

REPORT

DATE ISSUED: December 8, 2022

REPORT NO: HDP22-020

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

SUBJECT: San Diego Square 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 San Diego Square.
- 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

San Diego Square is a 156-unit affordable housing property for seniors with low income, earning between 50 percent and 60 percent of the San Diego area median income. The property was acquired on November 25, 2014, by HDP Broadway LP. Rehabilitation started on December 1, 2014, and was completed on December 17, 2015.

The San Diego Square 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 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.

	San Diego Square				
	FY 2022	FY 2023	\$ Variance	% Variance	Notes
Rental Income	3,364,843	3,482,194	117,351	3%	<i>Payment standard increase and 2% increase in Dec 2023.</i>
Other Income	97,811	96,129	0	0%	
Total Revenue	3,462,654	3,578,323	115,669	3%	
Total Admin	366,336	382,023	15,687	4%	<i>Payroll, workers comp, budgeted max employee benefit election.</i>
Total Utilities	327,971	345,803	17,833	5%	
Total R&M	375,107	392,155	17,048	5%	<i>Repair contracts, payroll, budgeted max employee benefit election.</i>
Taxes & Insurance	90,244	125,883	35,639	39%	<i>Property and Business Improvement District assessment & insurance increase (industry-wide impact).</i>
Other (extraordinary items)	406,157	418,538	12,381	3%	<i>Ground lease expense increased by \$11,881 due to higher rental income.</i>
Other (debt due to uncollectible rent)	0	1,650	1,650	100%	
Total Expenses	1,565,814	1,666,052	100,238	6%	<i>Extraordinary expenses: ground lease, public improvements taxes and insurance. Operating at 3% overall increase.</i>
Net Income	1,895,158	1,912,271	17,113	1%	
Debt Service	1,033,256	1,033,256	0	0%	
Net Cash Flow	863,584	879,015	15,431	2%	<i>Cash flow increase at 2%.</i>

RENTS

The 2023 budget reflects an increase in revenue due to an approved rent increase scheduled for December 2022. The increase to the HUD PBV payment standard does not impact the resident's portion of rent. The property has a direct contract with the U.S. Department of Housing and Urban Development that SDHC does not administer.

MAINTENANCE AND REPAIRS

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

CAPITAL PLAN

Total deposits to the replacement reserve account in 2023 will be \$149,600, which includes \$54,600 consistent of the regulating agreements plus additional deposits in anticipation of generator replacement in Fiscal Year 2024.

FISCAL CONSIDERATIONS

For Fiscal Year 2023, it is anticipated that the property's Total Revenue will be \$3,578,323. Total Operating Expenses will be \$1,666,052 for a Net Operating Income of \$1,912,271. The Net Operating Income of the property is expected to be higher than underwriting / pro forma expectations.

ENVIRONMENTAL REVIEW

Approval of the San Diego Square 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) San Diego Square - 2023 Property Operations Budget

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

San Diego Square - 2023 Operating Summary		
	2022 Budget	2023 Budget
INCOME		
Gross Potential Rent		
Gross Potential Revenue	\$ 3,606,060	\$ 3,732,931
Gain Loss to Lease	-	-
Less: Vacancies	\$ (181,469)	\$ (186,647)
Less: Down Unit	-	
Less: Manager's Unit	\$ (59,748)	\$ (64,091)
Less: Discounts and Concesss	-	
Less: Office Community Room Unit	-	-
Less: COVID Hardship	-	
Rent Subsidy Variances	-	
Net Rental Income	\$ 3,364,843	\$ 3,482,194
Other Income		
Rental Income Commercial	\$ 83,075	\$ 83,075
Application Fees	-	
Damages Cleaning Fees	\$ 1,300	\$ 520
Carport Garage Gate Income	-	
Laundry and Vending Revenue	\$ 6,000	\$ 6,960
NSF Late Charges	\$ 200	\$ 150
Former Tenant Income	-	
Interest Income - Restricted	\$ 2,262	
Interest Income - Replacement Reverse	-	\$ 60
Interest Income Investments	-	
Grant Income - Fed - Svc Coord	-	
Commercial Tenant - Reimb	-	\$ 5,264
Miscellaneous Income	\$ 4,974	\$ 100
Total Other Income	\$ 97,811	\$ 96,129
Total Income	\$ 3,462,654	\$ 3,578,323
EXPENSES		
Admin		
Consultant Asset Mgmt	-	\$ 5,720
Broker Fees	-	
Audit and Tax Prep Fees	\$ 13,300	\$ 13,965
IT Support Maintenance	-	
Property Management Fees	\$ 124,655	\$ 125,300
Bookkeeping Fees	\$ 15,396	\$ 15,396
Office Expense	\$ 14,800	\$ 16,280
Internet and Telephone	-	
Office Supplies	-	
Parking	-	

San Diego Square - 2023 Operating Summary		
	2022 Budget	2023 Budget
Software Exp Admin	-	
Copier Printer	\$ 2,210	\$ 2,431
Office Repairs and Maint	-	
Bank Charges Admin	-	
Mileage	-	
Dues Subs and Memberships	\$ 450	\$ 275
Other Admin Expense	\$ 4,500	-
Manager and Admin Salaries	\$ 96,369	\$ 104,929
Office Salaries	-	-
Employee Benefits PM Co - Program Admin	\$ 23,950	\$ 26,481
Payroll Taxes - Manager and Admin	\$ 8,790	\$ 9,305
Workman's Comp Mgr and Admin	\$ 6,050	\$ 8,060
Temp Services - Admin	-	
Consultant Other Program Admin	\$ 27,434	\$ 21,773
Legal - Program Admin	\$ 2,100	\$ 2,400
Cleaning and Janitorial Contract	-	
Credit Check Service Fee	-	
Internet and Telephone Prog Admin	\$ 15,394	\$ 17,100
Advertising	-	\$ 707
Bank Charges Program Admin	\$ 4,668	\$ 4,500
Mileage and Travel Exp Prog Admin	\$ 350	\$ 400
Training - Program Admin	\$ 2,100	\$ 2,100
Postage and Delivery Prog Admin	\$ 220	\$ 390
Software Exp Program Admin	\$ 3,600	\$ 3,960
Misc Program Admin	-	\$ 552
Lease Up Expenses	-	
Total Admin	\$ 366,336	\$ 382,023
Utilities		
Cable Expenses	-	
Electricity	\$ 187,265	\$ 194,756
Gas	\$ 83,890	\$ 87,246
Sewer	\$ 23,872	\$ 24,000
Water	\$ 32,944	\$ 39,802
Total Utilities	\$ 327,971	\$ 345,803
Maintenance and Repair		
Fire Protection and Alarm	\$ 9,910	\$ 12,731
AC Contracts	\$ 23,468	\$ 25,150
Clubhouse Expense	\$ 6,300	
Decorating	\$ 1,300	
Elevator Contracts	\$ 17,807	\$ 18,752
Exterminating Supplies	-	
Exterminating Contracts	\$ 12,950	\$ 14,049
Electrical Contracts	\$ 3,000	\$ 4,500

San Diego Square - 2023 Operating Summary		
	2022 Budget	2023 Budget
Furn and Appl Rplcmnt	\$ 2,000	\$ 600
Landscape and Grounds Contract	\$ 16,188	\$ 16,892
Ground Supplies	\$ 2,000	\$ 1,400
Janitorial Supplies	\$ 4,314	\$ 3,500
COVID Supplies	\$ 150	
Maint Supplies and Materials	-	
Plumbing Contracts	\$ 11,200	\$ 13,200
Plumbing Supplies	-	
Repair and Maint Payroll	\$ 83,806	\$ 81,444
Payroll Taxes - Rpr and Maint	\$ 7,118	\$ 7,520
Employee Benefits PM Co - Program	\$ 16,750	\$ 29,257
Temp Services - Program Admin	-	
Unit Turnover Contracts	\$ 900	
Flooring	-	
Painting Contract	-	\$ 1,300
Repair Contracts	\$ 22,960	\$ 19,536
Repair Supplies	\$ 6,600	\$ 5,047
Security Contract Program	\$ 99,600	\$ 107,192
Security Payroll	-	-
Trash Removal	\$ 23,136	\$ 23,700
Workman's Comp-Rpr and Maint	\$ 3,350	\$ 6,136
Extraordinary Maintenance	-	
Uniforms	\$ 300	\$ 250
Insurance Claims Expense	-	
Insurance Proceeds	-	
Retail Space Expenses	-	
Total Maintenance and Repair	\$ 375,107	\$ 392,155
Taxes and Insurance		
Taxes Licenses and Fees	\$ 4,325	\$ 4,025
Fidelity Bond Insurance	-	
Insurance Other	-	
Property and Liability Ins	\$ 85,919	\$ 99,344
Property Taxes	-	\$ 22,514
Total Taxes and Insurance	\$ 90,244	\$ 125,883
Other Expenses		
Tenant Services Other	\$ 56,700	\$ 57,200
Tenant Services Payroll and Benefits	-	-
SDHC Compliance Monitoring Fee	-	
Relocation Costs	-	
Relocation due to Maint	-	
Ground Lease Expense	\$ 197,357	\$ 209,238
Miscellaneous Exp Program	\$ 2,500	\$ 2,500
Bad Debt - Tenant Rent	-	\$ 1,650

San Diego Square - 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	\$ 149,600	\$ 149,600
Total Other Expenses	\$ 406,157	\$ 420,188
Total Operating Expenses	\$ 1,565,814	\$ 1,666,052
Net Operating Income	\$ 1,896,840	\$ 1,912,271
Debt Service		
CY Mortgage Debt Payments	-	\$ 298,099
Interest Expense - Mortgage	\$ 1,010,972	\$ 712,873
Mortgage Insurance Expense	-	
Loan Servicing Fee (Trustee Fee)	\$ 22,284	\$ 22,284
SDHC Bond Admin Fee	-	
Loan Fees	-	
Total Debt Service	\$ 1,033,256	\$ 1,033,256
Net Cash Flow	\$ 863,584	\$ 879,015