

## Garfield Park Village Pioneers SPRAC for Unassisted Section 202 Properties



Christian Church Homes staff and residents gather at Garfield Park Village for the rehabilitation groundbreaking ceremony June 2, 2014. *Photo courtesy of Christian Church Homes.*

### Background on Garfield Park Village and the SPRAC Program

Located in Santa Cruz, California, and owned and managed by [Christian Church Homes \(CCH\)](#), Garfield Park Village is an affordable senior apartment complex developed in 1964 with a [U.S. Department of Housing and Urban Development \(HUD\) Section 202 Supportive Housing for the Elderly subsidized mortgage](#). In December 2013 Garfield Park Village became one of the first Section 202 properties in the nation to be awarded a [Senior Preservation Rental Assistance Contract \(SPRAC\)](#) from HUD.

Designed specifically to prevent the displacement of low-income elderly residents from Section 202 properties and to make recapitalization and long-term preservation feasible, the Section 202 Supportive Housing for the Elderly Act of 2010 authorized HUD to award a limited number of SPRACs to provide rental assistance to units that did not previously receive it. HUD made available a total of [\\$16 million for the first round of SPRAC awards](#).

### Recapitalization Challenges

Although CCH had done an admirable job maintaining Garfield Park Village over the nearly 50 years since it was built, CCH knew that the development's 14 buildings on four acres were in need of major renovation. It was at this point that CCH brought in the [California Housing Partnership](#) to help creatively explore alternative financing scenarios.

The California Housing Partnership's Greg Chin worked with CCH Senior Project Manager Kathleen Mertz to identify and address a number of major challenges to recapitalizing the property. A fundamental constraint was the inadequate level of rental assistance. With only 19 of 94 units rent-assisted under an existing Section 8 Housing Assistance Payment (HAP) contract, there was limited opportunity to leverage additional financing. An equally difficult constraint was that due to its location, the property was noncompetitive for 9% Low Income Housing Tax Credits and using non-competitive 4% Tax Credits left an unworkable financing gap.

### SPRAC Offers Garfield Park Village New Hope

Given these constraints, the project team focused on the potential for obtaining new SPRAC funding. Four main factors made Garfield Park Village an ideal candidate for SPRAC:

1. Two Section 202 loans on the property were about to mature.
2. The property had rental assistance on only 20 percent of its units and had a compelling case for needing additional rental assistance to recapitalize.
3. CCH was willing to commit to long-term income and rent restrictions ensuring that the property would remain affordable to very low-income (VLI) seniors long after the completion of the substantial rehabilitation.
4. The City of Santa Cruz was willing to commit essential local resources to make up the funding gap.

HUD awarded Garfield Park Village a SPRAC for rental assistance to 65 additional units (bringing the total number of assisted units to 84), making CCH one of the first SPRAC awardees in the country. A side benefit of engaging in the SPRAC process was that CCH was able to use the same rent comparability study to increase the existing Section 8 contract rent. The increase in the contract rent combined with the SPRAC award effectively doubled the rental income the property received from HUD and significantly boosted the financial feasibility of the project.

### Negotiating with HUD to Make SPRAC Work

While the SPRAC award was essential to the recapitalization of Garfield Park Village, CCH and the California Housing Partnership had to work closely with HUD to negotiate key implementation details. Garfield Park Village had received a [HUD Flexible Subsidy loan](#) of \$1,812,256 in 2001 to fund urgent short-term rehabilitation work on the property. The prepayment of the Section 202 loans would traditionally have triggered a requirement for CCH to make balloon payment of the remaining balance of the Flexible Subsidy loan, undermining the feasibility of the recapitalization. At CCH's request, HUD instead agreed to re-amortize the Flexible Subsidy loan in return for contributing 15 percent of the developer fee and property reserves in excess of \$1,000 per unit to pay down the Flexible Subsidy loan balance. HUD also required that 75 percent of residual receipts go toward further reducing the Flex Subsidy loan balance.



The Garfield Park Village rehabilitation is expected to be complete in October 2015. *Renderings courtesy of Christian Church Homes.*

Obtaining approvals for the refinancing, rental assistance contract, and SPRAC award required working with three different HUD offices. CCH's Kathleen Mertz notes that at different points she was managing ten separate staff contacts at HUD, a challenge that should be reduced if not eliminated as HUD implements additional phases of its [restructuring plan](#). Despite these bureaucratic hurdles, Mertz was grateful for the exceptional efforts made by a number of HUD staff, commenting "HUD staff worked extremely hard to define the specifics of the SPRAC program in relation to other HUD programs and policies, making all the pieces fit for us and other awardees."

### Local and Private Partners Invest to Close the Gap

A critical piece of the remaining financing came from the City of Santa Cruz in the form of a \$755,000 long-term soft loan. That Santa Cruz, which has lost millions in redevelopment funding as well as hundreds of thousands of dollars of HOME and CDBG funds over the past four years, was willing to invest so much of its limited HOME funds is a testimony to its awareness of the importance of preserving an existing affordable housing asset such as Garfield Park.

CCH selected [National Equity Fund](#) (NEF) as the tax credit investor not only because of their favorable financing and terms, but also because of their well-established reputation for working cooperatively to achieve a nonprofit buyout of the limited partnership interest at the end of the 15-year LIHTC compliance period. NEF has ably demonstrated its dedication to long-term affordability and nonprofit ownership in its investment portfolio in California.

Union Bank made a \$17 million construction loan on favorable terms as well as a permanent loan that was underwritten on the underlying rents and the additional income from the Section 8 contract. Given that SPRAC was a completely new program, it was understandable that NEF and Union Bank had many questions. Yet, both partners remained supportive of the refinancing throughout the process and worked hard to make it a success. California Housing Partnership Senior Program manager Greg Chin comments, "The financing structure of Garfield is very complicated with multiple roles played by HUD - a brand new SPRAC program, Section 8 contract renewal, two-step contract rent increases, re-amortization of the Flex Sub, and prepayment of the 202s. Both NEF and Union Bank worked hard to get through hurdles presented by the financing structure."

Here is a summary of the main financing sources and uses for the recapitalization of the 94 existing affordable homes:

SOURCES	Permanent
Union Bank General and Section 8 Loans	\$8,640,000
NEF Limited Partner Equity Payment	\$10,140,809
City of Santa Cruz HOME Loan	\$755,000
HUD Flex Sub Loan Deferral	\$1,030,823
Other Financing Sources	\$756,456
<b>TOTAL</b>	<b>\$21,323,088</b>

USES	Permanent
Payoff of Existing Debt/Seller Obligations	\$1,866,523
Rehabilitation	\$10,945,178
Relocation	\$1,970,500
Design, Engineering, Local Permits	\$1,325,000
Reserves and Financing Costs	\$1,460,049
Legal, Consulting, Dev. Fee, Other Soft Costs	\$3,755,838
<b>TOTAL</b>	<b>\$21,323,088</b>

### **Working with Residents to Rehabilitate Garfield Park Village**

The planned rehabilitation and integration of the new SPRAC funding required intensive and time-consuming engagement with residents on CCH's part. The addition of the new rental assistance required CCH to verify incomes for most residents (some of them for the first time) and it took three attempts to ensure that all residents had proper documentation.

The reward is that 60% of Garfield Park's existing residents are benefitting from lower rents thanks to SPRAC. While the other 40% of residents will see rent increases over time, final rents will be limited to no more than 30% of their income to ensure both affordability to residents and the long-term financial stability of the property.

Planning the renovation was time-intensive for CCH staff, requiring eight formal meetings over two years as well as many less formal town hall meetings and individual consultations with onsite management. In order to minimize the need for temporary relocation and disruption to residents' lives, CCH is phasing the rehabilitation in groups of 24 units and keeping residents local during relocation by using other apartments in Santa Cruz.

### **Rehabilitation Plans Formulated with Resident Input for the Long Term**

A critical factor in CCH's success was its staff's commitment to obtain extensive feedback from residents on their existing living conditions and combine it with CCH's core design principles of sustainability, durability, and age-accessibility to shape the redesign of the property.

As a result, the rehabilitated Garfield Park Village will include completely new kitchens, bathrooms, flooring, and double-paned windows. The property's on-site office space will be reconfigured to create a maintenance shop, resident computer lab, and commercial kitchen that residents can use to prepare shared meals.

Landscaping will be drought tolerant and use smart irrigation techniques to reduce water use. The landscaping design includes edible plants such as herbs and fruit trees.

All appliances and light fixtures will be replaced with energy efficient models and all kitchens and bathrooms will receive improved venting. The apartments currently have a mixture of gas wall heaters and electric baseboard heaters which will be replaced with high efficiency heating and cooling units. Overall, the renovation of Garfield Park will reduce energy consumption by 20%, contributing to lowering the state's carbon emissions while improving residents' comfort and the property's bottom line.

### **Conclusion**

Thanks to critical new funding from HUD's SPRAC program, some creative and flexible financing and, most importantly, careful work with residents and HUD, CCH has ensured that Garfield Park Village will emerge from its renovations with improved living conditions and fairer and more affordable rents. CCH's hard work in recapitalizing Garfield Park should be seen as not only preserving but significantly enhancing an important affordable housing asset for the Santa Cruz community for decades to come. Congratulations to CCH and thanks to all who contributed to this groundbreaking effort to make use of a rare new federal resource for housing preservation.

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PRESERVATION SERVICES FOR NONPROFIT AND LOCAL GOVERNMENT STAFF

CHPC provides technical assistance, and training to help nonprofit and government agencies build and preserve affordable homes for California families and seniors. For more information, please contact our Housing Policy and Preservation Associate, James Pappas, at [jpappas@chpc.net](mailto:jpappas@chpc.net) or 415-433-6804 x 320.

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