



REPORT

DATE ISSUED: November 7, 2003
For the Agenda of November 14, 2003

ITEM 103

REPORT NO.: HCR03-097

SUBJECT: Grant to Vietnam Veterans of San Diego, Inc. for Construction of Veterans Village (Council District 2)

SUMMARY

Issue: Should the Housing Commission approve the conversion of a predevelopment loan, to Vietnam Veterans of San Diego (VVSD), to a revocable grant to allow VVSD to realize a larger cash reserve for its residential program for homeless veterans with special needs?

Recommendation: It is recommended that an \$82,000 predevelopment loan to VVSD be converted to a revocable grant for the Veterans Village project.

Fiscal Impact: Approval of this recommendation would release Vietnam Veterans of San Diego from the obligation to repay an \$82,000 predevelopment loan made by the Housing Commission if the developer maintains the use and affordability of the property for fifty-five years.

Previous Related Action: On June 22, 2001, (HCR01-070) the Housing Commission approved an unsecured predevelopment loan of up to \$82,000 of Housing Trust funds for environmental reviews, historic site reviews, appraisals, architecture, a development consultant, and other predevelopment expenses for a transitional housing facility to be occupied by homeless veterans.

Affordable Housing Impact: 112 new transitional housing beds will be available to extremely low-income homeless veterans with incomes at or below thirty percent of Area Median Income (\$13,440 per year for a one-person household).



Environmental Review: The proposed predevelopment grant is exempt from environmental review under the California Environmental Quality Act (CEQA) and under the National Environmental Policy Act (NEPA).

BACKGROUND

Vietnam Veterans of San Diego, Inc., a San Diego-based nonprofit organization, provides access to a comprehensive array of services for homeless veterans and their families including case management, mental health counseling, substance abuse recovery, job training, job placement, and medical care. While VVSD currently provides 220 year-round transitional housing beds at four locations, the 87-bed Veterans Village development was the organization's first housing facility and remains the cornerstone of VVSD's residential component.

In 1993, VVSD used a HUD Homeless Housing grant of \$225,000, a Redevelopment Agency loan of \$410,000, and \$164,000 in Housing Trust Fund grants to pay for additions and modernization at its Pacific Highway location. Although additional square footage was constructed during renovation, the core of the facility remains a one-story converted motel built in the 1940's. Because the older structures have decayed to a point where it is not feasible to include them in VVSD's current expansion plans, VVSD will construct a new facility to house 112 beds for homeless veterans with special needs on a parcel adjacent to the dilapidated buildings. Future demolition of the motel buildings will make way for construction of additional housing in second and third phases of the development. In its final configuration, Veterans Village will be a campus consisting of a combination of new and modernized buildings providing group living facilities and supportive services for up to 364 homeless veterans, including those with serious mental illness and those dually-diagnosed with mental illness and substance abuse problems.

Proceeds of the Housing Commission predevelopment loan were fully-expended to pay the costs of engineering, architecture, environmental studies, and development consultants. On September 2, 2003, VVSD received City Council approval of an amendment to its Conditional Use Permit, a transfer of title to City-owned land to VVSD, and a street vacation necessary to build the initial phase of the development. The estimated cost of the first phase of construction is \$4,785,000, including \$82,000 of predevelopment costs paid for with Housing Commission funds. The following table outlines permanent funding sources committed to the project:

FUNDING SOURCES	AMOUNT
San Diego County (District Supervisor Discretionary Fund)	\$ 62,500
Capital Contributions to Vietnam Veterans of San Diego, Inc.	\$ 500,000
Veterans Administration Grant	\$ 1,693,000
VVSD Equity (in-house construction labor and materials)	\$ 175,000
City of San Diego CDBG Grant	\$ 22,500
Redevelopment Agency of the City of San Diego Loan	\$ 2,250,000

TOTAL COMMITTED FUNDING SOURCES	\$ 4,703,000
--	---------------------

DISCUSSION

The Funding Request

The Housing Commission predevelopment loan is a recourse loan that was due in full on August 7, 2003. Repayment of the predevelopment loan was to be from the proceeds of a Housing Commission permanent loan. However, because VVSD was able to fund the construction from sources which do not require debt service, the nonprofit did not apply to the Housing Commission for a loan.

Yearly operating costs of Veterans Village are approximately \$450,000. VVSD funds operations with funds from grants and a capital contributions campaign, and the organization must raise approximately \$200,000 each year through charitable donations to balance the operations budget.

Because contributions are characteristically more transitory and more difficult to project than rents, VVSD maintains a suitable operating reserve. If the Housing Commission predevelopment loan is not converted to a grant, VVSD would take \$82,000 from this reserve to pay off the debt. VVSD has requested converting the predevelopment loan into a grant to help the nonprofit maintain sufficient operating reserves.

To ensure adequate operating funds, the Housing Commission customarily uses revocable grants as a financing tool for special purpose housing intended to benefit persons with very low incomes. Because the residents to be served by Veterans Village will be extremely low-income homeless veterans, converting the predevelopment loan to a revocable grant would benefit a targeted population.

Grant Terms

This grant would be revocable; a regulatory agreement would be recorded against the property to insure use and affordability for a period of fifty-five years. Security for the grant would be a recourse note requiring reimbursement to the Housing Commission upon nonperformance of the housing component by the grantee. It is recommended that this grant not be secured by the property because the cost of development would likely far exceed the market value, providing no equity position for the Housing Commission's participation in the financing.

Risks and Mitigation

There is a risk of loss of Housing Commission funds if VVSD fails to complete the project. Although the developer is a small nonprofit organization with minimal assets, this risk is mitigated by recourse against VVSD's assets should it default on the terms of the revocable grant agreement. This risk is also mitigated because the federal Veterans Administration certifies the managerial and financial capacity of developers receiving Veterans Administration funding.

The Housing Commission would be participating financially in a development with minimal rental income; operations are supported primarily through government agency grants and capital contributions. This risk is somewhat mitigated because VVSD is a successful solicitor of charitable contributions, and the nonprofit maintains adequate operating reserves.

ALTERNATIVE

The Housing Commission could deny conversion of the loan to a revocable grant, which would require VVSD to repay the Housing Commission. Repayment would reduce the amount of operating reserves available to VVSD.

Submitted by,

**Signature on File
With Original Document**

Approved by,

Jack D. Farris
Manager, Housing Finance and Development

Elizabeth C. Morris
Chief Executive Officer

- Attachments: 1. Previous Housing Commission Report No. HCR01-070
 2. Development Timeline

Information: D. CADY 578-7594

ATTACHMENT 2

**VETERANS VILLAGE PROJECT
PHASE I DEVELOPMENT TIMELINE**

- Developer receipt of building permit November 17, 2003
- Start of construction December 15, 2003
- Completion / Certificate of Occupancy August 16, 2004