



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



7

April 19, 1988

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Budget & Finance Committee of
the City Council
Sacramento, CA

Honorable Members in Session:

SUBJECT: Recommendation for Approval of Lease Agreement with
Child Care Provider and Tenant Improvements for Child
Care Center - Riverview Plaza

SUMMARY

The attached report is submitted to you for review and
recommendation prior to consideration by the Housing Authority of
the City of Sacramento.

RECOMMENDATION

The staff recommends approval of the attached resolution
approving the agreement and proposed tenant improvements.

Respectfully submitted,

William H. Edgar
WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COMMITTEE:

Jack R. Crist
JACK R. CRIST
Deputy City Manager

Attachment



SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY



April 6, 1988

Housing Authority of the
City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: RECOMMENDATION FOR APPROVAL OF LEASE AGREEMENT WITH
CHILD CARE PROVIDER AND TENANTS IMPROVEMENTS FOR CENTER

SUMMARY

This report regards the recommendation for signing of a lease with Li'l Peoples School, Inc., child care provider, at Riverview Plaza.

Approval is also recommended for services related to tenants improvements for the child care center: design fees for improvements, construction cost and contingency, advertisement of construction bids, and award of the construction contract.

BACKGROUND

Child Care Facility Description

Li'l Peoples will occupy 5,400 net square feet with 7,500 gross square feet of outdoor playdeck on the second floor of Riverview Plaza. Li'l Peoples School is contracted to potentially provide service for 104 children of ages 0-6 yrs old:

<u>No.</u>	<u>Age</u>
22	Under 2 years
16	2 - 3 years old
46	3 - 5 years old
20	5 - 6 years old

Commencing with the opening of the child care facility, the rent will be as follows:

- \$0.90/sq.ft. for the first year.
- \$0.95/sq.ft. for the second year.
- \$1.00/sq.ft. for the third year.
- \$1.05/sq.ft. for the fourth and fifth year.

Li'l Peoples has signed a Letter of Intent to occupy the child care center on or before August 15, 1988. (Attachment A)

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Housing Authority of the
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Signing Lease and Report Back

In September of 1987, the Executive Director received approval from the Sacramento Housing and Redevelopment Commission (Commission) to release Request for Proposals (RFP) for child care provision at Riverview Plaza. In the staff report of January 5, 1988, the Commission approved the selection of Li'l Peoples School (Li'l Peoples) as the service provider for operation of the child care facility and negotiation in preparation and execution of a lease.

The Executive Director would also report back to the Commission on tenant improvements for the child care facility.

Design Fees for Tenant Improvements

On July 15, 1985, by Resolution No. SHRC-85-047 had authorized the Executive Director to execute an Agreement with Raymond Vail Associates/Takata Associates, Architects in Association for Riverview Plaza.

The attached Resolution authorizes the Executive Director to amend the existing Agreement between the Housing Authority of the City of Sacramento and Raymond Vail Associates/Takata Associates, Architects In Association. The purpose of the amendment to the Agreement is to include the "Child Care Tenant Improvements" (attachment B) as an additional design service.

Those services will include:

- a. Design of "Child Care Center Leasehold Improvements"
- b. Design of interior stairwell
- c. Inspection services related to child care tenant improvements.

Approval of Leasehold Improvements

On January 12, 1988, by Resolution No. HA-88-001 directed the Executive Director to present the proposed lease and had conceptually approved financing of leasehold improvements.

The attached Resolution authorizes the Executive Director to sign the proposed lease with tenant improvements on behalf of the Housing Authority of the City of Sacramento.

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Advertising and Award of Construction Bids

The attached Resolution authorizes the Executive Director to advertise for construction bids for the "Child Care Tenant Improvements," and authorizes the Executive Director to award the construction contract for "Child Care Tenant Improvements." When completed, Staff will return an information item to the Commission describing the extent of leasehold improvements.

ENVIRONMENTAL REVIEW

NEPA: Exempt activity 58.34 (9) (ii) the services affect only the social and economic environment. Additionally, no Federal funds involved therefore exempt from Federal environmental requirements.
CEQA: Catagorical exemption Section 15303 class 3 (a) minor alteration of existing public structures.

FINANCIAL DATA

The expenditures for the design service for "Child Care Tenant Improvements" is itemized as follows:

a. Child Care Center	\$30,000
b. Stairwell	9,400
c. Inspection	16,200
Total Design Fees	<u>\$55,600</u>
	=====

Funding has been identified from Downtown Tax Increment (Fund 108) for design service fees.

One hundred seventy-five thousand (\$175,000) has been identified from Downtown Tax Increment (Fund 102) for the construction of the Child Care Tenant Improvments and an additional \$23,000 for contingencies.

VOTE AND RECOMMENDATION OF COMMISSION

At its regular meeting of April 11, 1988, the Sacramento Housing and Redevelopment Commission adopted a motion recommending adoption of the attached resolution. The votes were as follows:

AYES: Glud, Pettit, Simon, Wiggins, Wooley, Moose

NOES: None

NOT PRESENT TO VOTE: Amundson, Yew

ABSENT: Sheldon, Simpson

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Housing Authority of the
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POLICY IMPLICATION

The actions proposed in this staff report are consistent with previously approved policy and there are no policy changes being recommended.

RECOMMENDATION

Staff recommends adoption of the attached resolution authorizing admendment of the existing Agreement between the Housing Authority of the City of Sacramento and Raymond Vail Associates/Takata Associates, Architects In Association. Staff also recommends approval of the lease with Li'l Peoples school, "Child Care Tenant Improvements", and advertising and award of the construction contract.

Respectfully submitted,

William H. Edgar
William H. Edgar
Executive Director

TRANSMITTAL TO COUNCIL:

WALTER J. SLIPE
City Manager

RESOLUTION NO.

ADOPTED BY THE HOUSING AUTHORITY OF THE CITY OF SACRAMENTO

ON DATE OF

April 19, 1988

RECOMMENDATION FOR APPROVAL OF LEASE AGREEMENT WITH CHILD CARE PROVIDER AND TENANTS' IMPROVEMENTS FOR CENTER

BE IT RESOLVED BY THE HOUSING AUTHORITY OF THE CITY OF SACRAMENTO:

Section 1: The Executive Director is authorized to sign the lease agreement attached to the staff report filed with this resolution ("Staff Report") with Li'l People's School, Inc. for the child care center at Riverview Plaza.

Section 2: The Executive Director is authorized to amend the Agreement between the Housing Authority of the City of Sacramento and Raymond Vail Associates/Takata Associates, Architects In Association ("Architects") to obtain design services of Architects for Riverview Plaza Center Leasehold Improvements ("Improvements") and to expend for said services an amount not to exceed \$55,600.

Section 3: The Executive Director is authorized to advertise a request for bid and to award a contract for construction of the Improvements in an amount not to exceed \$175,000.

Section 4: The Executive Director is authorized to establish a contingency reserve fund for the construction of the Improvements in the amount of \$23,000 and to expend therefrom such funds as are necessary for the completion of said construction.

Section 5: The budget is amended in accordance with the Staff Report to reflect said expenditures.

CHAIR

ATTEST:

SECRETARY

1100WPP2(123)

LETTER OF INTENT

1. Lil People's School (lessee) offers this Letter of Intent to the Housing Authority of the City of Sacramento (Authority). Lil People's School commits to negotiate in good faith with the Authority for the development of a lease for the provision of a child care center at Riverview Plaza pursuant to the following understandings:
2. The lessee and the Authority will agree upon all the terms of the lease no later than April, 1988.
3. Lessee is a private-for-profit family consolidated corporation which has been in business in the Sacramento community since 1972.
4. Authority wishes to bring a child care center to its Riverview Plaza congregate housing facility located at 600 I Street.
5. Lessee will provide child care for 100 children, ages 6 weeks to 12 years old, for public and private employees in the central downtown area.
6. The lessee will limit fee increases to no more than 5% per year without prior written approval of the Authority.
7. Fifty percent of the enrollment slots in each age group will be allotted first to children of employees of City and County government and employees of the Authority.
8. The lessee will provide immediate written notification of director or ownership changes to designated staff of the Authority.
9. The lessee will abide by the building regulations of the City of Sacramento and the State Day-care facility standards.
10. The lease will be monitored by the designated Authority staff.
11. The lease will be signed by the Authority's Executive Director.
12. The lessee will obtain all necessary licenses and permits.
13. In the event of the sale of the child care business, the lease will not be transferable or assignable without the prior written approval of Authority.
14. The lessee agrees to provide evidence of insurance in an amount and type satisfactory to the Authority. The lessee agrees to name Sacramento Housing and Redevelopment Agency as a named insured on said coverage.

15. The lessee will lease 5,000 square feet of space at \$0.90 per square feet.
16. Lessee agrees to occupy space provided by Authority for child care center on or before August 15, 1988.
17. This Letter of Intent is made on the conditions described above and is also conditional on agreement between the parties on the form of all final contracts and other documents necessary to finally effect the transactions referred to.

HOUSING AUTHORITY OF
THE CITY OF SACRAMENTO

By William H. Edgar
William H. Edgar
Executive Director

X
EARLY LEARNING CONCEPTS
DBA LIL PEOPLE'S SCHOOL

By Jean Hill
Jean Hill,
Administrator

SCHEDULE OF TENANT IMPROVEMENTS

All amounts given are approximate. The list of equipment and fixtures is subject to modification due to architectural, cost and other considerations.

I. INTERIOR

A. Partitions

1. 250 lin. ft. of interior walls
2. 12 doors
3. 1000 sq. ft. fire rated carpet (on walls)
4. 300 lin. ft. mouldings
5. 800 sq. ft. plastic laminate or ceramic tile

B. Floor coverings

1. 2000 sq. ft. commercial grade carpet
2. 3000 sq. ft. commercial grade linolium

C. Cabinets

1. 60 lin. ft. wood base
2. 60 lin. ft. wood upper
3. 25 lin. ft. wood floor to ceiling cabinet face
4. 60 lin. ft. wood children's storage shelves

D. Plumbing

1. 1 adult toilet
2. 7 child toilets
3. 8 sinks

E. Appliances

1. 1 range
2. 1 dishwasher
3. 1 range hood
4. 2 microwave ovens

II. EXTERIOR

A. Playground equipment

1. 1 large climbing structure
2. 3 small climbing structure
3. 3 sand boxes
4. play/storage strutures

B. Landscaping

1. planter box around fence
2. shade structures
3. retaining boxes around play equipment

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LEASE

In consideration of the rents and covenants hereinafter set forth, Landlord hereby leases to Tenant, and Tenant leases from Landlord, the following described Premises upon the following terms and conditions:

Article 1

SUMMARY OF LEASE PROVISIONS

Landlord: REDEVELOPMENT AGENCY OF CITY OF SACRAMENTO
630 I Street, Sacramento, CA 95814

Tenant: EARLY LEARNING CONCEPTS, INC.
DBA. L'IL PEOPLES SCHOOL
600 I Street, Sacramento, CA 95814

Commencement Date: August 1, 1988 (Section 4.1)

Lease Term: Three (3) years

Termination Date: July 1, 1991 (Section 4.1)

Flat Monthly Rent: \$4,860.00 per month for the first year,
\$5400.00 per month for the second year, \$5670.00 per month for
the third year payable in advance on the first day of the
month. (Section 5.2)

Addresses for Notices:

To Landlord: Redevelopment Agency of the City of Sacramento
630 "I" Street
Sacramento, CA 95831

To Tenant: Early Learning Concepts
Inc. dba L'il Peoples School
P.O. Box 750
Carmichael, CA 95605

Tenants Use of Premises: Child Care Services

Security Deposit: FOUR THOUSAND EIGHT-HUNDRED SIXTY DOLLARS
(\$4,860.00) (Section 20.1)

Premises: (More particularly described in Exhibit A):

Late Charge: Twenty percent (20%) of monthly rent, if rent is not
paid on or before the fifth day of the month (Section 3.1)

Additional Lease Documents:

Exhibit "A"
Exhibit "B"
Exhibit "C"
Exhibit "D"

The foregoing provisions of this Article 1 summarize certain key terms of the Lease which are subject to terms and conditions of, and which are described more fully in, the subsequent Articles and Sections of this Lease. In the event of a conflict between the provisions of this Article 1 and the balance of the Lease, the latter shall control.

Article 2

LEASE DOCUMENTS

2.1 Lease. This Lease (the "Lease") shall consist of the Lease Documents listed in this Article 2 which shall constitute the entire agreement between Landlord and Tenant regarding the lease of the premises. In the event of conflict or contradiction between provisions of any of the Lease Documents, the order of precedence for construction of the documents shall be the order in which the respective Lease Documents as later amended or modified, are listed below.

2.2 Included Lease Documents. The Lease Documents, except for amendments and modifications properly issued after execution of this Agreement, include only this Agreement and the following Exhibits and those additional lease documents listed in Article 1:

- Exhibit A - Description of Premises
- Exhibit B - General Site Plan indicating Location of the Premises
- Exhibit C - Description of Work to be Performed by Landlord and by on the premises.
- Exhibit D - Option to Extend Term

Article 3

PREMISES

3.1 Description and Condition. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord, as of the Commencement Date specified in Article 1 and determined as specified in Section 4.1 of Article 4 (the "Commencement Date"), at the rental and upon the covenants and conditions specified in

this Lease, the interest in real property (the "Premises") described as the "Premises" in Article 1 more particularly and described in Exhibit A. Tenant agrees that (i) Tenant shall accept the Premises in an "as is" condition, (ii) Landlord shall have no responsibility to make any improvements, which may be required to prepare the Premises for Tenants use (iii) Tenant, at its sole expense, shall complete any improvements which may be required upon the Premises, and (iv) all such improvements shall be done in accordance with the terms of this Lease.

3.2 Common Area

3.2.1 Definition. The term "Common Area" refers to all improved and unimproved areas, if any, within the boundaries of the realty on which the Premises are located (the "Property") which are now or hereafter made available for the general use, convenience and benefit of Landlord, persons entitled to occupy portions of building in which the Premises are located and their customers, patrons, employees and invitees, including, without limitation, hallways, patios, waste disposal areas, floors, ceilings, roofs, skylights, windows, driveways, open or enclosed malls, seating areas, sidewalks, curbs and landscaped areas, and such public transportation facilities and landscaped areas as are contiguous with and benefit the Property.

3.2.2 Use. Subject to the provisions of this Section, Tenant and its employees and invitees are authorized, empowered and privileged to use the Common Area together with other persons and tenants after the Commencement Date. Except as otherwise provided, Tenant shall conduct its activities in the Common Area at all times in a manner which does not cause a nuisance or interfere with other tenants. Tenant shall not permit any employees of Tenant to drop or place objects or solid or fluid waste matter in the Common Area. Any costs to Landlord for removing such objects or for cleaning such solid or fluid waste matter from the Common Area shall be reimbursed to the Landlord by the Tenant within 24 hours after written notice from Landlord to Tenant.

3.2.3 Control of Common Area. Landlord shall at all times have the right and privilege of determining the nature and extent of the Common Area and of making such changes to the Common Area from time to time which in its opinion are deemed to be desirable and for the best interest of all persons using Common Area, including the location and relocation of entrances, exits, and the installation of prohibited areas, landscaped areas, utilities and all other facilities.

..1 Landlord shall at all times after the Commencement Date have the sole and exclusive control of the Common Area, including, without limitation, the right to lease space within the Common Area to tenants for the sale of

merchandise or services and the right to permit advertising displays, educational displays and entertainment in the Common Area. Landlord shall also have the right to exclude and restrain any person from use or occupancy of the Common Area, excepting bona fide customers, patrons and service suppliers of Tenant and other tenants of the Property who use the Common Area in accordance with the rules and regulations established by landlord from time to time. The rights of Tenant in the Common Area shall at all times be subject to the rights of Landlord and the other tenants of Landlord to share the use of the Common area with Tenant. It shall be the duty of Tenant to keep all of the Common Area free and clear of any obstructions created or permitted by Tenant or resulting from Tenant's operation and to permit the use of any of the Common Area only for normal ingress and egress by the said customers, invitees and service suppliers to, from and through the Property, except as provided otherwise herein.

.2 If in the opinion of the Landlord unauthorized persons, or activities are using the Common Area as a result of the presence of Tenant in the Premises, Tenant, upon demand of Landlord, shall enforce Landlord's right to exclude or restrain all such unauthorized persons or activities by appropriate proceedings. Nothing in this provision shall limit the rights of Landlord to remove any such unauthorized persons or activities, from the Common Area or to restrain said persons or activities from using the Common Area.

3.2.4 Rules and Regulations. Tenant shall abide by the rules and regulations governing the premises and common area in accordance with this Lease and which Landlord, in its sole discretion, may establish or amend from time to time for the proper and efficient operation and maintenance of any or all of the Common Area. Such rules and regulations may specify, without limitation, when the Common Area shall be open for use and when, how and where Tenant and its employees may use the Common Area except that thereal common area hallway shall have self closing and locking doors.

Article 4

TERM

4.1 Duration. This Lease shall become legally binding as of 12:01 a.m. on the earlier of the Commencement Date specified in Article 1 or the Commencement Date agreed by Landlord and Tenant after execution of this Lease and specified in a written amendment to this Lease. This Lease shall remain in full force and effect from the Commencement Date until the termination of the Lease Term specified in Article 1 ("Termination Date"), unless sooner terminated as provided in this Lease or by

operation of law. The Lease Term shall be computed either from the Commencement Date if such date is the first day of the month or, in all other cases, from the first day of the calendar month following the Commencement Date.

4.2 Acceptance of the Premises. By this Lease, Landlord delivers and Tenant accepts possession of the Premises. Tenant shall occupy the Premises immediately upon the Commencement Date.

4.3 Surrender of the Premises. At the expiration of the Lease Term, or any earlier termination of this Lease, Tenant shall surrender possession of the Premises and deliver the Premises to Landlord in good and tenantable condition in accordance with this Lease.

Article 5

RENTAL

5.1 Rent Commencement Date. Tenant's obligation to pay any rental under this Lease shall commence on the Commencement Date.

5.2 Minimum Monthly Rental. Tenant agrees to pay as the base rental for the use and occupancy of the Premises the Minimum Monthly Rental specified in Article 1 ("Minimum Monthly Rental").

5.2.1 Monthly Rent: Tenant shall pay to the Landlord the rental for the Premises in each month during the term of this Lease, in advance, on the first day of each calendar month, without setoff, deduction, prior notice or demand.

5.2.2 Additional Rent. Tenant shall pay, as Additional Rent, six percent (6%) of the Tenant's gross sales from the business operating from the Premises if the minimum rent under this Lease for any month equals less than six percent (6%) of such gross sales. If such amounts or charges are not paid at the time provided in this Lease, they shall nevertheless be collectible as Additional Rent with the next installment of Minimum Monthly Rental falling due, but nothing in this provision shall be deemed to suspend or delay the payment of any amount of money or charge when due or to limit any other remedy of Landlord. All amounts of Minimum Monthly Rental and Additional Rent payable in a given month (also collectively referred to in this Lease as "rental") shall be deemed to comprise a single rental obligation of Tenant to Landlord. Tenant shall comply with the provisions of Exhibit "B" concerning information concerning the gross sales of the business on the Premises.

5.3 Failure to Pay Rental. If Tenant fails to pay, the Minimum Monthly Rental or any Additional Rent when due, such unpaid amounts shall bear interest at the maximum lawful rates existing from time to time until paid and computed on the basis of monthly compounding for actual days elapsed.

5.3.1 Late Charge. In addition to such interest, Tenant acknowledges that the late payment by Tenant of any monthly rental will cause Landlord to incur certain costs and expenses not contemplated under this Lease, the exact amount of which costs are extremely difficult or impracticable to fix. Such costs and expenses will include, without limitation, administrative and collection costs, and processing and accounting expenses. Therefore, if any rental installment is not received by Landlord from Tenant on or before the fifth day of when rent is due, Tenant shall immediately pay to the Landlord the Late Charge ("Late Charge") specified in Article 1. Landlord and Tenant agree that the Late Charge represents a reasonable estimate of such costs and expenses and is fair compensation to Landlord for its loss caused by Tenant's nonpayment. Should Tenant pay the Late Charge but fail to pay at the same time, all unpaid amounts of Minimum Monthly Rental and Additional Rent, Landlord's acceptance of this Late Charge shall not constitute a waiver of Tenant's default with respect to Tenant's nonpayment nor prevent Landlord from exercising all other rights and remedies available to Landlord under this Lease or under law. Tenant hereby acknowledges and accepts as fair and reasonable the obligation to pay the Late Charge in accordance with this subparagraph 5. 4.

5.3.2 No Waiver. Notwithstanding any other provision, and regardless of Landlord's acceptance of the Late Charge, Landlord may exercise all rights available to it upon Tenant's default of the Lease.

5.3.3 Cash, Cashier's Check, Money Order. Tenant shall make all rental payments to Agency by cash, cashier's check or money order.

5.4 Address for Payments. All rental and other payments shall be paid by Tenant to Landlord at its "Address for Notices" specified in Article 1 or at such other place as may from time to time be designated by Landlord in writing at least ten (10) days prior to the next ensuing payment date.

Article 6

POSSESSION AND USE

6.1 Permitted Uses. Tenant shall use the Premises solely for the purpose or purposes specified in Article 1. At Tenant's sole expense, Tenant shall procure, maintain and hold available for

Landlord's inspection any governmental license or permit required for Tenant's use of the Premises.

6.2 Duties and Prohibited Conduct. Tenant shall not use or

involving Tenant or its contractors and agents or (b) from the construction, repair, alteration, improvement, use, occupancy or enjoyment of the Premises or any other portion of the Landlord's real property in which the Premises are located by Tenant, Tenant's assignees or subtenants and their respective contractors, agents, licensees or invitees ("Claims"), including without limitation, Claims caused by the sole or concurrent negligent act or omission, whether active or passive, of Landlord or its agents; provided, however, Tenant shall have no obligation to defend or indemnify Landlord from Claims caused by the willful or criminal act of Landlord or its agents.

7.2 Tenant's Insurance Obligation. During the entire term of the Lease, Tenant shall carry and maintain, at its sole cost and expense, the following types of insurance in the amounts and in the form specified including all special endorsements required of Tenant's business, subject to Landlord's approval:

7.2.1 Comprehensive Public Liability. Comprehensive Public Liability insurance in the amount of not less than \$1,000,000 combined single limit for injury to or death of one or more than one person in any one accident or occurrence insuring Landlord and Tenant against any liability arising out of the ownership, use, occupancy or maintenance of the Premises all areas appurtenant to the Premises.

7.2.2 Worker's Compensation. Worker's Compensation and Employee's Liability insurance for all employees of Tenant in an employer's liability limit of not less than \$1,000,000 and written in strict compliance with the laws of the State of California.

7.2.3 Plate Glass. Insurance covering full replacement cost of any and all plate glass on the Premises. Tenant shall have the option either to insure commercially or to self-insure the risk.

7.2.4 Policy Requirements.

.1 All such policies of insurance shall be in a form acceptable to Landlord and issued by insurance companies qualified to do business in California and having a general policyholder's rating of not less than A and a financial rating of not less than Class A-XV as rated in the most current available "Best's" Insurance Reports.

.2 All such policies shall be issued in the names of Landlord, Tenant, and Landlord's employees, consultants and mortgagees or beneficiaries, and shall be for the mutual and joint benefit and protection of Landlord, Tenant and said mortgagees or beneficiaries, all as named insureds.

.3 Executed copies of such policies of insurance shall be delivered to Landlord prior to the Commencement Date. Thereafter, executed copies of renewal policies thereof shall be delivered to Landlord within thirty (30) days prior to the expiration of the term of each such

7.4 Waiver of Subrogation. Landlord and Tenant each release the other and waive their entire right of recovery against the other for loss or damage arising out of or incident to any occurrences in or about the Premises against which either party is insured, except for self-insurance, and whether or not due to the negligence of either party or their agents, employees, contractors or invitees. Landlord and Tenant shall notify each insurance carrier of the requirements of this waiver of subrogation. This waiver of subrogation shall have no effect with regard to any policy of insurance respecting the Premises which expressly prohibits said waiver or diminishes insurance coverage to the extent of said waiver.

7.5 Landlord's Liability Exemption. Tenant expressly agrees that Landlord shall not be liable for any injury to Tenant's business for any loss of income from Tenant's business, for any damage to the merchandise or personal property of Tenant or any personal property of Tenant's employees, invitees, customers or any other person in or about the Premises whether such damage is caused by or results from defects or conditions in the Premises or Building or from the act or neglect of any other tenant, occupant or user of the Building or Property.

Article 8

TITLE OF PREMISES

8.1. Landlord's Covenant. Landlord covenants that as of the Commencement Date the Premises are not subject to any lien, claim or encumbrance except the following:

8.1.1 Documents of Record. The effect of covenants, conditions, restrictions, easements, mortgages or deeds of trust, any ground lease of record, any rights-of-way of record, and any other matters as documents of record.

8.1.2 Zoning. The effect of zoning and use laws of the City of Sacramento and State of California.

8.1.3 Taxes. General and special taxes not delinquent.

8.2 No Tenant Encumbrances. Tenant and any person in possession of the Premises shall not encumber the Premises, whether involuntarily or otherwise, unless expressly permitted in this Lease.

Article 9

UTILITIES AND JANITORIAL SERVICES

9.1 Payment of Utility Costs. Tenant shall, at its own expense, pay to the appropriate utility companies on or before the due date for payment the cost of all utilities used upon the Premises except for the payment of the City of Sacramento water and sewer utilities which shall be paid by the Agency. If any such charges are not paid by the Tenant when due, Landlord may, but shall not be required to, pay such charges.

9.2 Janitorial Services. Tenant shall provide, at its sole expense, janitorial services for the leased Premises and shall keep and maintain the Premises in a safe, neat, clean and orderly condition at all times.

9.3 Common Area Fees. Tenant shall be assessed a fee for common area janitorial maintenance and utilities, not to exceed the share (based on total square footage available) of the actual pro-rata cost of providing such service.

ARTICLE 10

TENANT'S RIGHTS TO MAKE IMPROVEMENTS

10.1 Improvements. Tenant may, from time to time, make such permanent and nonstructural alterations, replacements, additions, changes or improvements (collectively, "Improvements") to the Premises as Tenant may find necessary or convenient for its purposes, subject, to the following conditions:

10.1.1 Landlord Notice or Consent. Tenant shall notify Landlord in writing prior to making such Improvements to the Premises. Tenant shall obtain Landlord's prior written approval to any Improvement which: (a) is valued at more than \$500, (b) affects the storefront, the mechanical system, the exterior or load bearing walls, the roof or the floor, (c) penetrates the roof or floor (d) increases the floor space of the Premises. Approval by Landlord shall not be unreasonably withheld and shall be within a reasonable amount of time.

10.1.2 Reimbursement of Landlord's Costs. Tenant shall reimburse Landlord for all costs and fees incurred by Landlord's review and approval or disapproval of Tenant's plans for Improvements, if such costs and fees exceed \$50.

10.1.3 Indemnification. Tenant shall be liable for and shall indemnify and defend Landlord and Landlord's other tenants in the Building from any claim, demand, lien, loss, damage or expense, including reasonable attorney's fees and costs which are incurred as a result of any Improvements under this Article.

Article 11

CONDITIONS ON USER ENROLLMENT

11.1 Enrollment Conditions As a condition of this Lease and in consideration of the favorable provisions of this Lease, Tenant agrees that its child care services shall be subject to the following:

11.1 The Tenant must agree to limit fee increases to service users to no more than 5 percent per year without prior approval of Landlord.

11.2 Fifty Percent (50%) of the enrollment slots in each age group shall be allotted first to children of employees of Sacramento City and County government and employees of the Sacramento Housing and Redevelopment Agency.

Article 12

PERSONAL PROPERTY, FIXTURES; TAXES

12.1 Removal and Replacement. Unless otherwise stated in this Lease, any Personal Property of Tenant not permanently affixed to the Premises shall remain the property of Tenant. Provided Tenant is not in default under the terms of this Lease, Tenant shall have the right to remove any or all of its Personal Property stored or installed in the Premises. Tenant shall, at its expense, immediately repair any damages occasioned to the Premises by reason of the removal of any such Personal Property.

12.2 Fixtures. Tenant Improvements, work, and personal property affixed to the Premises are collectively referred to in this Lease as "Fixtures" and shall remain the property of Landlord upon expiration or earlier termination of this Lease. All such fixtures shall be removed from the premises by the Tenant in accordance with the provisions of this Lease.

12.3 Personal Property Taxes. Tenant shall pay before delinquency all taxes (including sales and use taxes), assessments, license fees and public charges levied, assessed or imposed upon its business operation as well as upon its merchandise, Fixtures and Personal Property.

12.4 Possessory Interest Taxes. Landlord shall pay all real estate taxes levied upon the Tenant's possessory interest in the Premises at the amount charged on the Commencement Date. Any increase in the amount of such taxes shall be paid by the Tenant to the Landlord as Additional Rental.

Article 13

OCCUPANCY TRANSACTIONS

13.1 Definitions. As used in this Article 11, the following definitions shall apply:

13.1.1 Transfer. "Transfer" means any voluntary, unconditional and present (a) assignment of some or all of Tenant's interest, rights and duties in the Lease and the Premises, including Tenant's right to use, occupy and possess the Premises, or (b) sublease of Tenant's right to use, occupy and possess the Premises, in whole or in part.

13.1.2 Encumbrance. "Encumbrance" means any conditional, contingent or deferred assignment, sublease or conveyance voluntarily made by Tenant of some or all of Tenant's interest, rights or duties in the Lease or the Premises, including Tenant's right to use, occupy or possess the Premises, in whole or in part, and including without limitation, any mortgage, deed of trust, pledge, hypothecation, lien, franchise, license, concession or other security arrangement.

13.1.3 Change of Control. "Change of Control" means the transfer by sale, assignment, death, incompetency, mortgage, deed of trust, trust, operation of law, or otherwise of any shares, voting rights or ownership interests which will result in a change in the identity of the person or persons exercising, or who may exercise, effective control of Tenant, unless such change results from the trading of shares listed on a recognized public stock exchange and such trading is not for the purpose of acquiring effective control of Tenant. If Tenant is a private corporation whose stock becomes publicly held, the transfers of such stock from private to public ownership shall not be deemed a Change of Control.

13.1.4 Occupancy Transaction. "Occupancy Transaction" means any Transfer, Encumbrance, Change of Control, or other arrangement whereby the identity of the person or persons using, occupying or possessing the Premises changes or may change, whether such change be of an immediate, deferred, conditional, exclusive, nonexclusive, permanent or temporary nature.

13.1.5 Transferee. "Transferee" means the proposed assignee, sublessee, mortgagee, beneficiary, pledgee or other recipient of Tenant's interests, rights or duties in this Lease or the Premises in an Occupancy Transaction.

13.2 Restrictions.

13.2.1 Prior Consent to Encumbrance. Tenant shall not make or consent to any Encumbrance without the prior written consent of Landlord, which Landlord shall not unreasonably withhold.

13.2.2 Prior Consent to Other Occupancy Transactions. Tenant shall not enter into, or consent to, an Occupancy Transaction, other than an Encumbrance, without first procuring Landlord's written consent, which Landlord shall not withhold unreasonably. By way of example and without limitation, the parties agree that it shall be reasonable for Landlord to withhold its consent if any of the following situations exist or may exist:

- .1 The Transferee's contemplated use of the Premises following the proposed Occupancy Transaction conflicts with the "Use of Premises" as stated in Article 1.
- .2 In Landlord's reasonable business judgment, the Transferee lacks sufficient business reputation or experience to operate a successful business of the type and quality permitted under the Lease.
- .3 In Landlord's reasonable business judgment, the present net worth of the Transferee is less than \$150,000.
- .4 In Landlord's reasonable business judgment, the Additional Rental, if any, that Landlord reasonably anticipates receiving from the Transferee is less than that which Landlord has received from Tenant.
- .5 The proposed Occupancy Transaction would breach any covenant of Landlord respecting radius, location, use or exclusivity in any other lease, financing agreement, or other agreement relating to the Landlord's property adjacent to or including the Premises.

.6 Any proposed sublease or equivalent does not include a provision that the sublease or equivalent will terminate if the Lease is surrendered.

.7 The Transferee is composed of any of the principals or managers of the Tenant's corporation.

13.3 Nondefault as Condition Precedent. That Tenant is not in default under the Lease or in default of Tenant's obligations under the provisions of any other lease of real property owned or managed by Landlord or any parent, subsidiary, affiliate or successor-in-interest of Landlord, shall be a condition precedent to Tenant's right to request to enter into an Occupancy Transaction.

13.4 Tenant Request. Should Tenant desire to enter into an Occupancy Transaction, Tenant shall give notice of such desire to Landlord by requesting in writing Landlord's consent to such transaction at least thirty (30) days before the effective date of any such transaction and shall provide Landlord with the following:

13.4.1 Transaction Information. The full particulars of the proposed transaction, including its nature, effective date, terms and conditions, and copies of draft agreements, subleases, letters of commitment or intent, and final documents pertaining to such proposed transaction;

13.4.2 Transferee Information. A description of the identity, net worth and previous business experience of the Transferee, including, without limitation, copies of Transferee's latest income, balance sheet and change-of-financial-position statements (with accompanying notes and disclosures of all material changes) in audited form, if available, and certified under penalty of perjury as accurate by the Transferee;

13.4.3 Further Information. Any further information relevant to the transaction requested by Landlord within fifteen (15) days after receipt of Tenant's request for consent; and

13.4.4 Statement. A statement that Tenant intends to consummate the transaction if Landlord consents thereto.

13.5 Tenant's Failure to Request.

13.5.1 Material Breach. Should Tenant fail to make the required written request in accordance with this Article, Tenant's failure shall constitute a material breach of this Lease

which Landlord, in its sole discretion, may deem curable in the following manner, notwithstanding any other provisions of this Lease.

13.5.2 Liquidated Damages. Within ten (10) days of Landlord's written demand, Tenant shall make said written request in accordance with this section and shall pay Landlord the sum of fifty percent (50%) of the then Minimum Monthly Rental as liquidated damages for Tenant's breach. The parties agree that said sum represents a reasonable estimate of Landlord's damages sustained by reason of Tenant's breach, which damages are extremely difficult or impracticable to fix. Landlord's acceptance of said sum together with Tenant's late notice shall cure Tenant's breach of the notice requirement of this Section but shall not waive Tenant's default, if any, with respect to any other provision of this Article.

Tenant hereby acknowledges that the liquidated damages provision of this Subsection 13.5.2 are reasonable and expressly agrees to be bound by such liquidated damages provision.

Landlord

Tenant

13.6 Landlord's Response. Within thirty (30) days after receipt of Tenant's request for consent, Landlord may respond as follows:

13.6.1 Consent. Consent to the Occupancy Transaction, subject to any terms or conditions imposed by this Article;

13.6.2 Refuse to Consent. Refuse to consent to the Occupancy Transaction; or

13.7 Documentation and Expenses. Each Occupancy Transaction to which Landlord has consented shall be evidenced by an instrument in written form satisfactory to Landlord and executed by Tenant and Transferee.

13.7.1 Assumption of Lease Terms. By such instrument, Transferee shall assume and promise to perform the terms, covenants and conditions of this Lease which are obligations of Tenant.

13.7.2 Tenant's Continued Obligations. Unless expressly released in writing by Landlord, and in any event, if Tenant has failed to disclose or has misstated any material fact in the

Occupancy Transaction, Tenant shall remain fully liable to perform its duties under the Lease following the Occupancy Transaction.

13.7.3 Reimbursement of Landlord. Tenant shall, on demand of Landlord, reimburse Landlord for Landlord's reasonable costs, including legal fees not to exceed \$500, incurred in obtaining advice and preparing documentation for each Occupancy Transaction to which Landlord has consented which reimbursement shall be a condition of Landlord's consent to the Occupancy Transaction.

13.8 Consideration to Landlord In the event Landlord consents to an Occupancy Transaction, the Minimum Monthly Rental specified in Article 1 shall be an amount equal to the total of the Minimum Monthly Rental plus Additional Rental required to be paid by Tenant pursuant to this Lease.

13.9 Nullity. Any purported Occupancy Transaction consummated in violation of the provisions of this Article shall be null and void and of no force or effect. Tenant shall be liable to Landlord for all costs, including without limitation, reasonable attorney's fees incurred in terminating such void Occupancy Transaction and in removing any persons in possession of the Premises as a result of such void Occupancy Transaction.

Article 14

TENANT'S CONDUCT OF BUSINESS

Tenant covenants and agrees that it will, without regard for the expense or profitability of such business:

14.1 Continuous Operation. Tenant shall continuously operate and conduct within the Premises the business which it is permitted to operate and conduct under this Lease, except while the Premises are untenable by reason of fire or other casualty.

14.2 Orderly Condition. Keep the Premises in a safe, neat, clean and orderly condition at all times.

Article 15

REPAIRS; MAINTENANCE

15.1 Tenant's Obligations. Tenant agrees at all times from and after delivery of the Premises, at its own cost and expense, to repair, to maintain in good and tenantable condition and to

replace, as necessary, all parts of the parts of the Premises (except that part of the Premises to be maintained by Landlord in accordance with this Lease).

15.1.1 Extent. Said obligation includes without limitation, the following parts of the Premises: all meters, pipes, conduits, equipment, components and facilities, whether or not within Premises, that supply the Premises exclusively with Utilities or that form an Air Conditioning System exclusively serving the Premises under the Tenant's control; all Fixtures and other equipment installed in the Premises; all exterior and interior glass installed in the Premises; the storefront(s); all signs, locks and closing devices; all window sashes, casements and frames; doors and door frames; floor coverings, including carpeting, terrazzo or other special flooring; and all such items of repair, maintenance, alteration, improvement or reconstruction as may be required at any time or from time to time by an appropriate governmental agency.

15.1.2 Replacements. All replacements made by Tenant in accordance with this Section shall be of like size, kind and quality to the items replaced and shall be subject to Landlord's prior written approval.

15.1.3 Air Conditioning. If the Air Conditioning System exclusively serves the Premises and is under the Tenant's control, Tenant shall contract with a qualified air conditioning service company for the monthly maintenance and the repair and replacement, as necessary, of the Air Conditioning System. Tenant shall provide Landlord with a copy of said contract within ten (10) days after Tenant's opening of the Premises to the public for business as well as a copy of any subsequent contracts within ten (10) days after their execution. If the Air Conditioning System serving the Premises is a centralized system under the Landlord's control, Landlord shall contract with a qualified air conditioning service company designated for the inspection and maintenance at least once each calendar year of the distribution portion of such system serving the Premises.

15.1.4 Extent. Upon surrender of the Premises, Tenant shall deliver the Premises to Landlord in good order, condition and state of repair, but shall not be responsible for damages resulting from ordinary wear and tear, insured casualty losses reimbursed to Landlord, or any items of repair which the Landlord is responsible.

15.2 Landlord's Obligations.

15.2.1 Extent As necessary, Landlord shall repair, maintain in good and tenantable condition and replace the roof, exterior walls, structural parts of the Premises (including the structural floor) and all meters, pipes, conduits, equipment,

components and facilities that supply the Premises with Utilities on a nonexclusive basis (except as the appropriate utility company has assumed these duties) or that form a centralized Air Conditioning System serving the Premises in common with other premises owned by Landlord unless otherwise provided in this Lease.

15.2.2 Tenant Negligence. Landlord shall not be required to make repairs resulting from the negligence of Tenant or anyone claiming under Tenant from the failure of Tenant to perform or observe any conditions or agreements of this Lease from Improvements made by Tenant or anyone claiming under Tenant.

15.2.3 Limitation and Liability for Repairs. It is understood and agreed that Landlord shall be under no obligation to repair, replace or maintain the Premises or the mechanical equipment exclusively serving the Premises at any time, except as this Lease expressly provides. Notwithstanding anything to the contrary in this lease, Landlord shall not be liable to Tenant for failure to make repairs as required of it but this Lease unless Tenant has previously notified Landlord, in writing, of the need for such repairs and Landlord has failed to commence and complete said repairs within a reasonable period of time following receipt of Tenant's written notification.

15.2.4 Exterior Walls. As used in this Article, "exterior walls" shall exclude storefronts, plate glass, window cases or window frames, doors or door frames, security grilles or similar enclosures.

15.3 Tenant's Failure to Maintain. If Tenant fails or refuses to repair, replace, or maintain any parts of the Premises in a manner reasonably satisfactory to Landlord, Landlord shall have the right, after reasonable written notice to tenant, to elect to make such repairs or perform such maintenance on Tenant's behalf. In such event, Tenant shall pay the cost of such work as Additional Rent within five (5) days after receipt of an invoice from Landlord specifying said work and its cost.

Article 16

RECONSTRUCTION

16.1 Insured Casualty. In the event the Premises are damaged by fire or other perils covered by Landlord's insurance, Landlord shall:

16.1.1 Reconstruction. Within a period of ninety (90) days thereafter, commence repair, reconstruction and restoration (collectively, "Reconstruction") of the Premises and prosecute

the Reconstruction diligently to completion, in which event this Lease shall continue in full force and effect; or

16.1.2 In the event of a partial or total destruction of the Premises during the Lease Term, Landlord and Tenant shall each have the option to terminate this Lease upon written notice to the other within thirty (30) days after such destruction. For purposes of this Article, "partial destruction" shall mean destruction to an extent of at least fifty percent (50%) of the full replacement cost of the Premises as of the date of destruction.

16.2 Uninsured Casualty. In the event the Premises are damaged by any flood, earthquake, act of war, nuclear reaction, nuclear radiation or radioactive contamination, or any other casualty not covered by Landlord's insurance to any extent whatsoever, Landlord shall have the election, and shall within ninety (90) days following the date of such damage give Tenant written notice of Landlord's election, either to commence Reconstruction of the Premises and prosecute the same diligently to completion, in which event this Lease shall continue in full force and effect, or not to perform such Reconstruction of the Premises, in which event this Lease shall cease and terminate not later than thirty (30) days after Landlord's notice of its election to terminate.

16.3 Construction Provisions. Any Reconstruction shall substantially conform to the configuration of the Premises prior to damage, including all improvements. Landlord shall Reconstruct the Premises only to the extent of the work originally done by Landlord. Tenant, at its sole cost and expense, shall reconstruct all items originally done by Tenant and shall replace its merchandise, Fixtures and Personal Property. Tenant shall commence such Reconstruction of Tenant's Work and replacement of Tenant's merchandise, Fixtures and Personal Property promptly upon delivery to it of possession of the Premises and shall diligently prosecute the same to completion.

16.4 Release of Liability. Upon any termination of this Lease under any of the provisions of this Article and coincident with the surrender of possession of the Premises to Landlord, the parties shall be released without further obligation to the other party, except with regard to items which have previously accrued and are then unpaid.

16.5 Abatement of Rent. In the event of Reconstruction, the Minimum Monthly Rental shall be abated proportionately with the degree to which Tenant's use of the Premises is impaired, commencing from the date of destruction and continuing during the period of such Reconstruction and replacement.

16.5.1 Continuation of Business. Nevertheless, there shall be no abatement of rent if Tenant receives insurance benefits during said period under a policy insuring against loss from Business interruption. Tenant shall continue the operation of its business on the Premises during any such period to the extent reasonably practicable from the standpoint of prudent business management, and the obligation of Tenant to pay Additional Rent shall remain in full force and effect.

16.5.2 No Loss of Use Tenant shall not be entitled to any compensation or damages from Landlord for loss of use of the whole or any part of the Premises, the Building, Tenant's Personal Property, or any inconvenience or annoyance occasioned by such damage or Reconstruction. Tenant hereby waives any statutory rights of termination which may arise by reason of any partial or total destruction of the Premises which Landlord is obligated to restore or may restore under any of the provisions of this Lease.

16.6. Major Destruction. Notwithstanding any of the foregoing provisions of this Article, should there be a partial or total destruction of the Premises at any time after the Commencement Date, Landlord shall have the right to terminate this Lease on written notice to Tenant within thirty (30) days after such destruction.

Article 17

BANKRUPTCY; INVOLUNTARY TRANSFERS

17.1 Right of Termination. Should any of the following events occur, Landlord may terminate this Lease and any interest of Tenant in this Lease except for a bankruptcy action under Chapter 11 for reorganization, effective with the commencement of the event:

17.1.1 Receiver; Assignment for Benefit of Creditors. Proceedings are instituted whereby all, or substantially all, or Tenant's assets are placed in the hands of a receiver, trustee or assignee for the benefit of Tenant's creditors, and such proceedings continue for at least thirty (30) days.

17.1.2 Execution or Attachment. Any creditor of Tenant institutes judicial or administrative process to execute on, attach or otherwise seize any of Tenant's merchandise, Fixtures or Personal Property, located on the Premises and Tenant fails to discharge, set aside, exonerate by posting a bond, or otherwise obtain a release of such property within thirty (30) days.

17.1.3 Debtor in Bankruptcy. Tenant becomes a debtor in any case filed under the Bankruptcy Code or similar law providing relief to bankrupt or insolvent debtors;

17.1.4 Bulk Sale. Tenant makes a bulk sale of all, or substantially all, of Tenant's merchandise, Fixtures or Personal Property located on the Premises, except in as specifically permitted by this Lease and fails to replace the same with similar items of equal or greater value and utility within three (3) days; or

Article 18

DEFAULTS BY TENANT; REMEDIES

18.1 Events of Default. The occurrence of any of the following shall constitute a default by Tenant and a breach of this Lease:

18.1.1 Nonpayment of Rent. Failing or refusing to pay any amount of Minimum Monthly Rental or Additional Rent when due in accordance with the provisions of this Lease.

18.1.2 Nonoccupancy. Failing or refusing to occupy and operate the Premises.

18.1.3 Nonperformance. Failing or refusing to perform fully and promptly any covenant or condition of this Lease, other than those specified in subparagraphs 20.1.1 and 20.1.2 above.

18.1.4 Specific Defaults. Maintaining, committing or permitting on the Premises waste, nuisance, or use of the Premises for an unlawful purpose; entering into an Occupancy Transaction contrary to the provisions of Article 13 regarding Occupancy Transactions; or understating or mistating any fact or information affecting additional rents; failing to remain open for business during normal business hours during the Lease Term.

18.2 Notices. Following the occurrence of any of the defaults specified in subsections 20.1.1, 20.1.2 and 20.1.3, Landlord shall give Tenant a written notice specifying the nature of the default, the provisions of this Lease breached and demanding that Tenant and any subtenant either fully cure each such default within the time period specified in the corresponding subsections below or quit the Premises and surrender the same to Landlord:

18.2.1 Nonpayment of Rent. For failing or refusing to occupy and operate the Premises, three (3) days.

18.2.2 Nonoccupancy. For failing or refusing to occupy and operate the Premises, three (3) days..

18.2.3 Curable Default. For a curable default, a reasonable period not to exceed fifteen (15) days, except with regard to any default under this Lease regarding Labor Disputes, as to which default the time period shall be four (4) hours; provided, however, that if such default cannot be cured within said time period, Tenant shall be deemed to have cured such default if Tenant so notifies Landlord in writing, commences cure of the default within said time period, and thereafter diligently and in good faith continues with and actually completes said cure; and

18.2.4 Noncurable Default. With regard to those noncurable defaults, Landlord shall give Tenant a written notice specifying the nature of the default, the provisions of this Lease breached and Landlord shall have the right to demand in said notice that Tenant quit the Premises within five (5) days.

18.3 Time for Cure as Condition Precedent. To the extent permitted by law, the time periods provided in this Section for cure of Tenant's defaults under this Lease or for surrender of the Premises shall be a condition precedent to the commencement of legal action against Tenant for possession of the Premises.

18.4 Landlord's Rights and Remedies. Should Tenant fail to cure any curable default within the time periods specified or fail to quit the Premises for any noncurable default, Landlord may exercise any of the following rights without further notice or demand of any kind to Tenant or any other person, except as may be required by law:

18.4.1 Termination and Reentry. The right of Landlord to terminate this Lease and Tenant's right to possession of the Premises and thereafter to reenter, take possession and remove all persons from the Premises, following which Tenant shall have no further claim to the Premises or under this Lease;

18.5 Unlawful Detainer. Tenant covenants that Landlord's service of any notice pursuant to the unlawful detainer statutes and the Tenant's surrender of possession pursuant to such notice shall not, unless Landlord elects otherwise in writing, be deemed to be a termination of this Lease.

18.6 Removal of Property. In the event of any reentry or taking possession of the Premises, Landlord shall have the right, but not the obligation, to remove all or any part of the merchandise, Fixtures or Personal Property located in the Premises and to place the same in storage at a public warehouse at the expense and risk of Tenant.

18.6.1 In Addition to Other Rights. The rights and remedies given to Landlord in this Section shall be additional and supplemental to all other rights or remedies which Landlord may have under laws in force when the default occurs.

18.7 No Waiver. The waiver by Landlord of any breach of any term, covenant or condition contained in this Lease shall not be deemed to be a waiver of any subsequent breach of any term, covenant or condition contained in this Lease. Landlord's subsequent acceptance of any preceding breach of any term, covenant or condition of this Lease by Tenant shall not be deemed to be an accord and satisfaction or a waiver of any such preceding breach or of any right of Landlord to a forfeiture of the Lease by reason of such breach, regardless of Landlord's knowledge of such preceding breach at the time of its acceptance. No term, covenant or condition of this Lease shall be deemed to have been waived by Landlord unless in writing and signed by Landlord.

18.8 Assignments of Rent. Tenant immediately and irrevocably assigns to Landlord, as security for Tenant's obligations under the Lease, all rents from any subletting of all or part of the premises as permitted by the Lease, and Landlord, as assignee and as attorney-in-fact for Tenant, or a receiver for Tenant appointed on Landlord's application may collect such rent and apply it toward Tenant's obligations under the Lease; except that until the occurrence of an act of default by Tenant, Tenant shall have the right to collect such rent.

Article 19

SUBORDINATION; ATTORNMEN

19.1 Subordination. Within ten (10) days after the receipt of a written request from Landlord, from any first mortgagee or first deed of trust trustee or beneficiary of Landlord, or from any lessor of Landlord, Tenant will, in writing, subordinate its rights under this Lease to the lien or security interest of the first mortgage, the first deed of trust (including all future advances made under such mortgage or deed of trust), or the interest of any lease in which Landlord is the lessee, as such may burden the Premises or any building placed upon the land of which the Premises are a part.

19.2 Attornment. If Landlord conveys by Sale all of its rights and duties in the Lease, the Premises, or the realty underlying the Premises, or if Landlord's interest in the Lease and the

Premises is foreclosed judicially or nonjudicially, then upon the request of Landlord's lawful successor, Tenant shall attorn to said successor, provided said successor accepts the Premises subject to this Lease.

Article 20

SECURITY DEPOSIT

20.1 Payment. On or before the Commencement Date, Tenant shall deposit with Landlord the sum specified in Article I as "Security Deposit." Said deposit shall be held by Landlord without liability or interest as security for the faithful performance by Tenant of all of its obligations under this Lease. The Security Deposit shall not be mortgaged, assigned, transferred or encumbered by Tenant without the prior written consent of Landlord and any such act on the part of Tenant shall be without force and effect and shall not be binding upon Landlord.

20.2 Application. If any rental or other sum payable by Tenant to Landlord shall be either overdue and unpaid or paid by Landlord on behalf of Tenant, or if Tenant is damaged by Tenant's breach of any Lease provision, then Landlord may, at its option and without prejudice to any other remedy, appropriate and apply all or any part of the Security Deposit to compensate Landlord for such sum or damage. Thereafter and upon demand of Landlord, Tenant shall immediately restore the Security Deposit to the original sum deposited. Should Tenant comply with all Lease obligations and promptly pay all the rentals when due and all other sums payable by Tenant to Landlord when due, said Security Deposit shall be refunded in full to Tenant at the expiration or earlier termination of the Lease Term.

20.3 Bankruptcy. In the event of bankruptcy or other debtor-creditor proceedings against Tenant, as specified in this Lease, the Security Deposit shall be deemed to be applied first to the payment of rental and other charges due Landlord for the earliest periods prior the filing of such proceedings.

20.4 Transfer of Landlord's Interest. Subject to the terms and conditions of this Lease, Landlord may deliver the Security Deposit to any purchaser or assignee of Landlord's interest in the Premises, and Landlord shall then be discharged from any further liability with respect to such Security Deposit. Such a purchaser or assignee shall assume all the Landlord's duties relating to such securing deposit.

Article 21

GENERAL TERMS AND CONDITIONS

21.1 Relationship of the Parties. Nothing contained in this Lease shall be construed as creating a partnership, joint venture, principal-agent, or employer-employee relationship between Landlord and Tenant, or any other person or entity or as causing Landlord to be responsible in any way for the debts or obligations of such other person or entity.

21.2 Conflict of Interest. Tenant represents and warrants that, as of the Commencement Date, no officer, director or employee of Landlord, has any direct or indirect interest in Tenant. Tenant covenants and agrees that during the Lease Term no officer, director or employee of Landlord shall have any direct or indirect interest in Tenant without the prior written authorization of Landlord. A breach of this covenant shall be deemed a curable default.

21.3 Severability. If any provision of this Lease shall be determined to be void by any court of competent jurisdiction, then such determination shall not affect any other provision of this Lease and all such other provisions shall remain in full force and effect. It is the intention of the parties that, if any provision of this Lease is capable of two (2) constructions, one of which would render the provision void and the other of which would render the provision valid, then the provision shall have the meaning which renders it valid unless such meaning would clearly conflict with the context in which it arises.

21.4 Entire Agreement. It is understood that there are no oral or written agreements or representations between the parties affecting this Lease, and that this Lease supersedes and cancels any and all previous leases, negotiations, arrangements, representations, brochures, displays, projections, estimates, agreements and understandings, if any, made by or between Landlord and Tenant with respect to the Lease subject matter, and the same shall not be used to interpret, construe, supplement, or contradict this Lease. This Lease, and its amendments are the only agreement between the parties and their representatives and agents. All negotiations and oral agreements acceptable to both parties have been merged into and are included in this Lease. There are no other leases, representations, covenants or warranties between the parties, and the parties have relied, in all matters regarding this Lease, solely upon the express representations, covenants and warranties contained in this Lease.

21.5 Use of Lease Form. Although the printed provisions of this Lease were drawn by Landlord, the parties agree that this circumstance alone shall not create any presumption, canon of construction or implication favoring the position of either Landlord or Tenant. The parties agree that any deletion of language from this Lease prior to its mutual execution by Landlord and Tenant shall not be construed to raise any presumption, canon of construction or implication, including without limitation, any implication that the parties intended thereby to state the converse, obverse or opposite of the deleted language.

21.6 Right to Lease. Landlord reserves the absolute right to establish other tenancies in the Property.

21.7 Governing Law. The laws of the State of California shall govern the validity, performance and enforcement of this Lease.

21.8 Waiver or Consent Limitation. A waiver or acceptance of any given breach or default shall not be a waiver or acceptance of any other breach or default. Landlord's consent to or approval of any act by Tenant requiring Landlord's consent or approval shall not be deemed to waive or render unnecessary Landlord's consent to or approval of any subsequent similar act by Tenant.

21.9 Force Majeure. The occurrence of any of the following events shall excuse Landlord or Tenant from obligations thereby rendered impossible or reasonably impracticable for so long as such event continues: strikes; lockouts; labor disputes; acts of God; inability to obtain labor, materials or reasonable substitutes; governmental restrictions, regulations or controls; judicial orders; enemy or hostile governmental action; civil commotion; fire or other casualty; and other causes beyond the reasonable control of the party obligated to perform. Notwithstanding the foregoing, the occurrence of such events shall not excuse Tenant's obligations to pay Minimum Monthly and Additional Rent (unless otherwise provided in this Lease) or excuse such obligations as this lease may otherwise impose on the party to obey, remedy or avoid such event. If the work performed by Tenant or Tenant's contractor results in such strike, lockout and/or labor dispute, such strike, lockout and/or labor dispute shall not excuse Tenant's performance.

21.10 Labor Disputes. Tenant shall construct, or cause Tenant's contractor to construct any Improvements or work on the Premises in such a manner to avoid any labor dispute which causes or is likely to cause stoppage or impairment of work, deliveries or any other services in the Property. In the event there shall be any such stoppage or impairment as the result of any such labor dispute or potential labor dispute, Tenant shall immediately undertake such action as may be necessary to eliminate such dispute or potential dispute, including, without limitation, (a) removing all disputants from the job site until such time as the labor dispute no longer exists, (b) seeking a temporary

restraining order and other injunctive relief with regard to illegal union activities or a breach of contract between Tenant and Tenant's contractor, and (c) filing appropriate unfair labor practice charges. Tenant shall indemnify Landlord and hold Landlord harmless from any claims filed against Landlord or any loss sustained by Landlord as a result of such labor dispute whether or not Tenant has performed its obligations under this section.

21.11 Nondiscrimination. For themselves, their heirs, executors, administrators, successors and assigns and all persons claiming under or through them, Landlord and Tenant covenant as follows: there shall be no discrimination against or segregation of any person or group of persons on account of race, color, religion, creed, sex, marital status, national origin, ancestry, age, physical handicap or medical condition, in the leasing, subleasing, transferring, use, occupancy, tenure or enjoyment of the Premises herein leased, and Tenant and any person claiming under or through Tenant shall not establish or permit any such practice or practices of discrimination or segregation with reference to the selection, location, number, use or occupancy of tenants, subtenants, licensees or vendees in the Premises.

21.12 Amendments. To be effective and binding on Landlord and Tenant, any amendment, modification, addition or deletion to the provisions of this lease must be made in writing and executed by both parties in the same manner as the Lease itself.

21.13 Right to Enter. Landlord and/or its authorized representatives shall have the right to enter the Premises at all reasonable times for the purposes of inspecting the Premises for compliance with this Lease and of showing the Premises to prospective purchasers or lenders.

21.14 Notices.

21.14.1 Written; Service. Every notice or demand referred to in this Lease shall be in writing, given or served or in any manner permitted by law for service of process, return receipt requested, addressed as specified in this Lease by certified mail. Either party may change its address for notice by providing written notice of the change to the other by certified mail, return receipt requested. Whenever a party is served with a notice both personally and by mail, such party's time to respond to the notice shall not be extended by law beyond the date stated in such notice because of such service by mail.

21.14.2 Service of Default Notices. Notwithstanding other provisions of this Article, any notices from Landlord to Tenant advising Tenant of violations of Tenant's covenants regarding Tenant's improper advertising or signs, Tenant's failure to repair or maintain the Premises as required under this Lease shall be deemed to have been duly given or served upon Tenant

upon Landlord's attempted delivery of a copy of the notice to Tenant or his responsible employee at the Premises during normal business hours promptly followed by Landlord's mailing of a copy of such notice to Tenant in the manner specified in this Article.

21.15 Attorney Fees. If at any time after the Commencement Date, either Landlord or Tenant institutes any action or proceeding against the other relating to the provisions of this Lease or any default of this Lease, the nonprevailing party shall reimburse the prevailing party for the reasonable expenses of attorney fees and all costs and expenses incurred by the prevailing party in such action or proceeding, including, without limitation, any such fees, costs or disbursements incurred on any appeal from such action or proceeding. The prevailing party shall recover all such fees, costs or disbursements as costs taxable by the court or arbiter in the action or proceeding itself without the necessity for a cross-action by the prevailing party.

21.16 Captions and Terms:

21.16.1 Reference Only. The captions of the Articles and Sections of this Lease are for convenience only, are not operative parts of this Lease and do not in any way limit or amplify the terms and provisions of this Lease.

21.16.2 Parties. If two (2) or more persons or corporations execute this Lease as Landlord or Tenant, then and in such event the words "Landlord" or "Tenant" as used in this Lease shall refer to all such persons or corporations, and the liability of such persons or corporations for compliance with and performance of all the terms, covenants and conditions of this Lease shall be joint and several. The masculine pronoun used herein shall include the feminine or the neuter, as the case may be, and the use of the singular shall include the plural.

21.17 Time of Essence. Time is of the essence in the performance of all covenants and conditions in this Lease.

21.18 Obligations of Successors. The parties agree that all provisions of this Lease are to be construed as covenants and agreements and, except as otherwise specified, that said provisions shall bind and inure to the benefit of the parties and their respective heirs, legal representatives, successors and assigns.

21.19 Consent of Landlord and Tenant. Wherever consent or approval is required by this Lease, such consent or approval shall be given in writing and shall not be unreasonably withheld, unless otherwise expressly provided.

21.19.1 Conditioned Upon Third Party. Landlord shall not be deemed to have withheld its consent unreasonably where Landlord's action is required, contractually or legally, by any person, agency or authority.

21.19.2 Specific Performance. If Landlord or Tenant fails to give any such consent, the other party shall be entitled to seek specific performance in equity and shall have such other remedies as are reserved to it under this Lease, but in no event shall Landlord or Tenant be responsible in monetary damages for such failure to give consent unless said consent is withheld maliciously or in bad faith.

21.20 Certification of Authority. If Tenant is a corporation, the person or persons executing this Lease on behalf of Tenant hereby certifies under penalty perjury under the laws of the State of California that as of the Commencement Date that: (a) Tenant is a duly constituted corporation, qualified to do business in California; (b) Tenant has paid all applicable franchise and corporate taxes; and (c) Tenant will file when due all future forms, reports, fees and other documents necessary to comply with applicable laws.

Executed as of the date first written
above in Sacramento County, California.

LANDLORD:

APPROVED AS TO FORM:

Agency Counsel

APPROVED:

Finance Department

Account Code: _____

Organization: _____

Cost Center: _____

REDEVELOPMENT AGENCY OF THE CITY
OF SACRAMENTO

BY _____

William H. Edgar
Executive Director

TENANT:

EARLY LEARNING CONCEPTS, INC.
dba L'IL PEOPLES SCHOOL

APPROVED:

Organization

By: _____

Title: _____

Attest:

Secretary

154WPP1(172)

NOTE: If Tenant is a corporation, its authorized officers must sign on behalf of the corporation and indicate the capacity in which they are signing. This Lease must be executed by the president or vice president and the secretary or assistant secretary, unless the bylaws or a resolution of the board of directors shall otherwise provide, in which event, the bylaws or a certified copy of the resolution, as the case may be, shall be attached to this Lease. In addition, the appropriate corporate seal should be affixed hereto.

154WPP1(172)L

EXHIBIT A

DESCRIPTION OF PREMISES

The Premises are described as follows:

Approximately 5,400 square feet with 7,500 gross square feet of outdoor deck for play area space is located at 600 I Street (Riverview Plaza), Sacramento, CA

TENANT'S TRADE NAME

Tenant shall operate the Premises only under the following trade name:

LI'L PEOPLES SCHOOL

USE OF PREMISES

Tenant shall only use the Premises for the following:

Child care services

EXHIBIT B

GENERAL SITE PLAN

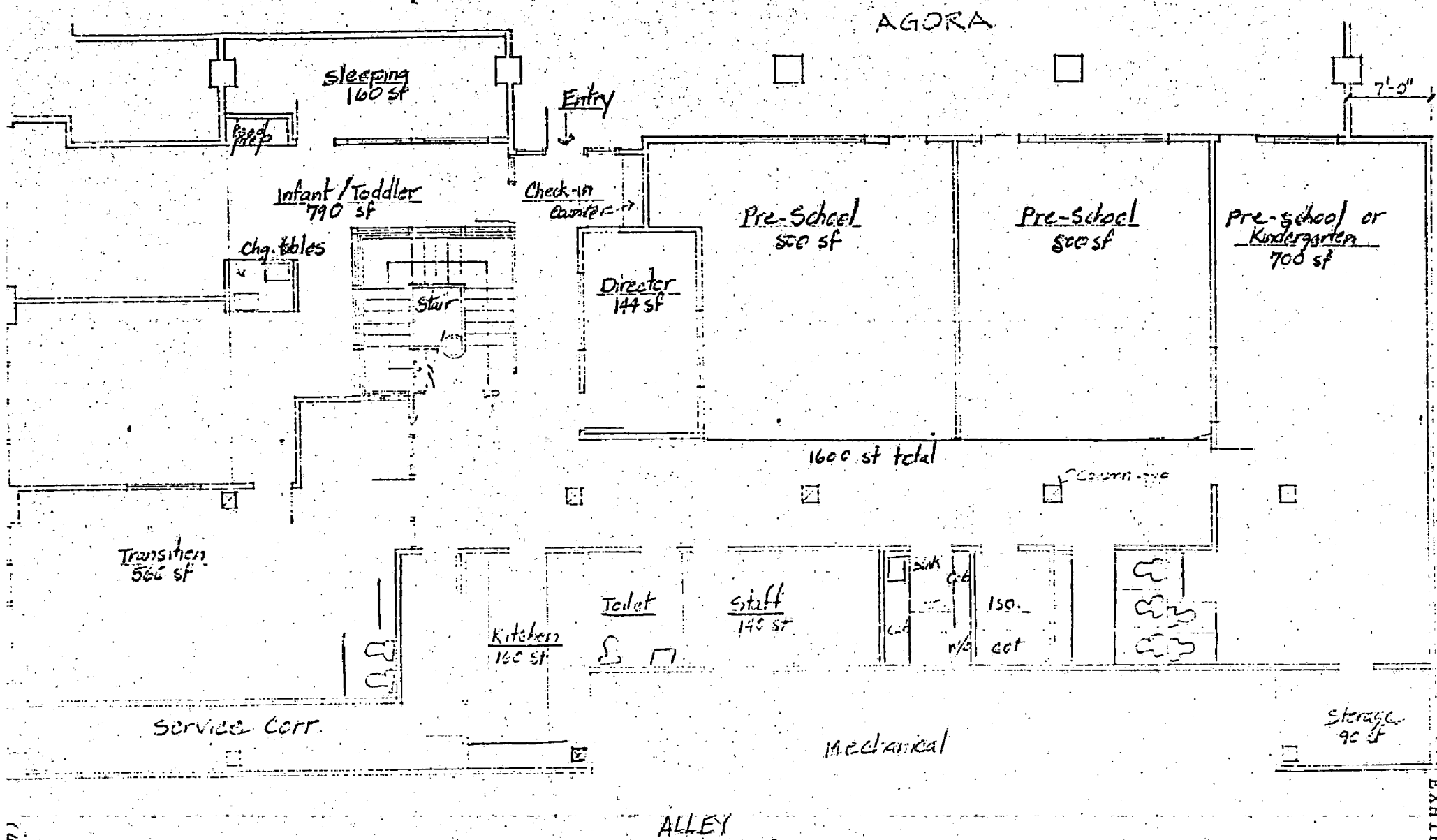




EXHIBIT C

DESCRIPTION OF WORK TO BE PERFORMED

SCHEDULE OF TENANT IMPROVEMENTS

All amounts given are approximate. The list of equipment and fixtures is subject to modification due to architectural, cost and other considerations.

I. INTERIOR

A. Partitions

1. 250 lin. ft of interior walls
2. 12 doors
3. 1000 sq. ft. fire rated carpet (on walls)
4. 300 lin. ft. mouldings
5. 800 sq. ft. plastic laminate or ceramic tile

B. Floor Coverings

1. 2000 sq. ft. commercial grade carpet
2. 3000 sq. ft. commercial grade linoleum

C. Cabinets

1. 60 lin. ft. wood base
2. 60 lin. ft. wood upper
3. 25 lin. ft. wood floor to ceiling cabinet face
4. 60 lin. ft. wood children's storage shelves

D. Plumbing

1. 1 adult toilet
2. 7 child toilets
3. 8 sinks

E. Appliances

1. 1 range
2. 1 dishwasher
3. 1 range hood
4. 2 microwave ovens

II. EXTERIOR

A. Playground equipment

1. 1 large climbing structure
2. 3 small climbing structure
3. 3 sand boxes
4. play/storage structures

B. Landscaping

1. planter box around fence
2. shade structures
3. retaining boxes around play equipment

EXHIBIT D

OPTION TO EXTEND TERM

Landlord hereby grants to Tenant the option to extend the Lease term on a month-to-month basis, on the same terms and conditions as set forth in the Lease, but at an increased rent as set forth below, (the "Option"). The Option shall be exercisable by Tenant on the express conditions that at the time of exercise, and at all times prior to the commencement of the Option term, Tenant shall not be in default under any provisions of this Lease. Such Option shall be exercised only by written notice delivered to Landlord at lease one hundred twenty (120) days prior to the expiration of the Lease term.

Rent shall be adjusted for the Option term as follows:

Landlord and Tenant shall negotiate the Monthly Rental for the Option term, in good faith, during the one hundred twenty (120) day notice period set forth above. In no event shall the Monthly Rental for the Option term be less than the Monthly Rental at the end of the original Lease Term. If Landlord and Tenant are unable to agree to a Monthly Rental, then Landlord and/or Tenant shall terminate this Lease and Option to Extend Term pursuant to Article 4, Section 3 of the Lease Agreement as of the expiration of the lease.

<u>Landlord</u>	<u>Tenant</u>
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