Detailed Evaluation of Mariposa Alternative Mitigation

Location of Mariposa

Location Map - 660 Mariposa Avenue

The 48-unit apartment building at 660 Mariposa Avenue is located approximately five blocks south of the 1720 Villa Street project site and is covered under the City's Community Stabilization and Fair Rent Act (CSFRA) program. This existing apartment building was built in approximately 1964 and is surrounded by one and two-story multi-family buildings to the north, south, and east, and two-story single-family homes to the west.

Description of the "Mariposa" Alternative Mitigation

Prometheus proposes working with Bridge Housing to acquire and rehabilitate the Mariposa property. The rehabilitation of the Mariposa units would be to the level and standards of Prometheus's other rehabilitated properties. The City would not be required to provide Bridge Housing with any funds with respect to the purchase of the property. With Prometheus's assistance, Bridge Housing would acquire, rehabilitate, and deed restrict the 48 unit apartment building at 660 Mariposa in Mountain View, CA.

The building was built in 1964 and includes 5 studios, 21 one-bedrooms and 22 two-bedrooms and is situated on a 1.7 acre site. The strong housing market in Mountain View has created the unfortunate consequence of lower density townhomes replacing larger multifamily apartments, leading to the displacement of many families. Bridge

Housing's proposal aims to keep families in place, create a permanent housing stock for the "missing middle" and increase the overall number of affordable units that would be delivered in-lieu of the onsite inclusionary requirement. Bridge Housing is proposing an alternative financing to the traditional tax credit structure because of the uniqueness of this project. Bridge Housing has worked and will continue to work closely with the families, affordable housing finance professionals and the City of Mountain View to provide a solution that will satisfy Prometheus' inclusionary requirement and prevent displacement of the families at 660 Mariposa. After Bridge Housing has purchased the property from Prometheus, they would record a Regulatory Agreement and Deed Restriction with the City of Mountain View.

By funding the affordable housing in lieu fee directly to Bridge Housing the applicant feels the process will be streamlined allowing for only one meeting with the City Council. This would align with the City Councils direction to bring the alternate proposal to them within 90 to 120 days from when they approved the Villa Street development. This proposal would also provide the affordable housing units to the community much faster than the traditional process.

<u>Criteria for Evaluating the "Mariposa" Alternative Mitigation</u>

1720 Villa is subject to BMR Phase 1 requirements but it is also a Gatekeeper project that may be subject to additional requirements. For example, Phase 1 includes a 55-year deed restriction for BMR units to be affordable at specified AMI levels, while Phase 2 requires BMR units to remain affordable in perpetuity. At the June 2019 public hearing, the Council unanimously approved the project for the BMR units to be affordable in perpetuity instead of 55 years.

Regardless of Phase 1 or 2, the BMR program guidelines state that a request for an alternative mitigation may be granted at the sole discretion of Council, if the Council determines that such alternative will further affordable housing opportunities in the City to a great extent than the affordable housing obligation. Therefore, a fundamental component of evaluating the Mariposa alternative is whether it provides a greater benefit to the City than the onsite BMR units. Alternative mitigations are relatively new, and there is not a clear precedent for how to evaluate the Mariposa concept specifically. However, the following are the evaluation criteria that staff used to evaluate the BMR on-site requirement versus the Mariposa alternative mitigation:

1. Project level comparison, including on-site features/amenities.
2. Unit level comparison, including in-unit features/amenities.
3. Economic value and financing structure.
4. Qualitative factors, including value of integrated affordable housing and displacement.

1. *Project Level Evaluation*

Table 1 below provides a side by side comparison of the BMR units at Villa versus deed-restricted units as submitted by Bridge/Prometheus.

While Mariposa provides more units, the Villa BMR units are larger, new and include additional amenities in the units. The table below compares some of the differences between the two proposals.

Table 1. Project Comparison

Project Comparison	Villa (On Site)	Mariposa (Off Site)	Greater Benefit
Year Built	New	1964	Villa
Affordability Level	65% AMI	80% AMI	Villa
Annual Increase	3%	<4%	Villa
Term of Affordability	In Perpetuity	55 years	Villa

In addition to the differences in affordability, the amenities for each of the developments vary greatly both at the project level. On the project level, the 1720 Villa Street project would include a roof deck, fitness center, hot tub, a study room, a bocce court, and a theater room. The new 1720 Villa Street building would also allow pets and be located next to a new public park and multi-use path.

Bridge Housing would own and operate the Mariposa property and would provide a significant amenity of providing services to residents. Examples of potential programs led by Bridge Housing are summer camps, mentoring, and homework clubs for children and teens; English as a second language, resume workshops, and financial literacy programs for adults; and health programs and brain fitness courses for seniors.

Below is Table 2 comparing the project amenities provided:

Table 2. Project Amenities

Project Amenities	Villa	Mariposa	Greater Benefit
Fitness Center	X		Villa. While Mariposa will provide valuable services that Villa might not, overall Villa has a greater level of project amenities.
Dog Run	X		
Office Center	X		
Pool	X	X	
Bocce Court	X		
Club/Community Room	X		
Theater			
Addl. Storage Space		X	
Private Common Space	X	X	
Roof Deck	X		
Resident Services		X	

2. ***Unit Level Evaluation***

As mentioned, there are considerable differences between the 34 new Villa units and the proposed rehabilitation at the Mariposa Club Apartments.

As shown in Table 3 below, BMR mitigation on-site at the 1720 Villa Street project provides the project details for 34 units totaling 48 bedrooms. 660 Mariposa has 48 units totaling 70 bedrooms. 660 Mariposa offers 41% (48 units vs. 34 BMR units) more BMR units and 46% more bedrooms (70 bds vs. 48 BMR bds). However, given that the 660 Mariposa units are approximately 30-35% smaller than the planned units at 1720 Villa Street, the increase in BMR square footage is approximately 11%.

Table 3. Unit Comparison	Villa (On Site)		Mariposa (Off Site)		Greater Benefit
-	Count	Avg SF	Count	Avg SF	
# of BMR Studio Units	2	706	5	558	Different tradeoffs. New and larger units at Villa units; More but smaller and older units at Mariposa.
# of BMR 1Br Units	19	777	21	612	
# of BMR 2Br Units	12	1,158	22	882	
# of BMR 3Br Units	1	1,486	0	-	
Total	**34**	**926**	**48**	**730**	
Total BMR Bed Count	**48**		**70**		
Total Sq. Footage (Livable)	**31,557**		**35,040**		

Also, in comparing the amenities offered in each of the projects, there are differences in the quality of amenities. The Villa units would be constructed to meet current building code, energy efficiency requirements other current requirements in addition to containing in-unit washers and dryers and higher end finishes than the proposed rehabilitated units. The proposed rehabilitation would include new in-unit appliances, toilets, sinks, and communal laundry machine, new flooring, counter tops, cabinets, window screens, repainting of units and communal areas. But there are still other areas that will not be upgraded such as the building systems and the Mariposa units would still contain the original single paned windows. Overall, the finishes and quality in the Villa units are superior to the rehabilitated units at Mariposa.

Table 4 below shows some of the differences in amenities in the units.

Table 4. Unit Amenity Comparisons

<table>
<tr><th>Unit Amenities</th><th>Villa</th><th>Mariposa</th><th>Greater Benefit</th></tr>
<tr><td>In Unit W/D</td><td>X</td><td></td><td rowspan="7">Villa. Villa will contain higher quality amenities than Mariposa</td></tr>
<tr><td>Hardwood Floors</td><td></td><td></td></tr>
<tr><td>Central A/C</td><td>X</td><td></td></tr>
<tr><td>Wall A/C unit</td><td></td><td>X</td></tr>
<tr><td>Finishes</td><td>X</td><td></td></tr>
<tr><td>Double Paned Windows</td><td>X</td><td></td></tr>
<tr><td>Private Decks</td><td></td><td>X</td></tr>
</table>

3. *Economic Value and Financing Structure*

Staff estimates that the value of the 34 on-site units at Villa to be approximately $20.1 million. This is based on the analysis that $96 per net livable square foot of a project is the economic equivalent of a 15 percent BMR on-site requirement in perpetuity from the perspective of a developer for projects similar to Villa (i.e., four to five story multifamily rental housing development with podium parking). Therefore, from the lens of a strictly economic value, the applicant should provide an economic value of at least $20.1 million for the Mariposa alternative. Staff's understanding is that Prometheus intends to contribute $12.4 million towards financing the acquisition/preservation project with Bridge. Staff's evaluation is that Prometheus' contribution to Mariposa is in part causing some concerns about the financial viability of the alternative mitigation. Because this is an acquisition project, Mariposa does not qualify for tax credits, which is typically used for new affordable housing construction. Therefore a major funding source is not available.

Prometheus' concept is that they would provide a financial contribution directly to Bridge, instead of providing a fee payment to the City that would in turn be loaned to Bridge. They believe bypassing the City and providing a direct contribution to Bridge would remove prevailing wage requirements and would help with project feasibility. It would also be more expeditious to directly provide the funds to Bridge rather than through the City's NOFA process. City-financed projects include prevailing requirements. Bypassing the prevailing wage requirement would mean that a public value is not being met. Note that staff, in review with external affordable housing legal consultants, believe that Prometheus' strategy of directly financing the acquisition and rehabilitation of Mariposa is still the use of public funds that would require the use of prevailing wage under State law.

Additionally, a direct contribution to the Mariposa project would mean that there are no loan repayments to the City that would otherwise be used to finance future projects. For example, in a typical BMR in-lieu fee payment, the funds would be lent to a non-profit developer at a low, fixed cost. This would be repaid by the developer and the repayments would be lent on new project. This type of "revolving loan fund" would not be possible if Prometheus simply made a direct contribution to Bridge to acquire and preserve Mariposa. Finally, if Prometheus' contribution were equal to or higher than the economic equivalent of providing 34 BMR units on-site, then the contribution to Mariposa (whether or not it goes directly to Bridge or paid to the City) should be at least $20.1 million. This contribution level would allow prevailing wages to be paid and to have a different financing structure than the 80% AMI model proposed by Bridge.

Staff has evaluated the pro forma for Mariposa with the City's affordable housing financial consultant and has determined that several key additional pieces of information are still needed to determine the viability of the project. These include greater detail about the development program and schedule, development revenues, operating costs, development budget and financing terms.

4. *Qualitative Factors*

There are two key qualitative factors that are important priorities but that are difficult to quantify the benefits: preventing tenant displacement and the value of integrating affordable housing with market rate units.

Preventing Displacement

The applicant/Bridge have stated that the Mariposa alternative mitigation would prevent any potential displacement of the residents. However, staff's review of the specifics of the submittal indicates that preventing displacement is not guaranteed. While displacement might not occur immediately, based on an income survey conducted by Bridge Housing, 35 of the interviewed 44 households (there are four vacant units in the complex) self-reported to be very low income. Very low income is defined as earning less than 50% of the area median income. Currently the Mariposa households are paying a monthly rent of $925 for a studio unit most households are paying $1300 for a one bedroom unit and $1700 for a two bedroom unit. For reference, tax credit rents for very low income units are between $1,281 for an efficiency unit to $1,902 per month for a two bedroom unit. Bridge Housing proposes to increase the rents 4% annually until the rents are equivalent to 80% AMI rents.

Below is a comparison table of the current Mariposa rents with different AMI level rents.

	Studio	1BD	2BD
Current Rent	$925	$1,300	$1,700
50% AMI Rent	$1,281	$1,372	$1,902
80% AMI Rent	$1,819	$1,949	$2,339

The concern is with a proposed annual 4% increase up to 80% AMI rents, many of the households will be slowly displaced with the increased rent up to 80% AMI. Rent at 80% AMI is approximately $2,399 per month for a 2 bd unit. Many current households at 660 Mariposa are paying around $1,300 to 1,700 per month (which is approximately equal to 50% AMI). Since 35 of the 48 households have been deemed very low income (30% - 50% AMI), many households are likely already spending more than 30% of their gross household income on housing and this is prior to Bridge Housing setting the building's affordability level at 80% AMI.

Bridge Housing has stated that this increase to 80% AMI would be gradual but staff initial findings is that the any current rent level above 50% AMI could be too high for most residents. Through the annual 4 percent increases, the gradual rent increases up to 80% AMI may continue to displace some of the very low income households. For reference, the Consumer Price Index, the Index that measures the price of goods and services, has been increasing at about 3.5% annually. Therefore even if a household receives the annual CPI increase to their income, the proposed rent increases would still outpace CPI/household income increases. It is likely that many current residents may not be able to qualify for or afford the preserved units meant to prevent displacement.

Additionally, Council held a Study Session on October 29, 2019 unanimously supported staff's recommendations for guiding principles and further evaluation of an integrated, comprehensive displacement response strategy, and the recently passed SB 330 will go into effect in January 2020. Both items will have requirements for replacing rent-stabilized units that are demolished. Should Mariposa be sold to a market rate developer, it is anticipated that the redevelopment of Mariposa would include requirements for replacing those rent-stabilized units.

Finally, staff have determined that Council can modify Villa Street Condition of Approval to include a preference for tenants displaced from Mariposa. As a result, it is unclear whether the Mariposa alternative mitigation as submitted would necessarily be more effective than the 34 BMR on-site units at Villa for preventing displacement.

Affordable housing integrated with market rate units

The second qualitative factor is the value of affordable housing integrated with market rate units. In the past, both the EPC and Council have indicated it felt that incorporating affordable housing with market rate units is an important public policy objective. In June 2019, based on Council priorities, the BMR program was modified to prioritize the development of BMR units on-site, with in-lieu fees clearly being an alternative mitigation and the fee level set at the economic equivalency of providing BMR units on-site. Additionally, any request for an alternative mitigation would require that the applicant demonstrate that the alternative mitigation provide a greater benefit than on-site units. These BMR Phase 2 modifications reflect Council's priority of integrating affordable housing with market rate units. While the economic value of BMR on-site units is easier to quantify ($96 per net livable square foot), the social value of integrated units is more qualitative and difficult to quantify.