

DATE ISSUED: March 24, 2004

REPORT NO.: RA- 04 - 07  
CMR – 04 - 039

ATTENTION: Honorable Chair and Members of the Redevelopment Agency  
Honorable Mayor and City Council Members  
Docket of March 30, 2004

SUBJECT: San Diego Rescue Mission Harbor View Project

SUMMARY

Issues: - Should the Redevelopment Agency/City Council:

- 1) Authorize the Executive Director to execute the Owner Participation Agreement with the San Diego Rescue Mission for the Harbor View Project?
- 2) Authorize the Redevelopment Agency to make a forgivable loan of \$2,000,000 to San Diego Rescue Mission for its Harbor View Project?
- 3) Approve the Findings of Benefit for the use of Horton Plaza Low and Moderate Income Housing Set-Aside Funds outside of that project area?

Executive Director's Recommendations –

- 1) Authorize the Executive Director to execute the Owner Participation Agreement with the San Diego Rescue Mission for the Harbor View Project.
- 2) Authorize the Redevelopment Agency to make a forgivable loan of \$2,000,000 to San Diego Rescue Mission for its Harbor View Project.
- 3) Approve Findings of Benefit for the use of Horton Plaza Low and Moderate Income Housing Set-Aside Funds outside of that project area.

City Manager's Recommendations-

- 1) Approve Findings of Benefit for the use of Horton Plaza Low and Moderate Income Housing Set-Aside Funds outside of that project area.

Other Recommendations – On November 19, 2002, the San Diego City Council voted unanimously to approve Conditional Use Permit No. 8673 for this development.

Fiscal Impact – The funds for this development would be a forgivable loan of \$2,000,000 from the Horton Plaza Low/Moderate Income Housing Set Aside Fund. The Harbor View Project is located in the Uptown Planning Area outside of any Redevelopment project area and, as such under the Redevelopment Agency's Affordable Housing Program (and the \$55 million Notice of Funding Availability or 'NOFA'), the San Diego Housing Commission will provide project management for the Redevelopment Agency.

**PREVIOUS RECOMMENDATION/COMMENT**

At its regular meeting on September 26, 2003, the Executive Loan Committee of the Affordable Housing Collaborative voted to forward this project to the Redevelopment Agency for approval contingent upon settlement of a lawsuit filed by neighborhood residents. This issue has subsequently been settled, as described later in this report.

**DEVELOPMENT TEAM**

<b>ROLE/FIRM</b>	<b>CONTACT</b>	<b>OWNED BY</b>
Developer / <b>San Diego Rescue Mission</b>	Mr. John Suderman, Chief Operations Officer San Diego Rescue Mission 939 South 16 <sup>th</sup> Street San Diego, CA 92113-1001 (619) 687-3720 ext. 55	San Diego Rescue Mission
General Contractor / <b>Pacific Building Group</b>	Mr. Paul Przybysz, Project Manager Pacific Building Group 6364 Ferris Square San Diego, CA 92121 (858) 552-0600	Pacific Building Group
Architect / <b>Austin, Veum, Robbins, Parshalle</b>	Mr. Kurt Klimt, Architect Austin, Veum, Robbins, Parshalle 600 West Broadway, Suite 200 San Diego, CA 92101 (619) 231-1960	Austin, Veum, Robbins, Parshalle

**PROJECT DESCRIPTION AND BACKGROUND** – The Harbor View Project site is located on an approximately 1.4-acre parcel in the Uptown district, immediately north of the I-5 freeway and adjacent to the Cortez Hill area. Formerly known as Harbor View Hospital, the approximately 94,000 square foot facility was built in 1972; it includes a six-story tower and two parking structures. The address of the building is 120 Elm Street. The major cross streets are First Avenue and Second Avenue (see Attachment 1).

No zoning changes were necessary for the project. Redevelopment of the Elm Street site conforms to the objectives and goals of the Uptown Community Plan. Zoning (currently NP-3) which permits a mix of office, professional, and residential uses. The Land Development Code permits transitional housing, residential care facilities, and homeless facilities (with Conditional Use Permits) in any zone permitting residential use.

The developer, San Diego Rescue Mission (SDRM), has a 50-year history of assistance to the City's homeless and needy residents. SDRM purchased the subject property to rehabilitate the improvements and reconfigure the building into a 97-unit / 379-bed supportive housing facility for homeless households in need of transitional housing, special purpose housing, and emergency shelter. The developer was not required to pay prevailing wages for the improvement work. San Diego Rescue Mission cites California Labor code Section 1720-1743(c)(6)(D), which states that prevailing wage requirements shall not apply if, "...the project consists of new construction, or expansion, or rehabilitation work associated with a facility developed by a nonprofit organization to be operated on a not-for-profit basis to provide emergency or transitional shelter and ancillary services and assistance to homeless adults and children. The nonprofit organization operating the project shall provide, at no profit, not less than 50 percent of the total project cost from nonpublic sources, excluding real property that is transferred or leased..." The Harbor View project fits this definition. Construction work is substantially complete and SDRM is occupying the site.

Because the building was vacant when purchased by the developer, there was no loss of housing or relocation of residents. The facility includes a children's playground, adult recreation areas, fellowship hall, learning centers, kitchen and eating facilities, and administrative offices.

Residents served by the Harbor View Project have extremely low incomes of 30 percent or less of Area Median Income; they will not pay rent while housed at the facility. The development consolidates San Diego Rescue Mission activities by bringing the organization's operations, previously scattered at three separate locations, under one roof. The new facility is within walking distance of public transportation, shopping, parks, and other neighborhood amenities.

**Residential Portion of Project**

Type of housing	97 units provide 379 beds for transitional housing and residential care for extremely low-income homeless single adults and homeless families.
Total number of units/total square feet	97 units / 24,617 sf. (net)
Total number of <b>affordable</b> units/bedrooms at what rate of affordability (i.e. 50%, 80%,	<ul style="list-style-type: none"> <li>studios: 83 @ 30% of AMI</li> </ul>

120%, etc., of AMI)	<ul style="list-style-type: none"> <li>• 1-bedroom: 13 @ 30% of AMI</li> <li>• 2-bedrooms: 1 @ 30% of AMI</li> <li>• Total <b>affordable</b> units: 97 @ 30% of AMI</li> </ul>
Number of <b>market rate</b> units/bedrooms	<ul style="list-style-type: none"> <li>• none</li> </ul>

Land Area (i.e. full block, half block, or number of square feet)	166,076 sf
Project density (in units/acre)	70
Density of surrounding blocks (in units/acre)	29
Number of units forecast for site/block	97 congregate units
Number of units demolished	none
Rent unit price of demolished units	not applicable
Ratio of housing cost to income <sup>1</sup> (Average Median Income = \$59,900 <sup>2</sup> )	1-person household: 30%

### **Affordable Housing Impact**

The San Diego Regional Task Force on the Homeless estimates there are as many as 8,000 homeless individuals residing in San Diego's urban core. As identified in the City of San Diego's FY2003 Action Plan for Community Development, a priority of San Diego's Community Development Strategy is assisting homeless persons in obtaining housing. To meet this goal, the City will continue to focus on requirements, as adopted in the General Plan, of fostering the creation and preservation of decent, safe, and sanitary shelter for homeless people and emergency shelter for women and children. Access to job training, personal finance consultation, and other learning opportunities and services provided in conjunction with this type of supportive housing may help these residents obtain the skills necessary to access permanent affordable housing and reach the goal of living independently.

San Diego Rescue Mission's proposal helps meet City objectives by upgrading its facilities and expanding them to provide 379 beds, including 89 beds reserved for women and children, and continuing its program of providing shelter, meals, clothing, medical attention, educational opportunities, job skills and training, and transitional housing for San Diego's neediest homeless residents living in and near Downtown.

### **Funding Request**

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<sup>1</sup>Ratio should be based on gross monthly income to estimated monthly mortgage/rent payment.

<sup>2</sup> Citywide Average Median Income for a family of four according to 2000 United States Census Department information.

Public subsidy requested through the NOFA	\$2,000,000 (\$5,277 per bed)
Number of affordable units / beds proposed	97 congregate units / 379 beds
Number of bedrooms	98 bedrooms
Subsidy per unit requested	\$20,619 per door (\$5,277 per bed)
Subsidy per bedroom requested	\$20,408

### **Sources and Uses of Funds**

<b>Sources of Funding</b>		<b>Use of Funding</b>	
Affordable Housing Program (grant)	\$ 1,000,000	finance costs and operating reserves	\$ 1,000,000
California Emergency Housing Assistance Program (grant)	\$ 500,000	rehabilitation	\$ 500,000
California Plan of Church Finance, Inc. (loan)	\$12,711,245	land, buildings, and rehabilitation	\$12,711,245
Bank of the West (grant)	\$ 10,000	rehabilitation	\$ 10,000
Deferred Developer Fee	\$ 850,000	rehabilitation and finance costs	\$ 850,000
Owner Equity and Capital Contributions	\$ 5,164,615	land and buildings	\$ 5,164,615
<b>NOFA Loan Request</b>	<b>\$ 2,000,000</b>	rehabilitation	<b>\$ 2,000,000</b>
<b>Total Financed</b>	<b>\$22,235,860</b>		<b>\$22,235,860</b>
Ratio of Requested NOFA funds to other financing for the project	1:10		

It is proposed that Agency assistance be provided in the form of a Rehabilitation Loan. The Agency would carry a trust deed against the property secured by a promissory note. Agency funds would be applied to the financing of both direct and indirect construction costs, as well as an operating reserve according to the Uses of Funds schedule (see Attachment 2). In addition, an Agreement Affecting Real Property will be recorded to place restrictive covenants on the site requiring the provision of 97 housing units containing 379 beds for very low income homeless persons who would otherwise be without shelter.

The note would become due and payable in the event that the San Diego Rescue Mission defaulted on the terms of the loan. The note would carry an interest rate of three percent, deferred over the 55-year term of the note. The obligation to pay the note would be suspended after 55 years if San Diego Rescue Mission complies with all covenants, conditions, and restrictions included in the Loan Agreement.

San Diego Rescue Mission is a faith-based organization which adheres to religious principals as part of its mission. SDRM would conform to Federal Laws requiring protection from faith-based discrimination by executing a Redevelopment Agency Loan Agreement which contains standard non-discrimination provisions.

As required, Findings of Benefit have been established for this project (see Attachment 3).

The purchase price to San Diego Rescue Mission of \$8,260,000 was the same as the appraised value. Approximately fifty percent of the cost of developing the Harbor View facility was paid with the equity obtained through the sale of properties San Diego Rescue Mission formerly owned. SDRM has entered into a sales agreement for the sale of its Women and Children's Center for approximately \$2.8 million; escrow will close in early 2004. This sale will raise owner equity in the project to nearly \$8 million and reduce the loan.

SDRM received a grant of \$1,000,000 from the Federal Home Loan Bank's Affordable Housing Program and a grant of \$500,000 from the State of California's Emergency Housing & Assistance Program ("EHAP"); these grants will complete the acquisition funding for this project.

Because there will be no rental income from the property, the cost of operations will be paid with private donations resulting from San Diego Rescue Mission's capital campaign. The financial assumptions outlined in the NOFA application include paying off the debt to California Plan of Church Finance, Inc. ("Church") in seven years, thereby reducing debt service so more revenue can be dedicated to operations.

**Housing Impact** – The development will fulfill the City's goal of providing housing for homeless persons to the density allowed by the existing use of the property. A small number of residents to be served by the development may relocate from single-room-occupancy units in Downtown, thus freeing those units for occupancy by other individuals. Re-use of the site conforms to the Uptown Planning District's community plan for the area.

**Environmental Impact** – The development was reviewed by the City under the California Environmental Quality Act (CEQA) and received a mitigated negative declaration. The project reference number is LDR 41-0900 (see Attachment 4).

## **COMMUNITY COMMENT**

San Diego Rescue Mission Neighborhood Advisory Committee was formed as a condition of the November 19, 2002, City Council approval of the Conditional Use Permit (CUP) allowing SDRM to relocate and consolidate its services at the Elm Street site. The Neighborhood Advisory Committee provides a means for ongoing interaction between residents of the neighborhood surrounding the facility and SDRM. The Neighborhood Advisory Committee meets monthly as a public forum to review and evaluate the impact of SDRM activities on the neighborhood and address any issues that arise. Members of the Neighborhood Advisory Committee represent private residents, businesses, religious institutions, neighborhood

associations, Uptown Planners, the San Diego Police Department, Centre City Development Corporation, and San Diego Rescue Mission.

In December, 2002, a group of citizens who live and work in the Elm Street neighborhood filed a lawsuit challenging City issuance of a CUP for the project on a number of regulatory grounds. On July 14, 2003, a San Diego Superior Court judge ruled that City approval of the project violated state and local regulations (including the California Environmental Quality Act and the City's Land Development Code) by exceeding allowable population density in the Banker's Hill/Little Italy neighborhood and failing to conduct an environmental impact study. Following this decision by the Court, the City and SDRM filed appeals citing Court misinterpretation of city codes and state laws.

On December 9, 2003, the lawsuit was settled without a Court ruling. Terms of the settlement allowed SDRM to move into its new facility. SDRM is not permitted to conduct walk-up services such as daily breakfasts, showers, and clothing distribution on the site. Meals prepared in the Harbor View Project's kitchen may not be distributed at any location outside the building within a radius of approximately five city blocks.

### **SUMMARY / CONCLUSION**

San Diego Rescue Mission requested \$2,000,000 in permanent rehabilitation financing to convert the former Harbor View Hospital for use as transitional, special purpose, and emergency shelter for extremely low-income homeless residents. The Redevelopment Agency loan bears simple interest of three percent per year. Principal and interest would be forgiven at the end of the 55-year loan term if SDRM complies with the terms of the loan regulatory agreement.

The development consolidates San Diego Rescue Mission activities and expands its operation into a 94,000 square foot, 97-unit facility with the following components:

- 89 beds for women (and women with children) who are enrolled in a long-term substance abuse recovery program;
- 196 beds for men enrolled in a long-term substance abuse recovery program;
- 24 beds of transitional housing (3 to 12 months) for men graduating from a long-term recovery program;
- 43 beds of transitional housing (3 to 12 months) for women graduating from a long-term recovery program; and,
- 27 beds for a special needs treatment center.

Emergency shelter is provided by an Emergency Shelter Multi-purpose Room included in the improvements.

A loan of Redevelopment Agency funds would leverage \$20,235,860 from other sources, including approximately \$8 million of SDRM equity in the development.

Because charitable contributions will be relied upon to pay for operations (charitable contributions are characteristically more transitory and more difficult to project than rents), there is the risk that future cash flows will not be as healthy as expected. This risk is somewhat mitigated by the relatively modest debt service costs of the development and SDRM's track record of successful fundraising. (In 1985, and again in 1992, SDRM entered into major capital projects that were paid off in seven years.) To help ensure that project revenue will be sufficient to support future activities, staff recommends that the Redevelopment Agency make a three percent-interest forgivable loan to San Diego Rescue Mission in the amount of \$2,000,000 for permanent financing of the Harbor View Project.

Respectfully submitted,

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Elizabeth C. Morris  
Chief Executive Officer  
San Diego Housing Commission

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Todd Hooks  
Deputy Executive Director  
Redevelopment Agency

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Approved: Hank Cunningham  
Assistant Executive Director  
Redevelopment Agency

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Approved: Bruce Herring  
Deputy City Manager  
City of San Diego

Note: The attachments are not available in electronic format. A copy is available for review in the Office of the City Clerk.

Attachments:

1. Location map, Site Plans and Renderings
2. Harbor View Project Uses of Funds
3. Findings of Benefit
4. Mitigated Negative Declaration
5. Owner Participation Agreement
6. Applicant Financial Information