

**LEASE
EXHIBIT C**

LEASEHOLD IMPROVEMENT AGREEMENT

This Leasehold Improvement Agreement (this "Agreement") is an incorporated exhibit to that certain written Commercial Lease first dated above, entered and executed by and between KHM Humboldt Properties, LLC, a California limited liability company, as "Landlord", and the County of Humboldt, a political subdivision of the State of California, as "Tenant" (the "Lease").

1. Construction of Building.

1.1 Building Improvements. Landlord shall construct the Building at Landlord's sole cost and expense, including, without limitation, the building shell, roof-mounted energy efficient HVAC units, an engineered HVAC system capable of delivering adequate heating and cooling in a sufficient number of zones to meet applicable building codes (including vertical plenum drops but not distribution from said drops or horizontal distribution on the roof deck), roof insulation, fire sprinkler system as required by Fire Code at the time the improvements are constructed, adequate electrical power to the building including switch gear at load and voltage engineered to meet Tenant's lighting, computer, telecommunication and other needs, utility services to the Building, including water, sewer, gas, cable television, and telecommunications ISDN, T1 and T3 service (but not distribution of said service within the Premises), restrooms to serve at least 200 employees in conformance with the California Plumbing Code, all site improvements including, without limitation, the parking lot and light standards, hardscape, landscape with automated sprinkler system, power transformers, utility distribution boxes, sewer and water laterals and underground drainage systems, permits, fees, demand charges, utility connection costs, and other improvements and costs pursuant to the Building Plans and Specifications (as defined below).

1.2 Building Plans and Specifications; Construction Schedule. Tenant has provided Landlord with a detailed architectural program and outline specifications dated March 1, 2016, prepared by the Department of Health and Human Services ("Program") for the Building and improvements desired for the site. Based on said Program, Landlord's architect, who shall be the architect of record for the Building and improvements, has developed preliminary plans and specifications; Landlord shall cause the Building, including, without limitation, the landscaping and paving around the Building, to be diligently constructed and completed in accordance with those certain preliminary plans and specifications attached to this Lease as Exhibit C-1 and approved by Tenant (the "Preliminary Premises Plans and Specifications") and in accordance with the construction schedule attached hereto as Exhibit C-2. Prior to the commencement of construction, Landlord shall furnish to Tenant evidence that sufficient funds will be available to complete the Building and the Premises. Such evidence shall be a performance bond or bonds in the amount of one hundred percent (100%) of the total estimated construction cost of the Building, including the Premises as specified in Exhibit C-3, or an escrow account opened by Landlord in both the Landlord and Tenant's name in the amount of one hundred percent (100%) of the total estimated construction cost of the Building set forth in Exhibit C-3, with amounts paid to Landlord in accord with the drawdown account recited in Section 1.4 of this Agreement, below. Such construction shall be in full compliance with all laws, rules and regulations of all governmental authorities having jurisdiction and supervision over such construction and all restrictive covenants affecting the Building, and all such construction shall be done in a good and workmanlike manner using new materials free from any defects or deficiencies and free of any and all claims or liens arising out of any labor or materials used or purchased by Landlord in connection therewith that might otherwise affect any interest of Tenant in the Premises. Landlord shall obtain any and all certificates of occupancy and other governmental authorizations or permits which may be required as a condition to the construction and occupancy and use of the Premises and the Building.

1.3 Changes to Preliminary Premises Plans and Specifications. Landlord shall have the right to make changes in and additions to the Preliminary Premises Plans and Specifications; provided, however, that Tenant's prior written approval must be obtained in the case of any change or addition which shall:

(a) affect the location, size or treatment of the Building lobby, or the location or treatment of any entrance or access to the Premises or to the Building;

(b) affect the location of, or service provided by, the elevators in the Building or the interior treatment of elevator cabs;

(c) materially affect the ceiling heights or the location or size of any of the walls of, or any of the columns within, the Building, or materially reduce the usable or Rentable area of any floor of the Building, except as may be necessary to comply with any applicable laws or requirements of public authorities;

(d) materially affect the Premises or the services provided by any Building facilities for Tenant's benefit;

(e) affect the number of floors in the Building or otherwise materially affect the height, shape, design, appearance, quality or material of the exterior of the Building; or

(f) impair the design, quality, functionality or performance of the Building or materially affect Tenant's use of the Premises or any other rights of Tenant under this Lease.

Tenant's approval or disapproval with respect to any change in, or addition to, the Preliminary Premises Plans and Specifications may be given by the Tenant's architect to Landlord's architect. Unless Tenant or Tenant's architect shall notify Landlord or Landlord's architect of Tenant's disapproval of a proposed change in, or addition to, the Preliminary Premises Plans and Specifications within ten (10) days after submission to Tenant's architect or revised drawings or specifications showing such change or addition, Tenant shall be deemed to have approved such change or addition.

1.4 Construction Cost Drawdown Account.

(A) In the event Landlord elects not to procure a performance bond as stated in Section 1.2 of this Agreement, above, but instead elects to open and fund an escrow account in an amount equal to one hundred percent (100%) of the total estimated construction cost of the Building (the "Construction Cost Drawdown Account"), Landlord shall be entitled to draw from the Construction Cost Drawdown account an amount equal to the percentage of work completed by Landlord (and/or its, employees, agents, contractors and subcontractors) multiplied against the total construction cost, with the percentage of completed work determined by Lenders Construction Services, LLC (Humboldt County, California), (the "Consultant") with inspections at a frequency of, at least, every consecutive thirty (30) days during the course of construction, the cost for which shall be paid by Tenant. Consultant's determinations shall be binding on both Landlord and Tenant, and Landlord shall be entitled to take each draw within five (5) calendar days of each determination. For purposes of example only, if the total construction cost for the building is estimated to equal \$1,000,000.00 and Landlord (and its employees/agents/contractors and/or subcontractors) complete 10% of the work within the first 30 days after commencing construction, Landlord shall be entitled to withdraw \$100,000.00 from the Construction Cost Drawdown Account within 5 days following Consultant's determination that 10% of the work is complete. Landlord shall be entitled to request inspections by Consultant at a frequency of no greater than two (2) per month.

(1) In the event of any default on the part of Lessor for the construction of the building, Tenant shall have the option to proceed or procure to others to proceed with the performance to complete the building construction. Payment to Tenant for the completion of the building construction shall be in accord with Section 1.4(A) above.

2. Construction Protocol Requirements.

2.1 Landlord shall construct the tenant improvements pursuant to the Preliminary Premises Plans and Specifications. For any work not performed by Landlord (and/or K.H. McKenny, Inc.), Landlord shall obtain at least three (3) competitive bids for the work of improvement described in the Preliminary Premises Plans and Specifications in compliance with the Uniform Public Construction Cost Accounting Act, Public Contract Code (PCC § 22000 et seq). Landlord shall provide said bids to Tenant for review. Landlord shall require all bidders to provide unit price guarantees, for a period not less than one year, for all materials, fixtures, finishes and labor which shall serve as the basis for change orders. Landlord shall agree to construct the tenant improvements for Tenant for the lowest qualified bid amount.

(A) Uniform Cost Accounting Bid Procedures (PCC § 22000 et seq.). Landlord shall comply with the bid procedures of the Uniform Public Construction Cost Accounting Act set forth in the Public Contract Code §§ 22032, 22033, 22034, 22036, 22037, 22038(b), 22040, 22042.5, and 22044.

(1) Bid Protest

(a) Landlord shall notify Tenant within 24 hours of receipt of a bid protest on any work to be performed by a third party contractor (i.e., a contractor other than K.H. McKenny, Inc.). The notice shall be in writing and shall specify the name of the contractor protesting, the nature of the protest and the time in which the protest shall be resolved. Landlord is responsible for the bid protest procedures, review of the bid protest, and resolution of bid protest.

(b) The filing of a bid protest with Landlord shall not be cause for an extension or delay of commencement date specified in sections 2.1-2.4 of the lease.

(2) Substitution of Subcontractor

(a) It shall be the responsibility of Landlord to comply with any request for substitution of subcontractor in accordance with the procedures set forth in the Public Contract Code §4107 et seq. Landlord shall notify Tenant within 24 hours of receipt of a request for a substitution of subcontractor. The notice shall be in writing and shall specify the name of the subcontractor to be substituted, the reason for the substitution, the nature of the substitution and if allowed, the time in which the substitution shall be effective.

(b) The filing of a request for substitution of subcontractor with Landlord shall not be cause for an extension or delay of commencement date specified in sections 2.1-2.4 of the lease.

(B) Hold Harmless. Landlord shall indemnify and hold harmless and, at its own risk, cost, and expense, defend Tenant, its Board of Supervisors, officers, agents, employees, and volunteers from and against any and all liability expense, including defense costs, legal fees, and claims for damages arising from Landlord's negligence or intentional failure to comply with the provisions herein including but not limited to any bid protest or substitution of subcontractor.

(C) Prevailing Wage. Landlord shall comply with the applicable provisions of

California Labor Code sections 1720.2 and 1770 et seq., regarding general prevailing wages, when constructing the Building.

2.2 Construction Completion. Landlord shall construct the Premises and perform the work and make the installations in the Premises in accordance with the approved Preliminary Premises Plans and Specifications. Landlord shall, when construction progress so permits, notify Tenant in advance of the approximate date on which the Premises will be substantially completed in accordance with the Preliminary Premises Plans and Specifications and will notify Tenant when the Premises are in fact so completed and ready for occupancy by Tenant. The Premises shall be deemed to be substantially complete when Landlord has procured a Temporary Certificate of Occupancy for the Premises, although minor details or adjustments which do not materially interfere with Tenant's use of the Premises have not been completed. Landlord shall diligently pursue completion of any minor details or adjustments which have not been performed at the time Landlord gives such notice to Tenant. Tenant shall have the right to present to Landlord within thirty (30) days after the Premises are delivered to Tenant, or as soon thereafter as practicable, a written "punch list" which will consist of the items that have not been finished or furnished by Landlord in accordance with the provisions of the Preliminary Premises Plans and Specifications. Upon presentation of the punch list to Landlord by Tenant, Landlord shall, with due diligence, proceed to complete all defective or incomplete items on the punch list. Landlord shall execute all of the items on the punch list to Tenant's satisfaction within fourteen (14) days of Landlord's receipt of the punch list. If Landlord fails to complete all of the items within such time frame, Tenant may complete such items and Landlord shall reimburse Tenant upon demand for the reasonable costs incurred by Tenant for such work. If such costs are not paid within ten (10) days after demand, such costs shall be credited to and deducted from Tenant's next monthly installments of Rent, payable hereunder. Evidence of when the Premises have been substantially completed shall be a certificate to that effect by both Landlord's architect and Tenant's architect (if one is appointed by Tenant). Upon completion of the work, Landlord shall file a Notice of Completion and provide Tenant with a lien indemnification to insure the removal of all mechanic's liens and verification that all vendors have been fully paid and all lien rights expunged.

2.3 Change Orders. If Tenant requests any change, addition, alteration or deletion in the tenant improvement work following approval of the Preliminary Premises Plans and Specifications, then Landlord shall promptly give Tenant a written estimate of the cost, if any, of the professional and other services required to prepare a change order and the time delay expected, if any, because of such request. If Tenant, in writing, approved such cost and/or delay within five (5) business days, then Landlord shall have the change order prepared, and Tenant shall promptly forward a check made payable to Landlord in the amount of the approved estimated cost of the change order. The delay, if any, associated with the change order request shall extend Landlord's time for completion of the tenant improvements. Promptly upon the completion of a change order, Landlord shall notify Tenant in writing of the cost which would be chargeable or creditable to Tenant by reason of the change order and the time delay expected because of the change order. Tenant shall, within five (5) business days, notify Landlord in writing whether it desires to proceed with the change order. If Tenant notifies Landlord that it desires to proceed with the change order, then the cost thereof shall be appropriately charged or credited against the balance of the check made payable to Landlord in the amount of the change order estimated cost upon completion of the change order work. The delay, if any, associated with the change order work shall extend Landlord's time for completion of the tenant improvements. Any costs above the Tenant's payment for the estimated change order, which would be appropriately chargeable or creditable to either party by reason of the change order shall be promptly made by check payable to the other party with a balance sheet indicating expenses paid.