

REPORT

DATE ISSUED: December 8, 2022

REPORT NO: HDP22-015

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

SUBJECT: Knox Glen 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 Knox Glen.
- 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

Knox Glen Townhomes is a 54-unit affordable housing property in southeast San Diego, developed by HDP in 1996 with low-income housing tax credits (LIHTC).

In 2013, the property was refinanced and rehabilitated in a partnership with Retirement Housing Foundation under a new entity name, Logan Development II, LP.

The Knox Glen Property Budget is prepared annually by the management company, Hyder Property Management Professionals (Hyder). The budget is reviewed and refined by HDP 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 Property Budget was prepared using historical data from actual property operations 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, which compares the proposed 2023 budget to the 2022 budget.

	Knox Glen				
	FY 2022	FY 2023	\$ Variance	% Variance	Notes
Rental Income	843,335	875,759	32,424	4%	3% rent increase of current rents
Other Income	3,580	5,563	1,983	55%	Increase based on FY22 actual
Total Revenue	846,915	881,322	34,407	4%	
Total Admin	119,341	121,613	2,272	2%	Increase in admin categories, including legal expenses
Total Utilities	91,135	94,023	2,888	3%	Consistent with actuals, anticipate 3% increase.
Total R&M	133,222	159,368	26,146	20%	Payroll, workers comp, budgeted max employee benefit election.
Taxes & Insurance	37,231	40,369	3,138	8%	Insurance increase (industry-wide impact).
Other (Extraordinary items)	23,367	24,050	683	3%	Slight increase for water-related remediation based on FY22.
Other (debt due to uncollectible rent)	0	5,090	5,090	100%	Pandemic-related uncollectible-rent debt.
Total Operating Expenses	404,296	444,513	40,217	10%	Extraordinary expense. Operating at 7% overall increase aside from insurance, payroll and benefits and uncollectible-rent debt.
NOI	442,619	436,809	-5,810	2%	
Debt Service	234,814	233,703	-1,111	0%	
Net Cash Flow	207,805	203,106	-4,699	-2%	Cash flow budgeted to exceed pro forma targets.

RENTS

The 2023 Property Budget includes a rent increase of 38 units effective February and 15 units effective March 2023 in alignment with underwriting.

MAINTENANCE AND REPAIR

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 property staffing consists of one full-time manager and one full-time maintenance technician.

CAPITAL PLAN

Staff has included a modest amount for unit turnover expenses from the Capital Budget. Total deposits to the replacement reserve account in 2023 will be \$20,051 consistent with regulatory agreements.

FISCAL CONSIDERATIONS

For Fiscal Year 2023, it is anticipated that the property's Total Revenue will be \$881,322. Total Operating Expenses will be \$444,513 for a Net Operating Income of \$436,809. The Net Operating Income of the property is expected to be higher than underwriting / pro forma expectations.

ENVIRONMENTAL REVIEW

Approval of the Knox Glen 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 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 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 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) Knox Glen - 2023 Property Operations Budget

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

Knox Glen - 2023 Operating Summary		
	2022 Budget	2023 Budget
INCOME		
Gross Potential Rent		
Gross Potential Revenue	\$ 1,141,212	\$ 1,090,248
Gain Loss to Lease	\$ (220,644)	\$ (146,190)
Less: Vacancies	\$ (57,061)	\$ (47,203)
Less: Down Unit	-	
Less: Manager's Unit	\$ (20,172)	\$ (21,097)
Less: Discounts and Concesss	-	
Less: Office Community Room Unit	-	
Less: COVID Hardship	-	
Rent Subsidy Variances	-	-
Net Rental Income	\$ 843,335	\$ 875,759
Other Income		
Rental Income Commercial	-	-
Application Fees	\$ 180	\$ 185
Damages Cleaning Fees	\$ 600	\$ 618
Carport Garage Gate Income	-	-
Laundry and Vending Revenue	\$ 1,600	\$ 1,648
NSF Late Charges	\$ 1,200	\$ 1,236
Former Tenant Income	-	\$ 1,416
Interest Income - Restricted	-	\$ 61
Interest Income - Replacement Reverse	-	-
Interest Income Investments	-	-
Grant Income - Fed - Svc Coord	-	-
Commercial Tenant - Reimb	-	-
Miscellaneous Income	-	\$ 399
Total Other Income	\$ 3,580	\$ 5,563
Total Income	\$ 846,915	\$ 881,322
EXPENSES		
Admin		
Consultant Asset Mgmt	-	-
Broker Fees	-	-
Audit and Tax Prep Fees	\$ 12,150	\$ 12,515
IT Support Maintenance	-	-
Property Management Fees	\$ 38,594	\$ 40,176
Bookkeeping Fees	-	
Office Expense	-	
Internet and Telephone	-	
Office Supplies	\$ 2,500	\$ 2,575
Parking	-	-

Knox Glen - 2023 Operating Summary		
	2022 Budget	2023 Budget
Software Exp Admin	-	-
Copier Printer	-	-
Office Repairs and Maint	-	-
Bank Charges Admin	-	-
Mileage	-	-
Dues Subs and Memberships	-	-
Other Admin Expense	\$ 1,000	\$ 1,030
Manager and Admin Salaries	\$ 39,635	\$ 41,270
Office Salaries	-	-
Employee Benefits PM Co - Program Admin	\$ 7,000	\$ 3,500
Payroll Taxes - Manager and Admin	\$ 3,400	\$ 3,802
Workman's Comp Mgr and Admin	\$ 3,000	\$ 3,848
Temp Services - Admin	-	-
Consultant Other Program Admin	\$ 800	\$ 824
Legal - Program Admin	\$ 900	\$ 1,200
Cleaning and Janitorial Contract	\$ 500	\$ 515
Credit Check Service Fee	\$ 130	\$ 134
Internet and Telephone Prog Admin	\$ 3,132	\$ 3,226
Advertising	-	-
Bank Charges Program Admin	\$ 900	\$ 927
Mileage and Travel Exp Prog Admin	\$ 200	\$ 206
Training - Program Admin	\$ 500	\$ 515
Postage and Delivery Prog Admin	\$ 200	\$ 206
Software Exp Program Admin	\$ 4,800	\$ 5,145
Misc Program Admin	-	-
Lease Up Expenses	-	-
Total Admin	\$ 119,341	\$ 121,613
Utilities		
Cable Expenses	-	-
Electricity	\$ 12,000	\$ 15,600
Gas	\$ 1,760	\$ 1,248
Sewer	\$ 39,582	\$ 33,075
Water	\$ 37,793	\$ 44,100
Total Utilities	\$ 91,135	\$ 94,023
Maintenance and Repair		
Fire Protection and Alarm	\$ 2,000	\$ 2,060
AC Contracts	\$ 350	\$ 361
Clubhouse Expense	\$ 400	\$ 412
Decorating	-	-
Elevator Contracts	-	-
Exterminating Supplies	-	-
Exterminating Contracts	\$ 2,000	\$ 2,120
Electrical Contracts	\$ 400	\$ 412

Knox Glen - 2023 Operating Summary

	2022 Budget	2023 Budget
Furn and Appl Rplcmnt	\$ 2,000	\$ 2,060
Landscape and Grounds Contract	\$ 12,000	\$ 12,360
Ground Supplies	\$ 500	\$ 515
Janitorial Supplies	\$ 800	\$ 824
COVID Supplies	\$ 300	\$ 309
Maint Supplies and Materials	\$ 300	\$ 318
Plumbing Contracts	\$ 3,500	\$ 3,710
Plumbing Supplies	\$ 1,400	\$ 1,484
Repair and Maint Payroll	\$ 42,848	\$ 49,220
Payroll Taxes - Rpr and Maint	\$ 3,400	\$ 4,406
Employee Benefits PM Co - Program	\$ 4,000	\$ 5,282
Temp Services - Program Admin	-	-
Unit Turnover Contracts	-	-
Flooring	\$ 1,000	-
Painting Contract	\$ 500	\$ 1,000
Repair Contracts	\$ 2,000	\$ 2,060
Repair Supplies	\$ 5,000	\$ 5,150
Security Contract Program	\$ 10,000	\$ 10,400
Security Payroll	-	-
Trash Removal	\$ 35,424	\$ 50,170
Workman's Comp-Rpr and Maint	\$ 2,900	\$ 4,530
Extraordinary Maintenance	-	-
Uniforms	\$ 200	\$ 206
Insurance Claims Expense	-	-
Insurance Proceeds	-	-
Retail Space Expenses	-	-
Total Maintenance and Repair	\$ 133,222	\$ 159,368
Taxes and Insurance		
Taxes Licenses and Fees	\$ 1,600	\$ 1,648
Fidelity Bond Insurance	\$ 50	\$ 52
Insurance Other	\$ 400	\$ 412
Property and Liability Ins	\$ 33,681	\$ 36,712
Property Taxes	\$ 1,500	\$ 1,545
Total Taxes and Insurance	\$ 37,231	\$ 40,369
Other Expenses		
Tenant Services Other	\$ 600	\$ 600
Tenant Services Payroll and Benefits	-	-
SDHC Compliance Monitoring Fee	\$ 3,300	\$ 3,399
Relocation Costs	-	-
Relocation due to Maint	-	-
Ground Lease Expense	-	-
Miscellaneous Exp Program	-	-
Bad Debt - Tenant Rent	-	\$ 5,208

Knox Glen - 2023 Operating Summary		
	2022 Budget	2023 Budget
Bad Debt - Other Tenant Charges	-	\$ (118)
Bad Debt - Other - Elim	-	-
CY Deposit to Replacement Reserve	\$ 19,467	
CY Deposit Escrow Rplc Reserve	-	\$ 20,051
Total Other Expenses	\$ 23,367	\$ 29,140
Total Operating Expenses	\$ 404,296	\$ 444,513
Net Operating Income	\$ 442,619	\$ 436,809
Debt Service		
CY Mortgage Debt Payments	-	\$ 70,780
Interest Expense - Mortgage	\$ 229,590	\$ 158,784
Mortgage Insurance Expense	-	-
Loan Servicing Fee (Trustee Fee)	\$ 5,224	
SDHC Bond Admin Fee	-	\$ 4,139
Loan Fees	-	-
Total Debt Service	\$ 234,814	\$ 233,703
Net Cash Flow	\$ 207,805	\$ 203,106