808] square feet of space; (ii) the laundry facility, consisting of a 1-story building containing approximately [6,336] square feet of area; and (iii) 117 total surface parking spaces (20 existing and 97 new spaces) (collectively, the “Improvements”) to be located on certain real property ground leased by Ground Lessor from the Washington State Department of Natural Resources situated in the City of Shoreline, King County, Washington and legally described in Exhibit “A” attached hereto and incorporated herein by reference (the “Land”). **[NTD – need to confirm if formal confirmation of DNR consent to this ground lease is required]**

C. The Ground Lessor has agreed to enter into this thirty (30) year ground lease of the Land with Ground Lessee on the express condition that (i) Ground Lessee agrees to construct the Improvements on the Land by entering into a Development Agreement (the “Development Agreement”) with Anchor Fircrest Developer, L.L.C., a Washington limited liability company (“Developer”), pursuant to which Developer agrees to cause the permitting, design and construction of the Improvements for a fixed price in accordance with the Plans and Specifications (as defined below); (ii) lease the Improvements to Ground Lessor pursuant to the Financing Lease (as defined below); (iii) execute the Indenture (as defined below), and (iv) assign for collateral purposes its leasehold interest and all of its rights, title and interest under this Ground Lease, the Financing Lease and in the Monthly Rent payments to be made by Ground Lessor under the Financing Lease, to the Trustee (as defined below) pursuant to the provisions set forth in the Indenture and the Mortgage.

D. Following completion of the Improvements, DSHS will lease the Improvements from Ground Lessee under the terms of a twenty-five (25) year lease and in full compliance with Chapter 39.94 RCW (the “Financing Lease”), upon the expiration of which title to the Improvements will vest in the State of Washington (“State”). Ground Lessee has agreed to execute the Financing Lease as the lessor.

E. Ground Lessee intends to pay for the costs of the Improvements with the proceeds of tax-exempt obligations that satisfy the requirements of Revenue Ruling 63-20 and Revenue

Procedure 82-26 and other regulations, interpretations and letter rulings issued by the Internal Revenue Service with respect to such financings.

F. The State Finance Committee has, by Resolution No. 1283, approved the substantially final form of the Financing Lease and the intent of Ground Lessor to accept title to the Improvements and any additions to the Improvements when the Bonds have been paid and retired or defeased in full.

G. Ground Lessor is authorized under the Constitution and the laws of the State of Washington to enter into this Ground Lease for the purposes hereinabove set forth.

H. Ground Lessor and Ground Lessee deem it to be in the best public interest to enter into this Ground Lease.

NOW, THEREFORE, pursuant to law and in consideration of the mutual covenants, promises and agreements contained herein, the parties agree as follows:

AGREEMENT

1. **Incorporation of Recitals; Definitions.** Each recital set forth above is incorporated into this Ground Lease as though fully set forth herein. As used herein, the following terms shall have the following meanings. All capitalized terms not otherwise defined herein shall have the same definition as set forth in the Financing Lease or if not defined therein, as defined in the Indenture.

Additional Rent. All costs, expenses, insurance premiums, Impositions and other payments, excluding Ground Rent, that Ground Lessee is required to pay under the terms of this Ground Lease.

Bond Closing. The date the proceeds of the Bonds are first made available to the Trustee.

Bonds. Those tax-exempt obligations to be issued by Ground Lessee which satisfy the requirements of Revenue Ruling 63-20, Revenue Procedure 82-26 and other regulations, interpretations and letter rulings issued by the Internal Revenue Service with respect to such financing, from the proceeds of which Ground Lessee intends to pay, among other things, the costs for construction of the Improvements.

Developer. Anchor Fircrest Developer, L.L.C., a Washington limited liability company and its successors and permitted assigns under the Development Agreement.

Development Agreement. That certain Development Agreement of even date herewith between Ground Lessee and Developer, as amended from time to time, which provides for the development, design, permitting and construction of the Improvements.

Effective Date. The date this Ground Lease has been fully executed, acknowledged and delivered by Ground Lessor and Ground Lessee.

Events of Default. Those occurrences described in Section 20 giving rise to Ground Lessor's remedies, including the right to terminate this Ground Lease, as described in Section 20.

Financing Lease. That certain sublease of even date herewith by and between the Ground Lessee as lessor and DSHS as lessee that demises the Land described in this Ground Lease and the Improvements to DSHS.

Ground Rent. The amount payable pursuant to Section 3.A below.

Impositions. All real and personal property taxes and assessments (including assessments for public improvements), license and permit fees, charges for public utilities, leasehold excise taxes, other excise taxes, levies, sales, use and occupancy taxes, privilege taxes, business and occupation taxes and all other governmental impositions and charges of every kind and nature, general and special, ordinary and extraordinary, foreseen and unforeseen, of every character (including interest and penalties thereon) which are imposed, levied upon or assessed against or which arise with respect to the Land, the Property, the Improvements, (or any portion thereof), any Rent or other sum payable under this Ground Lease, the leasehold estate created by this Ground Lease, or Ground Lessee's operation, use or possession of the Land, the Improvements or the Property on or after the Effective Date and all gross receipts or similar taxes (i.e., taxes based upon gross income which fail to take into account deductions with respect to depreciation, interest, taxes or ordinary and necessary business expenses relating to the Property) imposed, levied upon, assessed against or measured by any Rent or other sums payable under this Ground Lease, all sales, value added, ad valorem, use and similar taxes levied, assessed or payable on account of the leasing, use, possession, control or operation of the Property and all charges, fees and assessments, for utilities, communications and similar services provided to the Property and/or the Improvements on or after the Effective Date.

Improvements. Improvements means (i) the Nursing Facility; (ii) the Laundry Facility; and (iii) the Surface Parking Spaces, and other design and construction, including, without limitation, demolition of existing improvements on the Land, site work, including all road improvements required under Permits, utility relocation and installation of utilities as required to service the Nursing Facility and the Laundry Facility, all fixtures, equipment and improvements associated therewith to be constructed on the Land by or for the account of Ground Lessee pursuant to the Development Agreement. The Improvements shall be deemed to be real property and shall be the property of Ground Lessee during the term of this Ground Lease. Upon the earlier of payment or defeasance of the Bonds in full, the Improvements shall become the property of the State.

Indenture. The indenture of trust pursuant to which Ground Lessee will cause the issuance of the Bonds.

Land. The real property located in the City of Shoreline, King County, Washington more particularly described in Exhibit "A" hereto and by this reference incorporated herein.

Laundry Facility. The laundry facility, consisting of a 1-story building containing approximately [6,336] square feet of space.

Nursing Facility. The nursing facility, consisting of a 3-story building, plus a partial basement, containing [120] beds and approximately [126,808] square feet of space.

Property. The collective term for the Land and the Improvements.

Rent. The collective term for Ground Rent and Additional Rent.

Surface Parking Spaces. The 117 total surface parking spaces (20 existing and 97 new spaces) to be installed on the Land.

Toxic or Hazardous Substances. Toxic or Hazardous Substances shall be interpreted broadly to include, but not be limited to, any material or substance that is defined or classified under federal, state or local laws as: (a) a “hazardous substance” pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601 (14) or Section 311 of the Federal Water Pollution Control Act, 33 U.S.C. § 1321, each as now or hereafter amended; (b) a “hazardous waste” pursuant to Section 1004 or Section 3001 of the Resource Conservation and Recovery Act, 42 U.S.C. § 6903, 42 U.S.C. § 6921, as now or hereafter amended; (c) a “toxic pollutant” under Section 307(1) (a) of the Federal Water Pollution Control Act, 33 U.S.C. § 1317(1) (a), as now or hereafter amended; (d) a “hazardous air pollutants” under Section 112 of the Clean Air Act, 42 U.S.C. § 7412, as now or hereafter amended; (e) a “hazardous material” under the Hazardous Material Transportation Act, 49 U.S.C. § 1802(2), as now or hereafter amended; (f) toxic or hazardous pursuant to regulations promulgated now or hereafter under the aforementioned laws; or (g) presenting a risk to human health or the environment under other applicable federal, state or local laws, ordinances, or regulations as now existing or as may be passed or promulgated in the future. “Toxic or Hazardous Substances” shall also mean any substance that after release into the environment and upon exposure, ingestion, inhalation or assimilation, either directly from the environment or indirectly by ingestion through food chains, will or may reasonably be anticipated to cause death, disease, behavior abnormalities, cancer or genetic abnormalities. “Toxic or Hazardous Substances” specifically includes, but is not limited to, asbestos, polychlorinated biphenyls (PCBs), petroleum and petroleum based derivatives, flammable explosives, radioactive materials and urea formaldehyde.

Trustee. U.S. Bank Trust Company, National Association, as the bond trustee under the Indenture or any duly authorized successor thereto appointed pursuant to the Indenture.

2. Premises and Term.

A. Premises. Ground Lessor, in consideration of the rents herein reserved and the terms, covenants, and conditions of this Ground Lease to be kept and performed by Ground Lessee, hereby demises and leases to Ground Lessee, and Ground Lessee hereby hires and leases from Ground Lessor, the Land (excepting the Improvements hereinafter placed on the Land, which Improvements are the property of Ground Lessee during the term of this Ground Lease), subject to all matters affecting title to the Land on the date hereof.

B. **Term.** The term of this Ground Lease shall commence on the Effective Date of this Ground Lease and, unless sooner terminated pursuant to any provision of this Ground Lease, shall automatically terminate on the earlier of (i) the date thirty-five (35) years after Bond Closing, or (ii) the date that the Bonds have been paid or defeased in full, and except as otherwise expressly provided herein, the Ground Lessor and Ground Lessee shall thereafter have no further rights, duties or obligations to one another hereunder.

3. **Rent.**

A. **Prepaid Ground Rent.** Ground Lessor acknowledges receipt of the sum of One Hundred Dollars (\$100.00), which represents prepaid Ground Rent for the entire Ground Lease term. Ground Rent is fully earned upon the Effective Date and is nonrefundable. The amount of Prepaid Ground Rent has been determined by the parties following extensive negotiation to be the maximum amount of ground rent attainable by Ground Lessor taking into consideration the following criteria: (i) the rental being paid to other lessors by lessees of similar property for similar purposes over similar periods of time; (ii) the ground rental is based on the ground rent for the unimproved property only; (iii) the construction risk assumed by Ground Lessee in agreeing to enter into the Development Agreement whereby the Developer will agree to design and construct the Improvements on the express conditions that Ground Lessee lease the Land and the Improvements to DSHS for the Monthly Rent payments and other terms and conditions set forth in the Financing Lease; (iv) DSHS's rights to terminate its obligation to make Monthly Rent payments under the circumstances set forth in Section 37 of the Financing Lease; and (vi) the restrictions set forth in this Ground Lease on Ground Lessee's ability to sublease the Improvements or assign its rights under the Ground Lease or its title in the Improvements to any third party without the prior written consent of the Ground Lessor.

B. **Additional Rent.** From and after the Effective Date, Ground Lessee shall also pay, without notice and without set-off, deduction or abatement, Additional Rent when the same shall be due and payable and in any event prior to delinquency. In the event of any non-payment of Additional Rent, Ground Lessor shall have, in addition to all other rights and remedies, all rights and remedies provided for herein or by law for the non-payment of Rent.

C. **Net Lease.** This Ground Lease shall be deemed and construed to be a "net lease" and from and after the Effective Date, Ground Lessee shall pay to Ground Lessor Ground Rent, Additional Rent, and other payments hereunder, free of any charges, assessments, Impositions or deductions of any kind and without abatement, deduction or setoff, whether now existing or hereafter arising or beyond the present contemplation of the parties.

4. **Title to Improvements.** Title to and ownership of the Improvements hereafter constructed on the Land by or at the direction of the Ground Lessee pursuant to the Development Agreement and all fixtures and equipment installed thereon by or at the direction of Ground Lessee shall be vested in Ground Lessee until the expiration or termination of this Ground Lease. It is the intention of the parties that the separation of the title to the Land from the title to the Improvements is not intended to change the character of the Improvements as real property. Upon the expiration or termination of this Ground Lease, title to all Improvements and all fixtures and equipment installed thereon by or at the direction of the Ground Lessee shall vest automatically in the Ground Lessor.

During the term of this Ground Lease, the Improvements shall not be conveyed, transferred or assigned, except for a lien granted by the Ground Lessee under the terms of the Mortgage for the benefit of the Trustee, as further described in the Indenture. At all times the owner of the leasehold interest of the Ground Lessee under this Ground Lease shall also be the owner of the Improvements. Any attempted conveyance, transfer or assignment, whether voluntarily or by operation of law or otherwise, to any person or entity not in compliance with the preceding sentence shall be void and of no effect whatsoever. Ground Lessee shall allow no other party to construct any additional improvements on the Land.

Upon any termination of this Ground Lease, all of Ground Lessee's right, title and interest in and to the Improvements shall terminate and title to the Improvements shall automatically vest in the Ground Lessor and the Improvements shall be surrendered by Ground Lessee to the Ground Lessor. No further deed or other instrument shall be necessary to confirm the vesting in the Ground Lessor of title to the Improvements. However, upon any termination of this Ground Lease, Ground Lessee shall, upon request of the Ground Lessor, execute, acknowledge and deliver to the State a quitclaim deed conveying all of Ground Lessee's leasehold interest in the Land and its fee ownership in the Improvements constructed by Ground Lessee thereon to the State and confirming that title to the Improvements has vested in the State.

5. **No Encumbrances.** Except as otherwise expressly provided herein, during the term of this Ground Lease, Ground Lessee shall not encumber its leasehold interest in the Land or its fee interest in the Improvements without the prior written consent of Ground Lessor, which consent may be withheld or denied by Ground Lessor in the sole exercise of its discretion.

Notwithstanding the foregoing, Ground Lessor consents to and acknowledges that Ground Lessee assigned and mortgaged its leasehold interest in the Land and its fee interest in the Improvements to the Trustee pursuant to the Mortgage (as defined in the Financing Lease) for the benefit of the owners of the Bonds.

6. **Satisfaction of Obligations Under Ground Lease.**

A. **Payment of Rent.** Ground Lessor acknowledges that from and after the Commencement Date of the Financing Lease (as defined therein) and during the Term of the Financing Lease (as defined therein), DSHS has agreed to pay all Rent required to be paid under the provisions of Section 3 of this Ground Lease, including, but not limited to all elements of Additional Rent described in Sections 7, 8, 9, 10 and 14 of this Ground Lease.

B. **Compliance with the Provisions of the Financing Lease.** Ground Lessor acknowledges that from and after the Commencement Date of the Financing Lease and until the Expiration Date of the Financing Lease:

(i) The insurance obligations set forth in Section 14 of this Ground Lease will be deemed satisfied so long as the insurance requirements of Sections 14 through 18 of the Financing Lease are satisfied;

(ii) The provisions of Section 20 of the Financing Lease shall determine the distribution of any condemnation awards or title insurance payments in the event

that all or any portions of the Land or the Improvements is taken by eminent domain or there is a loss of title; and

(iii) The provisions of Section 19 of the Financing Lease shall govern and control in the event there is any damage to or destruction to the Land or the Improvements.

7. **Impositions.** Ground Lessee will, at Ground Lessee's own cost and expense, pay and discharge, on or before the fifteenth (15th) day prior to the last day upon which the same may be paid without interest or penalty, all Impositions (if any). Ground Lessee shall pay all interest and penalties imposed upon the late payment of any Impositions that Ground Lessee is obligated to pay hereunder.

With respect to any Impositions which may be levied against the Land, the Improvements, any Rent or other sum payable under this Ground Lease, the leasehold estate created by this Ground Lease or otherwise, or which under the laws then in force may be evidenced by improvement or other bonds or may be paid either in full or in periodic installments, Ground Lessee may elect to pay such Impositions in only the amount of the periodic installments then due (including interest) so long as such payment does not cause the Impositions to become delinquent or allows the Land or the Improvements thereon to be sold for the non-payment of any such Imposition or subject the Ground Lessor to penalties, fines or criminal prosecution.

If Ground Lessee fails to pay any Imposition on or before the fifteenth (15th) day prior to the last day upon which the same may be paid without interest or penalties for the late payment thereof, then Ground Lessor may pay the same with all interest and penalties lawfully imposed upon the late payment thereof. The amounts so paid by Ground Lessor shall be immediately due and payable by Ground Lessee to Ground Lessor hereunder.

Ground Lessee, at Ground Lessee's own cost and expense may, in good faith, contest the validity or amount of any Imposition, in which event Ground Lessee may defer the payment thereof while such contest shall be actively and diligently prosecuted and shall be pending undetermined, provided that:

(a) fifteen (15) days before the contested Imposition becomes delinquent by non-payment, Ground Lessee shall deposit and thereafter maintain with Ground Lessor an amount of money or other security reasonably satisfactory to Ground Lessor sufficient to pay the contested items together with the interest and penalties thereon accruing during such contest. The money shall be held by Ground Lessor, and shall be applied to the payment of such contested item together with interest and penalties thereon, if any, when the amount or amounts thereof have been finally determined;

(b) no provisions of this Ground Lease shall be construed to require Ground Lessor to allow any such contested items to remain unpaid for such length of time as shall permit the Land or the Improvements, or any part thereof or interest therein, to be sold for the nonpayment thereof or the lien thereon created by such contested item to be foreclosed;

(c) deferral of payment and contest of the Imposition will not subject Ground Lessor to criminal prosecution or fine; and

(d) Ground Lessee shall indemnify, protect, defend and hold Ground Lessor and the Property harmless from and against any loss, cost, damage, liability, interest, attorneys' fees and other expenses arising out of such deferral of payment and contest of the Imposition.

At any time prior to or during the pendency of any such contest, Ground Lessor, after written notice to Ground Lessee, may pay out and apply so much of the money deposited by Ground Lessee as may be required to the payment of any Impositions, together with interest and penalties, which, in Ground Lessor's judgment should be paid to prevent the sale of the Land, or the Improvements or any part thereof. To the extent that the amount of money so deposited with Ground Lessor shall be insufficient to fully satisfy and discharge any such Imposition, together with interest and penalties thereon, Ground Lessor may pay the same and the deficiency so paid by Ground Lessor shall be immediately due and payable by Ground Lessee to Ground Lessor.

8. **Utilities.** Ground Lessee shall be solely responsible for and shall pay separately for all charges for Utilities used or consumed at the Property during the term of this Ground Lease. Except as otherwise provided in the Financing Lease, Ground Lessee shall make any necessary arrangements to have all such services or Utilities billed directly to and paid for directly by Ground Lessee. "Utilities" means all utilities and services furnished to the Property, including without limitation, gas, electricity, water, sewer, storm water, garbage collection and telephone service.

Ground Lessor shall not be liable under this Ground Lease for any loss or damage caused by or resulting from any variation, interruption or failure of Utilities or other services due to any cause whatsoever (other than the Ground Lessor's intentional termination or interruption of such Utilities without legal justification), and no temporary interruption or failure of such Utilities or other services incident to the making of repairs, alterations or improvements or due to accident or strike conditions shall be deemed an eviction of Ground Lessee or relieve Ground Lessee from any of Ground Lessee's obligations hereunder.

9. **Maintenance and Repair.** Ground Lessee shall at all times during the term of this Ground Lease, at Ground Lessee's own cost and expense, keep the Land and the Improvements now or hereafter located thereon, all facilities and equipment thereon, and all sidewalks, curbs, gutters, landscaping, utility lines and all appurtenances to the Land and Improvements in good operating condition and repair, free of obstruction, and in such condition as may be required by law and by the terms of the insurance policies furnished pursuant to this Ground Lease, whether or not such repair shall be interior or exterior, structural, extraordinary or ordinary.

10. **Compliance with Law.** Ground Lessee shall at all times at Ground Lessee's own cost and expense, perform and comply with all laws, rules, orders, ordinances, regulations and requirements now or hereafter enacted or promulgated, of every government, municipality or agency thereof relating to the Property, or the facilities or equipment therein, or the streets, sidewalks, vaults, vault spaces, curbs and gutters adjoining the Land or the appurtenances to the

Land, or the franchises and privileges connected therewith, whether structural or extraordinary changes, improvements, interference with use of the Improvements, or the Land are necessitated, and irrespective of the cost thereof.

Ground Lessee shall at its sole cost and expense procure or cause to be procured all necessary permits, licenses or other authorizations required for the lawful and proper construction, use, occupation, operation and management of the Property, provided that Ground Lessor shall procure and maintain all necessary permits, licenses or other authorizations required in connection with the licensing and operation of the Nursing Facility.

11. Leasehold Improvements.

A. **Plans and Specifications.** Ground Lessee shall cause Developer to design and construct the Improvements in accordance with the final plans and specifications prepared pursuant to the terms of the Financing Lease and the Development Agreement (the "Plans and Specifications"). Subject to the terms, covenants and conditions herein, upon completion of the Improvements Ground Lessee will furnish Ground Lessor with complete and detailed "as-built" plans for the Improvements. Ground Lessee agrees that upon completion, the Improvements shall be free and clear of all construction liens and Ground Lessee shall have obtained the issuance of a certificate or certificates of occupancy permitting DSHS's use and occupancy of the Improvements.

B. **Design and Construction of Improvements.** Promptly following the execution of this Ground Lease and the Development Agreement, Ground Lessee shall cause Developer to take all actions necessary to obtain any required construction permits and authorizations from any federal, state or municipal government or departments or subdivisions having jurisdiction over the Property. Ground Lessor and Ground Lessee shall join in the application for such permits or authorizations whenever such action is necessary; provided, however, Ground Lessor shall not incur any liability or expense in connection therewith. Ground Lessee agrees to cause the Developer to commence construction of the Improvements promptly following receipt of all required permits and shall thereafter cause the Developer to construct the Improvements in a good and workmanlike manner in strict accordance with the Plans and Specifications and in accordance with the Development Agreement. The Improvements shall be constructed entirely within the Land or road and utility easements held by Ground Lessor. The Improvements shall be constructed in accordance with all applicable laws, ordinances, rules, regulations or requirements of the State and all applicable laws, ordinances, rules, regulations or requirements of any county, city or other political subdivision thereof. Ground Lessee shall not permit any development or construction on the Land except as contemplated by the Financing Lease or the Development Agreement or as otherwise specifically approved in writing by Ground Lessor.

C. **Completion of Improvements.** The Development Agreement requires that the Improvements be completed, and delivery of the Improvements made to DSHS on or before [_____, 202_] (subject to certain extensions as described in the Development Agreement). The Improvements shall be deemed to have been completed within the meaning of this Ground Lease when Substantial Completion of the Project, as defined in the Financing Lease, has occurred.

D. Bonding and Other Construction Contract Requirements. Ground Lessee shall require the Design-Builder (as defined in the Development Agreement) engaged by Ground Lessee to construct the Improvements to furnish payment and performance bonds for the construction of the Improvements, and all Construction Contracts entered into between Ground Lessee and any Contractor shall require that such Contractor maintain insurance and agree to indemnify Ground Lessee, DSHS and Trustee (individually and collectively, "Indemnified Party") as required under the terms of the Development Agreement and the Financing Lease, and such Construction Contracts shall grant each Indemnified Party the express right to enforce the provisions of the Construction Contracts dealing with insurance and indemnification obligations as a third party beneficiary of such provisions. All Construction Contracts shall also include provisions consistent with the requirements of the Development Agreement, that all contractors and subcontractors employed in the construction of the Improvements shall pay the prevailing rate of wages as defined in Chapter 39.12 of the Revised Code of Washington.

E. Disclaimer. No provision of this Ground Lease obligates the Ground Lessor to design, construct or supervise the design and/or construction of the Improvements. It is understood and agreed that Ground Lessor's rights under this Ground Lease are for the sole purpose of protecting its interest as the owner of a reversionary interest in the Property. Ground Lessor's approval of any plans and specifications or the Development Agreement for the Improvements shall not be construed by Developer, any Contractor, Ground Lessee or any other person as a guaranty of the adequacy of the design or its compliance with applicable Requirements of Law. Ground Lessor's right of inspection as provided in this Ground Lease shall not constitute any representation or warranty, express or implied, as to the adequacy of, or impose any obligation of Ground Lessor to insure that work or materials are in compliance with, the Plans and Specifications, the Construction Contracts or any building requirements imposed by a governmental agency.

F. Repairs and Alterations. After Substantial Completion of the Project, Ground Lessee agrees that any repairs or alterations made by it, or by contractors acting on its behalf, to the Property shall be done in a good and workmanlike manner in conformity with all applicable Requirements of Law, that materials of good quality shall be employed therein and that the structure of the Improvements will not be endangered or impaired thereby and shall impose such requirements on any contractors it engages to perform any repairs or alterations to the Property. Ground Lessee agrees that it will procure all necessary permits before making any repairs or alterations. Ground Lessor agrees it will cooperate with Ground Lessee in obtaining such permits. Ground Lessee agrees to pay promptly when due the entire cost of any work done by the Ground Lessee upon the Property so that the Property shall remain free of all construction liens. Ground Lessee agrees to protect, defend, indemnify and hold the Ground Lessor harmless from any and all injury, loss, claim, or damage, including reasonable attorneys' fees, to any person or property occasioned by or arising out of such repairs or alterations by Ground Lessee. Ground Lessee shall pay for all damage to the Property incurred as a result of Ground Lessee's misuse of the Property or the appurtenances thereto.

12. Use and Management of Property. So long as DSHS or another State agency is in occupancy of the Property under the Financing Lease, the Land shall be used by Ground Lessee solely for the construction of the Improvements and the lease of the Improvements to

DSHS (including any State agency subtenants) or another State agency pursuant to the Financing Lease and for no other purposes whatsoever without the prior written consent of Ground Lessor.

Ground Lessee will not use or keep or allow the Property or any portion thereof or any appurtenances thereto, to be used or occupied for any unlawful purpose or in violation of any certificate of occupancy or any insurance policy carried with respect to the Property, and will not suffer any act to be done or any condition to exist on the Property or any portion thereof or in any appurtenance thereto, or permit any article to be brought therein which may be dangerous, unless safeguarded as required by law, or which may constitute a nuisance, public or private, or which may make void or voidable any insurance in force with respect thereto. Ground Lessee assumes the risk of any law, ordinance, rule or regulation either now in effect or hereafter enacted that prohibits or limits Ground Lessee's use of the Property.

Ground Lessor may direct Ground Lessee, at Ground Lessee's expense, to take such steps as are reasonably necessary to protect against possible claims of prescriptive rights in favor of the public.

13. Construction Liens. If any construction lien or other lien or charge shall be filed or made against Ground Lessor or the Property or any part thereof in connection with the design and construction of the Improvements pursuant to the Development Agreement, or if any such lien or charge shall be filed or made against Ground Lessor or the Property as a result of work performed by or at the direction of the Ground Lessee or the Developer, any Contractor or any subcontractor, laborer, materialman or supplier thereof, Ground Lessee shall within thirty (30) days after such lien or charge shall have been filed or made, cause the same to be cancelled and discharged of record either by payment thereof or filing a bond or otherwise, and shall also defend any action, suit or proceeding brought to enforce such lien or charge, and shall pay any damages, costs and expenses, including attorneys' fees, suffered or incurred therein by the Ground Lessor, and shall satisfy and discharge any judgment entered therein within thirty (30) days from the entering of such judgment by payment thereof or filing of a bond, or otherwise. In the event of the failure of Ground Lessee to cause the discharge of such lien against the Property within such thirty (30) day period following the filing, recording or entry of any such lien, charge, or judgment, Ground Lessor may pay such items or discharge such liability by payment or bond or both, and Ground Lessee shall thereupon be liable to repay to Ground Lessor, upon demand, all amounts paid by State therefor, or by reason of any liability on any such bond, together with any and all incidental expenses, including attorneys' fees and costs incurred by Ground Lessor in connection therewith. Ground Lessee's obligations pursuant to this Section 13 shall survive the expiration or earlier termination of this Ground Lease. NOTICE IS HEREBY GIVEN THAT GROUND LESSOR SHALL NOT BE LIABLE FOR ANY LABOR OR SERVICES PERFORMED OR TO BE PERFORMED ON THE LAND OR THE IMPROVEMENTS THEREON, FOR DEVELOPER, CONTRACTORS, SUBCONTRACTORS, GROUND LESSEE OR ANY SUBTENANT, OR FOR ANY MATERIALS OR EQUIPMENT FURNISHED OR TO BE FURNISHED AT THE LAND OR THE IMPROVEMENTS THEREON FOR DEVELOPER, CONTRACTORS, SUBCONTRACTORS, GROUND LESSEE OR ANY SUBTENANT, AND THAT NO CONSTRUCTION OR OTHER LIEN FOR SUCH LABOR, SERVICES, MATERIALS OR EQUIPMENT SHALL ATTACH TO THE LAND OR THE REVERSIONARY INTEREST OF STATE UNDER THIS GROUND LEASE. GROUND LESSOR SHALL HAVE THE RIGHT

TO ENTER UPON THE PROPERTY AT ANY TIME FOR THE PURPOSE OF POSTING A NOTICE TO SUCH EFFECT ON THE LAND AND/OR THE IMPROVEMENTS.

14. Insurance.

A. **Policies.** During the Term of this Ground Lease, Ground Lessee shall, at Ground Lessee's sole cost and expense (but with Ground Lessee having the right to require Developer, Contractors and/or DSHS, at their expense, to procure insurance or pay the premium of such insurance as an operating cost that satisfies particular insurance requirements herein, to the extent required in the Development Agreement and/or Financing Lease), provide and keep in force with Ground Lessor as an additional insured thereunder:

(i) Commercial general liability insurance, including contractual liability, insuring against claims for personal injury (including without limitation, bodily injury or death), property damage liability and such other loss or damage from such causes of loss as are embraced by insurance policies of the type now known as "commercial general liability" insurance covering the Property and the Improvements, and business automobile liability (owned, hired or non-owned vehicles) covering the risks of bodily injury (including death) and property damage, including coverage for contractual liability.

Such insurance (i) shall be in an amount of not less than \$2,000,000 per occurrence and \$4,000,000 general aggregate or such other reasonable amount as Ground Lessor may determine from time to time; (ii) shall be issued by a financially responsible insurance company authorized to do business in the State of Washington and approved by the State Office of Risk Management; (iii) shall provide that the same may not be cancelled or given notice of non-renewal nor shall the terms or conditions thereof be altered, amended or modified without at least forty-five (45) days prior written notice (ten (10) days for nonpayment of premiums) being given by the insurer to the State; and (iv) shall include contractual liability coverage.

(ii) Property insurance covering the Improvements against loss or damage from such causes of loss as are embraced by insurance policies of the type now known as "All Risks" or "Special Cause of Loss" property insurance which shall include all risk insurance for physical loss or damage including, without duplication of coverage, theft, vandalism, malicious mischief, flood, earthquake and boiler and machinery coverage on a replacement cost basis in an amount not less than one hundred percent (100%) of the then full replacement cost of the Improvements (exclusive of the cost of excavations, foundations and footings below the lowest basement floor), without deduction for physical depreciation thereof; provided, however, that Ground Lessor shall waive the requirement that Ground Lessee carry flood and/or earthquake insurance if the Ground Lessor determines, in the reasonable exercise of the judgment of the Office of Risk Management, that (a) such insurance is not required to be carried by ground lessees of similarly situated property in the State of Washington improved with improvements comparable to the Improvements, and (b) such insurance is not available at a commercially reasonable rate. Such property insurance shall be in builder's risk form during initial construction of the Improvements and during any restoration accomplished in connection with damage or destruction of the Property. Ground Lessor reserves the right to require such other insurance as the State Office of Risk Management may from time to time designate to cover other risks and hazards affecting the Property which are commonly insured against by

prudent owners of similarly situated property in the State of Washington which have been improved with improvements comparable to the Improvements. Such property insurance shall (i) be issued by a financially responsible insurance company authorized to do business in the State of Washington and approved by the State Office of Risk Management; and (ii) shall provide that the same may not be cancelled or given notice of non-renewal nor shall the terms or conditions thereof be altered, amended or modified without at least forty-five (45) days prior written notice being given by the insurer to the State (ten (10) days for non-payment of premiums). Full replacement cost for the Improvements shall be determined at Ground Lessor's request not more frequently than at annual intervals, either by the insurer proposed by Ground Lessee or in the event that such insurer is not acceptable to Ground Lessor, by the State Office of Risk Management. Ground Lessor agrees that no property insurance on the buildings existing on the Land as of the Effective Date is required since the existing buildings will be demolished as part of the Project.

(iii) Such other insurance as the State Office of Risk Management may require from time to time.

(iv) Certificates of all such policies of insurance, together with receipts showing payment of the premiums thereon, shall be delivered to Ground Lessor and shall be in form reasonably satisfactory to Ground Lessor, shall be noncancellable without forty-five (45) days written notice to Ground Lessor, (ten (10) days for non-payment of premiums) and shall provide that the same may not be amended without the written consent of Ground Lessor. All insurance policies provided hereunder shall be primary to any other insurance or self-insurance programs afforded to or maintained by the Ground Lessor and shall include a severability of interests (cross-liability provision). Evidence of renewal of such policies in form satisfactory to Ground Lessor shall be provided annually to Ground Lessor before the expiration of such policies.

(v) Prior to Final Acceptance of the Project (as defined in the Development Agreement) Ground Lessor acknowledges that Ground Lessee may satisfy its obligations with respect to insurance under this Section 14 so long as Ground Lessee, Contractors and Developer provide Ground Lessor with insurance which satisfies the requirements of the Development Agreement.

(vi) Notwithstanding the foregoing, Ground Lessor acknowledges that from and after the Commencement Date of the Financing Lease and so long as the Financing Lease is in effect, the insurance obligations hereinabove set forth will be deemed satisfied so long as Ground Lessee and/or DSHS, as applicable, provide insurance which satisfies the requirements of Sections 14 through 18 of the Financing Lease.

B. Waiver of Subrogation Rights. Ground Lessor and Ground Lessee do each release the other, and the other party's shareholders, agents, employees, officials, officers, directors and authorized representatives, to the extent legally possible for it to do so, from any claims such releasing party may have for damage to the Property, personal property, improvements and alterations of any party in or about the Property to the extent the same is covered by a policy of property insurance insuring such party; provided, however, that this waiver shall be ineffective as to any such damage not covered by insurance required to be carried

hereunder or, if greater in amount, insurance actually carried. Such waiver is conditioned upon the parties' ability to enter into such a waiver and is valid only to the extent allowed by their respective insurers. Ground Lessee shall use its best efforts to cause each fire or other casualty insurance policy obtained by it with respect to the Property or any portion thereof to provide that the insurance company waives all right to recover by way of subrogation against the Ground Lessor in connection with any matter covered by such policy, by endorsement or otherwise. A waiver of subrogation shall be effective to as to a person or entity even though that person or entity would otherwise have a duty of indemnification, contractual or otherwise, did not pay the insurance premium directly or indirectly, and whether or not the person or entity had an insurance interest in the property damaged.

C. **Failure to Maintain Insurance.** If Ground Lessee fails to provide the insurance or evidence of insurance required herein, Ground Lessor may obtain such policies as the agent of Ground Lessee, and the premiums paid for such insurance shall be paid by Ground Lessee to Ground Lessor upon demand as Additional Rent. Ground Lessor shall not be limited in damages that Ground Lessor may claim against Ground Lessee arising out of or by reason of Ground Lessee's failure to provide and keep in force insurance policies as aforesaid, to the amount of the insurance premiums not paid or incurred by Ground Lessee, but shall also be entitled to recover as damages for such breach, the uninsured amount of any loss, liability, damage claim, costs and expenses of suit (including attorneys' fees), judgments and interest, and reasonable attorneys' fees suffered or incurred by Ground Lessor, which obligation shall survive the expiration or earlier termination of this Ground Lease.

15. **Waiver and Indemnification.**

A. **Waiver.** Ground Lessor, shall not be liable to Ground Lessee and Ground Lessee hereby waives all claims against Ground Lessor, for any injury, illness or death of any person or damage to any property in or about the Property by or from any cause whatsoever, and, without limiting the generality of the foregoing, whether caused by or resulting from fire, steam, electricity, gas, water or rain which may leak or flow from or into any part of the Property, or Improvements, whether the damage or injury results from conditions arising upon the Property or other sources (other than any such injury, illness, death or damage caused by any act of negligence or willful misconduct of Ground Lessor, its agents or employees).

B. **Indemnification.** In addition to any other indemnity provided in this Ground Lease, in the event, and only in the event, that DSHS or another State agency is not in occupancy of the Property under the Financing Lease, Ground Lessee agrees to protect, defend, indemnify and hold Ground Lessor, and its officials, officers, agents and employees, harmless from and against any and all liability, loss or expense (including reasonable attorneys' fees), incurred in connection with or arising from any injury, illness or death to any person or damage to any property or from any other cause whatsoever occurring in, on or about the Property or any part thereof arising at any time and from any cause whatsoever (other than such injury, illness, death or damage caused by any act of negligence, bad faith or willful misconduct of Ground Lessor, its agents or employees). This indemnification obligation shall include, but is not limited to, all such claims against Ground Lessor by an employee or former employee of Ground Lessee or its agents or consultants. The foregoing duty is specifically and expressly intended to constitute a waiver with respect to the Ground Lessor only, of all immunity and limitation on

liability under any industrial insurance act, including Title 51 RCW, other worker's compensation act, disability act or other employee benefit act of any jurisdiction which would otherwise be applicable in the case of such claim, with a full and complete indemnity and defense of claims made by Ground Lessee's employees. The parties acknowledge that these provisions were mutually negotiated and agreed upon by them. Notwithstanding the foregoing, Ground Lessee's obligation to indemnify the Ground Lessor shall not extend to any claim, demand or cause of action to the extent caused by any act of negligence or willful misconduct of Ground Lessor, DSHS or other agency of the State or their respective, agents or employees. The provisions of this Section 15(B) shall survive the expiration or termination of this Ground Lease. In case any action or proceeding shall be brought against Ground Lessor by reason of any such claim or liability, Ground Lessee at Ground Lessee's sole cost and expense will defend by counsel selected or approved by Ground Lessor any and all suits that may be brought, and claims which may be made, against Ground Lessor. In the event Ground Lessee shall fail to protect, indemnify or defend Ground Lessor, Ground Lessor may undertake to protect and defend itself and Ground Lessee shall pay to Ground Lessor, upon demand, as Additional Rent, all costs and expenses incurred by Ground Lessor in connection with actions to protect and defend itself and with actions undertaken to require Ground Lessee to pay such costs and expenses, including, without limitation, all attorneys' and paralegals' fees and other costs and expenses.

16. Fire and Other Casualty. If all or any portion of the Improvements or any appurtenance thereto shall be damaged or destroyed by fire or other casualty, then, regardless of the cause and whether such damage or destruction shall have been insured, Ground Lessee shall give prompt written notice thereof to Ground Lessor, and shall proceed with reasonable diligence to carry out any necessary demolition and to restore, repair, replace and rebuild the Improvements at Ground Lessee's own cost and expense. If any insurance proceeds shall have been paid by reason of such damage or destruction, Ground Lessee shall be entitled to such proceeds for the purpose of such rebuilding.

If Ground Lessee fails or neglects to supply sufficient workmen or sufficient materials of proper quality, or fails in any other respect to prosecute such work of demolition, restoration, repair, replacement or rebuilding with diligence and promptness, then Ground Lessor may give Ground Lessee written notice of such failure or neglect, and if such failure or neglect continues for sixty (60) days after such notice, then Ground Lessor, in addition to all other rights which Ground Lessor may have, may enter upon the Property, provide labor and materials, cause the performance of any contract, and take such other action as Ground Lessor may deem advisable, in which event Ground Lessor shall be entitled to reimbursement of its costs and expenses out of any insurance proceeds. All costs and expenses incurred by Ground Lessor in carrying out such work for which Ground Lessor is not reimbursed out of insurance proceeds shall be borne by Ground Lessee and shall be payable by Ground Lessee to Ground Lessor upon demand, which demand may be made by Ground Lessor from time to time as such costs and expenses are incurred, in addition to any other damages to which Ground Lessor shall be entitled hereunder.

Notwithstanding the foregoing, from and after the Commencement Date of the Financing Lease and for so long as DSHS or another State agency is in occupancy of the Property under the Financing Lease, the provisions of Section 19 of the Financing Lease shall govern and control in the event there is any damage to or destruction of the Improvements.

17. **Condemnation of the Property.**

A. **Entire Condemnation.** If all or substantially all of the Property is taken by eminent domain, this Ground Lease shall automatically terminate as of the date Ground Lessee is required to vacate the Property and all Additional Rent shall be paid to that date. Substantially all of the Property shall be deemed to have been taken or lost if the Ground Lessor reasonably determines that the remaining portion of the Property is not of sufficient size or utility to permit the construction, operation and rental of the Nursing Facility, Laundry Facility, and related improvements thereon on an economically feasible basis under the provisions of this Ground Lease, the Financing Lease and the Indenture. The amount of damages resulting to Ground Lessor and Ground Lessee and to the respective interests of Ground Lessor and Ground Lessee in the Property by reason of such taking shall be separately determined and computed by the court having jurisdiction of such eminent domain proceedings. Separate awards, judgments and payments shall be made with respect to the damage to Ground Lessor and Ground Lessee and such awards and payments shall be paid separately to Ground Lessor and Ground Lessee. If the damage to Ground Lessor and Ground Lessee (and the awards payable to each in connection therewith) cannot or will not be separately determined and computed by such court, then the awards granted with respect to such eminent domain proceedings shall be paid to Ground Lessor and the Ground Lessor, after deducting from said award or awards, all expenses and costs (including reasonable attorney's fees) incurred by Ground Lessor in connection with such condemnation and any Rent or other sums then due Ground Lessor pursuant to any of the other provisions of this Ground Lease, pay out such award or awards in the following order of priority:

FIRST: There shall be paid to the Trustee for application as provided in the Indenture the value, immediately prior to such taking or loss, of the Improvements and the appurtenances thereto, until the Bonds have been paid in full.

SECOND: The remainder, if any, of said award or awards shall be retained by Ground Lessor.

B. **Partial Condemnation.** Except as provided in paragraph A above, if less than all or substantially all of the Property thereon shall be taken as a result of the exercise of the power of eminent domain, then this Ground Lease shall continue in full force and effect as to the remaining Property. Ground Lessee shall proceed immediately and with due diligence to carry out any necessary repairs so that the remaining Improvements and appurtenances shall constitute complete structural units which can be operated on an economically feasible basis under the provisions of this Ground Lease. If Ground Lessee shall fail to supply sufficient workmen or sufficient materials of proper quality, or shall fail in any other respect to prosecute such work or repair or restoration with diligence and promptness, then Ground Lessor may give Ground Lessee written notice of such failure or neglect, and if such failure or neglect continues for sixty (60) days after such notice, then Ground Lessor, in addition to all other rights, which Ground Lessor may have, may enter upon the Land and the Improvements, provide labor and/or materials, cause the performance of any contract and/or do such other acts and things as Ground Lessor may deem advisable to prosecute such work, in which event Ground Lessor shall be entitled to reimbursement of its costs and expenses out of any condemnation award or awards. All costs and expenses incurred by Ground Lessor in carrying out such work for which Ground Lessor is not reimbursed out of any condemnation award or awards shall be borne by Ground

Lessee and shall be payable by Ground Lessee to Ground Lessor upon demand, which demand may be made by Ground Lessor from time to time as such costs and expenses are incurred, in addition to any other damages to which Ground Lessor may be entitled hereunder, and shall survive expiration or earlier termination of this Ground Lease.

The entire award or awards for any such partial taking shall be paid to Ground Lessor which shall, after deducting therefrom all expenses and costs (including reasonable attorneys' fees) incurred by Ground Lessor in connection with the condemnation, and any Rent or other sums then due to Ground Lessor pursuant to any of the other provisions of this Ground Lease, pay out such award or awards in the following order of priority:

FIRST: In the event of condemnation, that portion of the award or awards which represents compensation for damage to the Improvements not taken, plus that portion of said award or awards which is equal to the value, immediately prior to such taking, of the Improvements which shall have been taken shall be paid to the Trustee and be applied by Ground Lessee to pay for the cost of repair and restoration required to be carried out by Ground Lessee pursuant to this Ground Lease, with any excess being applied as provided in the Indenture.

SECOND: The remainder, if any, of said award or awards shall be retained by Ground Lessor.

Notwithstanding the foregoing, from and after the Commencement Date of the Financing Lease and for so long as DSHS or another State agency is in occupancy of the Property under the Financing Lease, the provisions of Section 20 of the Financing Lease shall determine the distribution of any condemnation awards.

18. Assignment; Subletting.

A. **Prohibition.** Ground Lessee shall not assign this Ground Lease or any interest herein, nor shall this Ground Lease be assignable or transferable by operation of law or by the process or proceeding of any court, or otherwise, except a collateral assignment by Ground Lessee of its rights under this Ground Lease to the Trustee as security for the payment of the Bonds issued pursuant to the Indenture and secured by the Mortgage. "Assign" includes any transfer, whether voluntary or involuntary, of any interest in this Ground Lease and includes transfers to a trustee in bankruptcy, receiver, or assignee for the benefit of creditors.

For so long as DSHS or another State agency is in occupancy of the Property under the Financing Lease, Ground Lessee shall not sublet any of its interest in the Land or lease any of its fee interest in the Improvements (both of which shall be termed "sublet") without Ground Lessor's prior written consent, which consent may be withheld or denied by Ground Lessor in the sole exercise of its discretion. "Sublet" includes any license or permission to occupy the Property. No consent by Ground Lessor to one subletting shall be deemed or construed to relieve Ground Lessee from obtaining Ground Lessor's written consent to any further subletting.

Any attempted assignment, or any attempted subletting contrary to the provisions of this Section 18, shall be void and shall constitute an Event of Default by Ground Lessee under this Ground Lease.

No acceptance by Ground Lessor of Additional Rent, or any performance herein provided to be done or paid by Ground Lessee from any third person shall discharge Ground Lessee from liability to pay all Rent and other sums herein provided to be paid by Ground Lessee or from liability to perform any of the terms, covenants, and conditions of this Ground Lease, provided, however, that Ground Lessor shall not be entitled to receive payment from Ground Lessee for an item for which Ground Lessor has previously received payment from such third party.

B. Subleases. In the event there has been an Event of Default under the Financing Lease, the Financing Lease has terminated as a result of the occurrence of an event of non-appropriation or emergency reduction in funding pursuant to the provisions of Sections 36 and 37 of the Financing Lease, or DSHS has elected to terminate the Financing Lease pursuant to the provisions of Section 9.16 of the Financing Lease as result of the failure of the landlord thereunder to deliver possession of the Improvements to DSHS within the time period therein set forth, Ground Lessee shall have the right to sublease all or any portion of the Improvements under terms of a sublease agreement in form and substance reasonably acceptable to Ground Lessor and with the prior written consent of the Ground Lessor, which consent shall not be unreasonably withheld or delayed, if the following conditions have been met:

(i) Ground Lessee shall give first priority to State agencies to become subtenants.

(ii) Any non-State agency subtenant shall be of such character, reputation and financial condition and stability that Ground Lessor reasonably believes that such subtenant will be able to discharge the Ground Lessee's obligations under this Ground Lease and discharge any additional obligations imposed under its sublease.

(iii) The sublease shall contain terms and conditions, including among other terms, insurance and indemnification provisions comparable to those set forth in the Financing Lease and suitable environmental covenants to protect the Ground Lessor's reversionary interest in the Land and Improvements, in accordance with reasonable commercial standards prevailing in the market place for leases of facilities comparable to the Improvements in King County; provided, however, that no such sublease shall contain a right of first refusal, option to purchase all or any portion of the Property or any renewal extension beyond the term of this Ground Lease.

(iv) The term of any such sublease (inclusive of any rights to renew or options to extend) shall automatically expire upon payment or defeasance of all outstanding Bonds under the Indenture and shall also expire prior to or concurrently with the expiration of the term of this Ground Lease.

(v) If the Financing Lease has terminated because of the occurrence of an event of non-appropriation or emergency reduction in funding under Sections 36 and 37 of the Financing Lease, or following the occurrence of an Event of Default under the Financing Lease, this Ground Lease and any subleases shall automatically terminate upon payment or defeasance of all Bonds outstanding under the Indenture.

Once the Ground Lessor has approved any such sublease, Ground Lessee shall not modify any such sublease or permit cancellation or accept the surrender of any sublease without the prior written consent of Ground Lessor in each instance, which consent shall not be unreasonably withheld, provided that such consent shall not be required to the institution, prosecution or settlement of any action or proceeding against such subtenant by reason of a default on the part of such subtenant under the terms of such sublease. Such consent of Ground Lessor shall not be required to move any such subtenant to another part of the Improvements, provided that thereafter such subtenant shall be obligated to pay a rent which shall be no less than either the fair market rent of its new space or that payable by it for the vacated space.

Ground Lessee hereby assigns to Ground Lessor following any default by Ground Lessee hereunder and expiration of any applicable cure period and without the necessity of Ground Lessor taking possession of the Property, the right to collect from any or all subtenants all rents and other sums payable by them, and to apply the same to the payment of Rent and all other amounts payable by Ground Lessee hereunder, and Ground Lessor's expenses in collecting such rents and other sums, and so long as Ground Lessee is in default hereunder, to hold any balance to apply against the future Rent and other sums and future obligations to be paid or performed by Ground Lessee hereunder. No exercise by Ground Lessor of rights under this subparagraph shall be deemed a waiver by Ground Lessor of any other rights hereunder, an acceptance by Ground Lessor of such subtenant, an acquiescence by Ground Lessor to the occupancy of any part of the Property by such sublessee, or a release of Ground Lessee from the performance of any of its obligations hereunder.

19. **Injunction.** Ground Lessor, at Ground Lessor's option, in addition to any other rights reserved to Ground Lessor, may enforce by injunction any of the terms, covenants, conditions and agreements hereof.

20. **Default; Termination.**

A. **Events of Default.** The following constitute Events of Default under this Ground Lease:

(i) Any insurance premium that Ground Lessee is obligated to pay under this Ground Lease is not paid within ten (10) days after the date when due; or

(ii) Additional Rent or any other sum of money that Ground Lessee is obligated to pay under this Ground Lease is not paid within sixty (60) days after the date when due, unless such failure is the result of DSHS's failure to make any payment required of it as lessee under the Financing Lease; or

(iii) Ground Lessee assigns, sublets, mortgages or encumbers this Ground Lease, or the Property, other than as expressly permitted hereunder, or if this Ground Lease shall be transferred to any person or entity except in the manner permitted hereunder; or

(iv) Ground Lessee defaults in the performance or observance of any of the other terms, covenants, conditions or agreements of this Ground Lease for sixty (60) days after written notice and demand, or if such default shall be of such a nature that the same cannot practicably be cured within such sixty (60) day period and Ground Lessee shall not within said

sixty (60) day period commence with due diligence and dispatch the curing and performance of such defaulted term, covenant, condition or agreement, or if Ground Lessee shall within said sixty (60) day period commence with due diligence and dispatch to cure and perform such defaulted term, covenant, condition or agreement and shall thereafter fail or neglect to prosecute and complete with due diligence and dispatch the curing and performance of such defaulted term, covenant, condition or agreement; or

(v) Ground Lessee shall file a voluntary petition in bankruptcy or shall be adjudicated a bankrupt or insolvent or shall file any petition or answer seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under the present or any future federal bankruptcy code or any other present or future applicable federal, state or other statute or law, or shall seek or consent to or acquiesce in the appointment of any trustee, receiver or liquidator of Ground Lessee or of all or any substantial part of its properties or of the Property, or within sixty (60) days after the commencement of any proceeding against Ground Lessee seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under the present or any future federal bankruptcy act or any other present or future applicable federal, state or other statute or law, such proceedings shall not have been dismissed.

B. **Remedies.** If an Event of Default occurs, Ground Lessor may elect, in addition to any other rights or remedies it may have:

(i) To continue this Ground Lease in effect until Ground Lessor elects to terminate Ground Lessee's right to possession, and Ground Lessee shall remain liable to perform all of its obligations under this Ground Lease and Ground Lessor may enforce all of Ground Lessor's rights and remedies, including the right to recover Additional Rent and any other sum payable hereunder as and when the same fall due. If Ground Lessee fails to manage, maintain and protect the same as herein provided, Ground Lessor shall have the right to do all things necessary or appropriate to manage, maintain, preserve and protect the Property, including the installation of keepers or guards, the appointment of a receiver, or the retention of a property manager, and may do all things appropriate to a subletting of the Property for the account of Ground Lessee, including the posting of signs, and none of said acts shall be deemed to terminate Ground Lessee's right of possession, unless and until Ground Lessor elects to terminate the same by written notice to Ground Lessee. Ground Lessee agrees to reimburse Ground Lessor on demand for all amounts reasonably expended by Ground Lessor in managing, maintaining, preserving and protecting the Property, including reasonable attorney's fees and costs, together with interest on the amounts expended at the default rate set forth in this Section 20. Ground Lessor shall also have the right to renovate, remodel and repair the Property as reasonably necessary at the reasonable expense of Ground Lessee and as deemed necessary by Ground Lessor;

(ii) To terminate Ground Lessee's possession of the Property. If Ground Lessee's right to possession of the Property is terminated by Ground Lessor by reason of a breach of this Ground Lease by Ground Lessee, then this Ground Lease shall terminate. Upon such termination, Ground Lessor may recover from the Ground Lessee:

(a) The worth at the time of award of unpaid Additional Rent earned at the time of termination.

(b) Any other amount incurred by Ground Lessor as a result of Ground Lessee's failure to perform its obligations under this Ground Lease.

In the event Ground Lessor elects to continue this Ground Lease in effect pursuant to subparagraph 20(B)(i) above: (1) Ground Lessor shall make reasonable efforts to relet the Property or any part thereof, either in the name of Ground Lessor or otherwise; (2) Ground Lessee's liability to Ground Lessor shall also include such reasonable expenses as Ground Lessor may incur in connection with reletting, including without limitation attorneys' fees, brokerage commissions and expenses incurred in altering, repairing and putting the Property in good order and condition and in preparing the same for reletting, which in Ground Lessor's reasonable judgment, are advisable and necessary for the purpose of reletting the Property. Such expenses shall be paid by Ground Lessee as they are incurred by Ground Lessor. The making of such alterations or repairs shall not operate or be construed to release Ground Lessee from liability hereunder.

(iii) Bring an action for specific performance of Ground Lessee's obligations under this Ground Lease, or

(iv) Bring an action to recover all damages incurred by Ground Lessor as a result of Ground Lessee's breach.

(v) Notwithstanding any other provision hereof, so long as DSHS is in possession of the Property, there is no default by Ground Lessee or DSHS under the Financing Lease, and the Financing Lease remains in full force and effect, Ground Lessor will not terminate this Ground Lease.

C. Non-Waiver After Default. No receipt of moneys by Ground Lessor from Ground Lessee after a termination of this Ground Lease by Ground Lessor shall reinstate, continue or extend the term of this Ground Lease or affect any notice previously given to Ground Lessee, or operate as a waiver of the right of Ground Lessor to enforce the payment of Rent then or thereafter due. Ground Lessor shall receive as Ground Lessor's sole and absolute property, without duty to account therefor to Ground Lessee, any and all sums collected by Ground Lessor as rent or otherwise upon reletting the Property.

D. Payments of Money; Interest. All amounts that Ground Lessee is obligated to pay pursuant to this Ground Lease shall be deemed Rent, and in the event of the nonpayment by Ground Lessee of any sum of money whatsoever that Ground Lessee from time to time is obligated to pay to Ground Lessor under any provision of this Ground Lease, Ground Lessor shall have the same rights and remedies by reason of such nonpayment as if Ground Lessee had failed to pay an installment of Rent hereunder. Whenever Ground Lessee shall be obligated to make any payment of any sum of money whatsoever hereunder, interest shall accrue thereon and be payable hereunder at the rate of twelve percent (12%) per annum, computed from the date such payment first became due hereunder.

21. Bankruptcy.

A. Assumption of Ground Lease, Financing Lease and Development Agreement. If Ground Lessee becomes a Debtor under Chapter 7 of the Bankruptcy Code or a petition for reorganization or adjustment of debts is filed concerning Ground Lessee under Chapter 11 of the Bankruptcy Code, or a proceeding is filed under Chapter 7 of the Bankruptcy Code and is transferred to Chapter 11 of the Bankruptcy Code, the Bankruptcy Trustee or Ground Lessee, as Debtor and as Debtor-In-Possession, may not elect to assume this Ground Lease unless, (a) if such Bankruptcy filing occurs prior to Final Acceptance, the Bankruptcy Trustee or Ground Lessee also assumes the Development Agreement and the Financing Lease, and (b) at the time of such assumption, the Bankruptcy Trustee or Ground Lessee has cured all defaults under the Ground Lease and the Financing Lease and paid all sums due and owing under the Ground Lease and the Financing Lease (and the Development Agreement if Final Acceptance has not yet occurred) or provided Ground Lessor with “adequate assurance” (as described in Bankruptcy Code Section 365(a)) that: (i) the Bankruptcy Trustee or Ground Lessee will promptly pay all sums then due and owing under this Ground Lease and the Financing Lease (and the Development Agreement if Final Acceptance has not yet occurred) and compensate Ground Lessor for any actual pecuniary loss resulting from any existing default or breach of this Ground Lease and the Financing Lease (and the Development Agreement, if Final Acceptance has not yet occurred) including without limitation, Ground Lessor’s reasonable costs, expenses, accrued interest, and attorneys’ fees incurred as a result of the default or breach; and (ii) the Bankruptcy Trustee or Ground Lessee will promptly cure all non-monetary defaults and breaches under this Ground Lease and the Financing Lease (and the Development Agreement if Final Acceptance has not yet occurred).

B. Assignment of Ground Lease, Financing Lease and the Development Agreement. If the Bankruptcy Trustee or Ground Lessee has assumed the Ground Lease and the Financing Lease (and the Development Agreement if Final Acceptance has not yet occurred) pursuant to the provisions of this Section 21, for the purpose of assigning Ground Lessee’s interest hereunder to any other person or entity, such interest may be assigned only after the Bankruptcy Trustee, Ground Lessee or the proposed assignee have complied with all of the terms, covenants and conditions of this Ground Lease and the Financing Lease (and the Development Agreement if Final Acceptance has not yet occurred), including, without limitation, those with respect to use set forth in Section 12 hereof and construction of the Improvements in accordance with the provisions set forth in the Development Agreement. Ground Lessor and Ground Lessee acknowledge that such terms, covenants and conditions are commercially reasonable in the context of a bankruptcy proceeding of Ground Lessee. Any person or entity to which this Ground Lease, the Financing Lease and the Development Agreement is assigned pursuant to the provisions of the Bankruptcy Code shall be deemed without further act or deed to have assumed all of the obligations of Ground Lessee arising under this Ground Lease and the Financing Lease (and the Development Agreement if Final Acceptance has not yet occurred) on and after the date of such assignment. Any such assignee shall upon request execute and deliver to Ground Lessor an instrument confirming such assignment.

22. **Quiet Enjoyment.** Ground Lessor agrees that so long as Ground Lessee is not in default hereunder, Ground Lessee's quiet enjoyment of the Property shall not be disturbed by any act of Ground Lessor.

23. **Present Condition of Land.** Ground Lessee has had an opportunity to and has conducted a thorough investigation of the Land and is in all material respects, knowledgeable and familiar with the present condition and state of the Land. The Land is leased to Ground Lessee in its present condition and state of repair, subject to (a) all existing conditions of title and (b) all applicable Requirements of Law now or hereafter in effect. Ground Lessee acknowledges that the Land and structures adjoining the same, subsurface conditions, infrastructure, or lack thereof and the present tenancies, uses and non-uses thereof, are acceptable to Ground Lessee and that, subject to the provisions of Section 24 below, Ground Lessee accepts the same, without recourse to Ground Lessor, in the condition or state in which they or any of them now are, without representation or warranty by Ground Lessor, express or implied in fact or by law, as to the nature, condition or usability thereof or as to the use or uses to which the Land or any part thereof may be put or as to the prospective income from, or expense of operation of, the Land.

24. **Hazardous Substances.**

A. **Use.** Ground Lessee, its officers, directors, agents, employees or contractors shall not use the Property in a manner that violates any applicable federal, state or local law, regulation or ordinance, including, but not limited to, any such law, regulation or ordinance pertaining to air and water quality, the handling, transportation, storage, treatment, usage or disposal of Toxic or Hazardous Substances, air emissions, other environmental matters, and all zoning and other land use matters. Ground Lessee shall not cause or permit the release or disposal of any Toxic or Hazardous Substances on or from the Property. In the event DSHS or another State agency is not in occupancy of the Property under the Financing Lease, Ground Lessee shall obtain prior written approval from Ground Lessor before causing or permitting Toxic or Hazardous Substances to be brought upon, kept or used in or about the Property by Ground Lessee, its agents, employees, contractors or invitees.

B. **Indemnity.** Ground Lessee agrees to protect, indemnify, defend (with counsel satisfactory to Ground Lessor) and hold Ground Lessor in its capacity as ground lessor under this Ground Lease and its officials, officers, employees and agents, harmless from any claims, judgments, damages, penalties, fines, expenses, liabilities or losses arising after the Effective Date of this Ground Lease and arising out of or relating to the presence, release or disposal of Toxic or Hazardous Substances placed or released on the Property during the term of this Ground Lease, provided that so long as DSHS or another State agency is in occupancy of the Property under the Financing Lease this indemnification shall apply only to Toxic or Hazardous Substances placed or released on the Property during the term of this Ground Lease by Ground Lessee, Developer, Contractors or any of their respective agents, employees, contractors, subcontractors or invitees.

The indemnification provided by this Section shall also specifically cover, without limitation, costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal or restoration work required by any federal, state or local governmental agency or political subdivision or other third party because of the presence or suspected presence

of Toxic or Hazardous Substances in the soil, groundwater, or soil vapor on or under the Property. Such costs may include, but not be limited to, diminution in the value of the Property, damages for the loss or restriction on use of rentable or useable space or of any amenity of the Property, sums paid in settlements of claims, attorney's fees, consultant's fees and expert fees. Notwithstanding the foregoing, in no event shall Ground Lessee be obligated to indemnify Ground Lessor under this Ground Lease, from any such claims, judgments, damages, penalties, fines, expenses, liabilities or losses relating to the presence, release or disposal of Toxic or Hazardous Substances that were present in the soil, groundwater or soil vapor on or under the Property or any adjacent or nearby property as of the Effective Date of this Ground Lease ("Pre-Existing Hazardous Substances").

C. Obligations of Ground Lessor. Ground Lessor shall be solely responsible for all claims, judgments, damages, penalties, fines, expenses, liabilities or losses relating to the presence, release or disposal of Pre-Existing Hazardous Substances, including without limitation costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal or restoration work required by any federal, state or local governmental agency or political subdivision or other third party because of the presence or suspected presence of Pre-Existing Hazardous Substances. Such costs may include, but not be limited to, sums paid in settlements of claims, attorney's fees, consultant's fees and expert fees.

D. Remediation of Pre-Existing Hazardous Substances. If Developer discovers during or following the demolition of existing improvements on the Land that Pre-Existing Hazardous Substances exist in the soil or in the ground water at or originating from the Land, the Ground Lessee shall cause the Developer to promptly notify Ground Lessee, Ground Lessor and DSHS, of its discovery of Pre-Existing Hazardous Substances. The Ground Lessee shall require the Developer to cause such Pre-Existing Hazardous Substances to be remediated to the applicable cleanup standards under applicable Environmental Laws in light of Ground Lessee's intended lease of the Land to DSHS for a nursing and laundry facility and shall be reimbursed by Ground Lessee for its actual, necessary, and reasonable cost (with due consideration for the time constraints that may be involved) of performing the Remedial Work (defined below) (the "Environmental Remedial Costs") in accordance with the following procedures:

(i) As used in this Ground Lease, the term "Remedial Work" means all activities performed in connection with the assessment, cleanup, removal, mitigation, monitoring or containment of the Pre-Existing Hazardous Substances to meet the requirements of applicable Environmental Laws relating to the cleanup or remediation of Hazardous Substances in light of the reasonable intended use of the Land at the time the Remedial Work commences. The term Remedial Work also includes all negotiations with any governmental agency or its employees or consultants relating to the performance of Remedial Work in connection with such Pre-Existing Hazardous Substances, the reasonable fees and expenses of Developer and its agents, Contractors and consultants and any fines or penalties assessed against Developer in connection therewith. Developer shall not be entitled to reimbursement from Ground Lessee for any Remedial Work or any portion thereof caused by or resulting from the negligence of Developer, its agents, employees or Contractors, its failure to perform the Remedial Work in substantial accordance with the Remedial Work Notice or applicable Environmental Laws or from any Hazardous Substances placed on the Land after the Effective Date.

(ii) Prior to commencement of Remedial Work, the Development Agreement shall provide that the Developer notify Ground Lessee, Ground Lessor and DSHS of its intent to cause performance of any material Remedial Work (the "Remedial Work Notice"). The Remedial Work Notice shall indicate the location, nature and likely source of the Pre-Existing Hazardous Substances requiring Remedial Work, the scope of the Remedial Work, and the estimated cost of the Remedial Work. Developer shall permit Ground Lessor, Ground Lessee, DSHS and their respective agents, consultants and contractors prompt and reasonable access to the Land to confirm that the Remedial Work is required. Ground Lessee, Ground Lessor and DSHS shall have twenty-four (24) hours to review the Remedial Work Notice and to inspect the Land, and to advise Developer of any objections to performance of the Remedial Work Notice if acting reasonable, they determine that the Remedial Work Notice does not comply with applicable Environmental Laws or that Hazardous Substances are not Pre-Existing Hazardous Substances.

(iii) If Developer has not received an objection to performance of the Remedial Work Notice within the time period set forth above, the Development Agreement shall provide that the Developer shall cause the Remedial Work to be performed in accordance with the Remedial Work Notice and all applicable Laws and the Remedial Work Notice shall be deemed to be a change order under the Development Agreement. Upon completion of the Remedial Work, the Development Agreement shall provide that the Developer provide Ground Lessee, Ground Lessor and DSHS with evidence that the Remedial Work has been performed in accordance with the Remedial Work Notice and applicable Laws, together with an accounting of the costs for the Remedial Work. Ground Lessor shall pay Ground Lessee the Environmental Remedial Costs to be reimbursed to Developer within ninety (90) days thereafter, together with interest thereon at the rate of one percent (1%) per month until paid if the amount of such Environmental Remedial Costs have not been reimbursed in full within thirty (30) days following receipt of an itemization of the Environmental Remedial Costs.

(iv) Notwithstanding the provisions of Section 24(D)(i) through (iii) above, Developer and/or Ground Lessee may, without notice to Ground Lessor, cause Remedial Work to be done if the Remedial Work is necessary to prevent an immediate and substantial endangerment to the environment or the public health, safety and welfare or will cost less than Fifty Thousand Dollars (\$50,000). In such event, Developer and/or Ground Lessee shall notify Ground Lessor as soon as possible after it learns of the presence of the Pre-Existing Hazardous Substances. Ground Lessee shall be reimbursed for the cost of such Remedial Work in accordance with Section 24(D)(iii) above.

(v) If Ground Lessor notifies Ground Lessee within the time period set forth in Section 24D(ii) above that it disputes the existence of Pre-Existing Hazardous Substances, the performance of the Remedial Work or the Environmental Remedial Costs, Ground Lessee shall cause such dispute to be resolved using the dispute resolution process described in Section 24 of the Development Agreement and then, if necessary, litigation. Failure to reach agreement on the Environmental Remedial Costs shall not relieve Developer from its duties and obligations under the Development Agreement.

E. Notification Requirements. Ground Lessee shall promptly notify Ground Lessor, in writing of all spills or releases of any Toxic or Hazardous Substances, all

failures to comply, with any federal, state, or local law, regulation or ordinance, all inspections of the Property by any regulatory entity concerning the same, all notices, orders, fines or communications of any kind from any governmental entity or third party that relate to the existence of or potential for environmental pollution of any kind existing on or resulting from the use of the Property or any activity conducted thereon, and all responses or interim cleanup action taken by or proposed to be taken by any government entity or private party on the Property.

Upon request by Ground Lessor, Ground Lessee shall provide Ground Lessor with a written report (a) listing the Toxic or Hazardous Substances that were used or stored on the Property; (b) discussing all releases of Toxic or Hazardous Substances that occurred or were discovered on the Property and all compliance activities related to Toxic or Hazardous Substances, including all contacts with and all requests from third parties for cleanup or compliance; (c) providing copies of all permits, manifests, business plans, consent agreements or other contracts relating to Toxic or Hazardous Substances executed or requested during that time period; and (d) including such other information requested by Ground Lessor. The report shall include copies of all documents and correspondence related to such activities and written reports of verbal contacts.

F. Inspection Rights. Ground Lessor, its officers, employees and agents, shall have the right, but not the duty, to inspect the Property and Ground Lessee's relevant environmental and land use documents at any time and to perform such tests on the Property as are reasonably necessary to determine whether Ground Lessee is complying with the terms of this Ground Lease. If Ground Lessee is not in compliance with this Ground Lease, Ground Lessor, without waiving or releasing any right or remedy it may have with respect to such noncompliance, shall have the right to immediately enter upon the Property to remedy any contamination caused by Ground Lessee's failure to comply notwithstanding any other provision of this Ground Lease. Ground Lessor shall use reasonable efforts to minimize interference with Ground Lessee's business but shall not be liable for any interference caused thereby.

G. Corrective Action. After the Commencement Date of the Financing Lease (as therein defined), but only if DSHS or another State agency is no longer in occupancy of the Property under the Financing Lease, in the event any Remedial Work of any kind is necessary under any applicable federal, state or local laws, regulations or ordinances, or is required by any governmental entity or other third person because of or in connection with the presence or suspected presence of Toxic or Hazardous Substances on or under the Property, Ground Lessee shall assume responsibility for all such Remedial Work and shall promptly commence and thereafter diligently prosecute to completion all such Remedial Work, unless the Toxic or Hazardous Substances are present solely as a result of the actions of Ground Lessor, or its officials, officers, employees or agents. Ground Lessee shall pay for all costs and expenses of such Remedial Work, including, without limitation, Ground Lessor's reasonable attorneys' fees and costs incurred in connection with monitoring or review of such Remedial Work. In the event Ground Lessee shall fail to timely commence, or cause to be commenced, or fail to diligently prosecute to completion, such Remedial Work, Ground Lessor may, but shall not be required to, cause such Remedial Work to be performed and all costs and expenses thereof, or incurred in connection therewith, shall become immediately due and payable as Additional Rent due to the Ground Lessor from the Ground Lessee.

25. **Time of the Essence.** The parties agree that time is of the essence in the performance of every covenant, term, condition, and obligation to be performed hereunder.

26. **Ground Lessor's Right of Entry.** Ground Lessor and its authorized agents and representatives shall have the right to enter the Property at all reasonable times for the purpose of (a) inspecting the same and (b) making any necessary repairs thereto and performing any other work therein or thereon that may be necessary by reason of Ground Lessee's failure to make any such repairs or perform any such other work therein or thereon or to commence the same within thirty (30) days after written notice from Ground Lessor. Nothing herein shall imply any duty upon the part of Ground Lessor to do any such work and performance thereof by Ground Lessor shall not constitute a waiver of Ground Lessee's default in failing to perform the same. Ground Lessor shall not be liable for inconvenience, annoyance, disturbance, loss of business or other damage of Ground Lessee by reason of making such repairs or the performance of any such work, or on account of bringing materials, tools, supplies or equipment into or through the Property during the course thereof and the obligations of Ground Lessee under this Ground Lease shall not be affected thereby.

27. **Notices.** Any notices or other communication which Ground Lessor or Ground Lessee shall desire or be required to give pursuant to the provisions of this Ground Lease shall be in writing and shall be personally delivered or sent by regular mail and registered or certified mail or by email transmission. The giving of such Notices shall be deemed complete on the third (3rd) business day after the same is deposited in a United States Post Office with postage charges prepaid or on the date when delivered or sent via email transmission during business hours to the email address listed below. All notices shall be addressed to the persons intended to be given such notice at the respective addresses set forth below or to such other address as such party may theretofore have designated by notice pursuant to this Article:

Address of Ground Lessor:

Department of Social and Health Services, State of Washington
PO Box 45848
Olympia, WA 98504
Attention: Larry Covey, Director-Office of Capital Programs
Email: Larry.Covey@dshs.wa.gov
Telephone: 360-628-6662

with a copy to:

Department of Social and Health Services, State of Washington
PO Box 45848
Olympia, WA 98504
Attention: Jeanne Rodriguez, Management Analyst
Office of Capital Programs
Email: Jeanne.Rodriguez@dshs.wa.gov
Telephone: 360-791-6862

Address of Ground Lessee:

Fircrest Properties
c/o Public Facilities Group
1700 Seventh Avenue
Suite 2100, PMB 552
Seattle WA 98101
Attn: John Finke
Email: johnfinke@publicfacilitiesgroup.org
Telephone: 206-618-8864

with a copy to:

Hillis Clark Martin & Peterson PS
999 Third Avenue, Suite 4600
Seattle, WA 98104
Attention: Matthew W. Markovich
Email: matt.markovich@hcmp.com
Telephone: 206-470-7629

Any party may change the address to which notices shall be sent by notice to the other party in the manner and with the effect set forth in this Section 27.

28. **Estoppel Certificates.** Each party hereto agrees that during the term of this Ground Lease, within fifteen (15) days after request by the other party hereto, it will execute, acknowledge and deliver to such other party or to any prospective assignee designated by such other party, a certificate stating (a) that this Ground Lease is unmodified and in force and effect (or, if this Ground Lease has been modified, that it is in force and effect as modified, and identifying the modification agreements); (b) the date to which Rent has been paid; (c) whether or not there is any existing default by Ground Lessee in the payment of any Rent or other sum of money hereunder, and whether or not there is any other existing default by either party hereto with respect to which a notice of default has been served, and, if there is any such default, specifying the nature and extent thereof; and (d) whether or not there are any setoffs, defenses or counterclaims against enforcement of the obligations to be performed hereunder existing in favor of the party requesting such certificate.

29. **Rights Cumulative.** All the rights and remedies of Ground Lessor under this Ground Lease or pursuant to present or future law shall be deemed to be cumulative.

30. **Non-Waiver.** No waiver of any breach by Ground Lessee of any term, covenant, condition or agreement herein and no failure by either party to exercise any right or remedy in respect to any breach hereunder, shall constitute a waiver or relinquishment for the future of any such term, covenant, condition or agreement or of any subsequent breach of any such term, covenant, condition or agreement, nor bar any right or remedy of such party in respect of any such subsequent breach, nor shall the receipt of any Rent, or any portion thereof by Ground Lessor operate as an accord and satisfaction or a waiver of the rights of Ground Lessor to enforce

the payment of any other Rent then or thereafter in default, or to terminate this Ground Lease, or, to recover possession of the Property or to invoke any other appropriate remedy which Ground Lessor may select as herein or by law provided. No waiver of any term, covenant, condition, provision or agreement under this Ground Lease shall be deemed to have been made unless in writing and signed by such party.

31. **Surrender.** Ground Lessee shall, on the last day of the term of this Ground Lease or upon any earlier termination of this Ground Lease, surrender and deliver up the Land and the Improvements and the appurtenances thereto, into the possession of the State, in good order, condition and repair, free and clear of all lettings and occupancies, and free and clear of all liens and encumbrances other than those existing on the date of this Ground Lease and those, if any, created by Ground Lessor, without any payment or allowance whatsoever by Ground Lessor on account of or for the Improvements erected or maintained on the Land, or for the contents thereof or appurtenances thereto. Ground Lessee shall execute, acknowledge and deliver to Ground Lessor such instruments of further assurance as in the opinion of Ground Lessor are necessary or desirable to confirm or perfect the State's right, title and interest in and to all of the above-described property. The provisions of this Section 31 shall survive the expiration or termination of this Ground Lease.

32. **Governing Law; Invalidity; Construction.** This Ground Lease shall be governed by the laws of the State of Washington. In the event any action is brought to enforce the provisions of this Ground Lease, the venue of any such action shall be Thurston County, Washington, and the parties hereto hereby stipulate to the jurisdiction and venue of the Superior Court for Thurston County, Washington. Each agreement, term, and provision of this Ground Lease to be performed by Ground Lessee or Ground Lessor shall be construed to be both a covenant and a condition. Each party will carry out its obligations under this Ground Lease diligently and in good faith.

Section captions contained in this Ground Lease are included for convenience of reference only and form no part of the agreement between the parties. As used in this Ground Lease, the masculine shall include the feminine and neuter, the feminine shall include the masculine and neuter, the neuter shall include all genders, the singular shall include the plural and the plural shall include the singular, as the context may require. This Ground Lease may be executed in counterparts, each of which constitutes an original and all of which shall constitute but one original.

If any provision of this Ground Lease or the application thereof to any person or circumstance shall to any extent be invalid or unenforceable, the remainder of this Ground Lease, or the application of such provision to persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each provision of this Ground Lease shall be valid and be enforced to the fullest extent permitted by law.

The provisions of this Ground Lease shall be construed as a whole according to their common meaning and not strictly for or against any party and consistent with the provisions contained herein in order to achieve the objectives and purposes of this Ground Lease. Each party hereto and its counsel has reviewed and revised this Ground Lease and agrees that the

normal rules of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be construed in the interpretation of this Ground Lease.

33. **Amendments or Modifications of this Ground Lease.** Subject to the limitations and conditions set forth in the Indenture, Ground Lessor and Ground Lessee may execute such amendments or modifications to this Ground Lease as they may deem necessary or desirable from time to time and at any time without the consent of the owners of any Bonds or the Trustee. Ground Lessor and Ground Lessee agree to negotiate in good faith any amendments to this Ground Lease that may be requested or required in connection with the issuance of the Bonds.

34. **Nature of Relationship.** The relationship between the Ground Lessor and Ground Lessee under this Ground Lease shall be solely that of landlord and tenant of real property. It is not intended by this Ground Lease to, and nothing contained in this Ground Lease shall, create any partnership, joint venture or other arrangement between Ground Lessee and Ground Lessor. No term or provision of this Ground Lease is intended to be, or shall be, for the benefit of any person, firm, organization or corporation nor shall any other person, firm, organization or corporation have any right or cause of action hereunder.

35. **Entire Agreement.** This Ground Lease, any exhibits or attachments hereto and forming a part hereof, the Development Agreement and the Financing Lease set forth the entire agreement of Ground Lessee and Ground Lessor concerning the Property, and there are no other agreements or understandings, oral or written, between Ground Lessee and Ground Lessor. Any subsequent modification of this Ground Lease shall be binding upon Ground Lessee and Ground Lessor only if reduced to writing and signed by the party intended to be bound.

36. **No Merger.** In no event shall the leasehold interest of Ground Lessee hereunder merge with any estate of Ground Lessor in or to the Land or the leasehold interest of DSHS under the Financing Lease. In the event Ground Lessor acquires the leasehold interest of Ground Lessee, so long as Bonds are outstanding under the Indenture, such leasehold interest shall not merge with Ground Lessor's fee interest in the Land or the leasehold interest of DSHS under the Financing Lease, and this Ground Lease and the Financing Lease shall remain in full force and effect.

37. **No Brokers.** Ground Lessor and Ground Lessee each represent to the other that neither is represented by any broker, agent or finder with respect to this Ground Lease in any manner. Each party agrees to be responsible for its own act and/or omissions and those of its officers, employees and agents, including liability, costs, damages, causes of action or other proceedings instituted by any broker, agent or finder, licensed or otherwise, claiming through, under or by reason of the conduct of the party in any manner whatsoever in connection with this Ground Lease, which obligation shall survive the expiration or earlier termination of this Ground Lease.

38. **Registration; Recording of Memorandum.** Ground Lessee agrees to maintain books setting forth complete records of any and all transfers and assignments of any interests in this Ground Lease. Neither Ground Lessor nor Ground Lessee shall record this Ground Lease without the written consent of the other; provided, however, that at Closing a Memorandum of this Ground Lease shall be recorded in the form attached in Exhibit "B".

39. **Covenants to Run with the Land; Bind and Inure.** The terms, covenants, agreements and conditions herein contained are and shall be deemed to be covenants running with the land and the estate created by this Ground Lease and, subject to the provisions of Section 18 hereof, shall bind and inure to the benefit of the parties hereto and their respective successors and permitted assigns. If Ground Lessee shall at any time include more than one person or entity, the obligations hereunder of all such persons and/or entities shall be joint and several.

[Signature pages follow]

IN WITNESS WHEREOF, the parties have executed this Ground Lease as of the day and year first above written.

FIRCREST PROPERTIES, a Washington non-profit corporation

STATE OF WASHINGTON, acting through the Department of Social and Health Services

By: _____
Title: _____
Date: _____

By: _____
Title: _____
Date: _____

APPROVED AS TO FORM:

By: _____
Title: _____
Date: _____

On this ____ day of _____, 2024 before me personally appeared John Finke and said person acknowledged that he signed this instrument, and on oath stated that he was authorized to execute the instrument and acknowledged it as the President of FIRCREST PROPERTIES, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

[illegible]

Notary Public
Print Name _____
My commission expires _____

On this ____ day of _____, 2024, before me personally appeared _____, _____, Department of Social and Health Services, State of Washington, to me known to be the individual described in and who executed the within instrument, and acknowledged that ____ signed and sealed the same as the free and voluntary act and deed of the Department of Social and Health Services, State of Washington, for the purposes and uses therein mentioned, and on oath stated that ____ was duly authorized to execute said document.

[illegible]

Notary Public
Print Name _____
My commission expires _____

EXHIBIT A

Legal Description of Land

EXHIBIT B

MEMORANDUM OF LEASE

*RECORDING REQUESTED BY AND
WHEN RECORDED RETURN TO:*

K&L GATES LLP.
925 Fourth Avenue, Suite 2900
Seattle, WA 98104-1158
Attn: Cynthia M. Weed

MEMORANDUM OF LEASE

GRANTOR: STATE OF WASHINGTON,
Acting Through the Department of Social and Health Services

GRANTEE: FIRCREST PROPERTIES

Legal Description:

Abbreviated form:

Additional legal on page Exhibit A of document

Assessor's Tax Parcel ID No(s):

Reference number(s) of Related Document(s):

(Additional on page ____ of document)

MEMORANDUM OF LEASE

THIS MEMORANDUM OF LEASE (the “Memorandum”) is executed this ____ day of ____, 2024 by and between the STATE OF WASHINGTON, acting through the Department of Social and Health Services (“Landlord”) and FIRCREST PROPERTIES, a Washington nonprofit corporation (“Tenant”).

1. Lease. Landlord has leased the real property described in Exhibit A attached hereto and by this reference incorporated herein (the “Premises”) to Tenant at a rent and on the terms and conditions set forth in that certain Ground Lease dated ____, 2024 by and between Landlord and Tenant (the “Ground Lease”). The Ground Lease is for a term of thirty (30) years commencing ____, 2024 and shall expire ____, 2054 unless sooner terminated pursuant to the terms of the Ground Lease.

2. Definition of Terms. All capitalized terms not otherwise defined herein shall have the same meaning as set forth in the Ground Lease.

3. Purpose of Memorandum. This Memorandum is prepared for purposes of recordation only and does not set forth all of the terms and conditions set forth in the Ground Lease. In the event there is any conflict between the terms and conditions of the Ground Lease and this Memorandum, the Ground Lease shall control.

DATED this ____ day of ____, 2024.

APPROVED AS TO FORM:

LANDLORD:

STATE OF WASHINGTON,
Acting through the Department of Social and
Health Services

By _____
Name: _____
Title: Assistant Attorney General
Date: _____

By _____
Name: _____
Title: _____

TENANT:

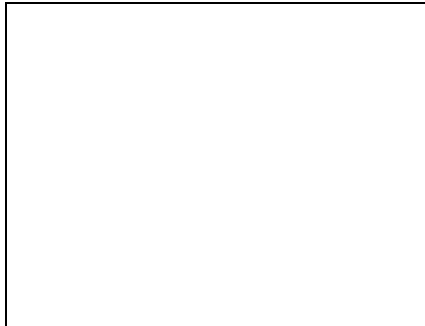
FIRCREST PROPERTIES,
a Washington nonprofit corporation

By _____
Name: John Finke
Title: President

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

I certify that I know or have satisfactory evidence that John Finke is the person who appeared before me, and said person acknowledged that he signed this instrument, on oath stated that he was authorized to execute the instrument and acknowledged it as the President of FIRCREST PROPERTIES, a Washington nonprofit corporation, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Given Under My Hand and Official Seal this _____ day of _____, 2024.



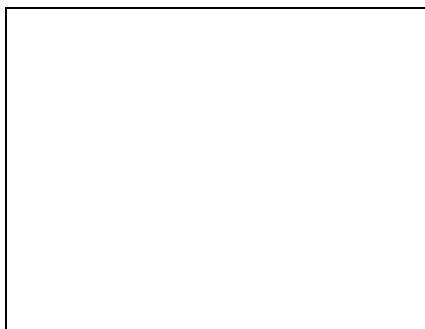
(Use this space for notarial stamp/seal)

Notary Public
Print Name _____
My commission expires _____

STATE OF WASHINGTON)
) ss.
COUNTY OF THURSTON)

I certify that I know or have satisfactory evidence that _____ is the person who appeared before me, and said person acknowledged that [he/she] signed this instrument, on oath stated that [he/she] was authorized to execute the instrument and acknowledged it as the _____ of the DEPARTMENT OF SOCIAL AND HEALTH SERVICES, STATE OF WASHINGTON, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Given Under My Hand and Official Seal this _____ day of _____, 2024.



(Use this space for notarial stamp/seal)

Notary Public
Print Name _____
My commission expires _____

EXHIBIT A

- SECTION 3 -

State Finance Committee

June 13, 2024, Meeting



State of Washington
STATE FINANCE COMMITTEE

MIKE PELLICCIOTTI, Chair
State Treasurer
JAY R. INSLEE
Governor
DENNY HECK
Lieutenant Governor

June 13, 2024

MEMORANDUM

TO: The Honorable Mike Pellicciotti
The Honorable Jay R. Inslee
The Honorable Denny Heck

FROM: Jason P. Richter, Deputy State Treasurer and Secretary, State Finance Committee

RE: **Bond Sales and Market Update**

Sales Update

Since the last State Finance Committee meeting on February 20, 2024, the state sold one series of refunding bonds and one series of COPs.

Bond sales since February 20, 2024

March 26, 2024 -- Bond Sale

Series Name	Series	Par Amount	Delivery Date	Final Maturity	Avg. Life (yrs)	TIC*
MVFT & VRF GO Refunding Bonds, R-2024C	R-2024C	\$ 1,092,550,000	4/1/2024	8/1/2040	9.193	3.23%

COP sales since February 20, 2024

June 5, 2024 -- COP Sale

Series Name	Series	Par Amount	Delivery Date	Final Maturity	Avg. Life (yrs)	TIC*
State of WA COP, LP_2024B	LP_2024B	\$ 39,365,000	6/25/2024	7/1/2044	5.76	3.47%

Refunding Savings

The March 26, 2024, refunding was executed to refinance the state's outstanding Build America Bonds (BABs). The sale resulted in approximately \$22.8 million in total debt service savings, or \$18.8 million on a net present value basis.

In 2009 and 2010, Washington issued two series of BABs to take advantage of the direct federal subsidy equal to 35% of the interest due on the bonds. Starting in 2013, the subsidy was reduced due to federal sequestration and continued to be reduced every year since by various rates. Through 2024, the reduced subsidy payments totaled \$18.7 million and were anticipated to be further reduced by \$30.4 million through the final maturity of the bonds in 2041. The Treasurer's office refunded all the state's BABs to produce positive savings and to eliminate the risk of future subsidy sequestration or the full termination of the BABs program.

Future Issuances

The state plans to sell new money and refunding bonds on June 25, 2024. The next COP issuance is anticipated to be in the fall of 2024, followed by new money bonds to be sold in early 2025. The size and timing of these issuances will be primarily dependent upon the number and size of state and local financing contracts, and the state's capital budget and transportation budget cash-flow needs.

Future Refinancings

The Office of the State Treasurer actively monitors the state's debt portfolio for refinancing opportunities. The following table shows the outstanding bonds that are callable over the 2023-25 and 2025-27 Biennia.

Fiscal Year	Refundable Par
2024	\$ 437,405,000
2025	2,142,500,000
2026	1,765,060,000
2027	1,462,050,000
	<hr/>
	\$ 5,807,015,000

Market Update

Inflation continues to remain above the Fed's target rate, and as the downward trend in inflation has slowed, the market has altered expectations for future rate cuts. Borrowing rates in the municipal market have trended up over the past few months but remain below long-term averages.

The Bond Buyer 20-Bond Index (BBI) has risen steadily since December 2023, reaching a relative highpoint at the end of May. The BBI measured 4.13%, as of May 30, 2024, which is 0.59% higher than it was at the time of the last SFC meeting (3.54% as of February 15, 2024).

- Chart 1 below shows the BBI over the last three years.
- Chart 2 shows the BBI since 1900 and highlights the 30-, 50-, and 100-year averages.
- Table 1 shows the TIC for all new money tax-exempt bond issues since January 1, 2021.

Chart 1

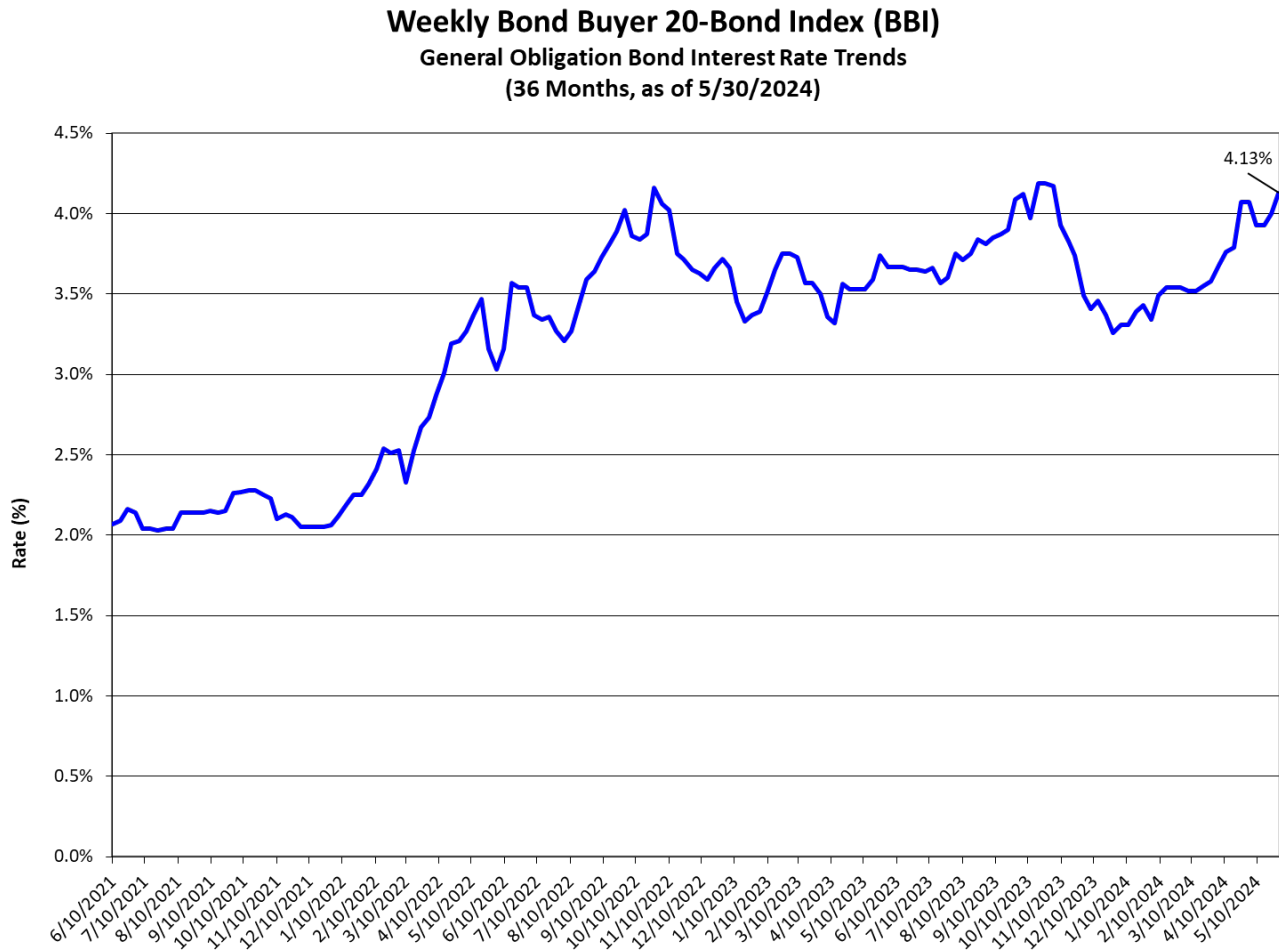
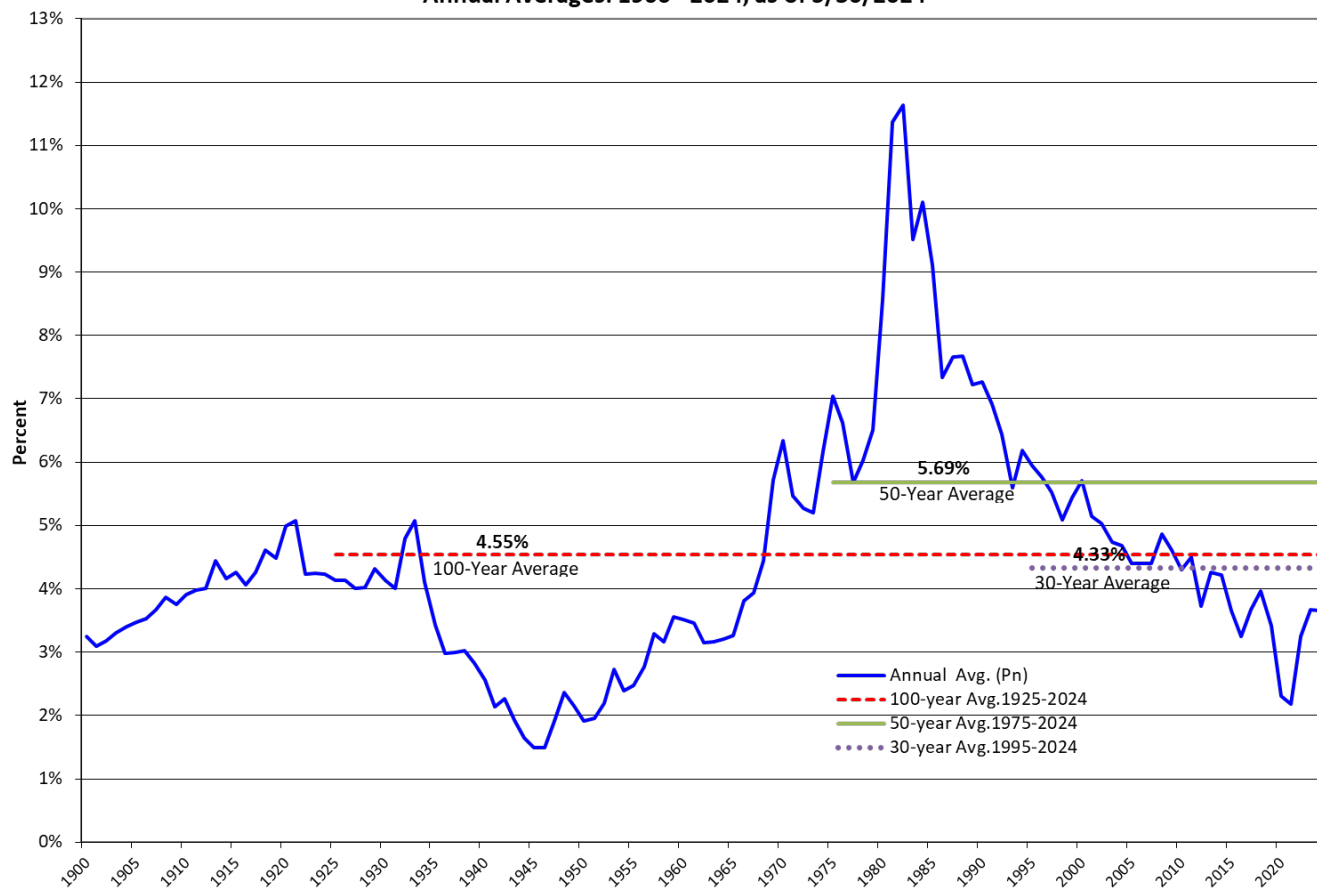


Chart 2

Weekly Bond Buyer 20-Bond Index (BBI)

Annual Averages: 1900 - 2024, as of 5/30/2024



Office of the State Treasurer

P.O. Box 40200 Olympia, Washington 98504-0200
(360) 902-9000 • TTY USERS: CALL 711 • FAX (360) 902-9037
www.tre.wa.gov

Table 1

New Money Tax-Exempt Bonds Over Previous Three Years

Series Name	Series	Sale Date	Par Amount	Final Maturity	TIC*
VP GO Bonds, Series 2021C	2021C	2/9/2021	\$ 512,675,000	2/1/2046	2.39%
MVFT GO Bonds, Series 2021D	2021D	2/9/2021	107,675,000	6/1/2046	2.07%
MVFT & VRF GO Bonds, Series 2021E	2021E	2/9/2021	232,100,000	6/1/2046	2.35%
MVFT & VRF GO Bonds, Series 2021F	2021F	4/20/2021	240,410,000	6/1/2046	2.50%
VP GO Bonds, Series 2022A	2022A	7/29/2021	599,490,000	8/1/2046	2.49%
MVFT GO Bonds, Series 2022B	2022B	7/29/2021	42,325,000	6/1/2046	2.45%
VP GO Bonds, Series 2022C	2022C	2/8/2022	749,490,000	2/1/2047	2.84%
VP GO Bonds, Series 2023A	2023A	7/19/2022	693,905,000	8/1/2047	3.75%
VP GO Bonds, Series 2023B	2023B	1/18/2023	603,020,000	2/1/2048	3.57%
MVFT & VRF GO Bonds, Series 2023C	2023C	1/18/2023	90,165,000	6/1/2048	3.57%
VP GO Bonds, Series 2024A	2024A	7/25/2023	682,590,000	8/1/2048	3.83%
MVFT & VRF GO Bonds, Series 2024B	2024B	7/25/2023	376,615,000	6/1/2048	3.82%
VP GO Bonds, Series 2024C	2024C	1/23/2024	663,845,000	2/1/2049	3.87%
MVFT & VRF GO Bonds, Series 2024D	2024D	1/23/2024	265,995,000	6/1/2049	3.86%

*True Interest Cost (TIC)