



THE CITY OF SAN DIEGO  
**REPORT TO THE CITY COUNCIL**

DATE ISSUED: February 21, 2007

REPORT NO. RA-07-05  
RTC-07-004

ATTENTION: Honorable Chair and Members of the Redevelopment Agency  
Council President and Council Members  
Docket of February 27, 2007

SUBJECT: First Implementation Agreement to the Disposition and Development  
Agreement with Veterans Village of San Diego for the Veterans Village  
Project and associated actions

REFERENCE: Executive Director Report No. RA-03-27, Veterans Village Project

REQUESTED ACTION:

Agency –

Should the Redevelopment Agency authorize the Executive Director or designee to execute the First Implementation Agreement to the Disposition and Development Agreement between the Redevelopment Agency and Veterans Village of San Diego and approve associated actions for the Veterans Village Project?

Council –

Should the City Council approve certain findings pertaining to the Sale of Real Property?

STAFF RECOMMENDATION:

Agency –

Approving the First Implementation Agreement to the Disposition and Development Agreement between the Redevelopment Agency and Vietnam Veterans of San Diego, for Veterans Village and Authorize Executive Director to execute said agreement.

Amending the Redevelopment Agency budget for the North Bay Project Area to Authorize the Appropriation and Expenditure of \$4.2 million in North Bay bond proceeds and tax increment for said project.

Authorize the Appropriation and Expenditure of \$150,000 in Naval Training Center tax increment for said project.

Approving a Summary Report (Section 33433) pertaining to the Sale of Real Property.

Authorizing the offer and acquisition of property within the redevelopment site.

Authorizing the Executive Director to enter into leases with the on-site tenants on the property as allowed by Section 33431.

Approve the Replacement Housing Plan for the proposed project.

Approving Basic Concept Drawings of the project.

Council –

Make the necessary findings with respect to the sale of real property for the development of the Veterans Village Project.

SUMMARY:

On September 2, 2003, the Redevelopment Agency entered into a Disposition and Development Agreement (DDA) with Veterans Village of San Diego (VVSD), a 501(c)(3) nonprofit corporation, for the development of a multi-phase drug and alcohol residential treatment facility for homeless veterans in the North Bay Redevelopment Project Area. The project site, located at 4141 Pacific Highway, is comprised of approximately five acres bounded by Witherby Street, Pacific Highway, Coutts Street and the railroad tracks east of Kurtz Street. A vicinity and site map is included as Attachment 1. Photos of the site and surrounding area are included as Attachment 2. VVSD has completed construction of Phase I and is requesting Agency funding for the proposed project through the Affordable Housing Collaborative Notice of Funding Availability (NOFA) program and the Naval Training Center Redevelopment Project Area.

The Veterans Village project is to be developed in three phases and will consist of 364 beds and a total of 92,130 square feet (of which 81,330 square feet will be new construction) for administrative and operational support facilities. Please see Attachment 3 for the phasing of the project. Phase I is already completed and consists of 112 transitional housing beds, a 10,586 square foot counseling center and a 5,424 square foot kitchen/dining hall. The proposed Phase II will include 112 transitional housing beds, a 12,848 square foot employment center/admissions building, a central courtyard, out-patient care and staff offices. Attachment 4 presents a rendering of the project. Phase III has yet to be developed/financed but may include affordable apartments.

The proposed First Implementation Agreement to the DDA with VVSD for the Veterans Village Project states that the Agency will contribute a not to exceed amount of \$4,350,000 with the condition that any cost savings experienced by the VVSD will be used toward reducing the Agency's assistance in an equal amount (Attachment 5). The Agency's subsidy will be used for land acquisition, relocation and improvements. Of the total subsidy, approximately \$3.05 million is budgeted for land acquisition and relocation with the remaining \$1.30 million budgeted for construction of Phase II. If the actual costs for land acquisition and relocation exceed the budgeted amount of \$3.05 million, the amount budgeted for construction, \$1.30 million, will be reduced accordingly. If the actual costs for land acquisition and relocation of the existing businesses are less than the budgeted amount of \$3.05 million, the \$1.30 million earmarked for construction will not be increased. The \$1.30 million will be structured as a forgivable loan. The developer's proforma and Agency's subsidy amount have been analyzed by the Agency's independent third party economic consultant (Keyser Marston Associates, KMA), Attachment 6. The subsidy level per bed is \$38,840. This subsidy level is considered reasonable for this type of development. Furthermore, the KMA analysis indicates that the development costs are reasonable and are reflective of current industry standards.

#### Land Acquisition and Disposition

Phase II property is currently owned by the Redevelopment Agency and is leased to the developer under the terms outlined in the DDA that was approved on September 2, 2003, Attachment 7. The property was purchased with a combination of funds from the Horton Plaza low- and moderate-income housing fund and the \$1.0 million HUD Section 108 loan. The HUD loan is currently secured by the property. According to the DDA and substantiated by the Summary Re-use Analysis (33433 Report) contained in the KMA analysis in Attachment 6, the property would be conveyed to VVSD, for the purchase price of \$1 and associated conveyance costs upon approval from HUD. If HUD does not approve the conveyance, the Agency will continue to lease the parcel to VVSD until it can be conveyed to VVSD. The DDA also allows the subject property to be leased to VVSD for the term of the HUD loan. It is anticipated that the property will be conveyed to VVSD with the HUD loan lien in first position. The payment for the HUD loan will continue to be the responsibility of the City of San Diego. The remaining balance of the loan is approximately \$675,000.

It is proposed that the Agency purchase the Wells-Kemper property, which is within the Phase III footprint of the project as defined by the DDA and, in the interim, lease it to the current tenants, VVSD and Sonabend (a tailor shop), in accordance with California Health and Safety Code Section 33431. The property would ultimately be conveyed to VVSD when Phase III is designed and fully funded. A fair market value appraisal has been prepared by the Agency's independent appraiser, as well as a Phase I and Soil Vapor environmental reports. No significant environmental issues were documented in these reports. The property owner has expressed a willingness to sell the property, specifically for the VVSD project. A contingent offer has been made on the subject property, based upon the appraisal. The contingent offer is subject to Agency approval and funding. A contingent offer was made to help facilitate the

timing of property acquisition/escrow, ensure the offer is made within 6 months following the date of value (September 1, 2006) and insulate the project from further cost increases.

If the Agency is successful in acquiring the subject property, it is proposed that the existing leases be terminated and new leases entered into with the existing tenants. A portion of the property already leased by VVSD will continue to be leased to them for operational and parking uses. The parcel is needed in the interim to comply with the Conditional Use Permit (CUP) parking requirements for Phase II of the project. It is proposed that this portion of the property be leased to VVSD for a five year period and that the lease term may be extended upon mutual written agreement by the Agency Executive Director, or designee and VVSD. The monthly lease rate is proposed to be \$3,967 and is based upon the non-housing uses on the site. The housing portion of the parcel would be leased to VVSD at no cost. The remaining portion of the property would continue to be used by Sonabend, under a new lease term, until VVSD is ready accept the property for Phase III of the development program. Agency staff proposes to continue to lease the property under the current lease rate.

In addition to the Wells-Kemper property, VVSD currently owns a 11,151 square foot parcel (with two tenants) that is east of the Wells-Kemper property and directly adjacent to the railroad tracks. This property along with the eventual vacation of Kurtz Street would be combined with the current Wells-Kemper parcel to form the parcel for Phase III of the development program. Attachment 8 shows the current property ownership of the project site. The street vacation for Kurtz Street was approved by the City Council as part of the adoption of the original DDA. The street vacation resolution was approved for a 3 year time period (until September 2006), requiring the vacation and map to be recorded within that time period. Due to delays in the project, the map was not recorded. Therefore, the street vacation resolution will be brought back to the City Council.

The Agency is obligated to relocate tenants within the footprint of the project. Three businesses are currently on-site. Two of the businesses (currently on VVSD's property) are to be relocated upon approval of the proposed First Implementation Agreement. The third business, Sonabend, may remain on-site and may not need to be relocated until commencement of construction of Phase III.

#### Replacement Housing Plan

The Replacement Housing Plan for the proposed Veterans Village of San Diego project, Attachment 9, was prepared in accordance with the California Health and Safety Code Section 33413 which requires the Agency to replace, within four years, dwelling units for persons and families of very low-, low- or moderate income that are removed or destroyed.

Phase II of Veteran's Village of San Diego will demolish 87 existing rehabilitation beds and replace them onsite with 112 transitional rehabilitation beds. The proposed project will result in a net increase of 25 transitional rehabilitation beds. Of the 112 beds, 34 beds will be affordable to extremely low-income tenants with incomes at 30 percent or less of Area Median Income (currently \$14,500), 62 beds will be affordable to very low-income tenants with

incomes at 50% or less of AMI (currently \$24,150) and 16 beds will be affordable to low-income tenants with incomes at 60% or less of AMI (currently \$29,000).

VVSD hopes to begin construction in the Spring of 2007. Phase II is expected to be completed within 18 months following construction commencement.

FISCAL CONSIDERATIONS:

As illustrated in the table below, the estimated development costs total \$9,105,000, including land acquisition and relocation expenses.

KMA has reviewed the VVSD proforma and is in agreement with the proposed development budget. KMA considered both industry standards as well as project specific information to arrive at their conclusion.

Development Costs (1)	\$9,105,000
Source of Funds (Less)	
San Diego Housing Commission Loan	\$3,489,000
HUD Economic Dev Grant	\$746,000
Veterans Administration Grant	\$320,000
San Diego County Grant	\$200,000
<b>Total Sources</b>	<b>\$4,755,000</b>
<b>Financing Gap</b>	<b>\$4,350,000</b>
<b>Affordable Housing NOFA</b>	<b>\$4,200,000</b>
<b>NTC Homeless Agreement</b>	<b>\$150,000</b>
Per Bed	\$38,840

(1) Development costs include land cost and relocation expenses.

It is recommended that the Agency contribute \$4.35 million towards the proposed project. Of the total amount \$4.35 million, \$4.2 million has been requested by VVSD through the Notice of Funding Availability (NOFA) program with the remaining \$150,000 proposed to come from the original Naval Training Center Homeless Agreement. The \$4.2 million is proposed to be financed through the North Bay Redevelopment Project Area, in which the project is located, through a combination of North Bay Redevelopment Bond Series 2000 proceeds and project area tax increment. The total funding request will be processed through the Low and Moderate Income Housing Fund (LMIHF) even though a portion of the funding request will be drawn from non LMIHF proceeds. It is proposed that the Bond Series 2000 proceeds be expended on the VVSD project, which total \$3,533,396 (principal and interest). As shown in the table on the following page, the proposed expenditure will exhaust the outstanding bond proceeds. The additional \$666,604 in tax increment will supplement the contribution.

STATUS OF NORTH BAY BOND PROCEEDS			
Projects	General Uses	Housing Uses	Total
<b>Beginning Balance (inc. interest)</b>	<b>\$10, 231,436</b>	<b>\$3, 313, 169</b>	\$13,544,605
Less Approved Projects:			
Point Loma Library	\$4,089,000		
MTDB Underground/Morena Vista	\$450,000		
MTDB Guideway Study	\$200,000		
Bay to Bay Study	\$250,000		
Midway Banners	\$25,000		
Pacific Highway Bridge Demolition	\$100,000		
Morena Blvd Façade Improvement Program	\$150,000		
Voltaire Street Bridge Rehab.	\$170,000		
Loan Repayment to fund Grantville Survey	\$125,000		
Midway Tree Planting	\$50,000		
Loan Repayment to City	\$448,209		
Morena Vista Development		\$2,500,000	
Old Town Queue Jump	\$100,000		
Vietnam Veterans Pre-development		\$575,000	
Midway Community Plan Amend.	\$209,000		
Pacific Highway Bridge Increase	\$30,000		
Morena Vista Public Use Lease Payments	\$300,000		
Washington St. Median Improv.	\$40,000		
Misc. Expenses (cash flow)	\$200,000		
Subtotal Approved Projects	<b>\$6,936,209</b>	<b>\$3,075,000</b>	\$10,461,209
<b>Total Unencumbered Funds</b>	<b>\$3,295,227</b>	<b>\$238,169</b>	<b>\$3,533,396</b>

The \$4.2 million contribution from the North Bay project area is proposed to be applied to help fulfill the Division's \$15.0 million commitment under the original \$55.0 million NOFA program. With this expenditure, the Division has contributed approximately \$11.4 million to the original NOFA, leaving a remaining balance of approximately \$3.6 million.

Subject to an existing NTC Homeless Agreement and City Council action (scheduled for January 23<sup>rd</sup>), VVSD will have an additional \$150,000 available for its use for the acquisition and development of affordable housing. VVSD has requested these funds for this project, subject to City Council approval. It is proposed that the Agency contribute these funds from the NTC Redevelopment Project Area Low and Moderate Income Housing Fund. The proposed First Implementation Agreement has incorporated the legal requirements and use provisions of the \$150,000 to insure that VVSD is in compliance with the provisions of the NTC Homeless Agreement.

In addition to the Redevelopment Agency's contribution, the Housing Commission is another major contributor to the financing of the project. The Housing Commission is proposing to contribute approximately \$3,489,000 in the form of a 65 year deferred loan and facilitate an approximate \$746,000, 65 year revocable grant from HUD, for a total contribution of \$4,235,000. These funds will be used for the construction of Phase II.

The developer (VVSD) will be responsible for the cost of developing the project, including any off-site or on-site improvements required by the City. If the total development costs exceed the \$9,105,000 budget, the developer will be responsible for any cost overruns. Any cost savings experienced by VVSD will be used toward reducing the Agency's assistance.

PREVIOUS AGENCY, and/or COMMITTEE ACTION:

On September 2, 2003, the Redevelopment Agency entered into a Disposition and Development Agreement with Veterans Village of San Diego for the development of Veterans Village.

Furthermore, on September 2, 2003, the City Council certified that the Mitigated Negative Declaration, LDR No. 3787 (Attachment 10), had been completed in compliance with the National Environmental Policy Act (NEPA) and California Environmental Quality Act (CEQA). This project is adequately addressed in the document and there is no change in circumstance, additional information, or project changes to warrant additional environmental review. Because the prior environmental documents adequately covered this activity as part of the previously approved project, the activity is not a separate project for purposes of CEQA and NEPA.

On December 14, 2006, the Affordable Housing Collaborative NOFA Executive Loan Committee reviewed the proposal and voted 3-0 to recommend the allocation of \$4,200,000 from the North Bay Redevelopment Project Area funds.

KEY STAKEHOLDERS:

Development Team -

<u>Role</u>	<u>Firm/Contact</u>	<u>Ownership</u>
Veteran's Village of San Diego (VVSD)	Vietnam Veterans of San Diego (dba) Veterans Village of San Diego Contact: Al Pavich	501 (c)(3) Nonprofit Phil Landis, Chair Mike Madigan, Vice Chair Will Hays, Secretary
Development Manager	The Trimble Company Contact: Kent Trimble	Kent Trimble
	Fehlman Labarre Architects Contact: Mike Labarre	Mike Labarre
Community Relations	L.J. Black Consulting Contact: Laurie Black	Laurie Black

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

The Midway Community Planning Group voted unanimously to recommend approval of the project on May 6, 2003, by a vote of 12-0-0.

On November 1, 2006, the PAC voted 6-0 with one member recused, to recommend funding for the proposed First Implementation Agreement.

The PAC reviewed and voted 16-0 with one member recused, to approve the Replacement Housing Plan at their December 6, 2006 meeting.

CITY RESIDENT AND BUSINESS IMPACT:

The proposed project meets critical needs for homeless housing identified in the City's Comprehensive Homeless Policy (000-51) by creating transitional housing for the mentally ill and improving the integration between mental health and substance abuse services in the County.

ALTERNATIVES:

1. Do not approve the First Implementation Agreement to the existing Disposition and Development Agreement between the Agency and the Developer and associated actions.
2. Recommend changes to the proposed First Implementation Agreement to the Disposition and Development Agreement between the Agency and the Developer and associated actions.

Respectfully submitted,

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Maureen Ostrye  
Deputy Executive Director  
Redevelopment Agency/  
Deputy Director

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Approved: James T. Waring  
Assistant Executive Director/  
Deputy Chief Operating Officer  
Land Use and Economic  
Development

OSTRYE/JD/lagr



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

Attachments:

1. [Vicinity and Site Map](#)
2. [Project Area Photographs](#)
3. [Veterans Village Phasing Summary](#)
4. [VVSD Rendering](#)
5. [First Implementation Agreement to the Disposition and Development Agreement](#)
6. [Keyser Marston Associates Re-use Report and 33433 Summary Report](#)
7. [Original Disposition and Development Agreement](#)
8. [VVSD Current Parcel Ownership Map](#)
9. [Replacement Housing Plan](#)
10. [Mitigated Negative Declaration No. 42-0378](#)