Good Neighbors
San Diego
Housing Commission

REPORT

DATE ISSUED: October 22, 2004 **ITEM 102**

REPORT NO.: HCR04-81
For the Agenda of October 29, 2004

SUBJECT: University Canyon Plan for Re-Use (Council District 6)

SUMMARY

Issue 1: Should the Housing Commission "opt out" of the project based Section 8 contract for the University Canyon property (located at 2052 Via Las Cumbres) while retaining long term affordability of this site and expanding the affordable housing supply for San Diego?

Recommendation 1: That the Housing Commission: (a) Allow the University Canyon project based Section 8 contract to expire in July 2005; (b) Accept 120 Section 8 Housing Choice Vouchers for current residents of University Canyon; and (c) Restructure the occupancy of the property to include a mix of public housing, Section 8 vouchers and open market for low income families thereby maintaining the affordability restrictions included in the lease between the Housing Commission and the Housing Authority.

Issue 2: Should the Housing Commission recommend that the Housing Authority use the proceeds received from the sale of thirty five public housing units to purchase replacement public housing units at the University Canyon site?

Recommendation 2: (a) That the Housing Authority replace up to thirty five units of public housing at the University Canyon site, dependent upon the receipt of all applicable approvals and environmental compliance, using the proceeds received from the sale of units to the San Diego Unified School District; (b) that the Housing Commission be directed to use these funds to pay off the remaining mortgage on the property in July 2005, complete needed physical improvements and operate these units in compliance with the public housing program; and (c) that the President and Chief Executive Officer be authorized to execute all required documents to complete these transactions.

Fiscal Impact: The Housing Authority would expend up to $5 million received from the San Diego Unified School District for the acquisition of thirty five public housing units to retire $3.2 million of debt and fund about $2 million of rehabilitation in units at University Canyon.

Affordable Housing Impact: The Housing Commission will receive up to 120 additional Section 8 Housing Choice Vouchers; preserve up to thirty five units of very low income public housing, increase the supply of affordable housing units available by up to eighty four units and construct additional affordable units as feasible. Eighty four (84) units at the property, with the exception of the resident manager unit, will continue to be affordable to households earning up to 80% Area Median Income ($54,800 for a family of four). Thirty five (35) of the units will be occupied by public housing residents. The current average income of public housing residents is $15,957 or about 25% AMI, well below the extremely low income level of 30% AMI ($20,550 for a family of four).

Environmental Review: The opt out strategy is categorically exempt from the provisions of CEQA under the provisions of 14 CCR 15301 which grants exemptions for existing public or private facilities. It provides an exemption for interior or exterior alterations involving such things as interior partitions, plumbing, and electrical conveyances and for restoration or rehabilitation of deteriorated or damages structures to meet current standards of public health and safety. The opt out would perpetuate the same use before and after, to wit: affordable apartments. Any additional development of the site after the opt out would require the preparation of environmental documents necessary to comply with the CEQA requirements and would most likely consist of either a focused EIR and/or a negative declaration.

Future Related Actions: Final approval of the Housing Commission's recommendations will be scheduled for Housing Authority consideration. Specific noticing procedures for HUD and residents will be conducted as required. A rehabilitation contract and accompanying budget amendment will be processed after procurement processes are complete.

BACKGROUND

The University Canyon development is a 120-unit family property located at 2052 Via Las Cumbres in the Linda Vista Community, Council District 6, near the University of San Diego. Adjoining land uses include residences to the east, Kelly Street Park to the northeast and Tecolote Canyon Park to the north and northwest. The property is surrounded by newer homes and condominiums in good condition.

The property was originally built by the Housing Commission in 1983 under the Federal 221 (d) mortgage insurance program, secured by a Deed of Trust for $3.7 million. A refunding of the tax exempt bonds was approved by the Board of Commissioners and the Housing Authority in 1993. The remaining mortgage on the property is $3.2 million, which, unless paid off, limits the potential use of the property and gives HUD control of the residual receipts and reserve funds that might be used for additional affordable housing activities.

The Housing Commission owns the buildings and leases the land from the Housing Authority. One of the terms of the lease is that the units be available only to low income households (up to 80% Area Median Income or $54,800 for a family of four). Section 8 project based subsidy for the residents of the property has been provided under a contract with the Department of Housing & Urban Development (HUD). The rental assistance is tied to the property; if renters move out,

the Section 8 subsidy remains to assist the next occupants of the apartment. The twenty year subsidy contract expired on July 5, 2004. To provide adequate time for analysis of the most appropriate action to take following contract expiration, HUD has provided a twelve month extension on the subsidy contract to the Housing Commission that will expire in July 2005.

The property includes 30 one-bedroom units; 82 two-bedroom units; 8 three-bedroom units and a laundry facility. The property has been well maintained; Housing Commission staff proposes to update the kitchens and baths and complete other minor renovation. The University Canyon development also includes a Learning Opportunity Center that is staffed through a partnership with University of San Diego. Tutorial programs and a computer lab are offered at the site along with other family services.

University Canyon is a unique project because the Housing Commission owns the development, and also acts as Contract Administrator for HUD. Because of this arrangement, rent levels have always been determined by HUD. Consequently, rents at the development have been kept artificially low, resulting in less subsidy being paid by HUD to the Housing Commission than would have been paid in the case of another owner. A current rent comparability study indicates market rents for the property range from $960 to $1,460; current HUD approved rents at University Canyon range from $690 to $1,070. University Canyon residents pay 30% of their income toward the rent with the balance paid by HUD. In addition, HUD pays a smaller administrative fee for the Section 8 activities at University Canyon than they do for the other Section 8 administered by the Housing Commission.

DISCUSSION

Expiration of HUD Contract

Beginning in the mid-1990s, long-term project based Section 8 contracts began to expire and many affordable housing units were lost or "at risk" of being lost. The Department of Housing & Urban Development (HUD) responded to this issue by providing several options that a project owner could consider, including renewal of contracts for a five year period, with the goal of preserving affordable housing wherever possible.

Originally, project based subsidy contracts were renewed based on the local Fair Market Rent (FMR) standard; in 1997 the methodology was revised to base renewals on market rents rather than the FMR standard. While this change was well received as an attempt by Congress and HUD to mirror the private market as a basis to set rents, nothing was done to decrease the reporting and compliance requirements and the "red tape" discouraged some owners from continuing to make projects available as affordable housing.

Options available to owners of developments with expiring project based subsidy contracts include:

a. Request a new subsidy contract from HUD under the Mark Up to Market program. This option requires a restructuring plan and includes a re-calculation

of rents to set rents closer to market. Ongoing Section 8 continues to keep rents affordable to renters. The term of the subsidy contract is five years, subject to Federal appropriations. This option preserves the current affordable units but does not increase housing assistance available. Also, compliance requirements and restrictions on use of residual receipts continue. (To date, HUD has been unwilling to entertain market rents for this property.)

b. Request renewal of the rent subsidy contract at current rents (below comparable market rents). While this option preserves the affordable housing units, it does not increase housing assistance available and HUD restrictions would remain for rents and use of residual receipts. Because subsidized rents are below the current market rents, this option is rarely used.

c. "Opt out" of the Section 8 contract. When private owners "opt out" of a contract, the units are typically lost from the affordable housing inventory. Owners who opt out of the program generally intend to:

    i. Offer the units at market rents which often exceed the amount of rent a low income household can afford;
    ii. Renovate the units and convert the units to condominiums;
    iii. Sell the property and use the proceeds for other investments.

    Once certain notification conditions are met, the owners are able to dispose of the property as they choose.

    In an opt out situation, the local housing authority receives Section 8 housing choice vouchers for the households living in the property who meet the low income guidelines. These households can then utilize the housing choice vouchers wherever they choose to live, including the subject property, if the owner continues to make the property available for rental purposes and the new rents are within the subsidy limits for a voucher assisted household.

<u>"Opt Out" and Reuse Strategy</u>

Opting out of the HUD contract allows the Housing Commission to reposition its asset. The Housing Commission will receive an additional allocation of housing choice vouchers (up to 120 vouchers) and will preserve the subsidy for thirty five units of deeply affordable public housing. This plan would continue to provide affordable housing in all the apartments at University Canyon. Also, it may be possible to build additional units, subject to further analysis and obtaining necessary entitlements as required.

This action will increase the inventory of affordable housing in the City at a time when it has become very difficult to add to the amount of housing assistance available to San Diego residents because:

- HUD is not expected to allocate any new housing choice vouchers this fiscal year.
- In recent months the Housing Commission has lost thirty five units of public housing that were acquired for new school construction and, unless these units are replaced, will lose the operating subsidy and the capital fund subsidy tied to the thirty five units.
- New construction of units is expensive and time consuming.

Utilizing the funds (approximately $5 million) received from the School District for the thirty five public housing units, the Housing Authority will "buy" replacement public housing units at University Canyon. The Housing Commission will then use $3.2 million to pay off the remaining mortgage on the property, which, under the terms of the refunding, can be done in July 2005 without penalty. Funds not needed to pay off the mortgage (approximately $1.8 million) will be used to complete physical improvements in all units. Renovation in the units includes primarily kitchen and bathroom improvements; work is beginning as households vacate units at the property.

As noted above, some residents living at University Canyon will likely leave the property immediately upon receiving their Section 8 voucher; other households will move from the property over a period of time for personal or occupancy reasons. When these households leave the property, they will retain their Section 8 voucher and the benefit of the assistance; the units vacated will be made available to low income families not currently assisted. Should all voucher holders choose to move from the development, a net increase of 84 additional affordable units (one unit is set aside for an onsite manager) and 35 units to replace the lost public housing will become available for low income households.

Open space at the site may allow for construction of additional units. An engineering feasibility study will be undertaken to determine the number and placement of additional units that can be developed at the University Canyon site. An early estimate suggests that the site may support an additional twenty to thirty units. Once the engineering study and a financial feasibility analysis are completed, a development proposal would be discussed with the community group and presented to the Housing Commission and Housing Authority for consideration.

Current Residents

Should the Housing Commission decide to opt out of the project based program, in July 2005 the Housing Commission will receive 120 vouchers for the households living at University Canyon. Meetings have been held with residents to explain the opt out alternatives. In addition, as required, each household has been provided with a one year notice that the Housing Commission's subsidy contract with HUD will expire in 2005 and that each family may be eligible to receive a Housing Choice Voucher.

In the case of opt out, each household will be contacted again to confirm the expiration of the subsidy contract and provide the family with information on the Housing Choice Voucher program. Households receiving the vouchers may choose to remain at the University Canyon property or may choose to relocate to another property. Historically, many residents in expiring

projects choose to use their vouchers to relocate since a voucher provides mobility for the household, which is not available to residents in a project based property.

Households living at University Canyon will also be given the choice to transfer to the public housing program. In some cases, residents prefer the public housing program because it provides a permanent safety net against loss of income and increasing housing costs. (Once admitted, residents can remain in public housing indefinitely, regardless of income (although their rents will reflect their higher earnings); Section 8 assistance is terminated once household income increases to the point that the household is paying contract rent for a period of six months.)

ALTERNATIVE

1. The Board may direct staff to request a new subsidy contract from HUD and to continue utilizing this property as a Section 8 project based site. This alternative is not recommended because it does not increase housing assistance available, there would be restrictions on rents and use of residual receipts and, given the recent short funding of Section 8 vouchers, future subsidy may not be available for the site.
2. The Board may direct that another property be purchased or built to accommodate the public housing, using all 120 University Canyon apartments for low-income rentals, in order to further expand the affordable housing supply. However, replacement costs would probably result in fewer than 35 public housing units, with some loss of annual subsidy. Further, it would take considerably more time to do this.
3. The Board might direct that the Housing Commission opt out of the HUD contract but use the property in a different way.

Respectfully submitted,

Signature on File
With Original Document

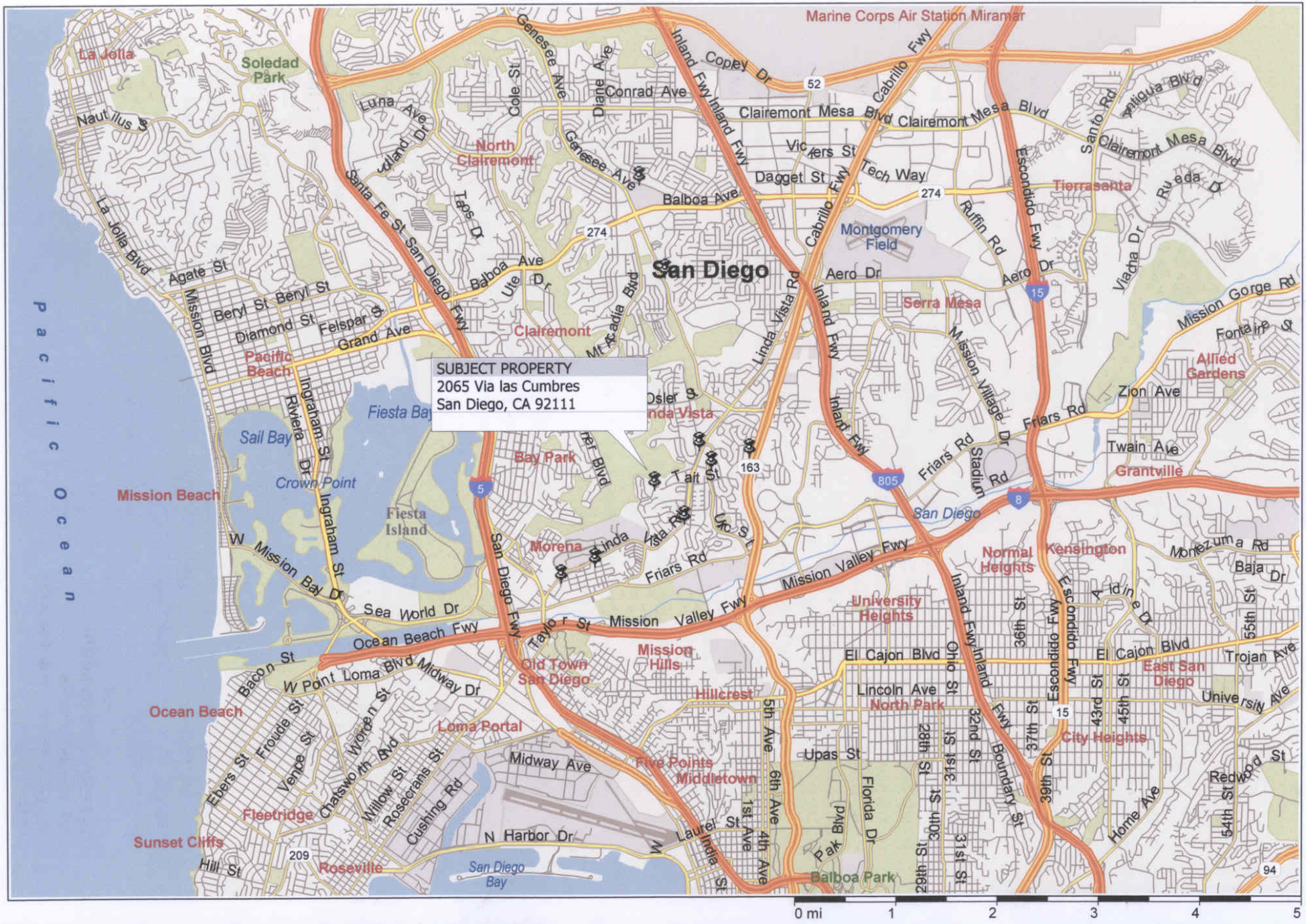
Carrol M. Vaughan
Executive Vice President & Chief Operating Officer

Approved by,

Elizabeth C. Morris
President & Chief Executive Officer

Attachments: 1. Location Map
2. Project Photo

-VIA LAS CUMBRES - AREA MAP



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UNIVERSITY CANYON

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