

REPORT

DATE ISSUED: December 8, 2022

REPORT NO: HDP22-014

ATTENTION: Chair and Members of the Board of Directors of Housing Development Partners of San Diego for the Agenda of December 15, 2022

SUBJECT: Hotel Churchill 2023 Property Budget

STAFF RECOMMENDATION:

That the Housing Development Partners (HDP) Board of Directors (Board) take the following actions:

- 1) Approve the 2023 Property Budget for Hotel Churchill.
- 2) Find that the foregoing action is just and reasonable as to HDP for purposes of California Corporations Code Section 5234.

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

Hotel Churchill is a 73-unit property in downtown San Diego that serves individuals with low income who experienced homelessness. The Housing Commission acquired the property in 2011. HDP developed the property in 2016, utilizing a Ground Lease with the Housing Commission which was effective April 2015.

The Hotel Churchill Property Budget is prepared annually by the management company, Hyder Property Management Professionals (Hyder). The budget is reviewed and refined by staff for accuracy and consistency with HDP's business plan for the asset.

Prior to January 1 of each calendar year, the HDP Board adopts the annual Property Budget and authorizes Hyder to operate the property according to that approved budget. The budget is also provided to the partnership's lenders and financing partners.

Staff is requesting approval of the 2023 Property Budget.

BUDGET SUMMARY

The 2023 Operating Budget was prepared using industry data combined with the professional experience of Hyder and HDP's asset management team. The Net Operating Income of the property is expected to be higher than underwriting / pro forma expectations. Below is a summary chart of the 2023 Operating Budget compared to the 2022 Budget.

	Hotel Churchill				
	FY 2022	FY 2023	\$ Variance	% Variance	Notes
Rental Income	1,091,750	1,729,650	623,740	55%	<i>Sponsor-based voucher payment standard and 2% increase.</i>
Other Income	36,400	22,240	-14,160	-39%	<i>Less anticipated commercial rental income due to market conditions.</i>
Total Revenue	1,128,150	1,751,890	623,740	55%	
Total Admin	204,863	246,152	41,289	20%	<i>Property Management fee increase. Payroll, budgeted max employee benefit election.</i>
Total Utilities	105,044	108,726	3,682	4%	<i>Based on FY22 budget + 4% increase.</i>
Total R&M	241,446	258,519	17,073	7%	<i>Security & trash removal increase. Payroll, budgeted max employee benefit election.</i>
Taxes & Insurance	27,929	30,077	2,148	8%	<i>Insurance increase (industry-wide impact).</i>
Other (Extraordinary items)	103,087	132,974	29,887	29%	<i>Ground lease expense increased due to increased income.</i>
Other (Debit due to uncollectible rent)	0	15,758	15,758	100%	<i>Pandemic-related uncollectible-rent debt.</i>
Total Operating Expenses	682,369	792,207	109,838	16%	<i>Extraordinary expenses: uncollectible-rent debt, ground lease, property management fee and insurance.</i>
NOI	445,781	959,683	513,902	115%	
Debt Service	7,560	7,560	0	0%	
Net Cash Flow	438,221	952,123	110,307	117%	<i>Increase due to new payment standard.</i>

RENTS

The 2023 Property Budget reflects a revenue increase due to the project increasing rents per the Housing Commission's sponsor-based voucher payment standard. The increase to the payment standard does not impact the resident's portion of rent.

MAINTENANCE AND REPAIR

The 2023 budget reflects an increase in overall maintenance. The budget is based on the needs of the property and consistent with other similar assets. Staff will continue to monitor maintenance expenses and implement preventative maintenance measures to extend the useful life of the units.

STAFFING

The full-time staff for the property consists of one property manager, one assistant manager and one maintenance technician. The property also has one part-time porter.

CAPITAL PLAN

The property has conducted a Physical Needs Assessment in 2022 to help solidify the asset's plans for the future. Total deposits to the replacement reserve account in 2023 will be \$41,235, consistent with regulating agreements.

FISCAL CONSIDERATIONS

For Fiscal Year 2023, it is anticipated that the property's Total Revenue will be \$1,751,890. Total Operating Expenses will be \$792,207 for a Net Operating Income of \$959,683. The Net Operating Income of the property is expected to be higher than underwriting / pro forma expectations.

ENVIRONMENTAL REVIEW

Approval of the Hotel Churchill operating budget is 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. The parties agree that the provision of any federal funds as the result of this action is conditioned on the City of San Diego's final NEPA review and approval. No contracts will be signed nor any action taken nor work performed under any of the contracts until such time as the appropriate NEPA clearances have been obtained.

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 (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 Housing Commission, if and when this matter is heard by the Housing Commission.

Further, as members of the Housing Commission Board of Commissioners, 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 HDP Board of Directors. 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 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 the Housing Commission 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 Housing Commission, if and when this matter is heard by the Housing Commission.

MUTUAL DIRECTORS STATEMENT:

To the extent that Commissioners may be considered to be “directors” of the 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,

Emmanuel Arellano

Emmanuel Arellano
Vice President of Asset Management
Housing Development Partners

Approved by,

Emily S. Jacobs

Emily S. Jacobs
Executive Vice President
Housing Development Partners

Attachments: 1) Churchill - 2023 Property Operations Budget

Docket materials are available on HDP’s website at www.hdpartners.org

Hotel Churchill - 2023 Operating Summary		
	2022 Budget	2023 Budget
INCOME		
Gross Potential Rent		
Gross Potential Revenue	\$ 1,206,252	\$ 1,855,368
Gain Loss to Lease	\$ (38,016)	\$ (7,930)
Less: Vacancies	\$ (59,962)	\$ (92,372)
Less: Down Unit	-	-
Less: Manager's Unit	\$ (16,524)	\$ (25,416)
Less: Discounts and Concesss	-	-
Less: Office Community Room Unit	-	-
Less: COVID Hardship	-	-
Rent Subsidy Variances	-	-
Net Rental Income	\$ 1,091,750	\$ 1,729,650
Other Income		
Rental Income Commercial	\$ 31,020	\$ 16,500
Application Fees	\$ 280	\$ 280
Damages Cleaning Fees	\$ 3,000	\$ 2,000
Carport Garage Gate Income	-	-
Laundry and Vending Revenue	\$ 1,440	\$ 2,000
NSF Late Charges	\$ 600	\$ 400
Former Tenant Income	-	-
Interest Income - Restricted	\$ 60	\$ 60
Interest Income - Replacement Reverse	-	-
Interest Income Investments	-	-
Grant Income - Fed - Svc Coord	-	-
Commercial Tenant - Reimb	-	-
Miscellaneous Income	-	\$ 1,000
Total Other Income	\$ 36,400	\$ 22,240
Total Income	\$ 1,128,150	\$ 1,751,890
EXPENSES		
Admin		
Consultant Asset Mgmt	-	-
Broker Fees	-	\$ 1,980
Audit and Tax Prep Fees	\$ 12,150	\$ 12,150
IT Support Maintenance	-	\$ 600
Property Management Fees	\$ 57,525	\$ 85,695
Bookkeeping Fees	-	-
Office Expense	-	-
Internet and Telephone	-	-
Office Supplies	\$ 1,700	\$ 2,100
Parking	-	-

Hotel Churchill - 2023 Operating Summary		
	2022 Budget	2023 Budget
Software Exp Admin	-	
Copier Printer	-	\$ 300
Office Repairs and Maint	-	
Bank Charges Admin	-	\$ 1,300
Mileage	-	\$ 100
Dues Subs and Memberships	-	
Other Admin Expense	\$ 5,500	\$ 1,100
Manager and Admin Salaries	\$ 76,360	\$ 88,400
Office Salaries	-	-
Employee Benefits PM Co - Program Admin	\$ 15,273	\$ 16,922
Payroll Taxes - Manager and Admin	\$ 6,800	\$ 8,048
Workman's Comp Mgr and Admin	\$ 6,400	\$ 8,888
Temp Services - Admin	-	
Consultant Other Program Admin	\$ 850	\$ 850
Legal - Program Admin	\$ 2,000	\$ 3,000
Cleaning and Janitorial Contract	\$ 6,831	\$ 1,600
Credit Check Service Fee	\$ 350	\$ 350
Internet and Telephone Prog Admin	\$ 4,824	\$ 5,140
Advertising	\$ 150	\$ 200
Bank Charges Program Admin	\$ 1,300	\$ 1,339
Mileage and Travel Exp Prog Admin	\$ 150	\$ 150
Training - Program Admin	\$ 600	\$ 700
Postage and Delivery Prog Admin	\$ 200	\$ 200
Software Exp Program Admin	\$ 5,900	\$ 5,040
Misc Program Admin	-	
Lease Up Expenses	-	
Total Admin	\$ 204,863	\$ 246,152
Utilities		
Cable Expenses	\$ 1,450	\$ 1,494
Electricity	\$ 77,359	\$ 79,680
Gas	\$ 3,077	\$ 3,700
Sewer	\$ 8,863	\$ 9,129
Water	\$ 14,295	\$ 14,724
Total Utilities	\$ 105,044	\$ 108,726
Maintenance and Repair		
Fire Protection and Alarm	\$ 7,000	\$ 7,000
AC Contracts	\$ 1,000	\$ 1,000
Clubhouse Expense	\$ 600	\$ 600
Decorating	-	-
Elevator Contracts	\$ 7,200	\$ 8,100
Exterminating Supplies	\$ 175	\$ 175
Exterminating Contracts	\$ 5,200	\$ 5,350
Electrical Contracts	\$ 1,600	\$ 1,700

Hotel Churchill - 2023 Operating Summary		
	2022 Budget	2023 Budget
Bad Debt - Other Tenant Charges	-	\$ 564
Bad Debt - Other - Elim	-	
CY Deposit to Replacement Reserve	\$ 40,426	\$ 41,235
CY Deposit Escrow Rplc Reserve	-	
Total Other Expenses	\$ 103,087	\$ 148,732
Total Operating Expenses	\$ 682,369	\$ 792,207
Net Operating Income	\$ 445,781	\$ 959,683
Debt Service		
CY Mortgage Debt Payments	-	-
Interest Expense - Mortgage	-	-
Mortgage Insurance Expense	-	-
Loan Servicing Fee (Trustee Fee)	\$ 7,560	\$ 7,560
SDHC Bond Admin Fee	-	-
Loan Fees	-	-
Total Debt Service	\$ 7,560	\$ 7,560
Net Cash Flow	\$ 438,221	\$ 952,123