

## REPORT

**DATE ISSUED:** June 16, 2022

**REPORT NO:** HDP22-005

**ATTENTION:** Chair and Members of the Board of Directors of  
Housing Development Partners of San Diego  
For the Agenda of June 24, 2022

**SUBJECT:** New Palace Hotel Tenant Improvements

### **STAFF RECOMMENDATIONS**

That the Board of Directors (Board) take the following actions:

1. Authorize funding of up to \$627,600 from Housing Development Partners (HDP) reserves to HDP New Palace LP for the design and construction of the New Palace Hotel lease space tenant improvements.
2. Authorize the HDP's Executive Vice President, or designee, to execute all documents and instruments that are necessary and/or appropriate to implement these approvals, in a form approved by HDP's legal counsel, and take such actions as are necessary and/or appropriate to implement these approvals.
3. Approve the resolution prepared by HDP's legal counsel relating to the action items listed above.
4. Find that the foregoing transactions are just and reasonable as to HDP for purposes of California Corporations Code Section 5234 to the extent they involve the San Diego Housing Commission.

Please note a Conflict Disclosure Statement at the end of this report has been included because HDP has financing from the San Diego Housing Commission (Housing Commission) on this project and these transactions otherwise involve the Housing Commission.

### **SUMMARY**

#### *Project Details*

HDP acquired New Palace Hotel at 1814 5<sup>th</sup> Avenue, San Diego, CA 92101, on January 12, 2016. The property has 79 affordable rental housing units for seniors age 55 or older and one manager's unit. Additionally, the property includes two vacant, unimproved commercial lease spaces. In 2018, HDP completed a tax credit-financed renovation of the property. These funds were restricted for use on residential and residential-serving spaces, and use of the funds on the commercial spaces was specifically prohibited.

The underwriting requirements of the project's tax credit investor, Boston Financial, include annual rental income from the commercial space, and anticipated the property to start earning this income in 2020. Boston Financial is currently withholding the final equity installment payment of \$573,295 until such underwriting requirements are satisfied, or a plan to market and improve the spaces is in place.

The north commercial lease space encompasses approximately 1,039 square feet of unimproved space. The south commercial lease space encompasses a split-level plan of approximately 869 square feet and includes modest improvements remaining from previous use as the general contractor's construction

office during the renovation effort. These include a unisex restroom and a small kitchenette. There is no shared access between the two commercial lease spaces.

In December 2021, HDP entered into a contract with Strom Commercial Real Estate (Broker) to assist in identifying a potential retail tenant. Since the signing of the listing agreement, there has been minimal interest to lease either commercial space in their current form, as they require improvements to be more attractive as potential office/retail spaces. The Broker has advised HDP to perform capital improvements to garner further interest in these spaces. Broker recommendations include the installation of heating, ventilation, and air conditioning equipment, electrical distribution, acoustic ceilings, finish flooring, painting, and the addition of a dedicated bathroom, kitchen, and offices in the northern space. This work will also require reconfiguration of the entries of each space to make them compliant with accessibility regulations, as well as improvements to the building fire sprinkler and alarm systems to comply with recent code changes.

No potential tenant has been identified for either space. Based on a review of comparable commercial properties in the area, as well as broker recommendations, staff anticipates receiving a rent amount of approximately \$2.00 per square foot plus applicable utilities when these commercial spaces are leased.

On March 30, 2022, HDP published a Request for Proposals (RFP) to obtain Design/Build proposals. The Broker's recommendations served as the basis for the scope of work to be performed. At RFP closing on May 9, 2022, two proposals were received. A review committee reviewed the proposals and, based on the selection criteria in the RFP, identified LDCO as the most responsive and qualified respondent.

Upon contract execution, HDP staff will work with LDCO to design, permit and construct the improvements for both spaces. The improvements are estimated to be complete within 90 days following issuance of required City permits. The requested budget for the effort is \$627,600 which includes an owner's contingency of approximately 15 percent (see Table 1 below).

### **Fiscal Considerations**

The funding sources and uses proposed for approval by this action were not included in the 2022 budget approved by the HDP board on December 10, 2021. Approving this action increases the 2022 budget by \$627,600. Funding sources and uses approved by this action will be as follows:

**Table 1**

<b>SOURCES</b>	
HDP RESERVES	\$627,600
<b>TOTAL SOURCES</b>	<b>\$627,600</b>
<b>USES</b>	
DESIGN & CONSTRUCTION COSTS	\$545,746
OWNER'S CONTINGENCY (~15%)	\$81,854
<b>TOTAL USES</b>	<b>\$627,600</b>

**Environmental Review**

**California Environmental Quality Act (CEQA)**

These activities are categorically exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to Section 15301 (Existing Facilities), which allows the operation, repair, maintenance permitting, leasing, or minor alteration of existing public or private structures, facilities, mechanical equipment, or topographical features, involving negligible or no expansion of existing or former use.

**National Environmental Policy Act (NEPA)**

Processing under the National Environmental Policy Act is not required because no federal funds are included in these activities.

**CONFLICT DISCLOSURE STATEMENT:**

Two San Diego Housing Commissioners (Commissioners), Stefanie Benvenuto and Eugene “Mitch” Mitchell, and Interim President & Chief Executive Officer (CEO) of the San Diego Housing Commission, Jeff Davis, are each directors of Housing Development Partners (“HDP”), a California nonprofit public benefit corporation qualified as an Internal Revenue Code Section 501(c)(3) corporation for federal purposes. Any Commissioner, who is also a director of HDP as of the date of this staff report, and Interim CEO Davis have no conflict of interest as discussed below.

The Commissioners and Interim CEO Davis receive no compensation for their service on the HDP’s Board of Directors and/or as officers of HDP. Pursuant to the provisions of Government Code Sections 1091.5(a)(7) and 1091.5(a)(8), the Commissioners and Interim CEO Davis each have a “non-interest” as described in Government Code Section 1091.5 for purposes of their action on Housing Commission matters associated with this matter, if any. This disclosure shall be incorporated into the record of the San Diego Housing Commission, if and when this matter is heard by the Commission.

Further, as members of the Board of Commissioners of the Housing Commission, the Commissioners are legally entitled to vote and be counted for quorum purposes in this HDP matter. Further, Mr. Davis is not compensated by HDP and he sits on the Board of Directors of HDP. He is legally entitled to vote and to be counted for quorum purposes for this HDP matter.

None of HDP’s board members has a financial interest in this action item that would legally preclude their participation under the provisions of Government Code Sections 1090 and/or 87100 et. seq. Further, the Housing Commission is a public agency and the Commissioners are not compensated for their service as Commissioners of the Housing Commission. Further, Mr. Davis’s compensation from a public agency, the San Diego Housing Commission, is a non-interest under the provisions of Government Code Section 1091.5(a)(9) as well as for the purposes of Government Code Section 87100 et. seq. Mr. Davis’s compensation with SDHC is not a financial interest that would, in any way, preclude him being counted for quorum purposes or voting on these matters before HDP.

Further, to the extent that HDP is a public agency for local Ethics Ordinance purposes, neither the Commissioners nor Director Davis have any conflicts of interest under the local ethics ordinance that would preclude their, or any of their, actions in this matter or from being counted for quorum purposes. This disclosure shall be and is hereby documented in the official records of the HDP. Similar disclosures will be made in the records of the San Diego Housing Commission, if and when this matter is heard by the Commission.

**MUTUAL DIRECTORS STATEMENT:**

To the extent that Commissioners may be considered to be “directors” of the San Diego Housing Commission for purposes of California Corporations Code Section 5234 and, hence, common directors with HDP, a vote on this matter should incorporate a finding that these transactions are just and reasonable as to HDP.

Respectfully submitted,

*Josh Hoffman*

Josh Hoffman  
Interim Vice President  
Housing Development Partners

Approved by,

*Emily S. Jacobs*

Emily S. Jacobs  
Executive Vice President  
Housing Development Partners

**HOUSING DEVELOPMENT PARTNERS OF SAN DIEGO,  
a California nonprofit public benefit corporation**

**SECRETARY'S CERTIFICATE**

I, Stefanie Benvenuto, Secretary of Housing Development Partners of San Diego, a California nonprofit public benefit corporation (the "Corporation"), hereby certify that attached hereto is a true, correct and complete copy of the resolutions of the Board of Directors of the Corporation; such resolutions have not been substantively amended, modified or rescinded and remain in full force and effect; and such resolutions shall govern in case of conflict with any prior resolutions of the Corporation's Board of Directors relating to the transactions described therein.

IN WITNESS WHEREOF, I have hereunto signed my name.

Dated: June \_\_\_\_\_, 2022

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Stefanie Benvenuto  
Corporate Secretary

I, Jeff Davis, President of the Corporation, hereby certify that Stefanie Benvenuto is the duly elected, qualified and acting Secretary of the Corporation and that the signature appearing above is her genuine signature.

IN WITNESS WHEREOF, I have hereunto signed my name.

Dated: June \_\_\_\_\_, 2022

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Jeff Davis  
President

**RESOLUTIONS  
OF THE  
BOARD OF DIRECTORS  
OF  
HOUSING DEVELOPMENT PARTNERS OF SAN DIEGO,  
a California nonprofit public benefit corporation**

WHEREAS, Housing Development Partners of San Diego, a California nonprofit public benefit corporation (the “**Corporation**”) is the managing member of HDP New Place Management, LLC, a California limited liability company (the “**Managing General Partner**”), which is the Managing General Partner of HDP New Place, LP, a California limited partnership (the “**Partnership**”);

WHEREAS, the Partnership is the owner of that certain low income multifamily housing project commonly known as New Place Hotel (the “**Project**”);

WHEREAS, the Project includes two commercial spaces (the “**Commercial Spaces**”), which require certain tenant improvements in order to make the Commercial Spaces attractive for rental by tenants;

WHEREAS, the Corporation desires to cause the Partnership to enter into certain agreement with LDCO (the “**Agreement**”) pursuant to which LDCO will design, permit and construct the tenant improvements for the Commercial Spaces (the “**Tenant Improvement Work**”);

WHEREAS, the Corporation, as the sole member and manager of the Managing General Partner desires to pay for the costs associated with the Tenant Improvement Work in the approximate amount of \$627,600 using the Corporation’s reserve;

WHEREAS, the Corporation deems it to be in the best interest of the Corporation and consistent with the charitable purposes of the Corporation to enter into the Agreement with LDCO and fund the costs of the Tenant Improvement Work using the Corporation’s reserve (the “**Transaction**”);

NOW, THEREFORE, BE IT RESOLVED, that the Corporation, in its capacity as the Managing Member of the Managing General Partner of the Partnership is hereby authorized to cause the Partnership to enter into any and all documents in order to cause and/or to effectuate the Transaction; and Emily Jacobs, as the Executive Vice President or any officer of the Corporation be (collectively, the “**Authorized Representatives**” and each a “**Authorized Representative**”), and each of them is hereby, authorized, empowered and directed, on behalf of the Corporation, to cause the Partnership to enter into, execute and deliver any and all documents relating to the Transaction;

RESOLVED FURTHER, that the Authorized Representatives be, and each of them hereby is, authorized, empowered and directed, take such further actions, and to execute such additional documents and instruments, as the person taking such actions or executing such documents or instruments, may deem necessary or appropriate in connection with the matters authorized in the foregoing resolutions, and the signature of such person on any document or instrument, or the performance of any such actions, shall be conclusive evidence of such person’s authority to take such actions or execute such document or instrument on behalf of the Corporation, as the Managing Member of the Managing General Partner of the Partnership;

RESOLVED FURTHER, that any and all acts heretofore taken by each Authorized Representative in connection with the matters authorized by the foregoing resolutions or in connection with the transaction described herein are hereby ratified, confirmed, adopted and approved by the Board of Directors of the Corporation;

RESOLVED FURTHER, that the execution of any and all documents and instruments related to the purposes and intent of the foregoing resolutions shall be conclusive evidence of the approval thereof by this

Corporation; and

RESOLVED FURTHER, that any third party receiving a duly executed copy or a facsimile of the foregoing resolutions may rely on the foregoing resolutions, unless and until revoked by the Corporation, and that the revocation of the foregoing resolutions shall be ineffective as to such third party unless and until actual notice or knowledge of such revocation shall have been received by such third party.

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