



Good Neighbors

San Diego
Housing Commission

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REPORT

DATE ISSUED: October 21, 2005

ITEM 100

REPORT NO.: HCR05-94
For the Agenda of October 28, 2005

SUBJECT: Loan to Veterans Village of San Diego (Council District 2)

SUMMARY

Issue: Should the Housing Commission approve a loan of up to \$675,000 to Veterans Village of San Diego and amend its 2003 revocable grant documents to increase the maximum income occupancy restriction for this development?

Recommendation: That the Housing Commission approve a forgivable loan of up to \$675,000 for permanent financing of a 112-bed transitional housing facility for homeless veterans and increase the maximum occupancy restriction for 78 beds from 30 percent of Area Median Income (AMI) to 50 percent of AMI. The loan approval is contingent on receipt of state funds described below.

Fiscal Impact: Approval of this recommendation would result in the expenditure of up to \$675,000 in Housing Commission funds.

Certificate of Funding Availability:

Certificate No.:	FY06-057
Amount:	\$675,000
Revenue Sources:	HTF / California LHFP
Division:	Housing Finance and Development
Line Item:	Loans

Affordable Housing Impact: Previous loans and grants for this project restrict rents and occupancy for 55 years. The Housing Commission would extend the affordability period ten years by recording rent and occupancy restrictions of 65 years against the property. To comply with the regulations of various funding sources, occupancy of 34 new transitional housing beds would be restricted to homeless veterans with incomes at or below 30 percent of AMI (currently \$14,500 for a one person household) and 78 new transitional housing beds would be restricted to homeless veterans with incomes at or below 50 percent of Area Median Income (currently \$24,150 for a one-person household); however, rents for all 112 beds would be restricted to the lesser of 30 percent of adjusted monthly gross income or



\$300. There will be no requirement for residents to make minimum rent payments. The average tenant-paid rent is estimated at \$30 per month. Rents for existing transitional housing at the site would not increase as a result of this proposed action.

Environmental Review: In compliance with the National Environmental Policy Act (NEPA) and HUD Environmental Review Procedures, the California Environmental Quality Act (CEQA) and State CEQA Guidelines, the City of San Diego conducted a CEQA Initial Study and NEPA Environmental Assessment and determined that the project could have a significant environmental effect in the following areas: geology, water quality, hydrology, air quality, health and safety, and historical resources (archeology). Subsequent revisions in the project proposal created the specific measures as identified in Section V of the Mitigated Negative Declaration and Finding of No Significant Impact (FONSI) dated April 24, 2003. The project as revised avoids or mitigates the potentially significant environmental effects previously identified, and the preparation of an Environmental Impact Report (EIR) and Environmental Impact Statement (EIS) is not required. A copy of the Mitigated Negative Declaration is on file at the offices of the San Diego Housing Commission.

Community Planning Group Review: This development was approved in 2001 by Midway Planning Group, Little Italy Association, and North Bay Redevelopment Agency.

Previous Related Action: On June 22, 2001, (HCR01-070) the Housing Commission approved an \$82,000 unsecured predevelopment loan to Vietnam Veterans of San Diego for this development. On November 14, 2003, (HCR03-097) the Housing Commission approved conversion of the loan to a revocable grant to pay for environmental review, historic site review, an appraisal, architectural studies, a development consultant, and other predevelopment activities for the project. On October 11, 2005, the Loan Committee voted to recommend this loan to the Housing Commission.

Future Related Action: The recommended \$675,000 loan exceeds the Housing Commission's approval limit of \$250,000 and requires Housing Authority approval.

BACKGROUND

Vietnam Veterans of San Diego, Inc., doing business as Veterans Village of San Diego (VVSD), submitted a loan application for gap financing of development costs under the Housing Commission's current Notice of Funding Availability (NOFA) for the Construction, Acquisition, and Operation of Affordable Rental Housing. The developer previously secured construction financing and started construction in September 2004. The housing is expected to be ready for occupancy in February 2006.

DISCUSSION

The Borrower

VVSD is a 501(c)(3) nonprofit corporation organized in 1981 with the mission of providing housing, substance abuse recovery, mental health services, job training, and job placement

assistance to homeless military veterans in San Diego County. VVSD operates a total of 216 transitional housing beds for homeless veterans (170 beds in San Diego) and eight apartment units in San Diego for homeless veterans with families. A recent independent study indicated that approximately 70 percent of VVSD graduates were sober and spent no nights homeless six months after leaving the program. VVSD has received accolades from the U.S. Department of Veterans Affairs (VA) and veterans organizations for the success of its programs.

The project development team is the staff of VVSD and the borrower's development consultant, Mr. Kent Trimble. VVSD's Chief Executive Officer is Mr. Al Pavich and its Chief Financial Officer is Mr. David Siegler. The borrower's primary contact person regarding this project is Mr. Trimble; the architect is Fehlman LeBarre Architects; the general contractor is Taylor Frager, Inc. Property management for the completed project will be provided by VVSD through its on-staff management professionals. VVSD's financial statements were reviewed by Housing Commission staff and found to be satisfactory (see Attachment 5 – Financial Statements).

The Development

VVSD applied for the Housing Commission loan as permanent financing for Phase I of redevelopment of the Veterans Village campus. The project will ultimately provide housing and supportive services for up to 320 homeless veterans. This initial phase will deliver a 112-bed group residential building and administrative office, a counseling center, and a combination multi-purpose room and dining facility for a total of 26,739 gross square feet of building area in four structures. Construction began in September 2004 and is scheduled for completion in January 2006. Occupancy of Phase I will be in stages, with 64 beds occupied by February 2006 and the remaining 48 beds occupied in April 2006.

VVSD obtained a Condition Use Permit for a 400-bed facility at the site. The nonprofit currently operates an 87-bed treatment and transitional housing facility, which is located on Pacific Highway in a former commercial block approximately one mile south of the junction of interstate highways 5 and 8 (see Attachment 1 – Location Map). Veterans Village admits homeless veterans who are in the early stages of recovery from drug and alcohol abuse, including those dually-diagnosed with mental illness and substance abuse problems. As a condition of residency, participating veterans must maintain sobriety and continue recovery by accessing off-site services and utilizing on-site programs including drug treatment and case management. VVSD provides meals for residents in an on-site dining facility; transportation is available in VVSD-operated vans to off-site activities and services such as mental health and medical care, schools, employment training, and places of employment. The goal of the program is to help each veteran become self-sufficient and transition into permanent housing in two years or less.

The land for Veterans Village is an aggregate of nine parcels provided through the City's vacation of the right-of-way of Kurtz Street, vacation of part of the right-of-way of Witherby Street, a grant by the City of other properties to the Redevelopment Agency of the City of San Diego, and purchase by the Redevelopment Agency of privately-owned property. The existing improvements are on a site leased by VVSD from the City of San Diego that is now part of the North Bay Redevelopment Project Area. Under the terms of a Disposition and Development Agreement (DDA) the Redevelopment Agency will convey the parcels to VVSD prior to

construction of each phase of a three-phase redevelopment of the site after VVSD obtains financing for construction of the improvements for each phase. The Redevelopment Agency will pay for relocation of any commercial tenants who may be displaced by the project.

Continued use of the site for treatment and housing of homeless veterans is a condition of the DDA. Plans for complete redevelopment of the five-acre property include demolition of 11 existing structures, rehabilitation and modernization of one serviceable commercial building, and construction of seven two-story buildings for a total of 94,250 square feet of building area. This initial phase of redevelopment provides transitional housing for up to 112 residents in 25 dormitory suites. One unit will accommodate 16 beds; 24 three-bedroom suites will contain a maximum of four beds each. The second and third phases of Veterans Village would add up to 48 dormitory suites (208 beds) to the residential component of the project

The layout of the complex is evocative of a modern college campus, with landscaped gathering areas, outdoor recreation facilities, and walkways from the various buildings culminating in a central courtyard. A large portion of the parking will be provided by a large lot at the northern perimeter of the site; however, the facility will be fully accessible with accommodations for passenger unloading and dedicated parking for the physically disabled.

The Funding Request

The initial development budget for Phase I was insufficient due to increases in the cost of construction caused by extraordinary inflation of material and transportation charges. With the total development cost for Phase I now estimated at \$6,970,145, the Housing Commission loan would fill a funding gap of \$675,000, extend the affordability period from 55 to 65 years, and leverage \$6,295,145 from other sources.

Because the project produces no net cash flow, the proposed Housing Commission loan would not require debt service payments and would be forgiven at the end of year-65 if VVSD complies with the terms of the loan agreement. The Housing Commission would be making the loan in exchange for the ten-year extension of affordability from 55 to 65 years.

The market value of the property, with Phase I completed, was appraised at \$5,680,000 on December 29, 2004. The Housing Commission loan would be secured by the difference between the appraised value of the development and \$1,000,000 in senior debt to the State of California's Department of Housing and Community Development's (HCD) Emergency Housing and Assistance Program (EHAP). With loans totaling \$1,675,000 recorded against the property, the loans-to-value ratio would be 29 percent.

The Housing Commission loan would be recorded in second position behind the first trust deed of the \$1,000,000 HCD loan. Other sources of Phase I financing are \$1,451,977 in Homeless Provider grants from the VA, a \$2,250,000 Transitional Housing grant and a \$575,000 grant of North Bay Redevelopment Project funds from the Redevelopment Agency of the City of San Diego, an \$896,000 grant from the federal Affordable Housing Program (AHP), a \$72,168 grant from the federal Economic Development Initiative (EDI) program, and a \$50,000 Community

Projects grant from the County of San Diego. The following table summarizes the project funding sources:

Funding Source	Amount	Type
HCD Emergency Housing Assistance Program (EHAP)	\$1,000,000	loan
U.S. Department of Veterans Affairs (VA)	\$1,451,977	grant
Redevelopment Agency of the City of San Diego	\$2,825,000	grant
Federal Home Loan Bank Affordable Housing Program (AHP)	\$ 896,000	grant
HUD Economic Development Initiative (EDI) program	\$ 72,168	grant
County of San Diego	\$ 50,000	grant
San Diego Housing Commission	\$ 675,000	loan
Total	\$6,970,145	

The Housing Commission would apply to the State's Local Housing Trust Fund Program (LHTFP) for funds to make this loan. LHTFP monies are reserved for projects restricting at least 30 percent of their units to households earning 30 percent or less of AMI, which is expressed as 34 beds in this proposal. The Housing Commission would record occupancy restrictions for 78 beds at 50 percent or less of AMI and 34 beds at 30 percent or less of AMI. These occupancy standards would also satisfy the occupancy restrictions of AHP because AHP requires a maximum occupancy restriction at 50 percent or less of AMI for 90 beds.

The Housing Commission would amend the affordability restrictions of its \$82,000 predevelopment grant to increase the maximum income of eligible occupants from 30 percent to 50 percent of AMI to coincide with the restrictions recorded for the \$675,000 loan. This increase of the maximum income restriction would allow VVSD to retain residents who are successful in obtaining employment but wish to remain in the program for support in dealing with other issues.

There are no capitalized operating reserves specific to Phase I because operating costs of the housing, VVSD administrative expenses, and supportive services costs (estimated at approximately \$1.1 million in the first year of operation) will be paid by revocable grants from the VA up to the actual costs of operation; there would be no negative cash flow. VA grants to VVSD are monitored on an annual basis by the VA have been renewed since the inception of the Veterans Village facility; however, VVSD maintains operating reserves for their entire operation and holds those reserves in a dedicated account (VVSD's operating reserve account had a balance of \$728,000 on August 31, 2005).

Although it is customary for affordable housing developers to receive a developer fee from the proceeds of permanent financing, VVSD did not include a developer fee in its budget because the organization receives sufficient financial support through grants and charitable contributions. A capitalized developer fee would increase the funding gap and the completed project will not produce sufficient net income to pay a deferred developer fee.

The VA will monitor the affordability restrictions of Veterans Village as part of its annual certification of the VA operating subsidy. In lieu of charging fees to Veterans Village for the screening of applicants and the establishment of tenant records, the Housing Commission would require VVSD to self-certify its compliance with rent and occupancy restrictions by submitting

annual Tenant Information And Income Certification reports for review by Housing Commission staff.

The Financial Plan

Total Development Cost:	The estimated total development cost of \$6,970,145 includes construction, interest costs, builder overhead and profit, and builder fees.
Appraised Value:	In 2004, the market value at completion was appraised at \$5,680,000.
Loans-To-Value:	Loans totaling \$1,675,000 results in a 29 percent Loans-To-Value ratio.
Developer Equity:	The developer brings equity to the project in the form of \$5,295,145 in building grants.
Housing Commission Loan Amount:	A \$675,000 loan would leverage \$6,295,145 from other sources.
Security:	The Housing Commission loan would be in second lien position secured by the value of the completed project, which was estimated at \$5,680,000.
Recourse:	The Housing Commission loan would be a recourse loan against the assets of VVSD.
Cure Rights:	The Housing Commission would obtain the right to cure defaults in accordance with the requirements of the DDA and the senior lender.
Housing Commission Loan Payments:	There would be no debt service on the Housing Commission loan. Total principal and accrued interest would be due as a balloon payment upon default.
Affordability Restrictions:	A Housing Commission Declaration of Covenants, Conditions, and Restrictions with a 65-year term recorded against the property restricting occupancy of 78 beds to residents earning 50 percent or less of AMI and restricting occupancy for 34 beds to residents earning 30 percent or less of AMI. Rents for all 112 beds would be restricted to a maximum of 30 percent of resident adjusted gross income or \$300, whichever is less. There would be no required minimum rent payment.

First Deed of Trust:	A 10-year fixed, three percent simple interest, forgivable deferred loan of \$1,000,000 of EHAP funds from HCD.
Second Deed of Trust:	A 65-year fixed, three percent simple interest, forgivable loan of \$675,000 from the Housing Commission.
Management Plan:	A Management Plan was reviewed and approved by Housing Commission staff. The Management Plan is subject to periodic review and approval by the Housing Commission in its reasonable discretion.
Operating Expense:	Operating expenses for the housing component are estimated to be \$48,833 per month (\$432 per bed for 112 beds).
Pro Forma Assumptions:	Income increases are projected at 2.5 percent per year; operating expenses at 3.5 percent per year; the vacancy rate at 5 percent per year. Any shortfall in project income available for operating expenses will be paid by VVSD. VVSD would self-certify its affordability restrictions in annual compliance reports.
Reserves:	The borrower would make annual payments of \$23,225 into its replacement reserve account. Use of these reserves would be subject to the reasonable approval of the Chief Executive Officer of the San Diego Housing Commission.

Risks and Mitigations

Although the Housing Commission would make a loan to a development with rental income insufficient to support operations, there would be minimal risk to Housing Commission funds because VVSD's activities are directly supported by VA grants. Risk that VVSD would not be able to finish the project is negligible because construction of the development is nearly complete and the housing is scheduled to be ready for occupancy in February 2006. Risk is further mitigated by Housing Commission recourse against VVSD in the event the organization fails to properly provide the housing component of the project.

This loan would be contingent upon HCD approval of the LHFP funding. Approval of this proposal would increase the Housing Commission's total participation in this development from \$82,000 to \$757,000; however, this is a relatively low-risk loan for the Housing Commission because the developer has secured its other financing, the developer has significant equity in the form of grants, and there is a favorable loans-to-value ratio.

Conclusion

According to the City of San Diego's FY2005 – FY2009 Consolidated Plan, as much as 40 percent of San Diego's population of single homeless men are military veterans. The plan identifies the urban population of homeless male and female veterans as a group of residents in critical need of housing with attending supportive services. The Veterans Village program is designed specifically to help these homeless adults by providing transitional housing with access to treatment, education, and other assistance. As San Diego's largest provider of residential services for homeless veterans, Veterans Village helps the City meet its objective of reducing homelessness in San Diego.

ALTERNATIVE

The Housing Commission could approve a loan without a provision to make it forgivable. This would require the borrower to make periodic debt service payments, or a balloon payment at the end of the loan term. Because the targeted tenant population of homeless veterans is able to pay little or no rent, operating costs will be paid with VA grants. The VA subsidies are allowed up to the actual costs of operation only and would not pay debt service. The applicant could not pursue this loan if loan repayment is required.

The Housing Commission could deny approval of this recommendation. A decision to deny the loan could make it necessary for VVSD to expend reserves and other financial resources that would otherwise be used to support its mission of providing housing and supportive services to an underserved population of homeless veterans.

Submitted by,

Approved by,

Cissy Fisher
Director of Housing Finance and Development

**Signature on File
With Original Document**

Elizabeth C. Morris
President and Chief Executive Officer

- Attachments:
1. Location Map
 2. Development Summary
 3. Development Timeline
 4. Disclosure Statement *
 5. Financial Statements *
 6. General Application Form

*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: Mr. Dan Cady (619) 578-7594

ATTACHMENT 2

DEVELOPMENT SUMMARY

October 28, 2005

Name: Veterans Village of San Diego
Location: 4141 Pacific Highway
Description: rental transitional housing for homeless military veterans
Sponsor: Veterans Village of San Diego

Unit Affordability

Total # of units: 112 beds
Assisted units: 112 beds
Restricted rents: a maximum of 30 percent of tenant adjusted gross income
Market rent: not applicable
Percent of AMI: occupancy of 78 beds restricted at 50 percent or less of AMI
occupancy of 34 beds restricted at 30 percent or less of AMI
Affordability: 65 years

Development Cost

Total development cost: \$ 6,970,145
HC development cost: \$ 675,000
Total development cost per unit: \$ 62,233 per bed
HC cost per unit (units): \$ 6,027 per bed

Sources of Funds

HCD Loan \$ 1,000,000
Housing Commission Loan \$ 675,000
VA Grant \$ 1,451,977
Redevelopment Agency Grant \$ 2,825,000
AHP Grant \$ 896,000
HUD-EDI Grant \$ 72,168
San Diego County Grant \$ 50,000

Pro Forma Summary

Estimated annual income: \$ 641,289 (year 1)
Estimated annual expense: \$ 586,000 (year 1)
Annual debt service: \$ not applicable
Estimated residual receipts: \$ not applicable

ATTACHMENT 3

**VETERANS VILLAGE
ESTIMATED DEVELOPMENT TIMELINE**

November 22, 2005	Loan to the Housing Authority for approval
December 22, 2005	Housing Commission loan closing
February 1, 2006	Completion of construction
April 30, 2006	Full occupancy