

REPORT

DATE ISSUED: December 6, 2024

REPORT NO: HDP24-017

ATTENTION: Chair and Members of the Board of Directors of
Housing Development Partners of San Diego
For the Agenda of December 12, 2024

SUBJECT: New Palace Hotel 2025 Property Budget

STAFF RECOMMENDATION:

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

- 1) Approve the 2025 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. 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, Hyder and Company (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 each 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 2025 Property Budget.

BUDGET SUMMARY

The 2025 Property Budget was prepared using historical data from property operations combined with the professional experience of Hyder and HDP's asset management team. Below is a summary chart, which compares the proposed 2025 budget to the 2024 budget.

	New Palace				
	FY 2024	FY 2025	\$ Variance	% Variance	Notes
Rental Income	1,753,020	1,965,982	212,962	12%	<i>Rents are anticipated to increase to more closely align with increases in February 2025 in the payment standard for Housing Commission project-based vouchers. No impact on the tenant's portion of the rent.</i>
Other Income	4,812	4,861	49	1%	
Total Revenue	1,757,832	1,970,843	213,011	12%	
Total Admin	223,644	219,096	(4,548)	-2%	<i>Reduced management fee expense with new property management company, offset by increased salaries and increased legal projections based 2023/2024 actuals.</i>
Total Utilities	123,444	115,258	(8,186)	-7%	<i>Based on published increases and rolling 12-month usage: water (4%), electric (4%) and gas (6.3%). 2024 electric actuals reduced from 2024 projections due to the California Alternate Rates for Energy (CARE) program.</i>
Total Repairs & Maintenance (R&M)	198,756	237,813	39,057	20%	<i>Budget for plumbing and repair contracts increased based on 2023 and 2024 actuals. Property is experiencing plumbing waste line issues throughout.</i>
Taxes & Insurance	36,720	47,766	11,046	30%	<i>Insurance increase based on 2024/2025 rates, with a 10% escalation effective September for 2025/2026 policy. Property 90% exempt from property taxes (commercial space).</i>
Other Expenses	73,356	72,491	(865)	-1%	<i>SB 721 balcony inspections budgeted in 2024 are not required in 2025.</i>
Other Debt (uncollectible rent writeoffs)	3,096	14,745	11,649	376%	<i>Uncollectible rent writeoffs projection of 1.15% of net rental income.</i>
Total Operating Expenses	659,016	707,169	48,153	7%	<i>Operating expense projection increase primarily driven by expenses related to plumbing issues being experienced at the property compounded by increased insurance expense.</i>
Net Operating Income (NOI)	1,098,816	1,263,674	164,858	15%	
Debt Service	295,428	295,431	3	0%	
Total Entity Expenses	14,928	15,373	445	3%	
Net Cash Flow	788,460	952,870	164,410	21%	

RENTS

Rents are anticipated to increase to more closely align with an anticipated increase in the Housing Commission's payment standards for project-based housing vouchers (PBVs). The rent increase does not affect 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 2025 will be \$40,000, consistent with regulating agreements.

CONFLICT DISCLOSURE STATEMENT:

Two San Diego Housing Commissioners (Commissioners), Eugene “Mitch” Mitchell and Ryan Clumpner, and the San Diego Housing Commission’s (Housing Commission) President and Chief Executive Officer (President and CEO), Lisa Jones, 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 President and CEO Jones have no conflict of interest as discussed below.

The Commissioners and President and CEO Jones 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 President and CEO Jones 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.

San Diego City Councilmember and Housing Authority member, Councilmember Stephen Whitburn, is also a Director of HDP. Councilmember Whitburn is not compensated for his service on the HDP Board or as an officer of HDP. As it relates to this matter, as a Housing Authority member, Councilmember Whitburn has a noninterest under California Government Code section 1091.5(a)(9). This disclosure shall be incorporated into the record of the Housing Authority, if and when this matter is heard by the Housing Authority.

Further, because of their non-interests, the Commissioners, as members of the Housing Commission Board of Commissioners, and Councilmember Whitburn, as a member of the Housing Authority, are entitled to vote on this matter and may be counted for quorum.

Further, no HDP Director or officer has a financial interest in this matter that would legally preclude their participation under the provisions of California Government Code section 87100 et. seq.

The Commissioners are not compensated for their services on the board of the Housing Commission, a public agency. Councilmember Whitburn’s compensation as a member of the Housing Authority, a public agency, is a non-interest under Government Code section 1091.5(a)(9). Further, Ms. Jones’ compensation from a public agency, the Housing Commission, is a noninterest under the provisions of Government Code Section 1091.5(a)(9) as well as for the purposes of Government Code Section 87100 et. seq.

Finally, to the extent that HDP is a public agency for local Ethics Ordinance purposes, neither the Commissioners, Ms. Jones, nor Councilmember Whitburn have any conflicts of interest under the local ethics ordinance that would preclude their actions in this matter or from being counted for quorum purposes.

These disclosures shall be and are hereby documented in the official records of the Housing Commission and Housing Authority.

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,

Approved by,

Branden Sarkissian

Branden Sarkissian
Director of Asset Management
Housing Development Partners

Emmanuel Arellano

Emmanuel Arellano
Vice President of Asset Management
Housing Development Partners

Attachments: 1) New Palace Hotel – 2024 Property Operations
 2) New Palace Hotel – 2025 Replacement Reserves

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

New Palace - 2025 Operating Summary		
	2024 Budget	2025 Budget
INCOME		
Gross Potential Rent		
Gross Potential Revenue	1,907,376	2,177,231
Gain Loss to Lease	(36,192)	(87,005)
Less: Vacancies	(93,564)	(97,525)
Less: Down Unit	-	-
Less: Manager's Unit	(24,600)	(26,719)
Less: Discounts and Concesss	-	-
Less: Office Community Room Unit	-	-
Less: COVID Hardship	-	-
Rent Subsidy Variances	-	-
Net Rental Income	1,753,020	1,965,982
Other Income		
Rental Income Commercial	-	-
Prepaid Income	-	-
Application Fees	-	-
Credit Check Income	-	-
Damages Cleaning Fees	804	884
Carport Garage Gate Income	-	-
Laundry and Vending Revenue	2,964	3,053
NSF Late Charges	120	-
Former Tenant Income	-	-
Tenant Rent Recovery	-	-
Other Tenant Charges Recovery	-	-
Interest Income - Restricted	-	-
Interest Income - Replacement Reverse	72	72
Interest Income Investments	852	852
Interest Income Notes Receivable	-	-
Grant Income - Fed - Svc Coord	-	-
Donations Income	-	-
Commercial Tenant - Reimb	-	-
Miscellaneous Income	-	-
Security Deposit Forfeiture	-	-
Total Other Income	4,812	4,861
Total Income	1,757,832	1,970,843
EXPENSES		
Admin		
Consultant Asset Mgmt	-	-
Broker Fees	-	-
Audit and Tax Prep Fees	12,996	13,377

New Palace - 2025 Operating Summary		
	2024 Budget	2025 Budget
IT Support Maintenance	-	-
Property Management Fees	105,000	91,200
Bookkeeping Fees	-	-
Office Expense	2,148	2,225
Internet and Telephone	-	-
Office Supplies	-	-
Parking	-	-
Software Exp Admin	-	-
Copier Printer	1,980	2,051
Office Repairs and Maint	-	-
Bank Charges Admin	480	497
Mileage	-	-
Dues Subs and Memberships	816	845
Other Admin Expense	-	-
Manager Salaries	54,792	56,937
Office Salaries	-	-
Employee Benefits PM Co - Program Admin	12,492	12,492
Payroll Taxes - Manager and Admin	4,824	4,992
Workman's Comp Mgr and Admin	4,008	4,430
Temp Services - Property Manager	-	-
Temp Services - Admin	-	-
Consultant Other Program Admin	3,480	3,480
Legal - Program Admin	2,100	4,195
Cleaning and Janitorial Contract	1,956	1,956
Credit Check Service Fee	-	-
Internet and Telephone Prog Admin	6,948	7,156
Advertising	828	858
Bank Charges Program Admin	516	1,600
Mileage and Travel Exp Prog Admin	156	2,562
Training - Program Admin	1,596	2,000
Postage and Delivery Prog Admin	180	289
Software Exp Program Admin	5,748	5,520
Misc Program Admin	600	434
Lease Up Expenses	-	-
Total Admin	223,644	219,096

New Palace - 2025 Operating Summary		
	2024 Budget	2025 Budget
Utilities		
Cable Expenses	-	-
Electricity	90,840	77,210
Gas	6,408	9,641
Sewer	10,152	10,938
Water	16,044	17,468
Total Utilities	123,444	115,258
Maintenance and Repair		
Fire Protection and Alarm	9,804	10,148
AC Contracts	2,580	4,000
Clubhouse Expense	-	-
Decorating	156	919
Elevator Contracts	6,384	6,703
Exterminating Supplies	-	-
Exterminating Contracts	7,416	8,970
Electrical Contracts	924	1,766
Furn and Appl Rplcmnt	-	-
Landscape and Grounds Contract	1,500	-
Ground Supplies	300	250
Janitorial Supplies	2,904	2,400
COVID Supplies	-	-
Maint Supplies and Materials	1,500	1,554
Plumbing Contracts	6,816	26,267
Plumbing Supplies	-	-
Repair and Maint Payroll	77,292	80,646
Payroll Taxes - Rpr and Maint	7,200	7,459
Employee Benefits PM Co - Program	24,984	24,984
Temp Services - Program Admin	-	-
Temp Services - Maintenance	-	-
Temp Services - Janitorial	-	-
Unit Turnover Contracts	-	-
Flooring	-	-
Painting Contract	348	-
Repair Contracts	5,352	15,540
Repair Supplies	-	-
Security Contract Program	20,100	20,824
Security Payroll	-	-
Payroll Taxes - Security	-	-
Workers Compensation Ins-Security	-	-
Trash Removal	17,124	19,053

New Palace - 2025 Operating Summary		
	2024 Budget	2025 Budget
Workman's Comp-Rpr and Maint	5,724	5,969
Remediation Expense	-	-
Uniforms	348	361
Casualty Losses	-	-
Insurance Claims Expense	-	-
Insurance Proceeds	-	-
Retail Space Expenses	-	-
Total Maintenance and Repair	198,756	237,813
Extraordinary Maintenance		
Extraordinary Maintenance	-	-
Total Extraordinary Maintenance	-	-
Taxes and Insurance		
Taxes Licenses and Fees	1,992	2,064
Fidelity Bond Insurance	-	-
Insurance Other	540	559
Property and Liability Ins	29,316	39,783
Property Taxes	4,872	5,359
Total Taxes and Insurance	36,720	47,766
Bad Debt - Tenant Rent	2,196	14,745
Bad Debt - Other Tenant Charges	900	-
Bad Debt - Other - Elim	-	-
Bad Debt - Other	-	-
Bad Debt - Tenant Rent - PMCo Direct	-	-
Bad Debt - Other Tenant Charges - PMCo Direct	-	-
Total Bad Debt	3,096	14,745
Other Expenses		
Tenant Services Other	18,504	20,000
Tenant Services Payroll Benefits	-	-
Grant Expense	-	-
Grant Expense - Elim	-	-
SDHC Compliance Monitoring Fee	11,856	12,443
Relocation Costs	-	-

New Palace - 2025 Operating Summary		
	2024 Budget	2025 Budget
Relocation due to Maint	-	-
Ground Lease Expense	-	-
Miscellaneous Exp Program	3,000	48
CY Deposit to Escrow Rplc Reserve	39,996	40,000
CY Deposit to Rplc Reserve	-	-
Total Other Expenses	73,356	72,491
Total Operating Expenses	659,016	707,169
Net Operating Income	1,098,816	1,263,674
Debt Service		
CY Mortgage Debt Payments (IS)	72,252	75,508
Interest Expense - Mortgage	203,676	200,423
Mortgage Insurance Expense	-	-
Loan Servicing Fee (Trustee Fee)	9,504	9,500
SDHC Bond Admin Fee	9,996	10,000
Loan Fees	-	-
Total Debt Service	295,428	295,431
Legal Admin	-	-
Asset Management Fees	5,976	6,149
Asset Mgmt Fee - Elim	-	-
Partnership Management Fee	8,952	9,224
Incentive Partnership Mgmt Fee	-	-
Insurance - D and O	-	-
Guaranteed Fees	-	-
Total Entity Expenses	14,928	15,373
Net Cash Flow	788,460	952,870

New Palace Hotel 2025 Replacement Reserves

Beginning Balance of Replacement Rsv	212,416
Deposit to Reserves	40,000
Use of Reserves (Capital Expenditures)	<u>(25,590)</u>
Ending Balance of Replacement Reserves	226,826