

## REPORT

**DATE ISSUED:** December 8, 2022

**REPORT NO:** HDP22-017

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

**SUBJECT:** New Palace Hotel 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 New Palace Hotel.
- 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**

New Palace Hotel is an 80-unit affordable housing property for seniors with low income, earning between 30 percent and 60 percent of the San Diego area median income, who experienced homelessness. It was developed with low-income housing tax credits (LIHTC). The property was acquired on January 12, 2016, and rehabilitated by HDP in winter 2018.

The New Palace Hotel Property Budget is prepared annually by the management company, Winn Property Management Co. (Winn). 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 Winn 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 property operations combined with the professional experience of Winn 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.

	New Palace Hotel				
	FY 2022	FY 2023	\$ Variance	% Variance	Notes
Rental Income	1,172,030	1,599,046	427,015	36%	Payment standard increase.
Other Income	2,669	3,889	1,220	46%	Anticipated commercial income (beginning in fourth quarter).
<b>Total Revenue</b>	<b>1,174,699</b>	<b>1,602,935</b>	<b>428,235</b>	<b>36%</b>	
Total Admin	184,288	216,913	32,625	18%	Property Management fee increase. Payroll, budgeted max employee benefit election.
Total Utilities	87,000	98,850	11,850	14%	Consistent with actuals and 5% anticipated increase.
Total R&M	166,640	185,208	18,568	11%	Plumbing and repairs contracts. Budgeted benefits and max employee election.
Taxes & Insurance	30,109	33,106	2,997	10%	Insurance increase (industry-wide impact). Property 90% exempt from property taxes (commercial space).
Other (Extraordinary items)	71,850	69,850	-2,000	-3%	
Other (debt due to uncollectible rent)	-	852	852	100%	Pandemic-related uncollectible-rent debt.
<b>Total Operating Expenses</b>	<b>539,887</b>	<b>604,779</b>	<b>64,892</b>	<b>12%</b>	Extraordinary expenses: insurance premium, and property management fee. Operating at a 5% overall increase.
<b>Net Income</b>	<b>634,812</b>	<b>998,156</b>	<b>363,344</b>	<b>57%</b>	
Debt Service	295,434	295,431	-3	0%	
<b>Net Cash Flow</b>	<b>339,378</b>	<b>702,725</b>	<b>363,347</b>	<b>107%</b>	Increase due to new payment standard.

## RENTS

Rents are anticipated to increase per the Housing Commission's increase to project-based housing vouchers (PBV) payment standards. The increase to the PBV payment standard does not impact the resident's portion of rent

## MAINTENANCE AND REPAIR

The 2023 Total Maintenance budget reflects an increase due to repair and maintenance staffing salary and benefits, and repair & plumbing contracts. 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, one full-time maintenance tech and one full-time custodian.

## CAPITAL PLAN

The property has conducted a Physical Needs Assessment in 2022 to help solidify the asset's plans for the future. There will be monthly deposits of \$3,333 to the replacement reserve account in 2023, a total of \$40,000 by year-end of 2023, consistent with regulatory agreements.

### **FISCAL CONSIDERATIONS**

For Fiscal Year 2023, it is anticipated that the property's Total Revenue will be \$1,614,683. Total Operating Expenses will be \$604,779 for a Net Operating Income of \$1,009,904. The Net Operating Income of the property is expected to be higher than underwriting / pro forma expectations.

### **ENVIRONMENTAL REVIEW**

Approval of the New Palace Hotel 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) New Palace Hotel - 2023 Property Operations Budget

Docket materials are available on HDP's website at [www.hdpartners.org](http://www.hdpartners.org)

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New Palace Hotel 2023 Property Budget

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New Palace Hotel - 2023 Operating Summary		
	2022 Budget	2023 Budget
<b>INCOME</b>		
<b>Gross Potential Rent</b>		
Gross Potential Revenue	\$ 1,305,552	\$ 1,882,195
Gain Loss to Lease	\$ (51,786)	\$ (198,989)
Less: Vacancies	\$ (65,278)	\$ (84,160)
Less: Down Unit	-	
Less: Manager's Unit	\$ (16,458)	\$ -
Less: Discounts and Concesss	-	
Less: Office Community Room Unit	-	\$ -
Less: COVID Hardship	-	
Rent Subsidy Variances	-	
<b>Net Rental Income</b>	<b>\$ 1,172,030</b>	<b>\$ 1,599,046</b>
<b>Other Income</b>		
Rental Income Commercial	-	
Application Fees	-	
Damages Cleaning Fees	\$ 700	\$ 800
Carport Garage Gate Income	-	
Laundry and Vending Revenue	\$ 1,700	\$ 2,900
NSF Late Charges	\$ 150	\$ 150
Former Tenant Income	-	
Interest Income - Restricted	\$ 58	
Interest Income - Replacement Reverse	-	\$ 39
Interest Income Investments	\$ 61	
Grant Income - Fed - Svc Coord	-	
Commercial Tenant - Reimb	-	
Miscellaneous Income	-	
<b>Total Other Income</b>	<b>\$ 2,669</b>	<b>\$ 3,889</b>
<b>Total Income</b>	<b>\$ 1,174,699</b>	<b>\$ 1,602,935</b>
<b>EXPENSES</b>		
<b>Admin</b>		
Consultant Asset Mgmt	-	
Broker Fees	-	
Audit and Tax Prep Fees	\$ 11,750	\$ 12,311
IT Support Maintenance	-	
Property Management Fees	\$ 70,481	\$ 95,892
Bookkeeping Fees	-	
Office Expense	\$ 7,450	\$ 300
Internet and Telephone	-	
Office Supplies	-	
Parking	-	

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New Palace Hotel 2023 Property Budget

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New Palace Hotel - 2023 Operating Summary		
	2022 Budget	2023 Budget
Software Exp Admin	-	
Copier Printer	\$ 1,920	\$ 1,920
Office Repairs and Maint	-	
Bank Charges Admin	-	
Mileage	-	
Dues Subs and Memberships	\$ 564	\$ 592
Other Admin Expense	-	
Manager and Admin Salaries	\$ 49,128	\$ 52,900
Office Salaries	-	\$ -
Employee Benefits PM Co - Program Admin	\$ 11,100	\$ 15,243
Payroll Taxes - Manager and Admin	\$ 5,852	\$ 4,685
Workman's Comp Mgr and Admin	\$ 3,771	\$ 4,314
Temp Services - Admin	-	
Consultant Other Program Admin	\$ 4,352	\$ 3,475
Legal - Program Admin	\$ 1,700	\$ 1,700
Cleaning and Janitorial Contract	\$ 1,500	\$ 1,900
Credit Check Service Fee	-	
Internet and Telephone Prog Admin	\$ 6,400	\$ 6,898
Advertising	-	\$ 818
Bank Charges Program Admin	\$ 2,350	\$ 1,854
Mileage and Travel Exp Prog Admin	\$ 200	\$ 200
Training - Program Admin	\$ 1,500	\$ 1,500
Postage and Delivery Prog Admin	\$ 170	\$ 180
Software Exp Program Admin	\$ 3,500	\$ 8,712
Misc Program Admin	\$ 600	\$ 1,519
Lease Up Expenses	-	
<b>Total Admin</b>	<b>\$ 184,288</b>	<b>\$ 216,913</b>
<b>Utilities</b>		
Cable Expenses	-	
Electricity	\$ 55,900	\$ 59,730
Gas	\$ 5,300	\$ 5,500
Sewer	\$ 12,200	\$ 14,700
Water	\$ 13,600	\$ 18,920
<b>Total Utilities</b>	<b>\$ 87,000</b>	<b>\$ 98,850</b>
<b>Maintenance and Repair</b>		
Fire Protection and Alarm	\$ 8,243	\$ 9,100
AC Contracts	\$ 2,500	\$ 2,500
Clubhouse Expense	-	
Decorating	\$ 400	
Elevator Contracts	\$ 3,988	\$ 4,600
Exterminating Supplies	-	
Exterminating Contracts	\$ 6,350	\$ 7,200
Electrical Contracts	\$ 750	\$ 900

New Palace Hotel - 2023 Operating Summary		
	2022 Budget	2023 Budget
Furn and Appl Rplcmnt	\$ 4,470	
Landscape and Grounds Contract	-	
Ground Supplies	\$ 550	\$ 540
Janitorial Supplies	\$ 2,900	\$ 2,900
COVID Supplies	\$ 200	
Maint Supplies and Materials	\$ 500	\$ 1,500
Plumbing Contracts	\$ 4,000	\$ 6,493
Plumbing Supplies	-	
Repair and Maint Payroll	\$ 70,488	\$ 74,769
Payroll Taxes - Rpr and Maint	\$ 5,801	\$ 7,012
Employee Benefits PM Co - Program	\$ 20,092	\$ 27,428
Temp Services - Program Admin	-	
Unit Turnover Contracts	\$ 500	\$ 500
Flooring	-	
Painting Contract	-	\$ 500
Repair Contracts	\$ 2,700	\$ 5,100
Repair Supplies	\$ 1,800	
Security Contract Program	\$ 16,808	\$ 17,648
Security Payroll	-	\$ -
Trash Removal	\$ 10,200	\$ 10,650
Workman's Comp-Rpr and Maint	\$ 3,100	\$ 5,667
Extraordinary Maintenance	-	
Uniforms	\$ 300	\$ 200
Insurance Claims Expense	-	
Insurance Proceeds	-	
Retail Space Expenses	-	
<b>Total Maintenance and Repair</b>	<b>\$ 166,640</b>	<b>\$ 185,208</b>
<b>Taxes and Insurance</b>		
Taxes Licenses and Fees	\$ 1,490	\$ 1,973
Fidelity Bond Insurance	-	
Insurance Other	-	
Property and Liability Ins	\$ 24,225	\$ 26,312
Property Taxes	\$ 4,394	\$ 4,821
<b>Total Taxes and Insurance</b>	<b>\$ 30,109</b>	<b>\$ 33,106</b>
<b>Other Expenses</b>		
Tenant Services Other	\$ 18,000	\$ 18,000
Tenant Services Payroll and Benefits	-	\$ -
SDHC Compliance Monitoring Fee	\$ 11,850	\$ 11,850
Relocation Costs	-	
Relocation due to Maint	-	
Ground Lease Expense	-	
Miscellaneous Exp Program	\$ 2,000	
Bad Debt - Tenant Rent	-	\$ (492)

New Palace Hotel - 2023 Operating Summary		
	2022 Budget	2023 Budget
Bad Debt - Other Tenant Charges	-	\$ 1,344
Bad Debt - Other - Elim	-	
CY Deposit to Replacement Reserve	-	
CY Deposit Escrow Rplc Reserve	\$ 40,000	\$ 40,000
<b>Total Other Expenses</b>	<b>\$ 71,850</b>	<b>\$ 70,702</b>
<b>Total Operating Expenses</b>	<b>\$ 539,887</b>	<b>\$ 604,779</b>
<b>Net Operating Income</b>	<b>\$ 634,812</b>	<b>\$ 998,156</b>
<b>Debt Service</b>		
CY Mortgage Debt Payments	-	\$ 66,999
Interest Expense - Mortgage	\$ 275,934	\$ 208,932
Mortgage Insurance Expense	-	
Loan Servicing Fee (Trustee Fee)	\$ 19,500	\$ 9,500
SDHC Bond Admin Fee	-	\$ 10,000
Loan Fees	-	
<b>Total Debt Service</b>	<b>\$ 295,434</b>	<b>\$ 295,431</b>
<b>Net Cash Flow</b>	<b>\$ 339,378</b>	<b>\$ 702,725</b>