



May 4, 2007

Joe Horwedel
Director, Planning Building & Code Enforcement
City of San Jose
200 East Santa Clara Street
San José, CA 95113

Dear Mr. Horwedel:

KB Home and SummerHill Homes appreciated the opportunity to present to you and the council our proposal to jointly develop the former Pleasant Hills Golf Course during the Study Session held on Monday April 30, 2007. The purpose of this letter is to confirm that we are committed to entering into a funding agreement with the City of San Jose to formalize our public benefit package.

We received the proposed funding agreement on Thursday, May 03, 2007, and have requested our legal departments to review and provide comments to the City Attorney as quickly as possible. Additionally, our legal counsel has been in touch with the City Attorney regarding the funding agreement.

While we believe it will take longer than twenty-four hours to provide comments and give the City Attorney's office enough time to review and make its own comments, we are prepared to once again commit to the substantive business points that would be incorporated into the funding agreement for our proposal:

- **657-665 Residential Units**
- **\$37.1 Million cash contribution** to the City of San Jose (above required fees)
- **11-acre K-8 school and potential joint use park.** We have agreed to provide a private financing district on our property to raise \$20 million to build the school site.
- **9-acre turn-key sports park.**
- **4.3-acre turn-key neighborhood park.**
- **1.2 acres dedicated to the City for Fire Station 21.**
- **10 acres of buffers, landscape medians and pedestrian trails.**
- **\$2.1 million in fees *above* the requirement for the East Side Union High School District.**

Further, based on our understanding of the City Council's direction from the Study Session held on April 30, 2007, which was to attempt to increase the open space on our site above the 35.5 acres we proposed to dedicate, we are willing to agree to the substantive business points for a funding agreement that incorporates the following proposal:

ALTERNATIVE PROPOSAL

- **653 Residential Units** (accomplished by adjusting the mix of density on the site)
- **\$33.4 Million cash contribution** to the City of San Jose (above required fees)

- 11-acre K-8 school and potential joint use park. We have agreed to provide a private financing district on our property to raise \$20 million to build the school site.
- 9-acre turn-key sports park.
- 8.8-acre turn-key neighborhood park (increased from 4.3 acres).
- 1.2 acres dedicated to the City for Fire Station 21.
- 10 acres of buffers, landscape medians and pedestrian trails.
- \$2.1 million in fees *above* the requirement for the East Side Union High School District.

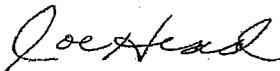
Our preference is the first proposal, which we believe is the superior alternative and will result in a higher cash contribution to the City and higher school fees to the Mt. Pleasant School District and the East Side Union High School District.¹

Under either development scenario, KB Home and SummerHill Homes is also committed to providing the pro-rata share of the cash contribution up-front to the City, which is being planned at 50%, upon receiving our first PD Zoning permits.

We are eager to move as aggressively as possible to finalize a funding agreement and proceed forward with our proposal for the former Pleasant Hills Golf Course site. **KB Home and SummerHill Homes are fully committed to our development proposal if processed as either part of the larger development group or separately as a stand-alone project.** Additionally, we are prepared to execute a funding agreement that pertains specifically to our site, so the City can be assured that we deliver on our proposed benefits.

We would be pleased to answer any questions you or your staff may have regarding our proposal. Feel free to contact Joe Head of SummerHill Homes at (650) 842-2315 or Drew Kusnick of KB Home at (925) 750-1725 to discuss or schedule a time to meet.

Sincerely,



Joe Head
President & CEO
SummerHill Homes



Drew Kusnick
President
KB Home South Bay

Cc: Mayor Chuck Reed
San Jose City Council
City Manager
City Attorney

¹ School fees are calculated on a square foot basis, thus a lower unit count will most likely result in lower school fees.