

REPORT

DATE ISSUED: December 8, 2022

REPORT NO: HDP22-019

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

SUBJECT: Quality Inn 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 Quality Inn.
- 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

Quality Inn is a 92-unit affordable housing property in downtown San Diego for individuals who experienced homelessness. HDP acquired the leasehold interest in the property by entering into a Ground Lease with the Housing Commission. Rehabilitation of the property began in the spring of 2021. Rehabilitation is expected to conclude in 2023.

The Quality Inn Property Budget is prepared annually by the management company, Winn Property Management Co. (Winn). 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 Winn to operate the property according to that approved budget. The budget is also provided to partnership's lenders and financing partners.

Staff is requesting approval of the 2023 Property Budget.

BUDGET SUMMARY

The 2023 Property Budget was prepared using industry data combined with the professional experience of Winn and HDP's asset management team. The proposed 2023 budget was put together based on previous years' actuals and the underwriting pro forma. 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 against the 2022 Budget.

	Quality Inn				
	FY 2022	FY 2023	\$ Variance	% Variance	Notes
Rental Income	1,277,273	1,937,838	660,565	52%	<i>New payment standard and 2% increase in FY23.</i>
Other Income	4,708	5,370	662	14%	
Total Revenue	1,281,981	1,943,208	661,227	52%	
Total Admin	242,473	305,891	63,418	26%	<i>Property Management fee increase (percentage of rental income). Payroll, budgeted max employee benefit election.</i>
Total Utilities	72,403	73,667	1,264	2%	<i>Consistent with actuals and 7% anticipated increase.</i>
Total R&M	176,605	167,538	-9,067	-5%	<i>Decrease due to portion of security paid out of security reserve.</i>
Taxes & Insurance	24,787	27,880	3,093	12%	<i>Insurance increase (industry-wide impact).</i>
Other (extraordinary items)	120,428	125,776	5,348	4%	<i>Ground lease.</i>
Other (debt due to uncollectible rent)	0	28,864	28,864	100%	<i>Pandemic-related uncollectible-rent debt.</i>
Total Expenses	636,696	729,615	92,919	15%	<i>Extraordinary expenses: uncollectible-rent debt, insurance premium increase, ground lease and property management fee. Operating at a 4% overall increase.</i>
Net Income	645,285	1,213,593	568,308	88%	
Debt Service	295,900	295,900	0	0%	
Net Cash Flow	349,385	917,693	568,308	163%	<i>Increase due to new payment standard.</i>

RENTS

The property's rents are consistent with current payment standards for single-room occupancy (SRO) properties and studios. Rent increases will be made per increases to the Housing Commission's project-based housing voucher (PBV) payment standard. The increase to the PBV payment standard does no impact the resident's portion of rent.

MAINTENANCE AND REPAIR

The maintenance and repairs budget for 2023 has been adjusted due to the completion of the rehabilitation as the property enters its stabilization period. 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 staff for the property consists of one full-time property manager, one full-time assistant manager, and maintenance technician and one porter. The maintenance technician and porter's time and cost are split between Quality Inn and West Park Inn.

CAPITAL PLAN

Total deposits to the replacement reserve account in 2023 will be \$47,376, consistent with regulatory agreements.

FISCAL CONSIDERATIONS

For Fiscal Year 2023, it is anticipated that the property's Total Revenue will be \$1,943,208. Total Operating Expenses will be \$729,615 for a Net Operating Income of \$1,213,593. The Net Operating Income of the property is expected to be higher than underwriting / pro forma expectations.

ENVIRONMENTAL REVIEW

Approval of the Quality Inn 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 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) Quality Inn - 2023 Property Operations Budget

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

Quality Inn - 2023 Operating Summary		
	2022 Budget	2023 Budget
INCOME		
Gross Potential Rent		
Gross Potential Revenue	\$ 1,346,328	\$ 2,066,530
Gain Loss to Lease	-	\$ (79)
Less: Vacancies	\$ (52,531)	\$ (103,323)
Less: Down Unit	-	
Less: Manager's Unit	\$ (16,524)	\$ (25,290)
Less: Discounts and Concesss	-	
Less: Office Community Room Unit	-	-
Less: COVID Hardship	-	
Rent Subsidy Variances	-	
Net Rental Income	\$ 1,277,273	\$ 1,937,838
Other Income		
Rental Income Commercial	-	
Application Fees	-	
Damages Cleaning Fees	\$ 1,200	\$ 2,600
Carport Garage Gate Income	-	
Laundry and Vending Revenue	\$ 2,400	\$ 2,400
NSF Late Charges	\$ 300	\$ 300
Former Tenant Income	-	
Interest Income - Restricted	\$ 108	\$ 70
Interest Income - Replacement Reverse	-	
Interest Income Investments	-	
Grant Income - Fed - Svc Coord	-	
Commercial Tenant - Reimb	-	
Miscellaneous Income	\$ 700	
Total Other Income	\$ 4,708	\$ 5,370
Total Income	\$ 1,281,981	\$ 1,943,208
EXPENSES		
Admin		
Consultant Asset Mgmt	-	
Broker Fees	-	
Audit and Tax Prep Fees	\$ 10,550	\$ 11,130
IT Support Maintenance	-	
Property Management Fees	\$ 75,909	\$ 114,538
Bookkeeping Fees	-	
Office Expense	\$ 9,100	
Internet and Telephone	-	
Office Supplies	-	
Parking	-	

Quality Inn - 2023 Operating Summary		
	2022 Budget	2023 Budget
Software Exp Admin	\$ 3,500	
Copier Printer	-	
Office Repairs and Maint	-	
Bank Charges Admin	-	
Mileage	-	
Dues Subs and Memberships	-	
Other Admin Expense	-	
Manager and Admin Salaries	\$ 85,069	\$ 94,788
Office Salaries	-	-
Employee Benefits PM Co - Program Admin	\$ 22,700	\$ 28,614
Payroll Taxes - Manager and Admin	\$ 8,478	\$ 8,534
Workman's Comp Mgr and Admin	\$ 4,340	\$ 7,813
Temp Services - Admin	-	
Consultant Other Program Admin	\$ 5,741	\$ 4,798
Legal - Program Admin	\$ 4,200	\$ 6,428
Cleaning and Janitorial Contract	\$ 1,100	\$ 1,500
Credit Check Service Fee	-	
Internet and Telephone Prog Admin	\$ 6,804	\$ 10,015
Advertising	\$ 100	\$ 853
Bank Charges Program Admin	\$ 2,508	\$ 2,141
Mileage and Travel Exp Prog Admin	\$ 150	\$ 300
Training - Program Admin	\$ 1,624	\$ 1,705
Postage and Delivery Prog Admin	\$ 300	\$ 300
Software Exp Program Admin	-	\$ 12,198
Misc Program Admin	\$ 300	\$ 235
Lease Up Expenses	-	
Total Admin	\$ 242,473	\$ 305,891
Utilities		
Cable Expenses	-	
Electricity	\$ 40,489	\$ 40,717
Gas	\$ 5,980	\$ 8,006
Sewer	\$ 11,271	\$ 9,552
Water	\$ 14,663	\$ 15,391
Total Utilities	\$ 72,403	\$ 73,667
Maintenance and Repair		
Fire Protection and Alarm	\$ 6,759	\$ 6,300
AC Contracts	\$ 600	\$ 1,200
Clubhouse Expense	-	
Decorating	\$ 1,300	\$ 1,200
Elevator Contracts	\$ 8,300	\$ 9,400
Exterminating Supplies	-	
Exterminating Contracts	\$ 9,200	\$ 10,080
Electrical Contracts	\$ 500	\$ 900

Quality Inn - 2023 Operating Summary		
	2022 Budget	2023 Budget
Furn and Appl Rplcmnt	-	
Landscape and Grounds Contract	-	
Ground Supplies	\$ 200	\$ 200
Janitorial Supplies	\$ 1,650	\$ 1,740
COVID Supplies	\$ 200	
Maint Supplies and Materials	-	\$ 8,700
Plumbing Contracts	\$ 4,200	\$ 11,476
Plumbing Supplies	-	
Repair and Maint Payroll	\$ 53,950	\$ 59,780
Payroll Taxes - Rpr and Maint	\$ 3,120	\$ 5,873
Employee Benefits PM Co - Program	\$ 8,400	\$ 18,364
Temp Services - Program Admin	-	
Unit Turnover Contracts	-	
Flooring	-	
Painting Contract	-	
Repair Contracts	\$ 5,600	\$ 3,220
Repair Supplies	\$ 4,550	
Security Contract Program	\$ 57,759	\$ 10,000
Security Payroll	-	-
Trash Removal	\$ 8,648	\$ 14,214
Workman's Comp-Rpr and Maint	\$ 1,469	\$ 4,591
Extraordinary Maintenance	-	
Uniforms	\$ 200	\$ 300
Insurance Claims Expense	-	
Insurance Proceeds	-	
Retail Space Expenses	-	
Total Maintenance and Repair	\$ 176,605	\$ 167,538
Taxes and Insurance		
Taxes Licenses and Fees	\$ 4,250	\$ 4,685
Fidelity Bond Insurance	-	
Insurance Other	-	
Property and Liability Ins	\$ 19,787	\$ 22,880
Property Taxes	\$ 750	\$ 315
Total Taxes and Insurance	\$ 24,787	\$ 27,880
Other Expenses		
Tenant Services Other	-	
Tenant Services Payroll and Benefits	-	-
SDHC Compliance Monitoring Fee	\$ 17,500	\$ 17,500
Relocation Costs	-	
Relocation due to Maint	-	
Ground Lease Expense	\$ 56,932	\$ 62,280
Miscellaneous Exp Program	-	
Bad Debt - Tenant Rent	-	\$ 28,864

Quality Inn - 2023 Operating Summary

	2022 Budget	2023 Budget
Bad Debt - Other Tenant Charges	-	-
Bad Debt - Other - Elim	-	
CY Deposit to Replacement Reserve	-	
CY Deposit Escrow Rplc Reserve	\$ 45,996	\$ 45,996
Total Other Expenses	\$ 120,428	\$ 154,640
Total Operating Expenses	\$ 636,696	\$ 729,615
Net Operating Income	\$ 645,285	\$ 1,213,593
Debt Service		
CY Mortgage Debt Payments	-	\$ 89,231
Interest Expense - Mortgage	\$ 288,400	\$ 199,168
Mortgage Insurance Expense	-	
Loan Servicing Fee (Trustee Fee)	\$ 7,500	\$ 7,500
SDHC Bond Admin Fee	-	
Loan Fees	-	
Total Debt Service	\$ 295,900	\$ 295,900
Net Cash Flow	\$ 349,385	\$ 917,693