

REPORT

DATE ISSUED: December 8, 2023

REPORT NO: HDP23-016

ATTENTION: Chair and Members of the Board of Directors of
Housing Development Partners of San Diego
For the Agenda of December 21, 2023

SUBJECT: New Palace Hotel 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 New Palace Hotel, an 80-unit affordable housing property at 1814 5th Avenue, San Diego, CA 92101, for seniors with low income who experienced homelessness or are at risk of homelessness.
- 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 or are at risk of 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 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. If the HDP Board approves the staff-recommended actions in Report HDP23-011 Selection of New Property Management Companies, then Hyder Professional Management Services (Hyder) would operate the property, effective April 1, 2024, according to the approved Property 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 Winn 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 2023 budget.

	New Palace Hotel				
	FY 2023	FY 2024	\$ Variance	% Variance	Notes
Rental Income	1,599,046	1,753,030	153,984	10%	Anticipated payment standard increase in February 2024.
Other Income	3,889	4,793	904	23%	Increased based on Fiscal Year (FY) 2023 actuals.
Total Revenue	1,602,935	1,757,823	154,888	10%	
Total Admin	216,913	223,629	6,716	3%	Property Management fee increase.
Total Utilities	98,850	123,443	24,592	25%	Consistent with actuals + scheduled increases.
Total Repairs and Maintenance (R&M)	185,208	198,737	13,529	7%	Increases in trash collection cost, A/C contracts, and employee salary and benefits.
Taxes & Insurance	33,106	36,722	3,616	11%	Insurance increase (industry-wide impact). Property 90% exempt from property taxes (commercial space).
Other Expenses	69,850	73,350	3,500	5%	Increased due to SB721 inspections.
Other Debt (debt due to uncollectible rent)	852	3,100	2,248	264%	Pandemic-related uncollectible-rent debt.
Total Operating Expenses	604,779	658,981	54,201	9%	Operating at a 6% increase outside of the following expenses: insurance premium, SB721 and property management fee
Net Operating Income	998,156	1,098,842	100,687	10%	Budgeted FY 2024 NOI significantly greater than pro forma expectations
Debt Service	295,431	295,431	-	0%	
Entity Expenses	-	14,926	14,926	0%	
Net Cash Flow	702,725	788,485	85,761	12%	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 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 technician and one full-time custodian.

CAPITAL PLAN

Total deposits to the replacement reserve account in 2024 will be \$40,000, consistent with regulating agreements.

FISCAL CONSIDERATIONS

For Fiscal Year 2024, it is anticipated that the property's Total Revenue will be \$1,757,823. Total Operating Expenses will be \$658,981 for a Net Operating Income of \$1,098,842. 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 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 - 2024 Property Operations Budget

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

New Palace Hotel - 2024 Operating Summary		
	2023 Budget	2024 Budget
INCOME		
Gross Potential Rent		
Gross Potential Revenue	1,882,195	1,907,380
Gain Loss to Lease	(198,989)	(36,191)
Less: Vacancies	(84,160)	(93,559)
Less: Down Unit	-	-
Less: Manager's Unit	-	(24,600)
Less: Discounts and Concesss	-	-
Less: Office Community Room Unit	-	-
Less: COVID Hardship	-	-
Rent Subsidy Variances	-	-
Net Rental Income	1,599,046	1,753,030
Other Income		
Rental Income Commercial	-	-
Prepaid Income	-	-
Application Fees	-	-
Credit Check Income	-	-
Damages Cleaning Fees	800	800
Carport Garage Gate Income	-	-
Laundry and Vending Revenue	2,900	2,958
NSF Late Charges	150	120
Former Tenant Income	-	-
Tenant Rent Recovery	-	-
Other Tenant Charges Recovery	-	-
Interest Income - Restricted	-	-
Interest Income - Replacement Reverse	39	69
Interest Income Investments	-	846
Interest Income Notes Receivable	-	-
Grant Income - Fed - Svc Coord	-	-
Donations Income	-	-
Commercial Tenant - Reimb	-	-
Miscellaneous Income	-	-
Security Deposit Forfeiture	-	-
Total Other Income	3,889	4,793
Total Income	1,602,935	1,757,823
EXPENSES		
Admin		
Consultant Asset Mgmt	-	-
Broker Fees	-	-

New Palace Hotel - 2024 Operating Summary		
	2023 Budget	2024 Budget
Audit and Tax Prep Fees	12,311	13,000
IT Support Maintenance	-	-
Property Management Fees	95,892	104,996
Bookkeeping Fees	-	-
Office Expense	300	2,150
Internet and Telephone	-	-
Office Supplies	-	-
Parking	-	-
Software Exp Admin	-	-
Copier Printer	1,920	1,980
Office Repairs and Maint	-	-
Bank Charges Admin	-	475
Mileage	-	-
Dues Subs and Memberships	592	819
Other Admin Expense	-	-
Manager Salaries	52,900	54,797
Office Salaries	-	-
Employee Benefits PM Co - Program Admin	15,243	12,492
Payroll Taxes - Manager and Admin	4,685	4,830
Workman's Comp Mgr and Admin	4,314	4,002
Temp Services - Property Manager	-	-
Temp Services - Admin	-	-
Consultant Other Program Admin	3,475	3,475
Legal - Program Admin	1,700	2,100
Cleaning and Janitorial Contract	1,900	1,957
Credit Check Service Fee	-	-
Internet and Telephone Prog Admin	6,898	6,950
Advertising	818	825
Bank Charges Program Admin	1,854	510
Mileage and Travel Exp Prog Admin	200	150
Training - Program Admin	1,500	1,600
Postage and Delivery Prog Admin	180	180
Software Exp Program Admin	8,712	5,742
Misc Program Admin	1,519	600
Lease Up Expenses	-	-
Total Admin	216,913	223,629
Utilities		
Cable Expenses	-	-
Electricity	59,730	90,842
Gas	5,500	6,402
Sewer	14,700	10,151

New Palace Hotel - 2024 Operating Summary		
	2023 Budget	2024 Budget
Water	18,920	16,047
Total Utilities	98,850	123,443
Maintenance and Repair		
Fire Protection and Alarm	9,100	9,800
AC Contracts	2,500	2,575
Clubhouse Expense	-	-
Decorating	-	150
Elevator Contracts	4,600	6,379
Exterminating Supplies	-	-
Exterminating Contracts	7,200	7,416
Electrical Contracts	900	927
Furn and Appl Rplcmnt	-	-
Landscape and Grounds Contract	-	1,500
Ground Supplies	540	300
Janitorial Supplies	2,900	2,900
COVID Supplies	-	-
Maint Supplies and Materials	1,500	1,500
Plumbing Contracts	6,493	6,818
Plumbing Supplies	-	-
Repair and Maint Payroll	74,769	77,287
Payroll Taxes - Rpr and Maint	7,012	7,204
Employee Benefits PM Co - Program	27,428	24,984
Temp Services - Program Admin	-	-
Temp Services - Maintenance	-	-
Temp Services - Janitorial	-	-
Unit Turnover Contracts	500	-
Flooring	-	-
Painting Contract	500	350
Repair Contracts	5,100	5,355
Repair Supplies	-	-
Security Contract Program	17,648	20,096
Security Payroll	-	-
Payroll Taxes - Security	-	-
Workers Compensation Ins-Security	-	-
Trash Removal	10,650	17,125
Workman's Comp-Rpr and Maint	5,667	5,721
Remediation Expense	-	-
Uniforms	200	350
Insurance Claims Expense	-	-
Insurance Proceeds	-	-
Retail Space Expenses	-	-

New Palace Hotel - 2024 Operating Summary		
	2023 Budget	2024 Budget
Total Maintenance and Repair	185,208	198,737
Extraordinary Maintenance		
Extraordinary Maintenance	-	-
Total Extraordinary Maintenance	-	-
Taxes and Insurance		
Taxes Licenses and Fees	1,973	1,988
Fidelity Bond Insurance	-	-
Insurance Other	-	542
Property and Liability Ins	26,312	29,322
Property Taxes	4,821	4,870
Total Taxes and Insurance	33,106	36,722
Bad Debt		
Bad Debt - Tenant Rent	(492)	2,200
Bad Debt - Other Tenant Charges	1,344	900
Bad Debt - Other - Elim	-	-
Bad Debt - Other	-	-
Bad Debt - Tenant Rent - PMCo Direct	-	-
Bad Debt - Other Tenant Charges - PMCo Direct	-	-
Total Bad Debt	852	3,100
Other Expenses		
Tenant Services Other	18,000	18,500
Tenant Services Payroll Benefits	-	-
Grant Expense	-	-
Grant Expense - Elim	-	-
SDHC Compliance Monitoring Fee	11,850	11,850
Relocation Costs	-	-
Relocation due to Maint	-	-
Ground Lease Expense	-	-
Miscellaneous Exp Program	-	3,000
CY Deposit to Escrow Rplc Reserve	40,000	40,000
CY Deposit to Rplc Reserve	-	-
Total Other Expenses	69,850	73,350
Total Operating Expenses	604,780	658,981
Net Operating Income	998,155	1,098,842
Debt Service		

December 8, 2023

New Palace Hotel 2024 Property Budget

Page 9

New Palace Hotel - 2024 Operating Summary		
	2023 Budget	2024 Budget
CY Mortgage Debt Payments (IS)	66,999	72,249
Interest Expense - Mortgage	208,932	203,682
Mortgage Insurance Expense	-	-
Loan Servicing Fee (Trustee Fee)	9,500	9,500
SDHC Bond Admin Fee	10,000	10,000
Loan Fees	-	-
Total Debt Service	295,431	295,431
Entity Expenses		
Legal Admin	-	-
Asset Management Fees	-	5,970
Asset Mgmt Fee - Elim	-	-
Partnership Management Fee	-	8,956
Incentive Partnership Mgmt Fee	-	-
Insurance - D and O	-	-
Guaranteed Fees	-	-
Total Entity Expenses	-	14,926
Net Cash Flow	702,724	788,485