



Good Neighbors

San Diego  
Housing Commission

# REPORT

ITEM 102

**DATE:** For the Agenda of August 17, 2001

**REPORT NO.:** HCR01-074

**SUBJECT:** Preservation of Housing for Persons with Mental Illness  
(Council District 3)

## SUMMARY

**Issue:** Should the Housing Commission authorize the Chief Executive Officer to undertake the following actions to preserve special purpose housing for homeless adults living with mental illness?

1. Apply for Section 811 funding from HUD to rebuild a 20-bed group home at 2822 Fifth Avenue;
2. Accept assignment of a no-cost option to purchase the property;
3. Reimburse Episcopal Community Services (ECS) up to \$52,400 for predevelopment and leasing costs of the property.

**Recommendation:** It is so recommended.

**Fiscal Impact:** Cost of this action would be up to \$52,400 to reimburse ECS for a portion of predevelopment and lease expenses. Development cost would be authorized by the Housing Commission at a future date.

### Certificate of Funding Availability:

Certificate Number:	01-174
Amount:	\$52,400
Source:	HTF Linkage
Department:	Hsg Fin & Devel
Line Item:	Loans/Grants

**Affordable Housing Impact:** Approval will make it possible to continue to house up to 20 individuals with special needs and very low incomes in decent, safe, affordable housing, possibly in perpetuity.



A state agency authorized by the City of San Diego

**Environmental Impact:** The property has been determined to be categorically excluded under the National Environmental Policy Act (NEPA), pursuant to 24 CFR Part 50, Section 50.20.

**Future Actions:** An application for HUD Section 811 funding could be submitted in response to the next HUD Notice of Funding Availability (expected in the spring of 2002). A Section 811 application would need local gap financing; such funding and authorization to acquire and redevelop the property would require approval by the Housing Commission and Housing Authority.

## **BACKGROUND**

The Integrated Services Program (ISP) is a joint effort of the County, the City and various service providers to house and serve homeless adults with mental illness. Last year, the State, through AB2034, funded ISP through June of 2003. While the AB2034 funding pays for many program costs, it does not cover lease payments or purchase money.

Responsibility for providing the housing needed in conjunction with AB2034 funding falls mainly on the public agency members of the consortium because acquisition of the property in which they provide service-enriched housing often is not feasible for supportive housing providers. A major factor is the ever-shifting funding sources for operating supportive housing, which do not assure the long-term cash flow needed to sustain ownership of real property.

## **DISCUSSION**

ECS has leased this site for several years to operate a transitional housing program. The property, which is located at 2822 Fifth Avenue, between Palm and Olive Streets in the Uptown area of San Diego, has a Conditional Use Permit (CUP) for a 20-bed residential care facility. A 5,450-foot two-story residential building of mixed construction occupies nearly the entire site. A portion of the building is approximately 90 years old; other portions were added several decades later. The building has 16 bedrooms (one of which is used as an office/meeting room and four of which accommodate two people), five communal bathrooms, an office, a laundry facility, and two kitchens (one with limited equipment). Parking is provided on an adjacent parking lot by arrangement with the owner, who owns both properties. The housing property is in a CV-4 (commercial) zone.

Long-Term Objective: Preservation of Conditional Use Permit for Housing

The long-term objective is to preserve the CUP associated with this site so that the facility now on the site, or a replacement facility, can continue serving clients with special needs in safe, sanitary and affordable housing into the future. The seller has offered ECS a two-year lease with purchase option and an option to extend the lease an additional three years. The purchase price for the property is \$600,000 during the two-year term of the purchase option. There is no cost associated with the purchase option.

Because ECS is not fully staffed to pursue housing development activities, the purchase option would be assigned to the Housing Commission. This would provide the Commission with the site control needed as a threshold requirement for a Section 811 application. The HUD Section 811 Program is highly competitive and provides development and operating funds for facilities housing disabled persons.

In order to finance the Section 811 construction, some Housing Commission gap financing will probably be required. This issue would be considered by the Commission at a future date, when more information has been developed. Commission exercise of the option to purchase will not occur until award of Section 811 funds.

Short-Term Objective: Preservation of Housing for Integrated Services Program

ECS leases the property to house homeless adults with mental illness. The program's operating funds are provided by the ISP; however, ISP does not provide any funding for lease payments or purchase money.

Since February 2000, ECS has expended over \$35,100 to pay for unfunded rent for the ISP. ECS has also spent approximately \$17,300 to conduct feasibility studies for purchase (appraisal, Phase I environmental study, and engineering study). Staff recommends approval of a grant of \$52,400 to ECS because the expenditures relate to use of the facility for the ISP and determination of feasibility for acquisition planning.

Future rent expense for the ISP at this site will be covered primarily by HUD's Project-Based Section 8 Rental Assistance Program.

**Summary**

ECS and the Housing Commission can preserve the CUP for a minimum of five years by entering into a lease with an option to purchase, while funds are sought to rebuild the facility. Redevelopment of the site would best be accomplished by

the Housing Commission. ECS has incurred costs associated with the building, its potential acquisition and the ISP that are appropriate for reimbursement under the Housing Trust Fund Special Purpose Housing Program.

**Alternatives**

Do not pursue Section 811 funding and do not accept assignment of the option to purchase the property. This strategy does not protect the property from private sale, which could result in the loss of the CUP.

Do not approve funding for reimbursement of predevelopment and lease expenses associated with the building and the ISP. This alternative conflicts with the Housing Commission's position of support for the ISP.

Submitted by,

Approved by,

Pat Duplechan  
Director, Housing Programs

Elizabeth C. Morris  
Chief Executive Officer

Attachments:

1. Map
2. Lease/Purchase Offer