DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
DIVISION OF FINANCIAL ASSISTANCE
Asset Management & Compliance Section
1800 Third Street, Suite 390
P. O. Box 952054
Sacramento, CA 94252-2054
(916) 322-1560
FAX (916) 324-3246

July 2, 2008

Richard Gouker, Manager
Palomar Inn
1344 Pacific Ave
Santa Cruz, CA 95030

RE: Palomar Inn
California Natural Disaster Assistance Program (CALDAP) Project #SCZ-R-021
Report of CALDAP Monitoring Visit

Dear Mr. Gouker:

On June 24, 2008, I met with you and your staff to conduct the on-site monitoring of Palomar Inn, located at 1344 Pacific Ave, Santa Cruz. The purpose of the visit was to assess Palomar Inn's implementation and administration of its CALDAP-funded project and to determine whether the terms of CALDAP requirements for ongoing management of the project are being met. This letter, with Monitoring Report enclosed, summarizes Findings, if any, and required corrective action along with Concerns. The review is based on documents that have been submitted to our office and the on-site visit.

A "Finding" is a deficiency based on a program requirement for which a default may be declared if left uncured. As a result of the monitoring review, it was determined that there were no Findings and one Concern.

Thank you for the assistance provided to me during the monitoring visit. We wish you continued success in affordable housing endeavors. If you have any questions, please contact me at (916) 327-8110, or email mluchessi@hcd.ca.gov.

Sincerely,

Michael Luchessi
Asset Management Representative
Department of Housing and Community Development

Cc: Samuel Samson, CPA

Monitoring Report
Project #SCZ-R-021
Palomar Inn

David Kimmel, Roberta Kimmel, Isaac Baumelgruen and Evelyn Baumelgruen (the "Borrower") was awarded $3,668,094 for rehabilitation of affordable rental housing at Palomar Inn, consisting of 97 single room occupancy units and approximately seven commercial tenants. The project is a six-story hotel and one of the oldest structures in downtown Santa Cruz.

Specific areas monitored and evaluated include:

1. **Physical:** The Borrower is responsible for all repair and maintenance functions of the Rental Housing Development, such as: the units, grounds and common areas and including ordinary maintenance and replacement of capital items.

2. **Financial:** Several items in the fiscal category require regular periodic monitoring in order to ensure the fiscal integrity of the project. The Department is required to ensure items such as: the appropriate amounts of funds are in the reserve account(s); the accounting system accurately and fully shows all assets, liabilities, income and expenses of the project; property taxes are current; insurance coverage is current and complies with Program requirements; and there is adequate project cash flow.

3. **Management/Compliance:** The Management Contract and Management Plan must be current; budget reports must be accurate and received per schedule; annual reports and audits must be accurate and received per schedule and findings addressed; and the project must be responsive to deadlines/requests including payments due Department. Tenancy standards must be met, such as, the annual income for a household must be within the low and very-low income limits established by the Department; household incomes must be recertified annually; rents must be within the limits established; Affirmative Fair Housing laws must be met; and grievance and appeal procedures need to be followed.

Physical

No physical compliance issues were observed during the on-site visit.

Financial

1) **Status of forgiveness and adequacy of replacement reserves:** The project has achieved 17 out of 30 years of forgiveness (February 1991 through February 2008). The project has $65,434 in replacement reserves as of December 31, 2007. The project has not drawn from the replacement reserve account in the past 16 years. No fiscal processes or procedures were observed to be out of compliance during the on-site visit.

2) **Insurance Coverage:** Current copies of the Certificate of Liability (liability) and Evidence of Property Insurance (hazard) were obtained on-site. The Department was

3) appropriately listed as "Additional Insured" on the Certificate of Liability Insurance and as a "Loss Payee" on the Property Insurance.

Management/Compliance

Concern #1:

The Department has no record of receiving Palomar Inn's proposed operating budget for 2008.

Requirement:

Section 14 of the CALDAP Regulatory Agreement requires the borrower to submit its proposed operating budget not less than 60 days prior to the start of each fiscal year.

Corrective Action:

Palomar Inn is required to submit its proposed operating budget for 2008 within 30 days of the date of this letter.

Conclusion

Palomar Inn is a conscientious rental housing community that generally meets health and safety standards and other CALDAP requirements. Palomar Inn staff was cooperative and the property is generally attractive and well-maintained.

Select the Appropriate Program Here.

APPROVED OPERATING COSTS

Reporting Period: 01/01/2008 to 12/31/2008

Contract: SCZ-R-021
Project Name: Palomar Inn
Prepared by: 0
Date Prepared: 01/00/1900

Units/Sq. Ft. - Assisted: 97
Units/Sq. Ft. - Total: 106
Unit Months: 1,272

		TOTAL EXPENSES			
		PROPOSED		HCD APPROVED	
ACCOUNT NAME	ACCOUNT CODES	ANNUAL (A)	PUM (B)	ANNUAL (C)	PUM (D)
MANAGEMENT FEE: 6200/6300					
1 Management Fee	6320	8,188	6.44	8,188	6.44
ADMINISTRATIVE EXPENSES: 6200/6300					
2 Advertising	6210	1,899	1.49	1,899	1.49
3 Apartment Resale Expense (Cooperatives)	6235	0	0.00	0	0.00
4 Other Renting Expenses	6250	0	0.00	0	0.00
5 Office Salaries	6310	147,113	115.65	147,113	115.65
6 Office Supplies	6311	2,693	2.12	2,693	2.12
7 Office or Model Apartment Rent	6312	0	0.00	0	0.00
8 Manager and Superintendent Salaries	6330	0	0.00	0	0.00
9 Manager's or Superintendent's Rent Free Unit	6331	0	0.00	0	0.00
10 Legal Expense - Project	6340	0	0.00	0	0.00
11 Audit Expense - Project	6350	0	0.00	0	0.00
12 Bookkeeping Fees/Accounting Services	6351	0	0.00	0	0.00
13 Telephone and Answering Service Expenses	6360	5,101	4.01	5,101	4.01
14 Bad Debt Expense	6370	0	0.00	0	0.00
15 Miscellaneous Administrative Expenses (specify)	6390	1,866	1.47	1,866	1.47
16 **TOTAL ADMINISTRATIVE EXPENSES**	**6200/6300T**	158,671	124.74	158,672	124.74
UTILITIES EXPENSES: 6400					
17 Fuel Oil/Coal	6420	0	0.00	0	0.00
18 Electricity	6450	37,702	29.64	37,702	29.64
19 Water	6451	0	0.00	0	0.00
20 Gas	6452	43,155	33.93	43,155	33.93
21 Sewer	6453	37,448	29.44	37,448	29.44
22 **TOTAL UTILITIES EXPENSES**	**6400T**	118,305	93.01	118,305	93.01
OPERATING AND MAINTENANCE EXPENSES: 6500					
23 Janitor and Cleaning Payroll	6510	0	0.00	0	0.00
24 Janitor and Cleaning Supplies	6515	4,541	3.57	4,541	3.57
25 Janitor and Cleaning Contracts	6517	0	0.00	0	0.00
26 Exterminating Payroll/Contract	6519	8,101	6.37	8,101	6.37
27 Exterminating Supplies	6520	0	0.00	0	0.00
28 Garbage and Trash Removal	6525	10,988	8.64	10,988	8.64
29 Security Payroll/Contract	6530	2,067	1.62	2,067	1.63
30 Grounds Payroll	6535	0	0.00	0	0.00
31 Grounds Supplies	6536	4,657	3.66	4,657	3.66
32 Grounds Contract	6537	0	0.00	0	0.00
33 Repairs Payroll	6540	0	0.00	0	0.00
34 Repairs Material	6541	0	0.00	0	0.00
35 Repairs Contract	6542	0	0.00	0	0.00
36 Elevator Maintenance/Contract	6545	7,643	6.01	7,643	6.01
37 Heating/Cooling Repairs and Maintenance	6546	0	0.00	0	0.00
38 Swimming Pool Maintenance/Contract	6547	0	0.00	0	0.00
39 Snow Removal	6548	0	0.00	0	0.00
40 Decorating/Payroll Contract	6560	0	0.00	0	0.00
41 Decorating Supplies	6561	0	0.00	0	0.00
42 Vehicle and Maint. Equipment Operation/Repairs	6570	0	0.00	0	0.00
43 Misc. Operating and Maintenance Expenses (specify)	6590	21,594	16.98	21,594	16.98
44 **TOTAL OPERATING & MAINTENANCE EXPENSES**	**6500T**	59,591	46.85	59,591	46.85

Select the Appropriate Program Here.

APPROVED OPERATING COSTS

Reporting Period: 01/01/2008 to 12/31/2008

Contract: SCZ-R-021
Project Name: Palomar Inn
Prepared by: 0
Date Prepared: 01/00/1900

Units/Sq. Ft. - Assisted: 97
Units/Sq. Ft. - Total: 106
Unit Months: 1,272

		TOTAL EXPENSES			
		PROPOSED		HCD APPROVED	
TAXES AND INSURANCE: 6700					
45 Real Estate Taxes	6710	50,047	39.34	50,047	39.35
46 Payroll Taxes (Project's Share)	6711	0	0.00	0	0.00
47 Misc. Taxes, Licenses and Permits	6719	14,540	11.43	14,540	11.43
48 Property and Liability Insurance (Hazard)	6720	56,282	44.25	56,282	44.25
49 Fidelity Bond Insurance	6721	0	0.00	0	0.00
50 Worker's Compensation	6722	7,738	6.08	7,738	6.08
51 Health Insurance and Other Employee Benefits	6723	0	0.00	0	0.00
52 Other Insurance	6729	0	0.00	0	0.00
53 **TOTAL TAXES AND INSURANCE**	**6700T**	128,606	101.11	128,607	101.11
ASSISTED LIVING/BOARD & CARE EXPENSES; 6900					
54 Food	6932	0	0.00	0	0.00
55 Recreation and Rehabilitation	6980	0	0.00	0	0.00
56 Rehabilitation Salaries	6983	0	0.00	0	0.00
57 Other Service Expenses	6990	16,213	12.75	16,213	12.75
58 **TOTAL ASSISTED LIVING EXPENSES**	**6900T**	16,213	12.75	16,213	12.75
59 SUBTOTAL OPERATING COSTS		489,573	384.88	489,576	384.89
60 CONTINGENCY RESERVE (RHCP-O Only):	0.00%	0	0.00	0	0.00
61 TOTAL OPERATING COSTS		**489,573**	**384.88**	**489,576**	**384.89**

SIGNATURES:

	By	Title	Date
N/A **Management**			
Samuel Samson **Borrower**	SAMUEL J. SAMSON	CPA	8/1/08
for E. Baumelgruen **Sponsor (Local Agency)**	for Borrower		

DEPARTMENTAL APPROVAL:

	By	Title	Date
Department of Housing and Community Development	HDMI	8/1/08	

Select the Appropriate Program Here.

APPROVED PRORATION OF COSTS

Reporting Period: 01/01/2008 to 12/31/2008

Units/Sq. Ft. - Assisted: 97
Units/Sq. Ft. - Total: 106
Unit Months: 1,272

Contract: SCZ-R-021
Project Name: Palomar Inn
Prepared by: 0
Date Prepared: 1/0/1900

ACCOUNT NAME	ACCOUNT CODES	PRORATED EXPENSES							
		PROPOSED				APPROVED			
		% (E)	ASSISTED (F)	NON ASST. (G)	COMMERCIAL (H)	% (I)	ASSISTED (J)	NON ASST. (K)	COMMERCIAL (L)
MANAGEMENT FEE: 6200/6300									
1 Management Fee	6320	90.00%	7,369	819	0	90.00%	7,369	819	0
ADMINISTRATIVE EXPENSES: 6200/6300									
2 Advertising	6210	90.00%	1,709	190	0	90.00%	1,709	190	0
3 Apartment Resale Expense (Cooperatives)	6235	90.00%	0	0	0	90.00%	0	0	0
4 Other Renting Expenses	6250	90.00%	0	0	0	90.00%	0	0	0
5 Office Salaries	6310	90.00%	132,402	14,711	0	90.00%	132,402	14,711	0
6 Office Supplies	6311	90.00%	2,424	269	0	90.00%	2,424	269	0
7 Office or Model Apartment Rent	6312	90.00%	0	0	0	90.00%	0	0	0
8 Manager or Superintendent Salaries	6330	90.00%	0	0	0	90.00%	0	0	0
9 Manager's or Superintendent's Rent Free Unit	6331	90.00%	0	0	0	90.00%	0	0	0
10 Legal Expense - Project	6340	90.00%	0	0	0	90.00%	0	0	0
11 Audit Expense - Project	6350	90.00%	0	0	0	90.00%	0	0	0
12 Bookkeeping Fees/Accounting Services	6351	90.00%	0	0	0	90.00%	0	0	0
13 Telephone and answering Service Expenses	6360	90.00%	4,591	510	0	90.00%	4,591	510	0
14 Bad Debt Expense	6370	90.00%	0	0	0	90.00%	0	0	0
15 Miscellaneous Administrative Expenses (specify)	6390	90.00%	1,679	187	0	90.00%	1,679	187	0
16 TOTAL ADMINISTRATIVE EXPENSE:	6200/6300T		142,804	15,867	0		142,805	15,867	0
UTILITIES EXPENSE: 6400									
17 Fuel Oil/Coal	6420	90.00%	0	0	0	90.00%	0	0	0
18 Electricity	6450	90.00%	33,932	3,770	0	90.00%	33,932	3,770	0
19 Water	6451	90.00%	0	0	0	90.00%	0	0	0
20 Gas	6452	90.00%	38,839	4,315	0	90.00%	38,840	4,316	0
21 Sewer	6453	90.00%	33,703	3,745	0	90.00%	33,703	3,745	0
22 TOTAL UTILITIES EXPENSE:	6400T		106,474	11,830	0		106,475	11,831	0
OPERATING AND MAINTENANCE EXPENSES: 6500									
23 Janitor and Cleaning Payroll	6510	90.00%	0	0	0	90.00%	0	0	0
24 Janitor and Cleaning Supplies	6515	90.00%	4,087	454	0	90.00%	4,087	454	0
25 Janitor and Cleaning Contracts	6517	90.00%	0	0	0	90.00%	0	0	0
26 Exterminating Payroll/Contract	6519	90.00%	7,291	810	0	90.00%	7,291	810	0
27 Exterminating Supplies	6520	90.00%	0	0	0	90.00%	0	0	0
28 Garbage and Trash Removal	6525	90.00%	9,889	1,099	0	90.00%	9,889	1,099	0
29 Security Payroll/Contract	6530	90.00%	1,860	207	0	90.00%	1,860	207	0
30 Grounds Payroll	6535	90.00%	0	0	0	90.00%	0	0	0
31 Grounds Supplies	6536	90.00%	4,192	466	0	90.00%	4,191	466	0
32 Grounds Contract	6537	90.00%	0	0	0	90.00%	0	0	0
33 Repairs Payroll	6540	90.00%	0	0	0	90.00%	0	0	0
34 Repairs Material	6541	90.00%	0	0	0	90.00%	0	0	0
35 Repairs Contract	6542	90.00%	0	0	0	90.00%	0	0	0
36 Elevator Maintenance/Contract	6545	90.00%	6,878	764	0	90.00%	6,879	764	0
37 Heating/Cooling Repairs and Maintenance	6546	90.00%	0	0	0	90.00%	0	0	0
38 Swimming Pool Maintenance/Contract	6547	90.00%	0	0	0	90.00%	0	0	0
39 Snow Removal	6548	90.00%	0	0	0	90.00%	0	0	0
40 Decorating/Payroll Contract	6560	90.00%	0	0	0	90.00%	0	0	0
41 Decorating Supplies	6561	90.00%	0	0	0	90.00%	0	0	0
42 Vehicle and Maint. Equipment Operation/Reports	6570	90.00%	0	0	0	90.00%	0	0	0
43 Misc. Operating and Maintenance Expenses (specify)	6590	90.00%	10,435	1,159	10,000	90.00%	10,435	1,159	10,000
44 TOTAL OPERATING & MAINTENANCE EXPENSE:	6500T		44,632	4,959	10,000		44,632	4,959	10,000
TAXES AND INSURANCE: 6700									
45 Real Estate Taxes	6710	90.00%	31,681	3,520	14,845	90.00%	31,682	3,520	14,845

APPROVED PRORATION OF COSTS

Reporting Period: 01/01/2008 to 12/31/2008

Contract: SCZ-R-021
Project Name: Palomar Inn
Prepared by: 0
Date Prepared: 1/0/1900

Units/Sq. Ft. - Assisted: 97
Units/Sq. Ft. - Total: 106
Unit Months: 1,272

ACCOUNT NAME	ACCOUNT CODES	PRORATED EXPENSES							
		PROPOSED				APPROVED			
		% (E)	ASSISTED (F)	NON ASST. (G)	COMMERCIAL (H)	% (I)	ASSISTED (J)	NON ASST. (K)	COMMERCIAL (L)
46 Payroll Taxes (Project's Share)	6711	90.00%	0	0	0	90.00%	0	0	0
47 Misc. Taxes, Licenses and Permits	6719	90.00%	13,086	1,454	0	90.00%	13,086	1,454	0
48 Property and Liability Insurance (Hazard)	6720	90.00%	41,371	4,597	10,314	90.00%	41,371	4,597	10,314
49 Fidelity Bond Insurance	6721	90.00%	0	0	0	90.00%	0	0	0
50 Worker's Compensation	6722	90.00%	6,964	774	0	90.00%	6,964	774	0
51 Health Insurance/Other Employee Benefits	6723	90.00%	0	0	0	90.00%	0	0	0
52 Other Insurance	6729	90.00%	0	0	0	90.00%	0	0	0
53 TOTAL TAXES AND INSURANCE:	6700T		93,102	10,345	25,159		93,103	10,345	25,159
ASSISTED LIVING/BOARD & CARE EXPENSES: 6900									
54 Food	6932	90.00%	0	0	0	90.00%	0	0	0
55 Recreation and Rehabilitation	6980	90.00%	0	0	0	90.00%	0	0	0
56 Rehabilitation Salaries	6983	90.00%	0	0	0	90.00%	0	0	0
57 Other Service Expenses	6990	90.00%	14,592	1,621	0	90.00%	14,592	1,621	0
58 TOTAL ASSISTED LIVING EXPENSES:	6900T		14,592	1,621	0		14,592	1,621	0
59 SUBTOTAL OPERATING COSTS:			408,973	45,441	35,159		408,975	45,442	35,159
60 CONTINGENCY RESERVE (RHCP-O Only):	0.00%		0	0	0	0.00%	0	0	0
61 TOTAL OPERATING COSTS			408,973	45,441	35,159		408,975	45,442	35,159

SIGNATURES:

	By	Title	Date
Management	N/A		
	SAMUEL J. SAMSON	CPA	8-1-08
FOR Borrower	(E. BAUMELGRUEN)		
Sponsor (Local Agency)			

DEPARTMENTAL APPROVAL:

	By	Title	Date
Department of Housing and Community Development		HCDMI	8/1/08

Select the Appropriate Program Here.

APPROVED CASH FLOW ANALYSIS

Reporting Period: 01/01/2008 to 12/31/2008

Contract: SCZ-R-021
Project Name: Palomar Inn
Prepared by: 0
Date Prepared: 1/0/1900

Units/Sq. Ft. - Assisted: 97
Units/Sq. Ft. - Total: 106
Unit Months: 1,272

ACCOUNT NAME	Account Codes	ASSISTED UNITS Proposed (A)	ASSISTED UNITS Approved (B)	NON-ASSISTED UNITS Proposed (C)	NON-ASSISTED UNITS Approved (D)	NON-ASSISTED UNITS Commercial (E)	TOTAL PROJECT Proposed (F)	TOTAL PROJECT Approved (G)	TOTAL PROJECT Commercial (H)
REVENUE ACCOUNTS/RENT REVENUE: 5100									
1 Rent Revenue - Gross Potential	5120	544,746	544,746	63,477	63,477	0	608,223	608,223	0
2 Tenant Assistance Payments	5121	0	0	0	0	0	0	0	0
3 Rent revenue - Stores and Commercial	5140	0	0	0	0	434,563	0	0	434,563
4 Garage and Parking Spaces	5170	0	0	0	0	0	0	0	0
5 Flexible Subsidy Revenue	5180	0	0	0	0	0	0	0	0
6 Miscellaneous Rent Revenue	5190	0	0	0	0	0	0	0	0
7 Excess Rent	5191	0	0	0	0	0	0	0	0
8 Rent Revenue/Insurance	5192	0	0	0	0	0	0	0	0
9 Special Claims Revenue	5193	0	0	0	0	0	0	0	0
10 Retained Excess Income	5194	0	0	0	0	0	0	0	0
11 GROSS POTENTIAL RENT (GR)	5100T	544,746	544,746	63,477	63,477	434,563	608,223	608,223	434,563
VACANCIES: 5200									
Vacancy Percentage:		3.00%	3.00%	3.00%	3.00%	0.00%			
12 Apartments -	5220	16,342	16,342	1,904	1,904	0	18,247	18,247	0
13 Stores and Commercial	5240	0	0	0	0	0	0	0	0
14 Rental Concessions	5250	0	0	0	0	0	0	0	0
15 Garage and Parking Spaces	5270	0	0	0	0	0	0	0	0
16 Miscellaneous	5290	0	0	0	0	0	0	0	0
Total Vacancies	*5200T*	*16,342*	*16,342*	*1,904*	*1,904*	*0*	*18,247*	*18,247*	*0*
ASSISTED LIVING/BOARD & CARE REVENUES: 5300									
17 Food	5332	0	0	0	0	0	0	0	0
18 Recreation (Activities) and Rehabilitation	5380	0	0	0	0	0	0	0	0
19 Rehabilitation	5385	0	0	0	0	0	0	0	0
20 Other Service Revenue	5390	0	0	0	0	0	0	0	0
Total Living Revenue	*6300T*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
FINANCIAL REVENUE: 5400									
21 Financial Revenue - Project Operations	5410	1,267	1,267	0	0	0	1,267	1,267	0
Total Financial Revenue	*5400T*	*1,267*	*1,267*	*0*	*0*	*0*	*1,267*	*1,267*	*0*
OTHER REVENUE: 5900									
22 Laundry and Vending Revenue	5910	0	0	0	0	0	0	0	0
23 NSF and Late Charges	5920	0	0	0	0	0	0	0	0
24 Damages and Cleaning Fees	5930	0	0	0	0	0	0	0	0
25 Forfeited Tenant Security Deposits	5940	0	0	0	0	0	0	0	0
26 Other Revenue	5990	29,998	29,998	0	0	53,378	29,998	29,998	53,378
Total Other Revenue	*5900T*	*29,998*	*29,998*	*0*	*0*	*53,378*	*29,998*	*29,998*	*53,378*
27 EFFECTIVE GROSS RENT (EGR)	5152T	559,669	559,669	61,573	61,573	487,941	621,241	621,241	487,941
28 TOTAL OPERATING EXPENSES	6000T	408,973	408,975	45,441	45,442	35,159	454,414	454,417	35,159
29 NET OPERATING INCOME (NOI)	5000T	150,696	150,693	16,131	16,131	452,782	166,827	166,824	452,782
FINANCIAL EXPENSES: 6800									
30 Non-Contingent Debt Service (specify lender)	6895	165,105	165,105	0	0	0	165,105	165,105	0
1st Mortgage =		0	0	0	0	0	0	0	0
2nd Mortgage=		0	0	0	0	0	0	0	0
3rd Mortgage=		0	0	0	0	0	0	0	0
31 HCD Required Payments	6890	0	0	0	0	0	0	0	0
32 Lease Payment	6890	0	0	0	0	0	0	0	0
33 Miscellaneous Financial Expenses	6890	0	0	0	0	0	0	0	0
Total Financial Expenses	*6800T*	*165,105*	*165,105*	*0*	*0*	*0*	*165,105*	*165,105*	*0*
FUNDED RESERVES:	1300								
34 Escrow Deposits	1310	0	0	0	0	0	0	0	0
35 Replacement Reserve-Deposit	1320	0	0	0	0	0	0	0	0
36 Operating Reserve-Deposit	1300	0	0	0	0	0	0	0	0
37 Other Reserves. (specify)									
#1	1330	0	0	0	0	0	0	0	0
#2	1330	0	0	0	0	0	0	0	0
#3	1330	0	0	0	0	0	0	0	0
Total Reserve Deposits		*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
38 PROJECT CASH FLOW (CF)		(14,409)	(14,412)	16,131	16,131	452,782	1,722	1,719	452,782
ADDITIONAL REVENUE:									
39 RHCP-O Annuity Fund Request (For Assisted Units Only)		0	0				0	0	
40 Withdrawal from Operating Reserves		0	0	0	0	0	0	0	0
41 Borrower Contribution		0	0	0	0	0	0	0	0
42 Other (specify)		0	0	0	0	0	0	0	0
Total Additional Revenue		0	0	0	0	0	0	0	0
USE OF CASH FLOW:									
43 HCD Interest Payments		0	0	0	0	0	0	0	0
44 Asset Mgmt Fee (CHRP-R/SUHRP & HOME-pre-UMR Only)		0	0	0	0	0	0	0	0
45 Asset Mgmt Fee/Prtrshp Costs (MHP/HOME under UMR)		0	0	0	0	0	0	0	0
46 Borrower Distributions		0	0	0	0	0	0	0	0
47 Residual Receipt Loan Payments		0	0	0	0	0	0	0	0
48 Other (specify)		0	0	0	0	0	0	0	0
Total Use of Cash Flow		0	0	0	0	0	0	0	0

SIGNATURES:

	By	Title	Date
Management N/A			
Borrower FOR (E. BAUMELGRUEN)	SAMUEL J. SAMSON	CPA	8-1-08
Sponsor (Local Agency)			

HCD Use Only:

Annuity Payment in the amount of----------: $0 for the fiscal year from 1/1/2008 to 12/31/2008
is approved for payment from the RHCP Annuity Fund.

7/31/08
Monitoring and Management Program Representative — Date
Department of Housing and Community Development

8/1/08
Monitoring and Management Program Manager — Date
Department of Housing and Community Development

Palomar Inn

Rm No	Tenant Name	Tenant Income	Deposit	Rent	Service	Program Type	H.A. Share	Tenant Share	Moved In	Status	Info.
[redacted]	&	$ 870	$ 300	$ 899		Sec.8	$ 646	$ 253	9/1/1999		
	&	$ 768	$ 300	$ 899	$ 20	Sec8	$ 529	$ 370	2/28/1994		
		$ 2,527	$ 600	$ 521		MRKT	$ -	$ -	3/1/2005		
		$ 810	$ 300	$ 521	$ 20	MRKT	$ -	$ -	7/8/2002		
		$ 931	$ 600	$ 521		MRKT			12/2/2002		
		$ 922	$ 300	$ 816	$ 20	Sec.8	$ 309	$ 507	5/6/1997		
		$ 2,134	$ 300	$ 521	$ 20	MRKT			6/23/1997		
		**********		$ 348	**********		$ -	$ -	1/1/97		
		$ 1,071	$ 300	$ 612	$ 20	Sec 8	$ 362	$ 250	6/1/2001		
							$ -	$ -			
		$ 3,406	$ 300	$ 521	$ 20	MRKT			7/1/2005		
		$ 1,596	$ 300	$ 521	$ 20	MRKT			2/1/2008		
		$ 1,000	$ 300	$ 521	$ 20	MRKT			8/31/2005		
		$ 1,990	$ 300	$ 521	$ 20	MRKT			6/5/2007		
		$ 742	$ 300	$ 612	$ 20	Sec.8	$ 313	$ 296	5/9/2002		
		$ 1,429	$ 300	$ 521	$ 20	MRKT			10/25/2005		
		$ 918	$ 300	$ 612	$ 20	Sec 8	$ 428	$ 184	5/1/2003		
		$ 983	$ 300	$ 521	$ 20	MRKT			4/3/2006		
		$ 1,186	$ 300	$ 521	$ 20	MRKT			5/1/2008		
		$ 1,528	$ 600	$ 521		MRKT	$ -	$ -	8/18/1993		
		$ 3,325	$ 300	$ 521	$ 20	MRKT			9/1/2007		
		$ 682	$ 200	$ 612	$ 20	Sec.8	$ 370	$ 239	4/1/1993		
		$ 870	$ 300	$ 521	$ 20	MRKT			6/2/2008		
		$ 2,916	$ 300	$ 521	$ 20	MRKT			1/26/2001		
		$ 974	$ 300	$ 521	$ 20	MRKT			9/21/2007		
		$ 855	$ 300	$ 521	$ 20	MRKT.	$ -		11/29/2007		
		$ 3,087	$ 200	$ 521	$ 20	MRKT.	$ -	$ -	11/20/1991		
		$ 3,385	$ 300	$ 521	$ 20	MRKT	$ -	$ -	10/29/1999		
		$ 954	$ 300	$ 521	$ 20	MRKT			6/9/2008		
							$ -	$ -			
		$ 955	$ 300	$ 521	$ 20	MRKT			5/10/2008		

$ 954	$ 300	$ 521	$ 20	MRKT						6/2/2008
$ 765	$ 300	$ 521	$ 20	MRKT.						8/23/2000
$ 847	$ 300	$ 521	$ 20	MRKT	$	-	$	-		8/5/2002
	$ 300	$ 612	$ 20	Sec.8	$	332	$	280		5/1/2004
$ 700	$ 300	$ 612	$ 20	Sec.8	$	500	$	112		5/1/2004
$ 1,194	$ 300	$ 521	$ 20	MRKT.	$ -		$ -			4/1/2005
$ 974	$ 300	$ 521	$ 20	MRKT						6/1/2005
$ 760	$ 300	$ 612	$ 20	Sec.8	$	370	$	239		3/11/1992
$ 954	$ 200	$ 521	$ 20	MRKT	$	-	$	-		1/1/1994
$ 1,050	$ 300	$ 521	$ 20	MRKT			$	-		3/10/2008
	$ 200	$ 521	$ 20	MRKT.						9/16/1995
$ 1,046	$ 300	$ 521	$ 20	MRKT						3/1/2005
*	*	*	*							
$ 1,034	$ 300	$ 521	$ 20	MRKT						5/1/2007
$ 812	$ 300	$ 521		MRKT						6/2/2005
	$ 300	$ 600	$ 20	Sec.8	$	353	$	247		10/3/2005
$ 738	$ 300	$ 612	$ 20	Sec.8	$	362	$	247		11/20/1998
$ 940	$ 300	$ 521	$ 20	MRKT						2/11/2005
$ 1,144	$ 300	$ 521	$ 20	MRKT						5/1/2007
$ 1,515	$ 300	$ 612	$ 20	Sec 8	$	391	$	221		4/15/1996
$ 1,024	$ 300	$ 521	$ 20	MRKT.	$	-	$	-		10/1/1996
$ 2,301	$ 300	$ 521	$ 20	MRKT.	-					4/5/1999
$ 954	$ 300	$ 521	$ 20	MRKT						5/1/2004
$ 1,058	$ 200	$ 521	$ 20	MRKT.	$	-	$	-		8/1/1993
$ 640	$ 300	$ 612	$ 20	Sec.8	$	427	$	182		5/11/1994
$ 2,540	$ 300	$ 521	$ 20	MRKT						7/15/2005
$ 829	$ 300	$ 612	$ 20	Sec.8	$	371	$	241		5\1\2002
$ 2,540	$ 200	$ 521	$ 20	MRKT.	$	-	$	-		3/4/1993
	$ 300	$ 612	$ 20	Sec.8	$	439	$	173		2/1/2007
$ 2,227	$ 300	$ 521	$ 20	MRKT						3/1/2005
					$	-	$	-		
$ 900	$ 300	$ 521	$ 20	MRKT						5/3/2005
$ 891	$ 300	$ 521	$ 20	MRKT						4/1/2008
$ 800	$ 300	$ 521	$ 20	MRKT						5/1/2008
$ 787	$ 200	$ 612	$ 20	Sec8	$	371	$	241		12/7/1993

Palomar Inn

$ 1,078	$ 300	$ 612	$ 20	Sec. 8	$ 296	$ 316	8/7/1996
$ 1,106	$ 300	$ 521	$ 20	MRKT.	$ -	$ -	8/1/1995
$ 2,208	$ 200	$ 521	$ 20	MRKT.			5/18/1995
$ 1,250	$ 600	$ 521		MRKT			11/12/2003
$ 3,000	$ 300	$ 521	$ 20	MRKT.	$ -	$ -	7/1/1995
$ 874	$ 300	$ 612	$ 20	Sec.8	$ 360	$ 252	5/1/2004
$ 3,919	$ 300	$ 521	$ 20	Mrkt			11/28/2007
$ 960	$ 300	$ 521	$ 20	MRKT			3/17/2008
$ 732	$ 600	$ 612		Sec. 8	$ 327	$ 282	12/1/1993
$ 876	$ 300	$ 521	$ 20	MRKT	$ -	$ -	12/1/2006
$ 1,373	$ 300	$ 521	$ 20	MRKT.	$ -	$ -	4/1/2003
$ 1,148	$ 200	$ 521	$ 20	MRKT.	$ -	$ -	5/15/1995
$ 974	$ 300	$ 521	$ 20	MRKT	$ -	$ -	4/23/2002
	$ 300	$ 521	$ 20	MRKT		-	12/12/2007
$ 1,872	$ 300	$ 521	$ 20	MRKT			12/27/2007
$ 1,650	$ 300	$ 521	$ 20	MRKT	$ -	$ -	10/9/2006
$ 614	$ 200	$ 612	$ 20	Sec.8	$ 370	$ 239	2/1/1996
$ 1,667	$ 300	$ 521	$ 20	MRKT.	$ -	$ -	7/1/1991
					$ -	$ -	
					$ -	$ -	
$ 649	$ 300	$ 612	$ 20	Sec. 8	$ 378	$ 231	8/1/1995
Total-Residential	$ 23,999	$ 44,796	$ 1,460		$ 8,604	$ 5,602	

6/10/2008

No	Name of Business	Sq Feet	Security Deposit	Base Rent	Rent Paid	Start Date	Rent Adj Date	Other Date	* Comments
	DATE 2/1/2008								
	[redacted]		$ 10,330.75	$ 14,494.00	$ 14,494.00	10/1/1991	**10/1/2008**		10 year lease W/ 1- 5 year option
			$ -	--------		"			annual CPI increase
			$ -	--------		"			
			$ -	--------		"			
				$ 164.00	$ 164.00	**	**10/5/1999**		
	[redacted]		$ 3,586.50	$ 6,658.00	$ 6,858.00	11/1/1991	**11/1/2013**		10 year lease w/1 five year option
			$ -	--------		"			
			$ 1,704.00	$ 2,546.03	$ 2,622.00	7/16/1991	**7/31/2014**		Annual cpi increase within 3% to 8%.
			$ 1,350.00	$ 2,080.26	$ 2,080.26	7/18/1991	**1/1/2009**		7 yr. w/ 3 yr. opt. cpi 4% to 8%
			$ 1,813.50	$ 2,823.00	$ 2,823.00	7/29/1991	**7/31/2011**	**8/1/1998**	cpi 2%to5%
				$ 1,894.78	$ 1,894.78	11/1/1996	**12/1/2008**		1 yr. w/ 3 yr. option exercised . cpi 5%
				$ 2,039.55	$ 2,039.55	1/00/95			5 yr. w/ 2- 5 yr.options exercised
						**			Month to Month
	[redacted]				$ -				
	** new								
	[redacted]tal-Main Building		$ 18,784.75	$ 32,699.62	$ 32,975.59				
	Front Street Building								
	[redacted]		$ 2,700.00	$ 3,233.00	$ 3,233.00	4/1/2000	3/31/2001	11/01/98	10 year lease / Cpi increases
			$ -						
	[redacted]			$ 1,104.00	$ 1,104.00	5/1/2001	4/30/		5 Year +3 - 3 Year extensions C.P.I.
	[redacted]		$ 5,875.00	$ 5,875.00	$ 5,875.00				3Year + 3 Year Option
									6/10/2008
			Palomar Inn						

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
DIVISION OF FINANCIAL ASSISTANCE
Asset Management & Compliance Section
1800 Third Street, Suite 390
P. O. Box 952054
Sacramento, CA 94252-2054
(916) 322-1560
FAX (916) 324-3246

September 2, 2008

Richard Gouker, Manager
Palomar Inn
1344 Pacific Ave
Santa Cruz, CA 95030

RE: California Natural Disaster Assistance Program (CALDAP)
Project #SCZ-R-021 Palomar Inn
Monitoring Clearance Letter

Dear Mr. Gouker:

Our Monitoring Report of July 2, 2008 included one Concern regarding the filing of Palomar Inn's 2008 proposed operating budget. We have subsequently received the required budget, and as a result, we are issuing this clearance letter. We appreciate your follow-up efforts to clear this issue.

If you have any questions, please contact me at (916) 327-8110 or email me at mluchessi@hcd.ca.gov.

Sincerely,

Michael Luchessi
Asset Management Representative
Department of Housing and Community Development

Cc: Samuel Samson, CPA