

REPORT

DATE ISSUED: December 8, 2023

REPORT NO: HDP23-015

ATTENTION: Chair and Members of the Board of Directors of
Housing Development Partners of San Diego
For the Agenda of December 14, 2023

SUBJECT: Mariner's Village 2024 Property Budget

STAFF RECOMMENDATION:

That the Housing Development Partners (HDP) Board of Directors (Board) take the following actions:

- 1) Approve the 2024 Property Budget for Mariner's Village, a 172-unit affordable housing property at 6847 Potomac Street, San Diego, CA 92139, for families with low income.
- 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

Mariner's Village is a 172-unit affordable housing property for families with low income, earning between 40 percent and 80 percent of the San Diego area median income. It was developed with low-income housing tax credits (LIHTC). The property was acquired on January 30, 2021, by HDP Mariner's Village, LP. The property was placed in service in 2021.

The Mariner's Village Property Budget is prepared annually by the management company, CONAM. 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 CONAM 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 2024 Property Budget.

BUDGET SUMMARY

The 2024 Property Budget was prepared using historical data from property operations combined with the professional experience of CONAM and HDP's asset management team. The Net Operating Income of the property is expected to be greater than underwriting / pro forma expectations. Below is a summary chart, which compares the proposed 2024 budget to the underwriting pro forma.

| | Mariner's Village | | | | |
|---|-------------------|------------------|----------------|------------|--|
| | FY 2023 | FY 2024 | \$ Variance | % Variance | Notes |
| Rental Income | 2,817,874 | 3,235,359 | 417,485 | 15% | <i>Lesser of \$95 or 10% Rent Increase to reduce loss to lease</i> |
| Other Income | 106,305 | 143,245 | 36,940 | 35% | <i>Tenant rent recovery through payment plans</i> |
| Total Revenue | 2,924,179 | 3,378,604 | 454,425 | 16% | |
| Total Admin | 347,893 | 379,985 | 32,092 | 9% | <i>Property Management (PM) Fee based on increased revenue projection, payroll benefits.</i> |
| Total Utilities | 287,516 | 308,722 | 21,206 | 7% | <i>Based on published increases for water (10.2%), Electric (5%) & Gas (17%)</i> |
| Total Repairs and Maintenance (R&M) | 313,525 | 362,125 | 48,600 | 16% | <i>Payroll and benefits, Preventative maintenance contracts for systems out of warranty maintenance period</i> |
| Taxes & Insurance | 122,626 | 178,196 | 55,570 | 45% | <i>Insurance increase (industry-wide impact), Property tax exemption excluded 16 units due to tenant income.</i> |
| Other Expenses | 393,795 | 382,639 | (11,156) | (3%) | <i>Ground lease payment (percentage of rental income), 6-year balcony inspections.</i> |
| Other Debt (debt due to uncollectible rent) | 25,000 | 15,400 | (9,600) | (38%) | <i>Reduced estimate for pandemic-related uncollectible-rent debt</i> |
| Total Expenses | 1,490,355 | 1,627,067 | 136,712 | 9% | <i>Extraordinary expenses; Ground lease & PM fee based on revenue, property tax.</i> |
| Net Operating Income | 1,433,824 | 1,751,537 | 317,713 | 22% | <i>Budgeted Fiscal Year (FY) 2024 NOI significantly greater than proforma</i> |
| Debt Service | 1,004,385 | 1,006,635 | 2,250 | 0% | |
| Entity Expenses | - | 26,612 | 26,612 | - | |
| Net Cash Flow | 429,439 | 718,290 | 288,851 | 67% | <i>Cash flow budgeted to exceed pro forma expectations. Property stabilizing post rehabilitation.</i> |

RENTS

Rents at this property average \$500 below the applicable restricted rent. The 10% rent increase, capped at \$95, is intended to close the gap to the restricted rent. Approximately 40% of households have a Section 8 Housing Choice Voucher and will not be impacted by the rent increase.

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 staffing for this property consists of one full-time property manager, one full-time assistant manager, one full-time maintenance technician, one full-time assistant maintenance technician and one full-time day porter.

CAPITAL PLAN

Total deposits to the replacement reserve account in 2024 will be \$60,200. This amount is in compliance with the minimum reserve requirements per the regulatory agreements. Staff projects a \$276,000 replacement reserve account balance at the end of 2024.

FISCAL CONSIDERATIONS

For Fiscal Year 2024, it is anticipated that the property's Total Revenue will be \$3,378,604. Total Operating Expenses will be \$1,627,067 for a Net Operating Income of \$1,751,537. The Net Operating Income of the property is expected to be greater than underwriting / pro forma expectations.

CONFLICT DISCLOSURE STATEMENT:

Two San Diego Housing Commissioners (Commissioners), Eugene "Mitch" Mitchell and Ryan Clumpner, 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) Mariner's Village 2024 Property Operations Budget

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

| Mainer's Village - 2024 Operating Summary | | |
|---|------------------|------------------|
| | 2023 Budget | 2024 Budget |
| INCOME | | |
| Gross Potential Rent | | |
| Gross Potential Revenue | 3,686,760 | 3,675,548 |
| Gain Loss to Lease | (720,577) | (223,749) |
| Less: Vacancies | (148,309) | (172,590) |
| Less: Down Unit | - | - |
| Less: Manager's Unit | - | (43,850) |
| Less: Discounts and Concesss | - | - |
| Less: Office Community Room Unit | - | - |
| Less: COVID Hardship | - | - |
| Rent Subsidy Variances | - | - |
| Net Rental Income | 2,817,874 | 3,235,359 |
| Other Income | | |
| Rental Income Commercial | - | - |
| Prepaid Income | - | - |
| Application Fees | 1,300 | - |
| Credit Check Income | - | - |
| Damages Cleaning Fees | 2,060 | 4,250 |
| Carport Garage Gate Income | 69,893 | 75,600 |
| Laundry and Vending Revenue | 16,438 | 20,305 |
| NSF Late Charges | 3,605 | 3,677 |
| Former Tenant Income | 644 | - |
| Tenant Rent Recovery | - | 29,000 |
| Other Tenant Charges Recovery | - | - |
| Interest Income - Restricted | 28 | 197 |
| Interest Income - Replacement Reverse | - | 75 |
| Interest Income Investments | 103 | 141 |
| Interest Income Notes Receivable | - | - |
| Grant Income - Fed - Svc Coord | - | - |
| Donations Income | - | - |
| Commercial Tenant - Reimb | - | - |
| Miscellaneous Income | 12,235 | 10,000 |
| Security Deposit Forfeiture | - | - |
| Total Other Income | 106,305 | 143,245 |
| Total Income | 2,924,179 | 3,378,604 |
| EXPENSES | | |
| Admin | | |
| Consultant Asset Mgmt | - | - |
| Broker Fees | - | - |

| Mainer's Village - 2024 Operating Summary | | |
|---|----------------|----------------|
| | 2023 Budget | 2024 Budget |
| Audit and Tax Prep Fees | 12,150 | 13,459 |
| IT Support Maintenance | - | - |
| Property Management Fees | 142,144 | 160,998 |
| Bookkeeping Fees | 1,493 | 1,538 |
| Office Expense | - | - |
| Internet and Telephone | - | - |
| Office Supplies | 4,120 | 4,200 |
| Parking | - | - |
| Software Exp Admin | 8,240 | - |
| Copier Printer | 4,944 | 3,780 |
| Office Repairs and Maint | 2,575 | 2,652 |
| Bank Charges Admin | 566 | - |
| Mileage | - | - |
| Dues Subs and Memberships | - | - |
| Other Admin Expense | 1,596 | 1,644 |
| Manager Salaries | 93,946 | 97,271 |
| Office Salaries | - | 6,760 |
| Employee Benefits PM Co - Program Admin | 17,760 | 19,400 |
| Payroll Taxes - Manager and Admin | 8,470 | 9,879 |
| Workman's Comp Mgr and Admin | - | 3,863 |
| Temp Services - Property Manager | - | - |
| Temp Services - Admin | - | - |
| Consultant Other Program Admin | 20,000 | 20,000 |
| Legal - Program Admin | 4,000 | 7,500 |
| Cleaning and Janitorial Contract | - | - |
| Credit Check Service Fee | 618 | - |
| Internet and Telephone Prog Admin | 9,965 | 9,900 |
| Advertising | 309 | 750 |
| Bank Charges Program Admin | 2,575 | 550 |
| Mileage and Travel Exp Prog Admin | 1,591 | 1,200 |
| Training - Program Admin | - | 1,622 |
| Postage and Delivery Prog Admin | 600 | 600 |
| Software Exp Program Admin | 9,519 | 11,044 |
| Misc Program Admin | 711 | 1,375 |
| Lease Up Expenses | - | - |
| Total Admin | 347,893 | 379,985 |
| | | |
| Utilities | | |
| Cable Expenses | - | - |
| Electricity | 26,250 | 42,755 |
| Gas | 46,016 | 85,680 |
| Sewer | 94,500 | 84,763 |

| Mainer's Village - 2024 Operating Summary | | |
|---|----------------|----------------|
| | 2023 Budget | 2024 Budget |
| Water | 120,750 | 95,524 |
| Total Utilities | 287,516 | 308,722 |
| | | |
| Maintenance and Repair | | |
| Fire Protection and Alarm | 2,060 | 2,250 |
| AC Contracts | 1,545 | 3,500 |
| Clubhouse Expense | - | 4,000 |
| Decorating | - | - |
| Elevator Contracts | - | - |
| Exterminating Supplies | - | - |
| Exterminating Contracts | 6,500 | 7,800 |
| Electrical Contracts | 1,545 | 2,000 |
| Furn and Appl Rplcmnt | - | - |
| Landscape and Grounds Contract | 30,900 | 34,650 |
| Ground Supplies | 5,150 | 5,000 |
| Janitorial Supplies | 618 | 1,800 |
| COVID Supplies | - | - |
| Maint Supplies and Materials | 8,240 | 10,000 |
| Plumbing Contracts | 4,120 | 4,244 |
| Plumbing Supplies | 500 | 2,000 |
| Repair and Maint Payroll | 122,686 | 143,213 |
| Payroll Taxes - Rpr and Maint | 11,319 | 13,544 |
| Employee Benefits PM Co - Program | 26,640 | 29,100 |
| Temp Services - Program Admin | - | - |
| Temp Services - Maintenance | - | - |
| Temp Services - Janitorial | - | - |
| Unit Turnover Contracts | 5,150 | 6,500 |
| Flooring | - | - |
| Painting Contract | - | - |
| Repair Contracts | 9,600 | 9,750 |
| Repair Supplies | 1,246 | 1,284 |
| Security Contract Program | 33,990 | 33,990 |
| Security Payroll | - | - |
| Payroll Taxes - Security | - | - |
| Workers Compensation Ins-Security | - | - |
| Trash Removal | 41,200 | 45,000 |
| Workman's Comp-Rpr and Maint | - | - |
| Remediation Expense | - | - |
| Uniforms | 515 | 2,500 |
| Insurance Claims Expense | - | - |
| Insurance Proceeds | - | - |
| Retail Space Expenses | - | - |

| Mainer's Village - 2024 Operating Summary | | |
|---|------------------|------------------|
| | 2023 Budget | 2024 Budget |
| Total Maintenance and Repair | 313,525 | 362,125 |
| | | |
| Extraordinary Maintenance | | |
| Extraordinary Maintenance | - | - |
| Total Extraordinary Maintenance | - | - |
| | | |
| Taxes and Insurance | | |
| Taxes Licenses and Fees | 2,575 | 800 |
| Fidelity Bond Insurance | - | - |
| Insurance Other | - | - |
| Property and Liability Ins | 117,691 | 130,668 |
| Property Taxes | 2,361 | 46,728 |
| Total Taxes and Insurance | 122,626 | 178,196 |
| | | |
| Bad Debt | | |
| Bad Debt - Tenant Rent | 25,000 | 15,400 |
| Bad Debt - Other Tenant Charges | - | - |
| Bad Debt - Other - Elim | - | - |
| Bad Debt - Other | - | - |
| Bad Debt - Tenant Rent - PMCo Direct | - | - |
| Bad Debt - Other Tenant Charges - PMCo Direct | - | - |
| Total Bad Debt | 25,000 | 15,400 |
| | | |
| Other Expenses | | |
| Tenant Services Other | - | - |
| Tenant Services Payroll Benefits | 71,028 | - |
| Grant Expense | - | - |
| Grant Expense - Elim | - | - |
| SDHC Compliance Monitoring Fee | - | - |
| Relocation Costs | - | - |
| Relocation due to Maint | - | 3,000 |
| Ground Lease Expense | 260,761 | 304,819 |
| Miscellaneous Exp Program | - | 14,620 |
| CY Deposit to Escrow Rplc Reserve | 62,006 | 60,200 |
| CY Deposit to Rplc Reserve | - | - |
| Total Other Expenses | 393,795 | 382,639 |
| | | |
| Total Operating Expenses | 1,490,355 | 1,627,067 |
| | | |
| Net Operating Income | 1,433,824 | 1,751,537 |
| | | |
| Debt Service | | |

| Mainer's Village - 2024 Operating Summary | | |
|---|------------------|------------------|
| | 2023 Budget | 2024 Budget |
| CY Mortgage Debt Payments (IS) | 290,341 | 296,518 |
| Interest Expense - Mortgage | 689,419 | 683,242 |
| Mortgage Insurance Expense | - | - |
| Loan Servicing Fee (Trustee Fee) | - | 2,250 |
| SDHC Bond Admin Fee | 24,625 | 24,625 |
| Loan Fees | - | - |
| Total Debt Service | 1,004,385 | 1,006,635 |
| Entity Expenses | | |
| Legal Admin | - | 4,102 |
| Asset Management Fees | - | 5,628 |
| Asset Mgmt Fee - Elim | - | - |
| Partnership Management Fee | - | 16,883 |
| Incentive Partnership Mgmt Fee | - | - |
| Insurance - D and O | - | - |
| Guaranteed Fees | - | - |
| Total Entity Expenses | - | 26,612 |
| Net Cash Flow | 429,439 | 718,290 |