



Good Neighbors

San Diego  
Housing Commission

# REPORT

**DATE:** For the Agenda of June 22, 2001

**ITEM 104**

**REPORT NO.:** HCR01-070

**SUBJECT:** Predevelopment Loan to Vietnam Veterans of San Diego, Inc. for Renovation and Expansion of Veterans Rehabilitation Center (District 2)

## SUMMARY

**Issue:** Should the Housing Commission approve an unsecured predevelopment loan of up to \$82,000 in Housing Trust Fund Special Purpose Housing Funds to Vietnam Veterans of San Diego, Inc. to pay predevelopment costs associated with demolition, renovation, and new construction of an 80-bed Special Purpose Housing Facility at the Veterans Rehabilitation Center, located at 4141 Pacific Highway?

**Recommendation:** That the Housing Commission approve an unsecured predevelopment loan of up to \$82,000 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.

**Fiscal Impact:** Approval of this recommendation would result in the expenditure of up to \$82,000 in Housing Trust Fund funds. It is anticipated that the predevelopment activities paid for with the proposed loan will result in an application for permanent financing.

## Certificate of Funding Availability

Certificate No.:	FY01-161
Amount:	\$82,000
Revenue Source:	Housing Trust Fund Special Purpose
Division:	Housing Finance and Development
Line Item:	Loans



**Affordable Housing Impact:** Vietnam Veterans of San Diego, Inc. (VVSD) proposes to expand the 80-bed transitional housing facility to add an estimated 80 additional beds and build a 15-bed nonmedical detoxification area. Construction and rehabilitation would make up to 160 beds available to low income homeless single men and single women veterans at a maximum rent of 30 percent of gross resident income.

**Equal Opportunity Statement:** A Work Force Analysis Report for Vietnam Veterans of San Diego is attached.

**Environmental Review:** The proposed predevelopment loan is exempt from environmental review under the California Environmental Quality Act (CEQA). Predevelopment loans are not subject to environmental approval.

## **BACKGROUND**

The San Diego Regional Task Force on the Homeless (RTFH) estimates there are approximately 8,000 homeless residents in urban San Diego. In its FY2001-2005 Consolidated Plan, The City of San Diego ranks permanent and transitional supportive housing for special needs populations as one of its highest priorities for addressing homelessness.

On December 6, 2000, City Council approved a five-part program to assist Downtown's special needs homeless population. The program is a collaborative effort of the City, the County, Centre City Development Corporation (CCDC), and the San Diego Housing Commission, in partnership with organizations specializing in services for homeless residents. The program includes:

- Creation of a centralized intake and referral system and facility;
- Construction or rehabilitation of 100 beds of transitional housing for severely mentally ill residents;
- Construction or rehabilitation of 100 units of permanent supportive housing for severely mentally ill residents;
- Expansion by 80 beds of residential alcohol and drug treatment programs for chronic inebriates, the drug-addicted, and those dually-diagnosed with mental illness and substance abuse problems; and,
- Evaluation and expansion of the Serial Inebriate Program (for chronic inebriates).

Homeless veterans often suffer from joblessness and the inability to maintain relationships as a result of psychological disorders and/or physical disabilities caused by injury or trauma related to their military service. They characteristically fall into the category of Special Needs Homeless because the majority have problems related to alcohol and/or drug dependency, lack of mobility due to

amputations and other injuries, chronic diseases like HIV/AIDS and hepatitis, and mental illness. The Veterans Rehabilitation Center is designed to help homeless veterans end their homelessness by overcoming substance abuse, stabilizing mental and physical disabilities, and finding full-time employment.

## **DISCUSSION**

### The Applicant

Founded in 1981, Vietnam Veterans of San Diego, Inc. is a San Diego-based nonprofit corporation established under Section 501(c)(3) of the Internal Revenue Code. The nonprofit provides 209 transitional housing beds for homeless veterans and homeless veterans with families at several locations in San Diego and San Diego County. In 1999, the Commission made a revocable grant of \$239,800 in Housing Trust Fund funds for VVSD to acquire and rehabilitate a 24-bed transitional housing facility in the San Diego community of Encanto.

Veterans receiving VVSD substance abuse counseling and support may enter the nonprofit's job training programs after remaining sober for three months. Residents of Veteran's Rehabilitation Center are expected to transition into permanent housing after living six months to two years at the Pacific Highway facility. VVSD operations are funded by the Veterans Administration, the U.S. Department of Labor, San Diego County Alcohol and Drug Treatment Services, and private donations. VVSD complies with all California Alcohol and Drug Program licensing requirements.

### The Property

VVSD leases the Pacific Highway property from the City of San Diego. The City obtained the site from the previous owner through condemnation. VVSD could work with the City to acquire the property when the City completes litigation with the previous owner over condemnation procedures.

VVSD has a Conditional Use Permit to operate the existing group housing complex consisting of six buildings of a former commercial block, including a motel built in the 1940's. The newest building, constructed in 1991, was built by VVSD specifically for the Veterans Rehabilitation Program. The organization leases another building, located on an adjoining parcel, that is used for offices and a training facility. Veterans Rehabilitation Center is located on Pacific Highway's east frontage road, opposite the Marine Corps Recruit Depot. (See Attachment 1 – Location Map.)

### The Proposal

Vietnam Veterans of San Diego, Inc. is requesting a predevelopment loan of \$82,000 to pay the costs of developing a concept for renovation and expansion of its Pacific Highway transitional housing facility. The proposed scope of work includes a complete site analysis addressing environmental, zoning, street vacation and other issues, architectural drawings and preliminary construction estimates, planning sessions involving community groups, and exploration of various financing alternatives. The applicant envisions construction and occupancy of 80 beds of new group housing prior to demolition of the motel structures and construction of an additional 80 beds on the vacated lot. In its final configuration, the Veterans Rehabilitation Center would be a campus consisting of a combination of new and modernized buildings providing group living facilities and supportive services for up to 160 homeless veterans. VVSD will seek to amend its Conditional Use Permit for the addition of 80 transitional housing beds, 15 detoxification beds, and a nonresidential drug treatment facility.

### Community Support

Proceeds of the predevelopment loan would be used, in part, to prepare VVSD to present the proposed development to Midway Planning Group, which has jurisdiction in the development area, and planning meetings with other community groups in Council District 2. This proposal has the strong support of the District 2 councilman and members of Congress. Secretary of the Department of Veterans Affairs, Anthony J. Principi, spoke favorably of the proposal when it was presented to him.

### Terms

The predevelopment loan would be a recourse loan to Vietnam Veterans of San Diego, Inc. Due at the earlier of development completion or two years, the loan is expected to be repaid using proceeds of the Commission's permanent financing of the development. Because it is anticipated that the Commission would participate in the permanent financing in the form of a deferred loan, the predevelopment loan would only bear interest, at a rate of 10 percent, upon default.

### Risks and Mitigations

The unusually large predevelopment loan requested (these loans are typically \$50,000 or less) reflects the size and scope of the proposed development. However, VVSD will apply to Local Initiatives Support Corporation (LISC) for participation, which could reduce the Commission's contribution by as much as 50 percent.

There is a risk that the Commission may not approve permanent financing, in which case VVSD would have to repay the predevelopment loan from other sources. This could be mitigated by a recourse note against the assets of VVSD. However, it has been the Housing Commission's practice to forgive predevelopment loans when proposed developments fail to move forward due to circumstances beyond the control of the nonprofit borrower. Since 1992, and to date, three predevelopment loans totaling approximately \$85,000 have been forgiven. Predevelopment loans totaling \$350,000 have been repaid or incorporated into permanent financing.

The risk of development failure is somewhat mitigated because the applicant is an experienced owner and operator of transitional housing at the proposed site.

### **ALTERNATIVE**

The Housing Commission could deny the predevelopment loan, which may result in VVSD submitting a proposal for permanent financing without the benefit of proper planning.

Submitted by,

Pat Duplechan  
Director, Housing Programs

Attachments:   1. Location Map  
                  2. Development Timeline  
                  3. Work Force Analysis

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**Signature on File  
With Original Document**

Approved by,

Elizabeth C. Morris  
Chief Executive Officer

## ATTACHMENT 2

### **VETERANS REHABILITATION CENTER PREDEVELOPMENT TIMELINE**

June 22, 2001	Grant to the Housing Commission for approval
July 16, 2001	Execution of Predevelopment Loan Agreement
August 30, 2001	Completion of Architect's Concept and Development Consultant's Report
September 10, 2001	Start of Community Presentations
October 1, 2001	Completion of Community Presentations
October 2, 2001	Application for Permanent Financing