



SPECIAL MEETING MINUTES

Date: 9/15/2020

Time: 5:00 p.m.

Special Meeting Location: Joinwebinar.com – ID# 250-784-227

According to City Council policy, all regular meetings of the City Council are to end by midnight unless there is a super majority vote taken by 11:00 p.m. to extend the meeting and identify the items to be considered after 11:00 p.m.

Special Meeting ([Joinwebinar.com](https://www.joinwebinar.com) – ID# 250-784-227)

A. Call To Order

Mayor Taylor called the meeting to order at 5:08 p.m.

B. Roll Call

Present: Carlton, Combs, Nash, Mueller, Taylor

Absent: None

Staff: City Manager Starla Jerome-Robinson, Interim City Attorney Cara Silver, City Clerk Judi A. Herren

C. Presentations and Proclamations

C1. Community land trusts

Executive Director of the Valley Community Land Trust (VCLT) Pam Dorr and Partner with Burlington Associates and consulting with VCLT Devika Goetschius (Attachment).

- Kevin Gallagher spoke in support of future discussion of community land trusts.

The City Council received clarification on the VCLT board appointments, comparison of below market rate (BMR) programs, and the relationship between the City and VCLT.

D. Regular Business

D1. Adopt Resolution No. 6585 authorizing the city manager to execute an amendment to the professional services agreement with Team Sheeper, Inc., to extend the term of the Belle Haven pool operations ([Staff Report #20-202-CC](#)) – updated from the **September 8, 2020 City Council meeting**

Library and Community Services Director Sean Reinhart made the presentation (Attachment).

- Julie Shanson spoke on concerns with the smart phone application reservation system.

The City Council received confirmation that the reservation mobile application issues had been resolved and that the baseline maintenance at pools is the City's responsibility. The City Council

discussed ways to prioritize access for residents, comprehensive outreach to residents, and signage to encourage usage. Tim Sheeper clarified hours of operation at both pools and the City Council discussed prioritized access for residents and a comprehensive outreach in Belle Haven neighborhood to be included in the amendment.

ACTION: Motion and second (Combs/ Nash) adopt Resolution No. 6585 authorizing the city manager to execute an amendment to the professional services agreement with Team Sheeper, Inc., to extend the term of the Belle Haven pool operations, direct staff to conduct outreach in the Belle Haven community for the Belle Haven pool, and for staff to explore resident preference, passed unanimously.

D2. Consider the term sheet, conceptual design and project review process of Facebook's offer to rebuild community facilities located at 100-110 Terminal Avenue ([Staff Report #20-201-CC](#) [Informe de Personal #20-201-CC](#))

[Web form public comment received for item D2](#) (Attachment).

Vice Mayor Combs was recused because Facebook is his employer and exited the meeting at 6:24 p.m.

Deputy City Manager Justin Murphy made the presentation (Attachment).

Facebook representative Fergus O'Shea, Facebook and Hart Howerton representative Eron Ashley made a presentation (Attachment).

- Pastor Terirrah McNair requested that notification to residents be sent further in advance.
- Julie Shanson spoke in support of the replacement of the Belle Haven pool and on concerns related to its location.

The City Council received clarification on the occupancy of each proposed building and rooms and pool funding. The City Council received confirmation that there is still room for expansion in the future and discussed the usage and prioritization of the pool by Menlo Park residents and investing in the facility as a Red Cross shelter.

ACTION: Motion and second (Carlton/ Taylor) approve the term sheet, conceptual design and project review process of Facebook's offer to rebuild community facilities located at 100-110 Terminal Avenue, explore adding the pool to the community amenities list, removal of existing the pool, adding secure facility for bicycles, and exploring a fossil fuel free facility, passed 4-0-1 (Combs recused).

The City Council took a break at 7:45 p.m.

The City Council reconvened at 8:17 p.m.

Vice Mayor Combs rejoined the meeting at 8:17 p.m.

D3. Review financial feasibility analysis of the City of Menlo Park's below market rate inclusionary rental housing requirements and adopt Resolution No. 6586 implementing below market rate in-lieu fee for rental housing ([Staff Report #20-203-CC](#))

Deputy Community Development Director Rhonda and BAE representative Stephanie Hagar made the presentation (Attachment).

- Karen Grove spoke in support of using the study in conjunction with the housing element and in-lieu fee.
- Dennis Martin, representing the Building Industry Association, requested that action be deferred on the increased inclusionary percentages.

The City Council received clarification on point of indifference recalculations post-COVID-19 and the necessity and feasibility of completing those calculations. The City Council discussed projects effected by SB330, current projects under the specific plan, and impacts to BMR housing.

ACTION: Motion and second (Nash/ Carlton) adopt Resolution No. 6586 implementing below market rate in-lieu fee for rental housing, passed unanimously.

- D4. Consider an update on the housing innovation fund and confirm use of the housing inventory and local supply study ([Staff Report #20-204-CC](#))

ACTION: By acclamation, the City Council continued item D4., passed unanimously.

- D5. Adopt Resolution No. 6587 to supersede Resolution No. 6490 to increase a loan to MidPen Housing from \$6.7 million up to \$9.331 million for an affordable housing development at 1317-1385 Willow Road ([Staff Report #20-205-CC](#))

Deputy Community Development Director Rhonda Coffman and MidPen Manager introduced the item.

- Karen Grove spoke in support of increasing the loan to MidPen for affordable housing development.
- Kevin Gallagher spoke in support of exploring low income housing ownership programs.

The City Council discussed prioritizing housing for people who work and live in Menlo Park and received clarification on how people working in Menlo Park have preference with the funding.

ACTION: Motion and second (Mueller/ Carlton) to adopt Resolution No. 6587 to supersede Resolution No. 6490 to increase a loan to MidPen Housing from \$6.7 million up to \$9.331 million for an affordable housing development at 1317-1385 Willow Road including prioritizing people who work and live in Menlo Park, passed unanimously.

- D6. Approval of a retired annuitant employment agreement for the position of interim chief of police to carry out the duties and responsibilities of chief of police to work in a vacant position during the recruitment to permanently fill the vacancy and during an emergency to prevent stoppage of public business ([Staff Report #20-206-CC](#))

Assistant City Manager Nick Pegueros introduced the item.

The City Council received clarification on the term of the agreement.

ACTION: Motion and second (Carlton/ Nash) to approve the retired annuitant employment agreement for the position of interim chief of police to carry out the duties and responsibilities of chief of police to work in a vacant position during the recruitment to permanently fill the vacancy and during an emergency to prevent stoppage of public business, passed unanimously.

E. City Council Initiated Items

- E1. Refocus City Council 2020-21 priorities and direct specific land use planning work
([Staff Report #20-199-CC](#)) – **continued from the September 8, 2020 City Council meeting**

ACTION: By acclamation, the City Council continued item E1., passed unanimously.

- ~~E2. Purchase, install, and maintain picnic tables on closed sections of Santa Cruz Avenue
([Staff Report #20-200-CC](#))~~

F. Adjournment

Mayor Taylor adjourned the meeting at 10:05 p.m.

Judi A. Herren, City Clerk

These minutes were approved at the City Council meeting of October 27, 2020.

NOVEL CORONAVIRUS, COVID-19, EMERGENCY ADVISORY NOTICE

On March 19, 2020, the Governor ordered a statewide stay-at-home order calling on all individuals living in the State of California to stay at home or at their place of residence to slow the spread of the COVID-19 virus. Additionally, the Governor has temporarily suspended certain requirements of the Brown Act. For the duration of the shelter in place order, the following public meeting protocols will apply.

Teleconference meeting: All members of the City Council, city staff, applicants, and members of the public will be participating by teleconference. To promote social distancing while allowing essential governmental functions to continue, the Governor has temporarily waived portions of the open meetings act and rules pertaining to teleconference meetings. This meeting is conducted in compliance with the Governor Executive Order N-25-20 issued March 12, 2020, and supplemental Executive Order N-29-20 issued March 17, 2020.

- How to participate in the meeting
 - Submit a written comment online:
menlopark.org/publiccommentSeptember15*
 - Record a comment or request a call-back when an agenda topic is under consideration:
Dial 650-474-5071*
 - Access the special meeting real-time online at:
joinwebinar.com – Special Meeting ID 250-784-227
- Access the special meeting real-time via telephone (listen only mode) at:
(415) 930-5321
Special Meeting ID 862-669-295 (# – no audio pin)
*Written and recorded public comments and call-back requests are accepted up to 1-hour before the meeting start time. Written and recorded messages are provided to the City Council at the appropriate time in their meeting. Recorded messages may be transcribed using a voice-to-text tool.
- Watch special meeting:
 - Cable television subscriber in Menlo Park, East Palo Alto, Atherton, and Palo Alto:
Channel 26
 - Online:
menlopark.org/streaming

Note: City Council closed sessions are not broadcast online or on television and public participation is limited to the beginning of closed session.

Subject to Change: Given the current public health emergency and the rapidly evolving federal, state, county and local orders, the format of this meeting may be altered or the meeting may be canceled. You may check on the status of the meeting by visiting the City's website www.menlopark.org. The instructions for logging on to the webinar and/or the access code is subject to change. If you have difficulty accessing the webinar, please check the latest online edition of the posted agenda for updated information (menlopark.org/agenda).

Community Land Trusts are non - profit organizations that helps government execute their affordable housing strategy.



How does a community land trust work?

A brief introduction



CLT's Role



- Creates opportunity for community and resident participation in governance
- CLT is an adjunct partner to support City staff with capacity to execute strategy
- The CLT lessens the burden of government and helps to achieve housing goals
- CLT works directly with the developer and becomes part of the development team for inclusionary requirements
- The CLT can work directly with City staff to develop projects for preservation and production including ADU's
- CLT brings qualified homebuyers and renters



CLT's Role for Ownership



- The land trust owns the land forever and serves as the steward of the land
- The land trust, ground leases the land to the homeowner for a renewable 99-year lease
- Homeowners own the home and all improvements and renters use the home.
- Ground lease and deed are recorded, enforceable, legally-binding documents.
- The land trust asks homeowners to share the affordability with future homeowners.

How Does a CLT Keep Housing Affordable?



- To keep homes affordable to future families, the CLT brings qualified renters and owners when needed
- Rents and ownership price are calculated based on the annual increase in Area Median Income (AMI)

San Mateo County 2020 AMI



County	Income Category	Number of Persons in Household							
		1	2	3	4	5	6	7	8
San Mateo County Area Median Income: \$174,000 (Fed)	Ext Low <30% AMI	33540	41780	46980	52200	56400	60570	64740	68910
	Very Low Inc <50%	60900	69600	78300	87000	94000	100950	107900	114850
	Low Income <80%	97440	111360	125280	139200	150400	161520	172640	183760
	Median Inc <100%	121800	139200	156600	174000	188000	201900	215800	229700
	Moderate Inc <120%	146160	167040	187920	208800	225600	242280	258960	275640

Benefits of Living on CLT Land



- Long Term Security
- Affordability in Perpetuity
- Fixed Housing Expense without Displacement
- Stewardship

CLT Stewardship to Homeowner and Renter



- Assist in Qualifying for Mortgage or Rental
- Help Homebuyer Understand What it Means to Live on CLT Land
- Help Homebuyer to Understand Ground Lease and Resale Formula
- Help Homeowner Find Eligible Buyers When They Decide to Sell
- Assist the Homebuyer Avoid Foreclosure When There is Financial Difficulties

The Ground Lease Rights, Responsibilities & Requirements



No Mortgage Changes without Written Permission of CLT,
Including:

- Refinancing
- Loan Modifications



Additional CLT Services



- Existing BMR units can be easily managed by the CLT and transition into the CLT at resale or vacancy.
- Stewardship can be provided to the residents

What can the City Accomplish ?



- Creating community wealth by preserving land and units that will benefit the community in perpetuity
- Partnering with a CLT to steward a finite resource that serves as a permanent subsidy to individual families generation after generation. No new subsidy is needed when units turn over
- Makes homeownership & rental a reality for the workforce in our community so we can live where we work
- Deliver stewardship to families to ensure successful residency
- Strengthening the fabric of our community by providing our workforce a secure place to live

Contact Information



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334-507-3700



VCLT

VALLEY COMMUNITY LAND TRUST



AMENDMENT TO PROFESSIONAL SERVICES AGREEMENT – BELLE HAVEN POOL



RECOMMENDATION

- Adopt Resolution No. 6585 authorizing the city manager to execute an amendment to the professional services agreement with Team Sheeper, Inc. to continue services at Belle Haven pool until the agreement expires August 31, 2021, or until construction commences at the Onetta Harris Community Center, whichever occurs first.

AMENDMENT

- Current agreement – Belle Haven Pool operations to cease 10/1/2020
- BHCCL project timeline – construction start estimated summer 2021
- Amendment needed to continue Belle Haven Pool operations past 10/1/2020
- Extends the term of Belle Haven Pool operations to coincide with the overall agreement expiration on August 31, 2021, or until construction commences at the Onetta Harris Community Center, whichever occurs first.

Agenda item D2
Julie Shanson, resident

Honorable Council Members,

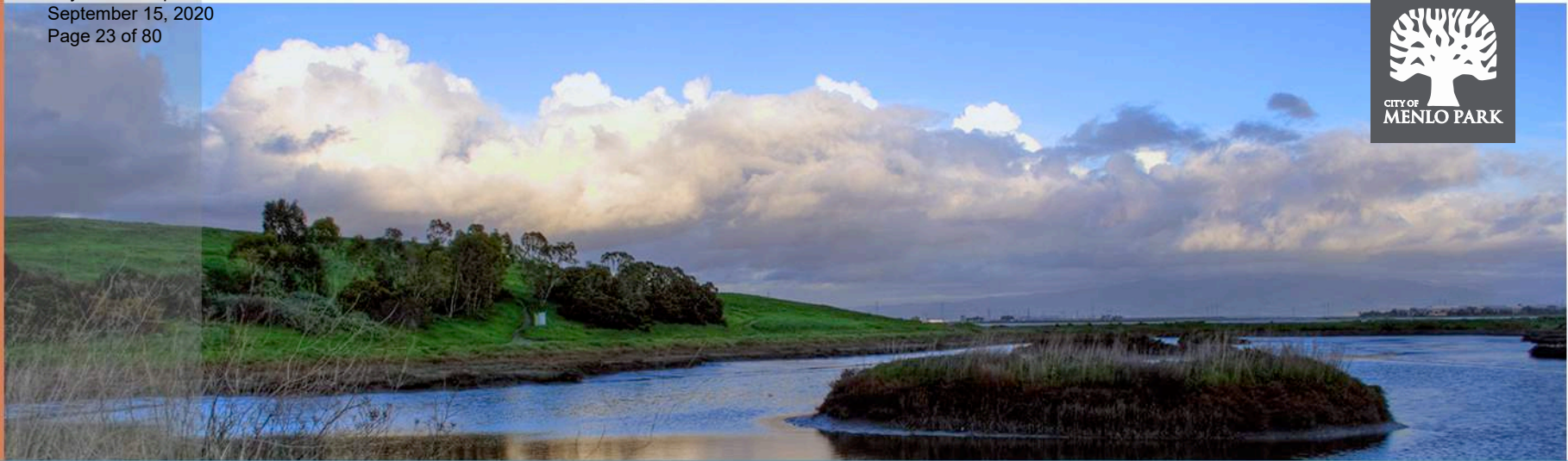
I am writing to encourage you to rebuild the Belle Haven Pool as part of the new community center. The existing pool is old, with unheated locker rooms and was not designed to be used year round. The water is too cold for seniors and small children. We have made improvements over the decades to the main pool, replacing heaters, re-tiling, re building locker rooms, etc. The same improvements are overdue at the Belle Haven Pool.

Menlo Park is uniquely divided by 101. The north side has older, smaller and shabbier facilities. It is time to to build a state of the art aquatic facility on the north side.

Prior to the pandemic, the pool was used for youth lessons and water polo. A new pool could also be used for rehabilitation classes for seniors and those in need of aquatic fitness.

Facebook's design does not include a pool because they don't want to fund it. They don't need to fund the pool. We can pay for it ourselves. We have the money when we want it (see the exercise in coming up with matching funds for a new Main Library only months ago). Let's make this new facility one that can last for another fifty years. Let's include a pool.

Shanson



CITY COUNCIL MEETING

New Menlo Park community campus project



AGENDA ITEM

Council direction on the following:

- Term sheet
- Conceptual design and pool demolition
- Project schedule and review process





MILESTONES TO DATE

- **October 2019:** Facebook announced offer
- **December 2019:** Facebook submitted offer letter
- **January 28:** Council approved Resolution of Intent
- **February 9:** Community meeting
- **February 25:** Council direction on interim services
- **April 7:** Council voted to re-affirm the project as a top priority in light of the COVID-19 pandemic
- **April 21:** Council expressed support for draft plan for interim services
- **July 28:** Council approved funding for base level project
- **September 10:** Telephone town hall
- **Council subcommittee meetings**



TERM SHEET

- Purpose: summary document to serve as guide for project review and detailed construction agreement
 - Term sheet is unenforceable
 - Construction agreement based on an approved project will be legally binding
- City requested work (Section 3)
 - Pool (item i)
 - Red Cross evacuation center (item ii)
 - Sustainability and resiliency (items iii-vii)
 - Utilities (items viii-x)



CONCEPTUAL DESIGN AND POOL DEMOLITION

- Replace existing facilities and incorporate library
 - Two story building
 - New consolidated parking lot
 - Reconfigured pool in same general location
- Plan as shown necessitates the demolition of the existing pool
- Need Council input on pool demolition in order to maintain project schedule



BUDGET CONSIDERATIONS

- Value of Facebook's offer
- City's obligations
 - Certain soft costs and furniture, fixtures & equipment
 - Staff time, consultant services
 - Interim services
 - Pool replacement
 - Potential project enhancements
- Potential funding sources
 - Measure T recreation bonds
 - Additional appropriation from unassigned fund balance
 - Other



UPCOMING PROJECT REVIEW MEETINGS

- **October 5:** Planning Commission study session
- **October 13:** City Council direction on additional City requested work
- **October 27:** City Council approval of the final interim services plan
- **December 7:** Planning Commission public hearing for recommendation
- **January 12, 2021:** City Council public hearing on agreement, project and CEQA determination plus identification of funding to rebuild the pool concurrently with the new building (if directed)



CONSTRUCTION SCHEDULE

- **June 2021:** Facility closures
- **July to August 2021:** Remediation and demolition
- **Spring 2023:** Facilities re-opening



RECOMMENDATION ON PROJECT REVIEW

Confirm the following:

- The term sheet for the Menlo Park Community Campus (MPCC) located at 100 Terminal Avenue should guide the preparation of a binding agreement (Attachment A.)
- The conceptual design as shown in the illustrative site plan (Attachment B), which requires the demolition of the existing Belle Haven pool facilities, should proceed for review.
- The project review process should adhere to the remaining steps and timeline through January 2021.



THANK YOU

Menlo Park Community Campus

City Council Presentation

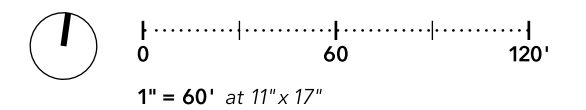
SEPTEMBER 15, 2020

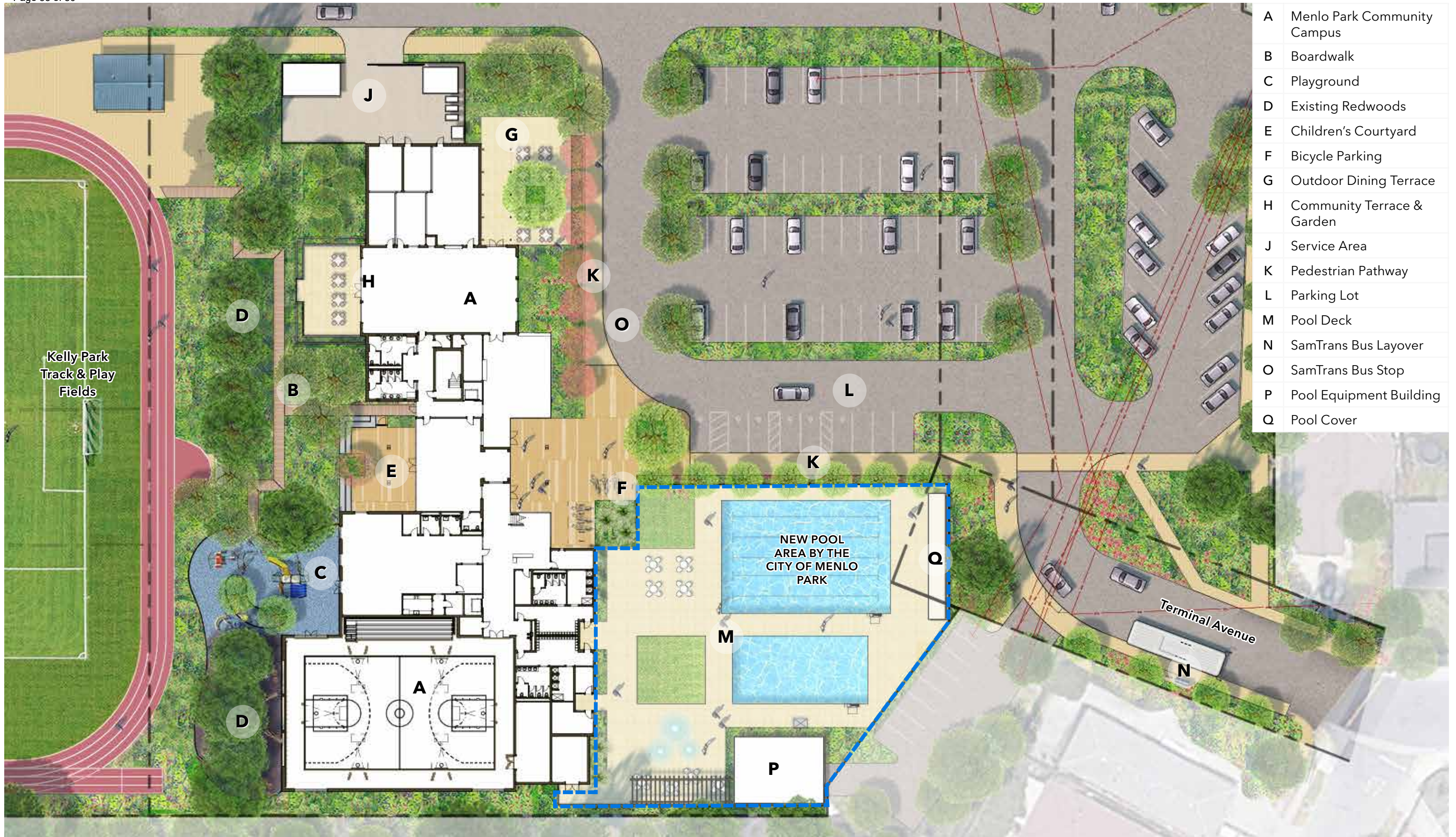
HART HOWERTON
NEW YORK • SAN FRANCISCO



A	Menlo Park Community Campus Building	E	Children's Outdoor Courtyard	I	Service Area
B	Boardwalk	F	Bicycle Parking	J	Pedestrian Pathway
C	Playground	G	Outdoor Dining Terrace	K	Parking Lot
D	Existing Redwood Trees to Remain	H	Community Terrace & Garden	L	Pool Area by the City of Menlo Park
				M	SamTrans Bus Layover
				N	SamTrans Bus Stop

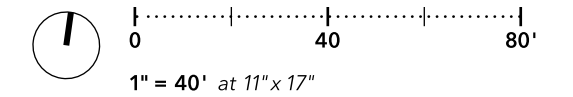
Proposed Site Plan





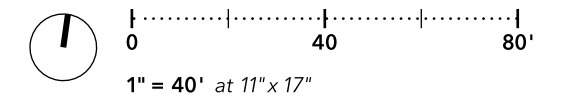
A	Menlo Park Community Campus
B	Boardwalk
C	Playground
D	Existing Redwoods
E	Children's Courtyard
F	Bicycle Parking
G	Outdoor Dining Terrace
H	Community Terrace & Garden
J	Service Area
K	Pedestrian Pathway
L	Parking Lot
M	Pool Deck
N	SamTrans Bus Layover
O	SamTrans Bus Stop
P	Pool Equipment Building
Q	Pool Cover

Illustrative Plan Enlargement





Illustrative Plan Enlargement - Second Floor





BELOW MARKET RATE INCLUSIONARY REQUIREMENTS - FEASIBILITY ANALYSIS

September 15, 2020



AGENDA

- Introduction and background
- Purpose and overview
- BAE study findings
- Summary and recommendations





PURPOSE - INCLUSIONARY STUDY

- In 2018 when the City Council adopted modifications to the R-MU zoning district for consistency with the existing BMR housing program, economic analysis was requested to determine if any adjustments should be made based upon concerns raised.
- On October 9, 2018, the City Council approved the scope of work for the financial analysis by BAE Urban Economics (BAE).
- In January 2020, BAE completed its analysis. Public review of this analysis was delayed as a result of the pandemic.
- In August 2020, the City publicly released the BAE report (Attachment A to staff report) containing the findings.
- On August 5, 2020, the BAE study was presented to the Housing Commission.



BACKGROUND

- City adopted Municipal Code Chapter 16.96 establishing the BMR housing program in 1987 to increase the supply of housing for people who live and/or work in Menlo Park and have very low, low or moderate incomes.

BMR program requirements	
Number of units	Inclusionary requirement
0-4	Exempt
5-19	10%
20 or more	15%

- The BMR housing program is implemented through the BMR housing program guidelines (Guidelines) as adopted and amended from time to time by the City Council.
- For all rental housing projects, regardless of the size, the BMR Guidelines require that rental units be provided at the low-income level.



PALMER DECISION AND FIX ACTIONS

- In 2009, Palmer decision prevented City from imposing inclusionary requirements on rental housing projects.
- In 2011, City Council formally suspended its inclusionary rental housing requirement to comply with the Palmer decision.
- In 2018, California passed AB 1505 (“the Palmer fix”) overruling the Palmer decision.
- In order to reactivate inclusionary rental housing programs, the new state law contained two conditions:
 1. Applicants must also be given the option of paying an in-lieu affordable housing fee instead of providing the units on-site and
 2. If the City imposed an inclusionary requirement of 20% or more, HCD may seek to review the financial feasibility of this option.



BMR GUIDELINES IN-LIEU FEE

- When implementing the Palmer fix in 2018, City Council amended the Guidelines to require an in-lieu fee that approximated on a project-by-project basis the total cost to develop, design, construct and maintain an on-site BMR housing unit had it been developed as part of the project.
- The Guidelines also require the in-lieu fee to include the proportionate costs of parking, common area and land acquisition associated with providing the BMR unit.
- Methodology for calculating the in-lieu fee = “total cost” approach.
- BMR guidelines indicate that the City Council will establish the in-lieu fee by resolution.



BAE STUDY

- [BAE study presentation](#) – Stephanie Hagar, Associate Principal



IMPLEMENTATION OF BMR IN-LIEU FEE

- BAE concluded that the City’s “total cost” in-lieu fee methodology in the BMR Guidelines was well above the point of indifference and would incentivize on site unit production.
- The Guidelines require City Council to adopt a resolution describing the process for calculating the in-lieu fee.



HOUSING COMMISSION RECOMMENDATIONS

1. Increase the inclusionary requirement and the density bonus to 20% for projects of a certain size. This would involve an additional sensitivity analysis by BAE.
2. Maintain the inclusionary requirement and add a 2% moderate income requirement.
3. Modify density, development standards and other economic considerations such as the commercial linkage fee to make rental housing projects more financially feasible.
4. Adopt an in-lieu fee to encourage the production of BMR housing units based on the point of indifference, but make the fee per square foot not by number of bedrooms, consider the difference between market and affordable rent to account for the price point of projects in determining the fee and determine the best method for an annual increase.



SUMMARY

- The economic findings in the BAE report can be used for informing a variety of housing related policies, in conjunction with the next Housing Element process.
- Report can be used to provide important foundational information for zoning actions that may be contemplated in the Specific Plan area, as well as a broader discussion of the Housing Element.
- BMR Guidelines require City Council adopt a resolution that charges a “total cost” BMR in-lieu fee alternative for rental housing projects as an incentive to provide on-site units (*Attachment B of staff report - Resolution No. 6586 adopting a process for determining the affordable in-lieu fee for rental housing projects*).



RECOMMENDATIONS

- Staff recommends that the City Council:
 1. Adopt a resolution implementing a BMR in-lieu fee alternative for rental housing projects based on project by project “total cost” approach.
 2. Provide direction to staff to explore additional Housing Commission recommendations in conjunction with the upcoming Housing Element work plan.



THANK YOU

bae urban economics

City of Menlo Park
Inclusionary Housing Feasibility Analysis
City Council Presentation
September 15, 2020

Purpose of Inclusionary Feasibility Study

Analyze Four BMR Housing Scenarios:

1 **Current Inclusionary Requirements**
Test Financial Feasibility

2 **20% Low-Income Requirement**
Test Financial Feasibility

3 **Current Requirement + 2%
Moderate-Income Requirement**
Test Financial Feasibility

4 **“Point of Indifference” In-Lieu Fee**
Identify Fee Rate

8 Multifamily Rental Prototypes

- 2 ECR / Downtown Area Prototypes
- 6 Bayfront Area Prototypes
 - 3 Lower Density – 30 du/acre base
 - 3 Higher Density – 100 du/acre base

	Prototype 1	Prototype 2	Prototype 3	Prototype 4	Prototype 5	Prototype 6	Prototype 7	Prototype 8
Typology	ECR/DT		Bayfront – Low Density			Bayfront – Higher Density		
Site Size (acres)	0.48	1.0	3.3	6.7	13.3	1	2	4
Units at Base Density	12	25	100	200	400	100	200	400

Methodology – BMR Scenarios 1, 2, & 3

Financial Feasibility of Inclusionary Requirements

Preparation of static proformas for each prototype in each scenario:

1. Estimate total project development costs (before land)
2. Estimate total annual project revenues at stabilization – leads to estimate of project value
3. Is project value high enough to support a land purchase, after accounting for all other development costs?
 - Cost assumptions include a margin for profit

Methodology – BMR Scenarios 1, 2, & 3

Financial Feasibility of Inclusionary Requirements

- Assumptions based on published data sources, information on recent projects, interviews with developers
 - Hard construction costs (*construction labor & materials*)
 - Soft costs (*City impact fees and other fees, CEQA costs, financing, architecture and engineering*)
 - Market-rate and affordable rents
 - Capitalization Rates (*Metric to estimate the value of a project based on the revenue it produces*)
- Analysis conducted primarily in the first quarter of 2019

Methodology – BMR Scenarios 1, 2, & 3

Financial Feasibility of Inclusionary Requirements

	ECR/DT Prototypes	Bayfront – Low Density Prototypes	Bayfront – Higher Density Prototypes
Total Development Cost <i>Before Land Costs</i>	Approx. \$710 / sq. ft. \$890,000 / unit <i>Includes developer profit</i>	Approx. \$645 / sq. ft. \$640,000 / unit <i>Includes developer profit</i>	Approx. \$660 / sq. ft. \$600,000 / unit <i>Includes developer profit</i>
Avg market-rate rent	~\$4,600 / unit / month	~\$4,000 / unit / month	~\$3,700 / unit / month
Project Value in BMR Housing Scenario 1	~\$990,000 / unit	~\$790,000 / unit	~\$710,000 / unit

- Assumptions do not reflect possible economies of scale as projects move up in size within each prototype category – not enough to change overall findings
- Any cost reductions for these larger projects would be small relative to overall costs
- Lower per-unit development costs / rents / values for higher density projects reflect smaller average unit sizes & lower parking ratios

Findings: Scenarios 1, 2, and 3

High-Density Bayfront Area Prototypes

Community
Amenities Bonus
Level

- Current inclusionary requirements: Feasible
- 20% inclusionary requirement: Feasible
 - If added inclusionary counts toward community amenity requirement
- Current requirement + 2% moderate-income requirement: Feasible

Findings: Scenarios 1, 2, and 3

Low-Density Bayfront Area Prototypes

Non-Community
Amenities Bonus
Level

- Financial feasibility challenges
- Regardless of inclusionary requirements, Menlo Park is unlikely to see these types of projects in the future
 - Community amenities bonus projects can be built on the same sites and can pay more for land
 - Developers reported limited recent interest in pursuing this type of project in the region

Findings: Scenarios 1, 2, and 3

ECR / Downtown Specific Plan Area Prototypes

- Financial feasibility challenges, regardless of inclusionary requirements
- Reflects high construction costs in the region
 - Disproportionate impact on projects with 25 or fewer units, which do not achieve the same design efficiencies as projects with 100+ units
- Projects may still move forward despite challenges
 - Commercial components may aid feasibility
 - Longer-term landowners with lower land costs
 - Developers that will hold projects until more profitable

Methodology – BMR Scenario 4

“Point of Indifference” In-Lieu Fee Rates

- Evaluate the in-lieu fee rates that are equal in cost to providing inclusionary units, from the developer’s perspective
 - Fees higher than this amount generally incentivize developers to provide inclusionary units
 - Fees lower than this amount generally incentivize developers to pay in-lieu fees (if allowed)

Methodology – BMR Scenario 4

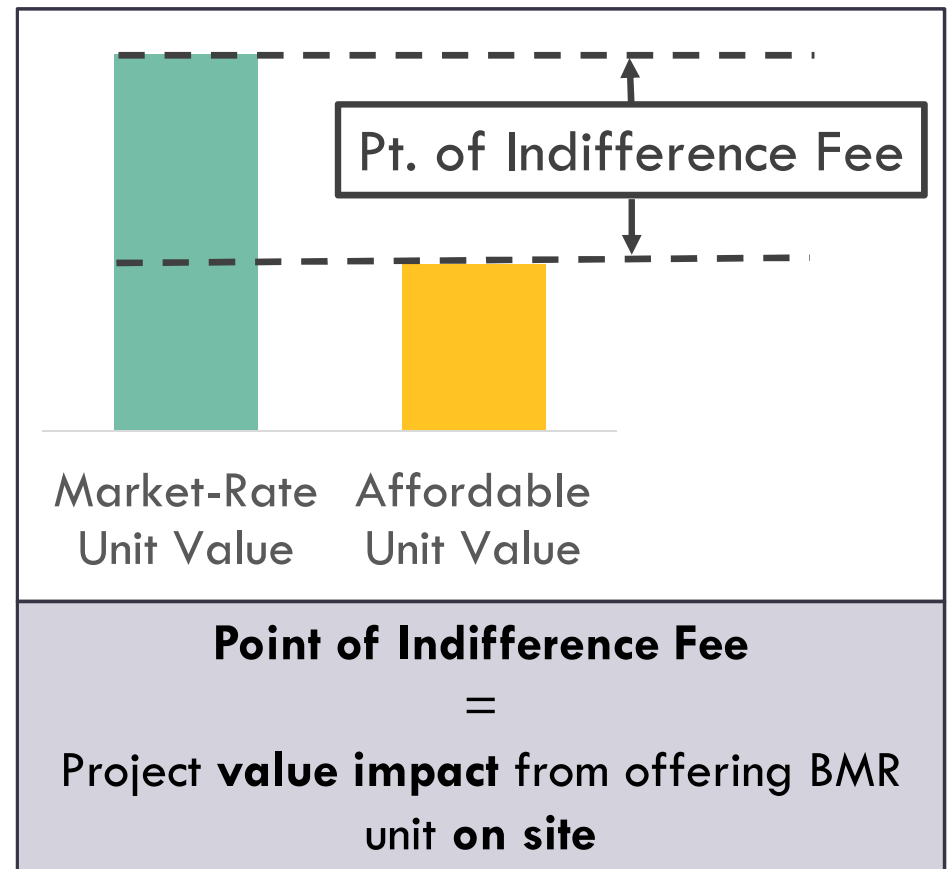
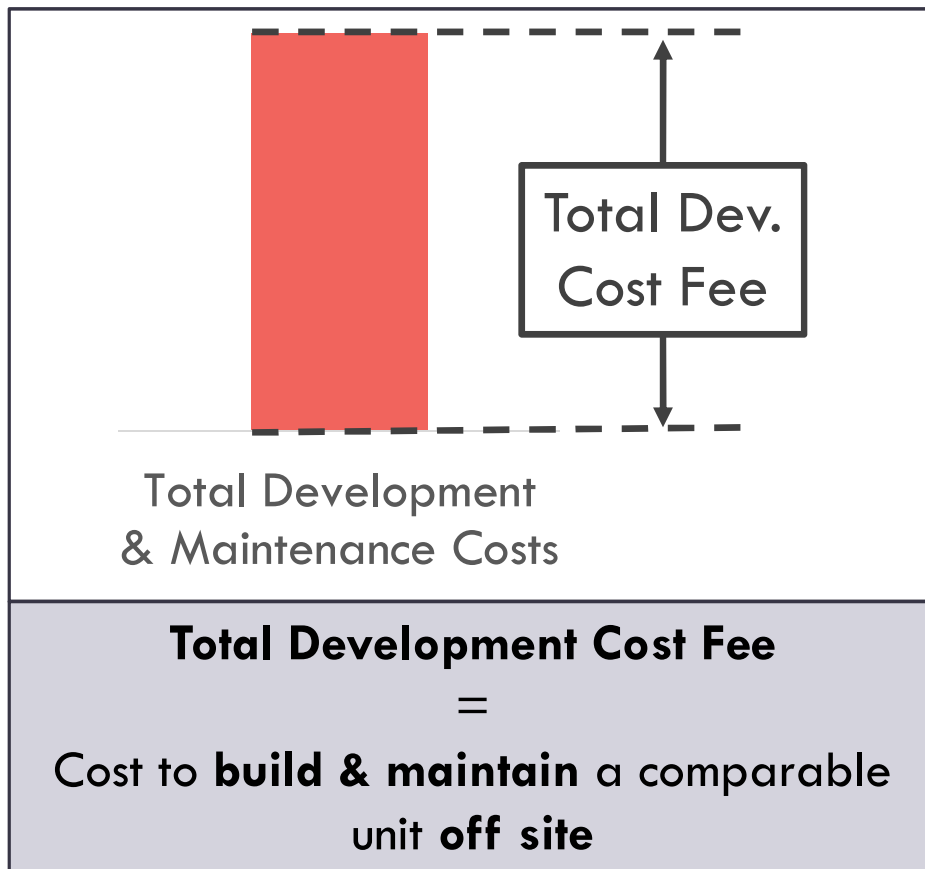
“Point of Indifference” In-Lieu Fee Rates

- No fee payment is an exact equivalent to providing inclusionary units because:
 - In-lieu fee affects development costs
 - Providing inclusionary units affects operating revenue, which in turn affects project value
- Study estimated in-lieu fees that are approximately equal to the decrease in project value from making units affordable, compared to same project with all market-rate units

Point of Indifference vs. Total Development Cost

- Menlo Park BMR Guidelines: in-lieu fees = total development costs (not point of indifference)
 - Approximates cost for another developer to build & maintain a comparable unit in another project
 - Does not account for rental income from affordable unit
 - Rental income partially offsets development costs
 - Incentivizes providing BMR units on site (high fee rate)

Point of Indifference vs. Total Development Cost



Note: Figures not necessarily to scale

Findings: Scenario 4

All Prototypes

- Fees that represent the point of indifference compared to providing units on site:
 - From \$335,000 per BMR studio to \$723,000 per BMR three-bedroom
 - Translates to ~\$60 per residential sq. ft. for a 15% BMR requirement; ~\$40 for 10% BMR req.
- Higher fees would generally incentivize providing inclusionary units
- Lower fees would generally incentivize fee payment

Findings: Scenario 4

All Prototypes

- Point of indifference calculations do not account for effects of density bonuses
 - Bonuses partially offset cost of BMR units
 - Accounting for bonuses would result in lower point of indifference fee rates
- Point of indifference is sensitive to difference between market-rate and affordable rents
 - Fees that cost the same as providing units will vary over time and between projects

THANK YOU!

QUESTIONS?

bae urban economics

City of Menlo Park

Inclusionary Housing Feasibility Analysis

City Council Presentation

September 15, 2020

Purpose of Inclusionary Feasibility Study

Analyze Four BMR Housing Scenarios:

1 **Current Inclusionary Requirements**
Test Financial Feasibility

2 **20% Low-Income Requirement**
Test Financial Feasibility

3 **Current Requirement + 2%
Moderate-Income Requirement**
Test Financial Feasibility

4 **“Point of Indifference” In-Lieu Fee**
Identify Fee Rate

8 Multifamily Rental Prototypes

- 2 ECR / Downtown Area Prototypes
- 6 Bayfront Area Prototypes
 - 3 Lower Density – 30 du/acre base
 - 3 Higher Density – 100 du/acre base

	Prototype 1	Prototype 2	Prototype 3	Prototype 4	Prototype 5	Prototype 6	Prototype 7	Prototype 8
Typology	ECR/DT		Bayfront – Low Density			Bayfront – Higher Density		
Site Size (acres)	0.48	1.0	3.3	6.7	13.3	1	2	4
Units at Base Density	12	25	100	200	400	100	200	400

Methodology – BMR Scenarios 1, 2, & 3

Financial Feasibility of Inclusionary Requirements

Preparation of static proformas for each prototype in each scenario:

1. Estimate total project development costs (before land)
2. Estimate total annual project revenues at stabilization – leads to estimate of project value
3. Is project value high enough to support a land purchase, after accounting for all other development costs?
 - Cost assumptions include a margin for profit

Methodology – BMR Scenarios 1, 2, & 3

Financial Feasibility of Inclusionary Requirements

- Assumptions based on published data sources, information on recent projects, interviews with developers
 - Hard construction costs (*construction labor & materials*)
 - Soft costs (*City impact fees and other fees, CEQA costs, financing, architecture and engineering*)
 - Market-rate and affordable rents
 - Capitalization Rates (*Metric to estimate the value of a project based on the revenue it produces*)
- Analysis conducted primarily in the first quarter of 2019

Methodology – BMR Scenarios 1, 2, & 3

Financial Feasibility of Inclusionary Requirements

	ECR/DT Prototypes	Bayfront – Low Density Prototypes	Bayfront – Higher Density Prototypes
Total Development Cost <i>Before Land Costs</i>	Approx. \$710 / sq. ft. \$890,000 / unit <i>Includes developer profit</i>	Approx. \$645 / sq. ft. \$640,000 / unit <i>Includes developer profit</i>	Approx. \$660 / sq. ft. \$600,000 / unit <i>Includes developer profit</i>
Avg market-rate rent	~\$4,600 / unit / month	~\$4,000 / unit / month	~\$3,700 / unit / month
Project Value in BMR Housing Scenario 1	~\$990,000 / unit	~\$790,000 / unit	~\$710,000 / unit

- Assumptions do not reflect possible economies of scale as projects move up in size within each prototype category – not enough to change overall findings
- Any cost reductions for these larger projects would be small relative to overall costs
- Lower per-unit development costs / rents / values for higher density projects reflect smaller average unit sizes & lower parking ratios

Findings: Scenarios 1, 2, and 3

High-Density Bayfront Area Prototypes

Community
Amenities Bonus
Level

- Current inclusionary requirements: Feasible
- 20% inclusionary requirement: Feasible
 - If added inclusionary counts toward community amenity requirement
- Current requirement + 2% moderate-income requirement: Feasible

Findings: Scenarios 1, 2, and 3

Low-Density Bayfront Area Prototypes

Non-Community
Amenities Bonus
Level

- Financial feasibility challenges
- Regardless of inclusionary requirements, Menlo Park is unlikely to see these types of projects in the future
 - Community amenities bonus projects can be built on the same sites and can pay more for land
 - Developers reported limited recent interest in pursuing this type of project in the region

Findings: Scenarios 1, 2, and 3

ECR / Downtown Specific Plan Area Prototypes

- Financial feasibility challenges, regardless of inclusionary requirements
- Reflects high construction costs in the region
 - Disproportionate impact on projects with 25 or fewer units, which do not achieve the same design efficiencies as projects with 100+ units
- Projects may still move forward despite challenges
 - Commercial components may aid feasibility
 - Longer-term landowners with lower land costs
 - Developers that will hold projects until more profitable

Methodology – BMR Scenario 4

“Point of Indifference” In-Lieu Fee Rates

- Evaluate the in-lieu fee rates that are equal in cost to providing inclusionary units, from the developer’s perspective
 - Fees higher than this amount generally incentivize developers to provide inclusionary units
 - Fees lower than this amount generally incentivize developers to pay in-lieu fees (if allowed)

Methodology – BMR Scenario 4

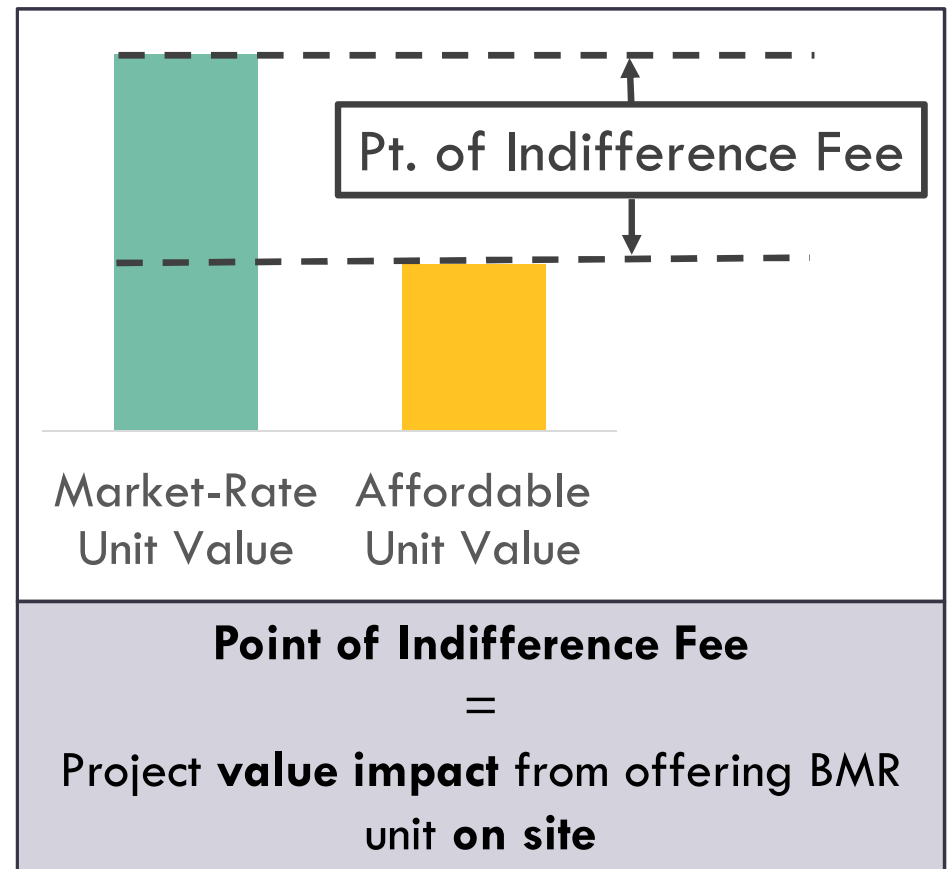
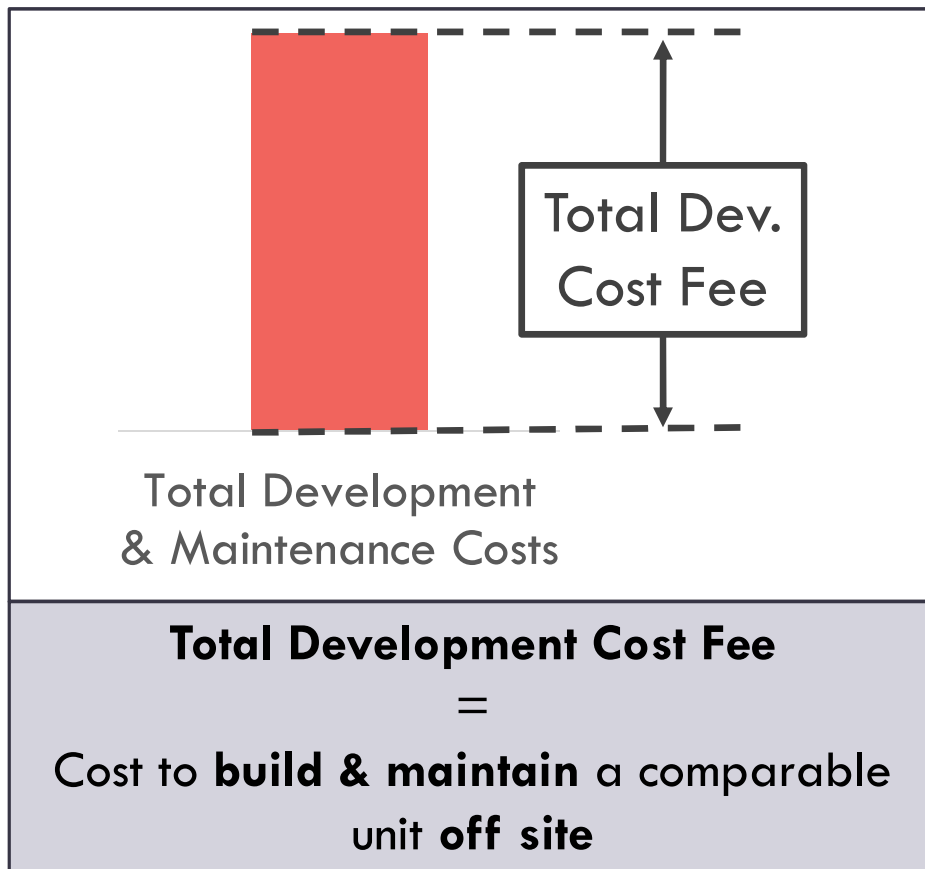
“Point of Indifference” In-Lieu Fee Rates

- No fee payment is an exact equivalent to providing inclusionary units because:
 - In-lieu fee affects development costs
 - Providing inclusionary units affects operating revenue, which in turn affects project value
- Study estimated in-lieu fees that are approximately equal to the decrease in project value from making units affordable, compared to same project with all market-rate units

Point of Indifference vs. Total Development Cost

- Menlo Park BMR Guidelines: in-lieu fees = total development costs (not point of indifference)
 - Approximates cost for another developer to build & maintain a comparable unit in another project
 - Does not account for rental income from affordable unit
 - Rental income partially offsets development costs
 - Incentivizes providing BMR units on site (high fee rate)

Point of Indifference vs. Total Development Cost



Note: Figures not necessarily to scale

Findings: Scenario 4

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