

## REPORT

**DATE ISSUED:** December 8, 2023

**REPORT NO:** HDP23-018

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

**SUBJECT:** Quality Inn 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 Quality Inn, a 92-unit affordable housing property with supportive services at 1830 4<sup>th</sup> Avenue, San Diego, CA 92101, for individuals who experienced 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**

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 was completed in 2022.

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. If the HDP Board approves the staff-recommended actions in Report HDP23-011 Selection of New Property Management Companies, then Hyder Property Management Professionals (Hyder) would operate the property, effective April 1, 2024, according to the approved Property Budget. The budget is also provided to partnership's lenders and financing partners.

Staff is requesting approval of the 2024 Property Budget.

**BUDGET SUMMARY**

The 2024 Property Budget was prepared using industry data combined with the professional experience of Winn and HDP's asset management team. The proposed 2024 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 greater than underwriting / pro forma expectations. Below is a summary chart of the 2024 Operating Budget compared against the 2023 Budget.

	Quality Inn				
	FY 2023	FY 2024	\$ Variance	% Variance	Notes
Rental Income	1,937,838	1,996,441	58,601	3%	Current payment standard projected to increase 3% Sept 2024
Other Income	5,370	7,265	1,895	35%	Interest income based on 2023 actuals
<b>Total Revenue</b>	<b>1,943,208</b>	<b>2,003,706</b>	<b>60,496</b>	<b>3%</b>	
Total Admin	305,891	313,165	7,274	2%	Property Management fee increase (percentage of rental income). Payroll, budgeted maximum employee benefit election.
Total Utilities	73,667	94,808	21,142	29%	Based on published increases for water (10.2%), Electric (5%) & Gas (17%)
Total Repairs and Maintenance) (R&M)	167,538	196,088	28,550	17%	Security is being extended to cover office hours
Taxes & Insurance	27,880	33,368	5,489	20%	Insurance increase (industry-wide impact).
Other Expenses	125,776	141,334	15,558	12%	Ground lease based on revenue, 6-year Elevated Exterior Elements inspection
Other Debt (debt due to uncollectible rent)	28,864	25,300	(3,564)	(12%)	Pandemic-related uncollectible-rent debt.
<b>Total Expenses</b>	<b>729,615</b>	<b>804,063</b>	<b>74,448</b>	<b>10%</b>	Extraordinary expenses: uncollectible-rent debt, insurance premium increase, ground lease and property management fee. based on revenue, increased security.
<b>Net Operating Income</b>	<b>1,213,593</b>	<b>1,199,643</b>	<b>(13,953)</b>	<b>(1%)</b>	Budgeted FY 2024 NOI significantly greater than pro forma expectations
Debt Service	295,900	295,900	-	0%	
Entity Expenses	-	-	-	0%	
<b>Net Cash Flow</b>	<b>917,693</b>	<b>903,743</b>	<b>(13,953)</b>	<b>(2%)</b>	Significant expense increases not expected to be year over year (added security, pandemic-related uncollectible rent debt)

## 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 not impact the resident's portion of rent.

## MAINTENANCE AND REPAIR

The maintenance and repairs budget for 2024 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 2024 will be \$45,996, consistent with regulatory agreements.

### **FISCAL CONSIDERATIONS**

For Fiscal Year 2024, it is anticipated that the property's Total Revenue will be \$2,003,706. Total Operating Expenses will be \$804,063 for a Net Operating Income of \$1,199,643. 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 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 - 2024 Property Operations Budget

Docket materials are available on HDP's website at [www.hdpartners.org](http://www.hdpartners.org)

Quality Inn - 2024 Operating Summary		
	2023 Budget	2024 Budget
<b>INCOME</b>		
<b>Gross Potential Rent</b>		
Gross Potential Revenue	2,066,532	2,132,493
Gain Loss to Lease	(79)	(3,547)
Less: Vacancies	(103,323)	(106,447)
Less: Down Unit	-	-
Less: Manager's Unit	(25,290)	(26,058)
Less: Discounts and Concesss	-	-
Less: Office Community Room Unit	-	-
Less: COVID Hardship	-	-
Rent Subsidy Variances	-	-
<b>Net Rental Income</b>	<b>1,937,840</b>	<b>1,996,441</b>
<b>Other Income</b>		
Rental Income Commercial	-	-
Prepaid Income	-	-
Application Fees	-	-
Credit Check Income	-	-
Damages Cleaning Fees	2,600	3,300
Carport Garage Gate Income	-	-
Laundry and Vending Revenue	2,400	2,400
NSF Late Charges	300	300
Former Tenant Income	-	-
Tenant Rent Recovery	-	-
Other Tenant Charges Recovery	-	-
Interest Income - Restricted	70	-
Interest Income - Replacement Reverse	-	-
Interest Income Investments	-	1,265
Interest Income Notes Receivable	-	-
Grant Income - Fed - Svc Coord	-	-
Donations Income	-	-
Commercial Tenant - Reimb	-	-
Miscellaneous Income	-	-
Security Deposit Forfeiture	-	-
<b>Total Other Income</b>	<b>5,370</b>	<b>7,265</b>
<b>Total Income</b>	<b>1,943,210</b>	<b>2,003,706</b>
<b>EXPENSES</b>		
<b>Admin</b>		
Consultant Asset Mgmt	-	-
Broker Fees	-	-

Quality Inn - 2024 Operating Summary		
	2023 Budget	2024 Budget
Audit and Tax Prep Fees	11,130	11,875
IT Support Maintenance	-	-
Property Management Fees	114,538	118,268
Bookkeeping Fees	-	-
Office Expense	-	3,180
Internet and Telephone	-	-
Office Supplies	-	-
Parking	-	-
Software Exp Admin	-	-
Copier Printer	-	2,724
Office Repairs and Maint	-	-
Bank Charges Admin	-	-
Mileage	-	-
Dues Subs and Memberships	-	731
Other Admin Expense	-	-
Manager Salaries	94,788	60,160
Office Salaries	-	39,270
Employee Benefits PM Co - Program Admin	28,614	22,486
Payroll Taxes - Manager and Admin	8,534	8,989
Workman's Comp Mgr and Admin	7,813	7,467
Temp Services - Property Manager	-	-
Temp Services - Admin	-	-
Consultant Other Program Admin	4,798	6,166
Legal - Program Admin	6,428	6,428
Cleaning and Janitorial Contract	1,500	1,500
Credit Check Service Fee	-	-
Internet and Telephone Prog Admin	10,015	10,440
Advertising	853	886
Bank Charges Program Admin	2,141	328
Mileage and Travel Exp Prog Admin	300	360
Training - Program Admin	1,705	2,416
Postage and Delivery Prog Admin	300	250
Software Exp Program Admin	12,198	9,000
Misc Program Admin	235	240
Lease Up Expenses	-	-
<b>Total Admin</b>	<b>305,891</b>	<b>313,165</b>
<b>Utilities</b>		
Cable Expenses	-	-
Electricity	40,717	54,819
Gas	8,006	13,291
Sewer	9,552	10,157

Quality Inn - 2024 Operating Summary		
	2023 Budget	2024 Budget
Water	15,391	16,541
<b>Total Utilities</b>	<b>73,666</b>	<b>94,808</b>
<b>Maintenance and Repair</b>		
Fire Protection and Alarm	6,300	10,420
AC Contracts	1,200	1,200
Clubhouse Expense	-	-
Decorating	1,200	1,236
Elevator Contracts	9,400	9,682
Exterminating Supplies	-	-
Exterminating Contracts	10,080	10,320
Electrical Contracts	900	2,000
Furn and Appl Rplcmnt	-	-
Landscape and Grounds Contract	-	-
Ground Supplies	200	200
Janitorial Supplies	1,740	2,000
COVID Supplies	-	-
Maint Supplies and Materials	8,700	6,000
Plumbing Contracts	11,476	11,820
Plumbing Supplies	-	-
Repair and Maint Payroll	59,780	65,069
Payroll Taxes - Rpr and Maint	5,873	6,275
Employee Benefits PM Co - Program	18,364	16,240
Temp Services - Program Admin	-	-
Temp Services - Maintenance	-	-
Temp Services - Janitorial	-	-
Unit Turnover Contracts	-	-
Flooring	-	-
Painting Contract	-	-
Repair Contracts	3,220	3,317
Repair Supplies	-	-
Security Contract Program	10,000	31,125
Security Payroll	-	-
Payroll Taxes - Security	-	-
Workers Compensation Ins-Security	-	-
Trash Removal	14,214	14,214
Workman's Comp-Rpr and Maint	4,591	4,620
Remediation Expense	-	-
Uniforms	300	350
Insurance Claims Expense	-	-
Insurance Proceeds	-	-
Retail Space Expenses	-	-

Quality Inn - 2024 Operating Summary		
	2023 Budget	2024 Budget
<b>Total Maintenance and Repair</b>	<b>167,538</b>	<b>196,088</b>
<b>Extraordinary Maintenance</b>		
Extraordinary Maintenance	-	-
<b>Total Extraordinary Maintenance</b>	<b>-</b>	<b>-</b>
<b>Taxes and Insurance</b>		
Taxes Licenses and Fees	4,685	5,675
Fidelity Bond Insurance	-	-
Insurance Other	-	190
Property and Liability Ins	22,880	27,491
Property Taxes	315	12
<b>Total Taxes and Insurance</b>	<b>27,880</b>	<b>33,368</b>
<b>Bad Debt</b>		
Bad Debt - Tenant Rent	28,864	19,200
Bad Debt - Other Tenant Charges	-	6,100
Bad Debt - Other - Elim	-	-
Bad Debt - Other	-	-
Bad Debt - Tenant Rent - PMCo Direct	-	-
Bad Debt - Other Tenant Charges - PMCo Direct	-	-
<b>Total Bad Debt</b>	<b>28,864</b>	<b>25,300</b>
<b>Other Expenses</b>		
Tenant Services Other	-	-
Tenant Services Payroll Benefits	-	-
Grant Expense	-	-
Grant Expense - Elim	-	-
SDHC Compliance Monitoring Fee	17,500	15,050
Relocation Costs	-	-
Relocation due to Maint	-	-
Ground Lease Expense	62,280	77,288
Miscellaneous Exp Program	-	3,000
CY Deposit to Escrow Rplc Reserve	45,996	45,996
CY Deposit to Rplc Reserve	-	-
<b>Total Other Expenses</b>	<b>125,776</b>	<b>141,334</b>
<b>Total Operating Expenses</b>	<b>729,615</b>	<b>804,063</b>
<b>Net Operating Income</b>	<b>1,213,595</b>	<b>1,199,643</b>
<b>Debt Service</b>		



Quality Inn - 2024 Operating Summary		
	2023 Budget	2024 Budget
CY Mortgage Debt Payments (IS)	89,231	92,346
Interest Expense - Mortgage	199,168	196,054
Mortgage Insurance Expense	-	-
Loan Servicing Fee (Trustee Fee)	7,500	7,500
SDHC Bond Admin Fee	-	-
Loan Fees	-	-
<b>Total Debt Service</b>	<b>295,900</b>	<b>295,900</b>
<b>Entity Expenses</b>		
Legal Admin	-	-
Asset Management Fees	-	-
Asset Mgmt Fee - Elim	-	-
Partnership Management Fee	-	-
Incentive Partnership Mgmt Fee	-	-
Insurance - D and O	-	-
Guaranteed Fees	-	-
<b>Total Entity Expenses</b>	<b>-</b>	<b>-</b>
<b>Net Cash Flow</b>	<b>917,696</b>	<b>903,743</b>