



THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED: June 19, 2017 REPORT NO. 17-034

ATTENTION: Honorable Council President and Members of the City Council

SUBJECT: Acquisition of Real Property Located at 1788 Palm Avenue (Super 8 hotel) for the San Diego Misdemeanants At-Risk Track (SMART) Program

REQUESTED ACTIONS:

1. Authorize the Mayor, or designee, to enter into a purchase and sale agreement for the acquisition of the real property located at 1788 Palm Avenue, San Diego, CA 92154 (Property).
2. Approve the allocation of \$6,650,000 in federal Community Development Block Grant (CDBG) funds to purchase the Property for the purpose of creating up to 70 beds of transitional housing for the SMART program, contingent upon the Chief Financial Officer certifying that funds are available.
3. Authorize the Chief Financial Officer to transfer appropriations in an amount not to exceed \$6,650,000 for reprogramming of CDBG project balances from the following funds to fund the FY 2018 1788 Palm Avenue Acquisition Fund contingent upon the Chief Financial Officer certifying that funds are available.
 - a. \$150,000 from CITYSD-NEIL GOOD DAY (BF1000003-17)
 - b. \$214,495.73 from SPRGBD-HOMEOWN (DF1000003-17)
 - c. \$2,800,000 from CITY-ED-HMLSS FAC ACQ (EA1000003-18)
 - d. \$1,498,326.70 from FY 2018 Unobligated CDBG (UC1000003-18)
 - e. \$1,987,177.57 from Section 108 NTC Public Arts Center Fund (200429)
4. Declaring that the activity to negotiate and execute the Purchase & Sale Agreement for acquisition of property at 1788 Palm Avenue, allocate and transfer associated funding, and approval of property improvements is exempt from the California Environmental Quality Act (CEQA) under the General Rule set forth in Title 14 California Code of Regulations Section 15061(b)(3) that CEQA applies only to projects which have the potential for causing a significant effect on the environment, and the project is categorically exempt from CEQA, pursuant to Title 14 California Code of Regulations Section 15301 (Existing Facilities), which allows for the operation, repair, maintenance, permitting, leasing, licensing or minor alterations of existing public or private structures or facilities involving

negligible or no expansion of use; and Title 14 California Code of Regulations Section 15304 (Minor Alterations to Land) which allows minor public or private alterations in the condition of land, water and/or vegetation which do not involve the removal of healthy, mature, scenic trees except for forestry or agricultural purposes.

5. Declaring that the Council of the City of San Diego has determined that no exception to the exemptions from CEQA applicable to the project exist, as set forth in Title 14 California Code of Regulations Section 15300.2.

STAFF RECOMMENDATION:

Approve the requested actions.

EXECUTIVE SUMMARY OF ITEM BACKGROUND:

The City of San Diego (City) intends to purchase the Property to renovate the existing hotel building on the Property into a transitional housing community for the SMART program. SMART is an innovative program that provides homeless low-level misdemeanor offenders with housing, case management, job training and other supportive services required to end the cycle of homelessness. In addition, the SMART program is consistent with the Regional Task Force of the Homeless Community Standards model for Bridge Housing.

The Property is improved with a 61-room hotel constructed in 1987 and operated under the "Super 8" hotel franchise in the Otay Mesa Nestor community. The existing hotel is a two-story building with interior corridors, a pool, laundry and substantial parking. The building was renovated in 2016 at a reported cost of \$1,070,000. The renovation included upgrading the guest room furnishings, bathrooms, hallways, breakfast room, front desk area, laundry room and manager's quarters. The Property is currently listed for sale for \$7,450,000.

The City obtained a property appraisal report, dated April 13, 2017, that provided an opinion of value for the Property of \$5,950,000. On April 13, 2017, the City's Real Estate Assets Department (READ) submitted an offer to purchase the Property for \$5,900,000 to the owner, Amanpur Investments, LLC. The owner counter-offered to sell the Property for \$6,650,000. READ, with the guidance and direction from the Economic Development Department, and the owner settled on a purchase price of \$6,650,000, subject to approval by the Council. The purchase price is above the appraised value for the Property. Payment of the negotiated purchase price is recommended for several reasons discussed in the following paragraphs.

Acquiring and rehabilitating the Property for the SMART Program is an innovative approach to addressing homelessness. Research of other hotel properties for sale, as well as analysis of hotel properties that have recently sold for adaptive reuse (changing from commercial occupancy to residential occupancy), indicates that the Property is the most viable option available to the City for expansion of SMART. Currently, there are 7 hotel properties located within the City on the market for sale. Due diligence conducted for each hotel concluded that 6 of the sites are too small, with room counts ranging from 4 to 29 rooms to accommodate the expansion of the SMART program.

With the Property purchase price at \$6,650,000 and the proposed rehabilitation estimated at \$4,500,000, the total development cost will be

\$11,150,000 or \$265,476 per unit (61 rooms reconfigured to 42 double occupancy units).

The proposed rehabilitation of the Property will include interior and exterior improvements such as new office space, computer rooms, client community space, kitchens, storage, roofing and low water landscaping. Additional improvements will increase Americans with Disabilities (ADA) accessibility, safety and security. These improvements will include interior and exterior security cameras, new fencing, electrical vehicular and pedestrian gates, new sidewalks, and a new fire suppression system. The rehabilitation is expected to be completed within 12 to 14 months and will require a conditional use permit.

The SMART program is designed to address low-level misdemeanor offenders who repeatedly cycle through the criminal justice system without access to services, coordination of care, or meaningful incentives to engage with social service providers. The goal of SMART is to safely divert their clients, particularly those who are otherwise resistant to intervention, to a case manager, tailored housing placement, individualized substance abuse disorder treatment and mental health services as well as reduce recidivism through changes in individual behavior.

SMART is a collaborative effort between the San Diego City Attorney's Office, the Mayor's Office, the San Diego Police Department, the San Diego County Sheriff's Department, the San Diego County Office of the Public Defender, the County of San Diego Behavioral Health Services Department, Family Health Centers of San Diego, and the San Diego Second Chance Program.

Potential SMART clients may be offered a SMART referral at any point of contact in the criminal justice system: pre-filing, post-filing, sentencing, or post-sentencing. In addition to referrals made during criminal proceedings, referrals can also be made during social contact in a non-enforcement capacity, such as by one of the treatment provider's outreach workers.

The SMART Pilot program began in December 2016 and currently serves 10 clients. Drug and mental health treatment is provided by Family Health Centers of San Diego under an existing County of San Diego contract. Recognizing that stable housing is the cornerstone to success in this type of program, SMART currently contracts with San Diego Second Chance Program to provide clients with housing and supportive services.

When State of California Proposition 47 (Prop. 47) was approved in November, 2014, it reduced the classification of most non-violent theft and drug offenses from felonies to misdemeanors. As a result, crimes previously punished with mandatory state prison terms are now sentenced to local jail. The savings in state correctional costs were set aside to fund grant programs for mental health, substance use disorder treatment, and diversion programs aimed at reducing criminal recidivism.

On February 21, 2017, the City and the County of San Diego submitted a joint application to the Board of State and Community Corrections (BSCC) requesting an award of \$6 million in Prop. 47 grant funds. The City and County were awarded \$6 million in Prop. 47 grant funds on June 8, 2017, of which a requested \$3 million will provide for expansion of SMART from 10 clients to 70 clients. The Prop. 47 grant period is June 16, 2017, through August 15, 2020 (38 months), and the \$3 million will be used to operate SMART during

this period. The City expects to apply for future Prop. 47 grants to operate SMART in subsequent years. In the event Prop. 47 grant funds or another funding source are not available to continue SMART operations in subsequent years, the Property is expected to be converted to permanent affordable housing at an estimated cost of \$5,000 per unit (\$210,000).

CITY STRATEGIC PLAN GOAL(S)/OBJECTIVE(S):

Goal #2: Work in partnership with all of our communities to achieve safe and livable neighborhoods.

Objective #3: Invest in infrastructure.

Objective #4: Foster services that improve quality of life.

Goal #3: Create and sustain a resilient and economically prosperous City.

Objective #1: Create dynamic neighborhoods that incorporate mobility, connectivity and sustainability.

FISCAL CONSIDERATIONS:

These actions result in no fiscal impact to the City's General Fund. All funding referenced in the requested actions is CDBG money received by the City from the U.S. Department of Housing and Urban Development (HUD) or program income from the City's CDBG program.

EQUAL OPPORTUNITY CONTRACTING INFORMATION (if applicable):

All contracts and agreements associated with the proposed actions are subject to the City's Equal Opportunity Contracting (San Diego Ordinance No. 18173, Section 22.2701 through 22.2708) and Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517) and will be reviewed by the City's EOC Contract Compliance Office for conformance with all applicable requirements prior to their execution.

PREVIOUS COUNCIL and/or COMMITTEE ACTIONS:

On April 5, 2017, the Community Justice Initiative and SMART Program were presented as informational items to the Public Safety and Livable Neighborhoods Committee.

COMMUNITY PARTICIPATION AND OUTREACH EFFORTS:

On June 14, 2017, the Consolidated Plan Advisory Board (CPAB) recommended the approval of an allocation of \$6,650,000 in CDBG funds for the acquisition of 1788 Palm Avenue for the SMART Program expansion.

On June 14, 2017, the proposed acquisition of 1788 Palm Avenue for the SMART Program expansion was presented to the Otay Mesa Nestor Community Planning Group.

On June 15, 2017, the proposed acquisition of 1788 Palm Avenue for the SMART Program expansion was presented to the South County Economic Development Corporation.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Those affected by the proposed actions include low- and moderate-income (LMI) individuals and households; those presumed by HUD to be principally LMI (abused children, battered spouses, elderly persons, severely disabled adults, homeless persons, illiterate adults, persons living with AIDS and migrant farm workers), community-based organizations and the community at large.

Erik Caldwell
Director
Economic Development Department

David Graham
Deputy Chief Operating Officer
Neighborhood Services

Attachment(s): 1. Purchase and Sale Agreement for 1788 Palm Avenue