



REPORT

DATE ISSUED: July 21, 2006 **REPORT NO.:** HCR06-51

ATTENTION: Chair and Members of the Housing Commission **ITEM:** 101
For the Agenda of August 4, 2006

SUBJECT: Deed of Trust Securing San Diego Rescue Mission Grant (Council District 2)

REQUESTED ACTION:

That the Deed of Trust securing the Housing Commission revocable grant of U.S. Department of Housing and Urban Development funds (used to rehabilitate the San Diego Rescue Mission's (SDRM) Harbor View transitional housing project at 120 Elm Street) record in a more junior position than originally authorized.

STAFF RECOMMENDATION:

Recommend Housing Commission and Housing Authority approval of changes to the financing structure of the SDRM Harbor View project by ratifying the subordination, from third to fifth position, of the Deed of Trust securing a \$402,368 Economic Development Initiative (EDI) grant used to help finance rehabilitation of a 379-bed facility for homeless individuals in need of transitional housing. The original structure of the financial plan and a description of the project are more fully described in the Attachment.

SUMMARY:

Congress reserved \$402,368 of EDI grant funds in the federal fiscal year 2003 budget in response to the City's request for funds to replace housing removed by the Federal Government in preparation for construction of a downtown courthouse. The City of San Diego was named the eligible recipient of the proposed grant, and the nonprofit, faith-based SDRM applied to be a subrecipient to fund rehabilitation of its Harbor View Project. The project is located at 120 Elm Street in the Uptown district immediately north of the I-5 freeway and adjacent to the Cortez Hill redevelopment area. The transitional housing facility provides special needs services for homeless households earning 30 percent or less of Area Median Income, and rents are restricted for 55 years.

As the administering agency for the grant recipient, the Housing Commission submitted the grant application on behalf of SDRM, received the funding, and monitors compliance with federal regulations governing use of the funds.



July 21, 2006

Deed of Trust Securing San Diego Rescue Mission Grant

Page 2

The Housing Commission report of January 23, 2004 (HCR04-10) outlined the proposed financial structure for the Harbor View project. The report stated that the HUD-EDI grant would be secured by a trust deed in third position behind a first position private lender and the second position Redevelopment Agency loan.

While the Housing Commission waited to receive the EDI grant funds from HUD and close escrow with SDRM in October 2005, four different funding sources (California Baptist Foundation/San Joaquin Bank, Bank of the West, Redevelopment Agency of the City of San Diego, and the California Department of Housing and Community Development) secured their liens ahead of the Housing Commission grant, leaving this agency to record its documents in the fifth position.

Efforts to conform to the original financing plan by switching the Housing Commission's lien position with the third position Redevelopment Agency loan were not successful, as was an attempt to move into higher position by having the California Department of Housing and Community Development subordinate its fourth position loan to the Housing Commission.

If the Board accepts the current position, the Housing Commission's security will be behind debt of \$16,655,000; however, the fiscal impact of that placement should be minimal since the operation is fully functional and stable. Also, the grant was only eligible to be used for transitional housing on Elm Street, and the funds most likely would be lost if not used in the Harbor View project.

AFFORDABLE HOUSING IMPACT:

None with this action. Occupancy of 379 beds are restricted to residents earning no more than 30 percent of Area Median Income (currently \$14,500 for a one-person household) for 55 years under an agreement with the Redevelopment Agency.

FISCAL CONSIDERATIONS:

The grant is secured by a trust deed subordinate to \$13,155,000 in private lending, a \$2,000,000 Redevelopment Agency loan, a \$1,000,000 Affordable Housing Program grant, and a California Emergency Housing Assistance Program grant of \$500,000. The EDI grant is subject to recapture by HUD should SDRM be unable to support operation of the facility as proposed.

PREVIOUS ACTIONS:

On March 23, 2004, the City Council and Housing Authority authorized the Housing Commission to apply for and accept the \$402,368 HUD-EDI grant on behalf of the City of San Diego. The funds were awarded by HUD in August 2004 and disbursed to SDRM through the Housing Commission in October 2005.

ALTERNATIVE

The Housing Commission could decline to recommend the Housing Authority approve the subordination of the grant and direct staff to renew its request for the Redevelopment Agency to allow the Housing Commission's deed of trust to move into the third position, in conformity with the

July 21, 2006

Deed of Trust Securing San Diego Rescue Mission Grant

Page 3

financial structure outlined in HCR04-10 and approved by the Board at its meeting on January 30, 2004. However, the \$2 million Redevelopment Agency loan in this project is significantly larger than the HUD-EDI grant and represents an investment of local resources. The Redevelopment Agency report that approved funding for the project is silent with respect to loan position relative to the Housing Commission's loan or any other funding source.

Respectfully submitted,

**Signature on File
With Original Document**

Approved by,

Cissy Fisher
Director of Housing Finance & Development

Elizabeth C. Morris
President & Chief Executive Officer

Attachment: HCR04-10 (without attachments)



Good Neighbors

San Diego
Housing Commission

- ◆ 1625 Newton Avenue
- ◆ San Diego, California 92113-1038
- ◆ 619.231.9400
- ◆ FAX: 619.544.9193
- ◆ www.sdhc.net

REPORT

DATE ISSUED: January 23, 2003

ITEM 101

REPORT NO.: HCR04-10
For the Agenda of January 30, 2004

SUBJECT: San Diego Rescue Mission Transitional Housing at 120 Elm Street
(Council District 2)

SUMMARY

Issue: Should the Housing Commission utilize a grant of U.S. Department of Housing and Urban Development Economic Development Initiative (EDI) funds approved by Congress to support transitional housing on Elm Street?

Recommendation No. 1: Seek City Council authorization for the Chief Executive Officer to apply for and accept a \$402,368 EDI grant, for transitional housing at 120 Elm Street, on behalf of the City of San Diego.

Recommendation No. 2: Seek Housing Authority approval for the Chief Executive Officer to execute any and all documents necessary to:

- (a) make an application for the EDI grant as administrating agent for the City;
- (b) revise the FY2004 Housing Commission budget; and,
- (c) release the grant funds to San Diego Rescue Mission to be used for rehabilitation of its Harbor View Project.

Fiscal Impact: Unanticipated Federal funds would be used to fund this grant. There is no administrative component of this grant to pay the Housing Commission's administrative costs. However, no significant Housing Commission expense is expected.

Previous Related Actions: On November 19, 2002, the City Council voted unanimously to approve Conditional Use Permit No. 8673 for the development.

Future Related Actions: City Council approval is necessary for the Housing Commission to apply for this grant on behalf of the City of San Diego. Housing Authority approval is required for the Housing Commission to apply for and accept this grant on behalf of the City, the proposed use of this grant, and an amendment to the



Fiscal Year 2004 budget to add the grant proceeds. The Redevelopment Agency will consider a \$2,000,000 rehabilitation loan of Horton Plaza Low/Moderate Rehabilitation Program funds on March 16, 2004.

Affordable Housing Impact: This grant would be used to help finance conversion of a former hospital into a 379-bed congregate housing facility for homeless households in need of transitional housing, special purpose housing, and emergency shelter. Under an agreement with the Redevelopment Agency, the 379 beds would have a 55-year restriction requiring occupancy by residents earning no more than thirty percent of Area Median Income. The target tenant population is characteristically extremely low-income, with typical household incomes of thirty percent or less of Area Median Income (currently \$13,400 for a one-person household).

Environmental Review: The City of San Diego reviewed this project pursuant to the California Environmental Quality Act (CEQA) and certified a Mitigated Negative Declaration (LDR No. 41-0900). The City is also reviewing the project pursuant to the National Environmental Policy Act (NEPA). The NEPA review must be approved by HUD prior to the release of Federal funds.

Community Planning Group Review: The project was reviewed and approved by Uptown Planners. Redevelopment of the Elm Street site conforms to the objectives and goals of the Uptown Community Plan.

Equal Opportunity Statement: Staff reviewed and approved the Certificate of Compliance and the San Diego County Workforce Reports submitted by San Diego Rescue Mission.

BACKGROUND

In response to the City's request for funds to replace housing removed by the Federal Government in preparation for construction of a downtown courthouse, Congress reserved \$402,368 of EDI grant funds, in the Federal Fiscal Year 2003 budget, to be used for development of transitional housing on Elm Street. The only restrictions on the use of this grant are that the project must comply with NEPA environmental review requirements and funds provided shall not be used for reimbursement of expenses incurred prior to February 20, 2003.

DISCUSSION

The Developer

San Diego Rescue Mission is a 501(c)(3) nonprofit and a faith-based organization with a fifty-year history of assistance to San Diego's homeless and needy residents. Although SDRM adheres to religious principals as part of its mission, the organization would conform to Federal Laws

requiring protection from faith-based discrimination by executing Housing Commission grant documents containing non-discrimination provisions.

The development team for SDRM is its President and Chief Executive Officer, Mr. James Jackson, Jr., and its Chief Operations Officer, Mr. John Suderman. The development consultant for SDRM is Ms. Pat Getzel of Pat Getzel and Associates. The general contractor is Pacific Building Group.

The Development

The Harbor View Project is located at 120 Elm Street, on a parcel of approximately 1.4-acres, in the Uptown district immediately north of the I-5 freeway and adjacent to the Cortez Hill redevelopment area (see Attachment 1- Location Map). The approximately 94,000 square foot facility consists of a six-story tower and two parking structures. (SDRM will lease the parking structures to an operator as a source of revenue.) SDRM is redeveloping the former Harbor View Hospital, built in 1972, into a 379-bed supportive housing facility for use as transitional, special purpose, and emergency shelter for extremely low-income homeless residents. In June 2001, SDRM purchased the property for the appraised value of \$8,260,000. SDRM partially completed rehabilitation of the buildings in December of 2003 and now occupies the facility. Completion of the final phase of rehabilitation is scheduled for the spring of 2004.

Harbor View Project consolidated San Diego Rescue Mission activities and expanded its operations, formerly scattered at three locations in East Village, into a single facility including twenty-four transitional housing beds for male graduates of its recovery programs, and forty-three transitional housing beds for female graduates of its recovery programs. SDRM will provide special needs housing with eighty-nine beds for women who enroll in a long-term substance abuse recovery program. There will also be 196 beds for men enrolled in a recovery program, a 27-bed substance abuse treatment center, and space for an emergency shelter.

Because the buildings were unoccupied upon acquisition by SDRM, no tenant relocation was necessary. Zoning changes were not necessary because redevelopment of the site conforms to the objectives and goals of the Uptown Community Plan, which allows transitional housing, residential care facilities, and homeless facilities (with Conditional Use Permits) in any residential use zone.

In December, 2002, a group of citizens who live and work in the Elm Street neighborhood filed a lawsuit challenging City issuance of a CUP for the project on a number of regulatory grounds. On July 14, 2003, a San Diego Superior Court judge ruled that City approval of the project violated state and local regulations (including the California Environmental Quality Act and the City's Land Development Code) by exceeding allowable population density in the Banker's Hill/Little Italy neighborhood and failing to conduct an environmental impact study. Following this decision by the Court, the City and SDRM filed appeals citing Court misinterpretation of city codes and state laws. On December 9, 2003, the lawsuit was settled without a Court ruling,

allowing SDRM to move into the facility. Under the terms of the settlement, SDRM is not permitted to conduct walk-up services such as daily breakfasts, showers, and clothing distribution at the site. Meals prepared in the Harbor View Project's kitchen may not be distributed at any location outside the building within a radius of approximately five city blocks.

The Grant

Congress named the City of San Diego as the eligible recipient of the proposed \$402,368 EDI grant. EDI funds are administered by the Community Planning and Development division of HUD and are provided to eligible jurisdictions pursuant to the VA-HUD Independent Agencies Appropriations Act of Fiscal Year 2003. As the administering agency for the grant recipient, in compliance with San Diego Municipal Code sections 98.031(d)(2) and 98.031(d)(8), the Housing Commission would submit the grant application, receive the grant, and monitor compliance with Federal regulations governing use of the funds. HUD administers technical approval, environmental certification, and notification to Congress of eligible recipients.

Financial Structure

HUD-EDI program regulations require disbursement of the funds as a grant rather than a loan. The grant would be revocable should SDRM default on the terms of the grant agreement. The grant would leverage \$21,833,492 from other sources. SDRM received a loan commitment of up to \$13,155,000 at 6.7 percent simple interest from California Plan of Church Finance, Inc.(Church) for the development. To date, SDRM has utilized \$12,308,877 of Church funds for acquisition and rehabilitation. This grant would reduce SDRM's need to borrow funds by \$402,368.

Approximately \$6 million of the total development cost of \$22,235,860 will be paid with SDRM equity, including proceeds of the sale of its former facilities, cash contributions, and a deferred developer fee. SDRM received a \$1,000,000 grant from the Federal Home Loan Bank Affordable Housing Program (AHP), and a \$500,000 grant from the State of California's Emergency Housing & Assistance Program, which were used to fund rehabilitation work and soft costs of development. SDRM applied for a \$2,000,000 rehabilitation loan of Horton Plaza Low/Moderate Rehabilitation Program funds from the Redevelopment Agency of the City of San Diego; the application will be considered by the Redevelopment Agency on March 16, 2004. The Housing Commission would provide project management for the Redevelopment Agency loan because Harbor View Project is outside a redevelopment area. Sources of funding for the development are outlined below:

Sources Of Funding For Development	
Affordable Housing Program (grant)	\$ 1,000,000
California Emergency Housing Assistance Program (grant)	\$ 500,000
California Plan of Church Finance, Inc. (loan)	\$ 12,308,877
Bank of the West (grant)	\$ 10,000
HUD-EDI (grant)	\$ 402,368
Deferred Developer Fee	\$ 850,000
SDRM Real Estate Sale Proceeds and Cash	\$ 5,164,615
Redevelopment Agency of the City of San Diego (loan)	\$ 2,000,000
Total Development Sources	\$ 22,235,860

Uses Of Funding For Development	
Land and Building Acquisition	\$ 8,990,825
Demolition	\$ 359,996
Site Improvements and Landscaping	\$ 200,000
Structure Improvements	\$ 5,797,887
Fixtures and Furnishings	\$ 200,000
Common Area and Community Room Additions	\$ 750,000
General Conditions	\$ 750,000
Contractor Overhead and Profit	\$ 239,000
Construction Contingency	\$ 558,055
Architecture and Engineering	\$ 55,722
Environmental Studies and Surveys	\$ 12,500
Permits and Fees	\$ 98,476
Legal Costs	\$ 66,618
Insurance	\$ 20,000
Developer Fee	\$ 875,000
Soft Cost Contingency	\$ 75,100
Construction Period Interest	\$ 2,147,733
Loan Fees	\$ 987,948
Operating Reserve	\$ 51,000
Total Development Uses	\$ 22,235,860

Total 2004 operating costs for the Harbor View Project are estimate at \$5,411,930. The following table outlines San Diego Rescue Mission's estimated 2004 sources of operating revenue for the Harbor View Project:

Sources Of Funding For Operations	
Fundraising Campaign	\$ 3,100,691
Donors, Grants, Foundations, Estates and Trusts	\$ 1,095,000
Thrift Store Profit, Donated Vehicle Sales, Parking Structure Leases	\$ 1,163,650
Other Income	\$ 202,589
Total Operations Revenue	\$ 5,561,930

The Financial Plan

Operating Costs: Total projected revenue in 2004 of \$5,561,930 would be applied to operating expenses of \$5,411,930, giving SDRM a reserve of \$150,000.

Total Development Cost: The total development cost is \$22,235,860 including the cost of the buildings and land, rehabilitation, construction interest, builder overhead and profit, and capitalized reserves.

Cost Per Bed: The estimated total development cost per bed of \$58,670 includes landscaping and other on-site improvements as well as engineering, architecture, environmental studies and other soft costs.

Appraised Value: The appraised value of \$8,260,000 is the same as the purchase price.

Grant Amount: The proposed grant of \$402,368 would be used to complete rehabilitation of the facility.

Security: Subject to HUD approval, the revocable grant would be secured by a trust deed in third position behind the first position Church loan and the second position Redevelopment Agency loan.

Rent Restrictions: Although restrictions would be recorded against the property requiring rents affordable to residents with incomes at or below thirty percent of Area Median Income for fifty-five years, residents do not pay rent.

Occupancy Restrictions:	Occupancy of 379 beds would be restricted to residents earning no more than thirty percent of Area Median Income for fifty-five years.
First Trust Deed:	A \$12,308,877 loan from Church.
Second Trust Deed:	A \$2,000,000 loan at three percent simple interest, forgivable at the end of the fifty-five-year term, from the Redevelopment Agency of the City of San Diego.
Payment on the First Trust Deed:	The Church loan is not amortized. Two interest payments and a lump sum principal and interest payment totaling approximately \$2.5 million will be paid by July 5, 2004. Thereafter, principal and interest payments are to be made on a declining scale by July 5 of each succeeding year through July 5, 2018.
Payment on the Second Trust Deed:	The Redevelopment Agency note would become due and payable in the event of default on the loan regulatory agreement. The note would include three percent simple interest deferred over the fifty-five-year term of the note. The obligation to pay the note and accrued interest would be forgiven after fifty-five years upon compliance with the terms of the regulatory agreement.
Recourse:	The grant is subject to HUD recapture provisions. Upon HUD approval, the Housing Commission would receive a recourse note from SDRM requiring reimbursement of grant proceeds upon nonperformance by the grantee.
Grant Terms:	Upon HUD approval, a declaration restricting occupancy and rents for fifty-five years would be recorded against the property.

Risks and Mitigation

SDRM is a fiscally conservative and experienced developer. In 1985, and again in 1992, SDRM entered into major capital improvement projects that were paid off in seven years.

The primary source of funds for the project's operating budget and debt service is charitable contributions, which are characteristically more difficult to project than rents. This grant would reduce the project's anticipated capital debt by approximately \$400,000.

To mitigate the possibility of default on any of the scheduled payments required by the Church loan, SDRM secured a takeout commitment from California Baptist Foundation (CBF) for the initial lump sum payment due on the first position debt on July 5, 2004. CBF may extend this commitment (a fully-amortized, second-position, twenty-year loan at 9.5 percent interest) to provide funds for any subsequent lump sum payments if it is not needed to take out the initial obligation to Church.

Should SDRM be unable to support operation of the facility as proposed, the EDI grant would be subject to recapture by HUD.

Summary

The San Diego Regional Task Force On The Homeless estimates there are as many as 8,000 homeless individuals residing in San Diego's urban core. As identified in the City of San Diego's FY2003 Action Plan for Community Development, a priority of San Diego's Community Development Strategy is assisting homeless persons in obtaining housing. To meet this goal, the City will continue to focus on requirements, as adopted in the General Plan, of fostering the creation and preservation of decent, safe, and sanitary emergency shelter and transitional housing for homeless people, including homeless women and children. The Harbor View Project helps meet City objectives by upgrading and expanding San Diego Rescue Mission facilities. SDRM will continue its program of providing shelter, transitional housing, educational opportunities, and job skills and training to San Diego's neediest homeless residents living in and near Downtown.

Staff recommends seeking City Council approval for the Chief Executive Officer to execute all documentation required to apply to HUD for this grant, and recommends seeking Housing Authority approval to fund Harbor View Project and amend the FY2004 budget to reflect the addition of the \$402,368 of EDI funds if the grant is approved by HUD. Grant funds would reduce SDRM's need to borrow from its institutional lender, thereby reducing debt service requirements and allowing San Diego Rescue Mission to expend a larger portion of its resources to fulfill its mission.

ALTERNATIVE

The Housing Commission could decline to recommend this grant and budget revision to the Housing Authority. Because the EDI funds are reserved specifically for a transitional housing facility on Elm Street, the use of this financial resource could be lost.

Respectfully submitted,

Approved by,

Cissy Fisher
Acting Manager
Housing Finance & Development

**Signature on File
With Original Document**

Elizabeth C. Morris
Chief Executive Officer

- Attachments:
1. Location Map
 2. Development Timeline
 3. Development Summary
 4. Disclosure Statement*
 5. Financial Statements*
 6. Rental Housing Production Budget

*Distribution of this attachment is limited. A copy is available for review at the Housing Commission office at 1625 Newton Avenue and the office of the City Clerk, 2nd floor, 202 "C" Street.

Information: Dan Cady (619).578-7594