

REPORT

DATE ISSUED: December 8, 2022

REPORT NO: HDP22-021

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

SUBJECT: Town and Country 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 Town and Country.
- 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

Town and Country is a 145-unit affordable housing property in the Mountain View neighborhood of San Diego. It consists of 24 two-story townhouse and garden-style buildings containing two and three-bedroom flat and townhouse-style units (79 two-bedroom units and 66 three-bedroom units). The building also includes a one-story building containing a central laundry facility and maintenance room. The property was acquired on November 20, 2017, by HDP Town & Country, LP. Rehabilitation of the property was completed in the winter of 2018.

The Town and Country 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 the next 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 industry data combined with the professional experience of Hyder and HDP's asset management team. This property will continue to be closely monitored during 2023 due to the recent leak incidents experienced in 2021 and 2022. Below is a summary chart of the 2023 Operating Budget compared to the 2022 Budget.

	Town and Country				
	FY 2022	FY 2023	\$ Variance	% Variance	Comments
Rental Income	2,330,451	2,419,694	89,243	4%	5% rent increase
Other Income	11,002	15,439	4,434	40%	Based on actual plus 3% increase
Total Revenue	2,341,453	2,435,129	93,677	4%	
Total Admin	258,169	273,825	15,656	6%	Increased workers' comp, payroll tax, projected legal expense
Total Utilities	116,000	195,295	79,295	68%	Utilities under budgeted in FY22; some extraordinary leak events
Total R&M	356,961	448,367	91,406	26%	Plumbing/jetting expense, budgeted max employee benefits election
Taxes & Insurance	77,775	88,060	10,285	13%	Insurance increase (industry-wide impact)
Other (extraordinary items)	118,157	122,504	4,347	4%	Tenant services budgeted twice in error in FY22. Replacement reserve deposit
Other (debt due to uncollectible rent)	0	157,904	157,904	100%	Pandemic-related uncollectible-rent debt
Total Operating Expenses	927,062	1,285,955	358,893	39%	Extraordinary expenses: uncollectible-rent debt, insurance, and leak events.
Net Income	1,414,391	1,149,174	-265,217	-17%	
Debt Service	943,530	914,080	-29,450	-3%	
Net Cash Flow	470,861	235,094	-235,767	-50%	Property underperforming due to leak events, mitigation plan underway.

RENTS

The 2023 operating budget includes a 5% rent increase effective March 2023.

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

CAPITAL PLAN

Total deposits to the replacement reserve account in 2023 will be \$72,500. This amount includes an additional \$25,000 to ensure compliance with the minimum reserve requirements per the regulatory agreements.

This property is in close watch given the recently experienced extraordinary leak incidents as well as the households that remain delinquent on their rent exacerbated by the impacts of the COVID 19 pandemic.

FISCAL CONSIDERATIONS

For Fiscal Year 2023, it is anticipated that the property's Total Revenue will be \$2,435,129. Total Operating Expenses will be \$1,260,987 for a Net Operating Income of \$1,174,142. This property will continue to be closely monitored due to the recent extraordinary expenses and financial performance.

ENVIRONMENTAL REVIEW

Approval of the Town and Country 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) Town and Country - 2023 Property Operations Budget

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

Town & Country - 2023 Operating Summary		
	2022 Budget	2023 Budget
INCOME		
Gross Potential Rent		
Gross Potential Revenue	\$ 2,950,956	\$ 2,862,480
Gain Loss to Lease	\$ (457,362)	\$ (270,870)
Less: Vacancies	\$ (122,655)	\$ (129,581)
Less: Down Unit	\$ -	
Less: Manager's Unit	\$ (40,488)	\$ (42,336)
Less: Discounts and Concesss	\$ -	
Less: Office Community Room Unit	\$ -	
Less: COVID Hardship	\$ -	
Rent Subsidy Variances	\$ -	
Net Rental Income	\$ 2,330,451	\$ 2,419,694
Other Income		
Rental Income Commercial	\$ -	
Application Fees	\$ 360	\$ 649
Damages Cleaning Fees	\$ 820	\$ 1,464
Carport Garage Gate Income	\$ -	
Laundry and Vending Revenue	\$ 9,702	\$ 11,281
NSF Late Charges	\$ -	\$ 231
Former Tenant Income	\$ -	\$ 283
Interest Income - Restricted	\$ 120	\$ 160
Interest Income - Replacement Reverse	\$ -	\$ -
Interest Income Investments	\$ -	\$ -
Grant Income - Fed - Svc Coord	\$ -	\$ -
Commercial Tenant - Reimb	\$ -	\$ -
Miscellaneous Income	\$ -	\$ 1,368
Total Other Income	\$ 11,002	\$ 15,436
Total Income	\$ 2,341,453	\$ 2,435,129
EXPENSES		
Admin		
Consultant Asset Mgmt	\$ -	\$ -
Broker Fees	\$ -	\$ -
Audit and Tax Prep Fees	\$ 20,000	\$ 20,600
IT Support Maintenance	\$ -	\$ -
Property Management Fees	\$ 82,244	\$ 84,738
Bookkeeping Fees	\$ -	\$ -
Office Expense	\$ -	\$ -
Internet and Telephone	\$ 4,750	\$ -
Office Supplies	\$ 6,000	\$ 6,180
Parking	\$ -	\$ -

Town & Country - 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	\$ 101,275	\$ 93,782
Office Salaries	\$ -	\$ 5,967
Employee Benefits PM Co - Program Admin	\$ 8,000	\$ 8,651
Payroll Taxes - Manager and Admin	\$ 8,000	\$ 9,534
Workman's Comp Mgr and Admin	\$ 5,000	\$ 11,238
Temp Services - Admin	\$ -	\$ -
Consultant Other Program Admin	\$ -	\$ 853
Legal - Program Admin	\$ 1,500	\$ 10,000
Cleaning and Janitorial Contract	\$ 3,000	\$ 3,090
Credit Check Service Fee	\$ 800	\$ 824
Internet and Telephone Prog Admin	\$ 5,200	\$ 5,356
Advertising	\$ -	
Bank Charges Program Admin	\$ 1,200	\$ 1,236
Mileage and Travel Exp Prog Admin	\$ 300	\$ 309
Training - Program Admin	\$ 1,200	\$ 1,236
Postage and Delivery Prog Admin	\$ 700	\$ 721
Software Exp Program Admin	\$ 8,000	\$ 8,480
Misc Program Admin	\$ -	\$ -
Lease Up Expenses	\$ -	\$ -
Total Admin	\$ 258,169	\$ 273,825
Utilities		
Cable Expenses	\$ 1,500	\$ 1,545
Electricity	\$ 13,000	\$ 23,920
Gas	\$ 13,500	\$ 28,080
Sewer	\$ 32,000	\$ 48,300
Water	\$ 56,000	\$ 93,450
Total Utilities	\$ 116,000	\$ 195,295
Maintenance and Repair		
Fire Protection and Alarm	\$ 3,050	\$ 3,142
AC Contracts	\$ 500	\$ 515
Clubhouse Expense	\$ -	\$ -
Decorating	\$ -	\$ -
Elevator Contracts	\$ -	\$ -
Exterminating Supplies	\$ -	\$ -
Exterminating Contracts	\$ 3,500	\$ 3,815
Electrical Contracts	\$ 1,500	\$ 1,545

Town & Country - 2023 Operating Summary			
	2022 Budget		2023 Budget
Furn and Appl Rplcmnt	\$	2,000	\$ 2,100
Landscape and Grounds Contract	\$	63,890	\$ 65,807
Ground Supplies	\$	1,200	\$ 1,236
Janitorial Supplies	\$	3,500	\$ 3,605
COVID Supplies	\$	-	\$ -
Maint Supplies and Materials	\$	2,500	\$ 2,625
Plumbing Contracts	\$	14,000	\$ 28,326
Plumbing Supplies	\$	1,000	\$ 1,030
Repair and Maint Payroll	\$	114,421	\$ 148,364
Payroll Taxes - Rpr and Maint	\$	8,000	\$ 13,271
Employee Benefits PM Co - Program	\$	1,000	\$ 15,846
Temp Services - Program Admin	\$	-	\$ -
Unit Turnover Contracts	\$	-	\$ 5,131
Flooring	\$	2,000	\$ 2,060
Painting Contract	\$	2,000	\$ 2,100
Repair Contracts	\$	2,000	\$ 2,060
Repair Supplies	\$	5,500	\$ 5,665
Security Contract Program	\$	65,000	\$ 66,810
Security Payroll	\$	-	\$ -
Trash Removal	\$	55,000	\$ 59,950
Workman's Comp-Rpr and Maint	\$	5,000	\$ 12,952
Extraordinary Maintenance	\$	-	
Uniforms	\$	400	\$ 412
Insurance Claims Expense	\$	-	
Insurance Proceeds	\$	-	\$ -
Retail Space Expenses	\$	-	\$ -
Total Maintenance and Repair	\$	356,961	\$ 448,367
Taxes and Insurance			
Taxes Licenses and Fees	\$	1,575	\$ 1,622
Fidelity Bond Insurance	\$	125	\$ 129
Insurance Other	\$	1,000	\$ 1,030
Property and Liability Ins	\$	73,075	\$ 83,219
Property Taxes	\$	2,000	\$ 2,060
Total Taxes and Insurance	\$	77,775	\$ 88,060
Other Expenses			
Tenant Services Other	\$	52,504	\$ 50,004
Tenant Services Payroll and Benefits	\$	-	\$ -
SDHC Compliance Monitoring Fee	\$	-	\$ -
Relocation Costs	\$	-	\$ -
Relocation due to Maint	\$	-	
Ground Lease Expense	\$	-	\$ -
Miscellaneous Exp Program	\$	21,500	
Bad Debt - Tenant Rent	\$	-	\$ 157,824

Town & Country - 2023 Operating Summary		
	2022 Budget	2023 Budget
Bad Debt - Other Tenant Charges	\$ -	\$ 80
Bad Debt - Other - Elim	\$ -	\$ -
CY Deposit to Replacement Reserve	\$ -	\$ -
CY Deposit Escrow Rplc Reserve	\$ 44,153	\$ 72,500
Total Other Expenses	\$ 118,157	\$ 280,408
Total Operating Expenses	\$ 927,062	\$ 1,285,955
Net Operating Income	\$ 1,414,391	\$ 1,149,174
Debt Service		
CY Mortgage Debt Payments	\$ -	\$ 210,475
Interest Expense - Mortgage	\$ 890,580	\$ 680,105
Mortgage Insurance Expense	\$ -	\$ -
Loan Servicing Fee (Trustee Fee)	\$ 52,950	\$ 4,000
SDHC Bond Admin Fee	\$ -	\$ 19,500
Loan Fees	\$ -	\$ -
Total Debt Service	\$ 943,530	\$ 914,080
Net Cash Flow	\$ 470,861	\$ 235,094