



## REGULAR MEETING MINUTES

**Date:** 7/10/2019

**Time:** 6:30 p.m.

**Menlo Park City Hall, 1<sup>st</sup> Floor – Downtown Conference Room  
701 Laurel St., Menlo Park, CA 94025**

**A.** Chair Merriman called the meeting to order at 6:36 p.m.

**B. Roll Call**

**Present:** Lauren Bigelow, Curtis Conroy, Karen Grove, Rachel Horst, Nevada Merriman

**Absent:** Wendy McPherson, Meg McGraw-Scherer

**Staff:** Deputy Community Development Director Rhonda Coffman,  
Management Analyst II Mike Noce

**C. Public Comment**

No public comments were received.

**D. Regular Business**

D1. Approve minutes for the Housing Commission meeting of May 1, 2019

**ACTION:** Motion and second (Grove/Conroy) to approve the Housing Commission meeting minutes of May 1, 2018. The motion passed (5-0-2; McGraw-Scherer and McPherson absent).

D2. Hello Housing Quarterly Report

Sarah Shimmin, Hello Housing, presented the Quarterly BMR Housing Program Report (attached) for 2019 Quarter 1 to the Housing Commission.

No action was required for this item.

D3. Recommendation on the proposal from MidPen Housing for a loan from the Below Market Rate Housing Fund for rehabilitation of affordable rental housing at 1105 and 1141 Willow Road

Chair Merriman recused herself from the item. Vice Chair Grove introduced the item.

**ACTION:** Motion and second (Horst/Conroy) to approve the proposal from MidPen Housing for a loan from the Below Market Rate Housing Fund for rehabilitation of affordable rental housing at 1105 and 1141 Willow Road. The motion passed (4-0-2-1; McGraw-Scherer and McPherson absent; Merriman recused).

D4. Catalyst Housing – California Community Housing Agency – Presentation and Resolution Recommendation

Jordan Moss, Catalyst Housing Group, shared a presentation with the Housing Commission (attached).

**ACTION:** Motion and second (Grove/Bigelow) to approve the recommendation for City Council to adopt a resolution granting the City of Menlo Park become an additional member of the California Community Housing Agency with the following conditions. The motion passed (5-0-2; McGraw-Scherer and McPherson absent).

1. Tenant selection criteria to include Menlo Park live and work preferences in addition to exceptions to standard property management credit and criminal history qualification policies.
2. All revenue derived from these assets to be reserved and allocated to support affordable housing activities and programs.
3. City commitment to preserve assets as affordable housing and implement a strategy to exercise the purchase option between year 15 and year 30 (the end of the life) of the bonds.

D5. Short Term Rentals presentation

Deputy Community Development Director Rhonda Coffman shared a presentation with the Housing Commission (attached).

By consensus, the Housing Policy Subcommittee was given direction to work with staff and provide additional information regarding short term rentals in Menlo Park to the Housing Commission at a future meeting.

D6. Housing Commission 2019/20 meeting schedule

Chair Merriman introduced the item.

The following meeting dates were confirmed by consensus:

- Wednesday, August 7
- Wednesday, September 4
- Wednesday, October 2
- Wednesday, November 6

D7. Recommend items for future agendas

Items to be considered for future agenda items:

- Zoning requirements and modular design standards for accessory dwelling units.
- Density and the use of City owned land, specifically surface parking lots, in downtown Menlo Park.
- NOFA expanded to below market rate ownership units

E. Reports and Announcements

E1. Subcommittee reports (10 minutes):

Below Market Rate Housing Guidelines Subcommittee (Bigelow/Grove) – No report

Housing Policy Subcommittee (Conroy/Grove/Horst) – The committee will be meeting on July 15 to discuss short term rentals.

Marketing Subcommittee (Bigelow/Horst/McGraw-Scherer) – Horst reported that the subcommittee held a meeting to discuss future marketing opportunities and the City website. Commissioner Horst additionally shared information about a design competition held in Paris, France to solicit public input on affordable housing building designs.

Notice of Funding Availability Subcommittee (Grove/McGraw-Scherer) – No report

Secondary Dwelling Unit Subcommittee (McPherson/Merriman) – No report

**E2. Commissioner reports**

Chair Merriman reported that the bi-annual San Mateo County One-Day Homeless Count results have been released. There was a 20% increase in homelessness throughout the entire county. Staff Noce noted Menlo Park saw a decrease from the previous count, unlike most cities throughout the County.

Commissioner Grove shared an update on the services provided by Samaritan House South, whom the City partnered with to provide funding for a renter relocation assistance program.

**E3. Staff updates and announcements**

Deputy Community Development Director Rhonda Coffman provided the following updates:

- City staff are investigating potential opportunities with regard to a grant being offered by Partnership for the Bay's Future.

**F. Adjournment**

Vice Chair Merriman adjourned the meeting at 10:13 p.m.

Michael Noce, Management Analyst II

Approved by the Housing Commission on August 7, 2019

## MEMORANDUM

**Date:** April 25, 2019

**To:** Rhonda Coffman, Deputy Community Development Director, City of Menlo Park

**From:** Hello Housing, Administrator of Menlo Park's Below Market Rate (BMR) Housing Program

**Subject:** Quarterly BMR Housing Program Report – Q1 2019

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The City of Menlo Park is currently contracted with Hello Housing, a nonprofit housing organization, to administer its Below-Market Rate (BMR) Housing Program along with providing loan servicing of the City's below market rate loans, including Purchase Assistance Loans, CDBG Loans, Rehab Loans and Emergency Rehab Loans. This Quarterly Report contains an update on Hello Housing's activities during the first quarter of 2019 (Q1).

### **BMR Home Resale and Refinance Activity**

<i><b>BMR Home Re-sales</b></i>	<i><b>BMR Home Refinances or HELOCs</b></i>	<i><b>BMR Home Value Calculation Requests</b></i>	<i><b>Payoff Demand Requests</b></i>
<i><b>0</b></i>	<i><b>0</b></i>	<i><b>2</b></i>	<i><b>4</b></i>

During Q1, there were no re-sales or refinances that took place within the BMR portfolio. However, BMR home value calculations were completed for two BMR homeowners. One of them inquired about options for taking out a Home Equity Line of Credit or cash-out refinance to help cover the cost of home repairs. The other homeowner was previously over-encumbered and was seeking a re-evaluation of their BMR home value to verify whether their outstanding mortgage balance was below the current value. It was determined that they are no longer over-encumbered.

### **Below Market Rate Waiting List Management**

Hello Housing manages the City's Waiting List for the BMR Housing Program. This includes accepting and processing applications from interested households and doing an annual mailing campaign to recertify current waiting list members. Households may apply to be on the waiting list to purchase a BMR unit or may apply to be on the interest list to rent a BMR unit, or both.

During Q1, Hello Housing processed 40 new BMR waiting list applications, 19 of which were eligible to be added to the list.

In addition, in March Hello Housing started the annual Waiting List Update process, which consists of up to three rounds of communication to participants throughout three months, requesting that each participant submit a new application with their updated household information. Below is a summary of the three rounds of outreach to waiting list members that will take place from March through May:

**1st Round of Outreach:** A personalized letter with an updated application is sent out to each member along with a notification email and a date by which to respond.

**2nd Round of Outreach:** After three weeks, a follow-up email is sent to each member who hasn't responded or who submitted an incomplete response. Any members who don't have email addresses are sent a letter with this information.

**3rd Round of Outreach:** A "Final Notice" letter is sent along with a corresponding email to each member who has not responded or submitted an incomplete response. Additionally, Hello Housing contacts each of these households by phone to reiterate that the final deadline is approaching.

**Final Status Update:** Any non-responders or ineligible households are removed from the waiting list and the remaining members' positions are updated accordingly. A final letter is sent to each member informing them of their current status and position, if applicable (ranking positions only apply to the homeownership waiting list, not the rental interest list).

### **Below Market Rate Preservation Projects**

Hello Housing continues to monitor BMR homeowners who took out non-program compliant home loans or who have other property liens that may put their homes at risk. Below is a summary of each the current status for homeowners with outstanding issues that are being monitored by Hello Housing:

- 2 homeowners are currently over-encumbered due to having Home Equity Lines of Credit, unapproved first mortgage financing, and/or other debt against their property such as tax liens which in total exceed their maximum BMR home value. They have each signed Affidavits agreeing not to draw any additional funds from their HELOCs and will be providing updated loan statements to Hello Housing each year along with their owner occupancy monitoring.
- 2 homeowners have an open HELOC that was not approved by the City, but are not over-encumbered They have each signed Affidavits agreeing not to draw any additional funds from their HELOC and will be providing updated loan statements to Hello Housing each year along with their owner occupancy monitoring.
- 1 homeowner has a tax lien of approximately \$17,000 due to a delinquent property tax payment from 2012-2013, but is not over-encumbered. The homeowner is currently in a

payment plan with the County and as of November 2018, she still owes \$4,000. She plans to repay the remaining amount within the next two years.

Hello Housing also monitors Notices of Default that are recorded on BMR properties with the goal of preventing the BMR home from being lost from the affordable housing portfolio through foreclosure. No Notices of Default were received during Q1.

### **Loan Servicing**

In addition to administering the City's BMR Housing Program, Hello Housing provides loan servicing of the City's Purchase Assistance Loans, CDBG Loans, Rehab Loans and Emergency Rehab Loans. Below is a general summary of loans serviced under Hello Housing's contract.

Total funds remitted back to the City through loan servicing in the first quarter of 2019:  
**\$30,669.96**

<b>BMR Loan</b>	<b>Total Loan's Serviced</b>	<b>Current Active</b>	<b>Current Deferred</b>
<b>Purchase Assistance Loans</b>	<b>23</b>	<b>22</b>	<b>1</b>
<b>CDBG Loans</b>	<b>8</b>	<b>6</b>	<b>2</b>
<b>REHAB Loans</b>	<b>4</b>	<b>4</b>	<b>0</b>
<b>ERL Loans</b>	<b>6</b>	<b>6</b>	<b>0</b>
<b>Total</b>	<b>41</b>	<b>38</b>	<b>3</b>

Since taking on the loan servicing contract in 2013, Hello Housing has developed a process of engaging with delinquent borrowers in order to assist them to begin making payments on their City loans. As of this report, only one borrower is currently under review due to delinquency and they are engaged with the City to discuss options to resolve their delinquency.

### **BMR Homeownership Opportunities**

#### **133 Encinal Avenue, Menlo Park – Marquis Development**

Three brand new BMR homeownership units are being built by Pulte Homes and will be sold to eligible participants of the BMR Purchase Waiting List. These homes are at the Marquis development, located at 133 Encinal Avenue, Menlo Park, near downtown Menlo Park and the Caltrain Station. All three homes will be 4-bedroom units with 3.5+ bedrooms and 2-car

garages, with market prices of nearly \$2 million each. The income limits and below-market rate prices are as follows:

- 2 homes are available to households earning below 120% of Area Median Income at a price of \$464,395.
- 1 home is available to households earning below 80% of Area Median Income at a price of \$299,600.

The developer's website with more information about the homes can be found at:

<https://www.pulte.com/homes/california/northern-california/menlo-park/marquis-209985>.

13 members of the BMR Purchase Waiting List submitted applications for these homes in February and Hello Housing has been in the process of underwriting these applications in the waiting list ranking order. In Q1, Hello Housing completed three application reviews and sent recommendations for conditional approval or disqualification to the City. Two of the households were conditionally approved and currently have appointments scheduled to view the homes that are available for purchase, after which they will have five business days to decide whether they want to enter into contract for the homes.

Two of the homes are anticipated to close escrow in May and the third home is scheduled to close escrow in June.

### **Below Market Rental Recertifications and Compliance**

Hello Housing conducts annual income recertification of the households living in the four BMR rental units located 1175 and 1177 Willow Road, which are owned and managed by the City of Menlo Park. The 2019 annual income certification report will be provided to City staff in June. In addition, Hello Housing is working with City staff to craft an approach to ensure that other BMR rental units within the City, such as those at Anton Menlo, maintain ongoing compliance with the BMR Program Guidelines.

### **Other BMR Program Activities**

Hello Housing continues to serve as a resource to all current BMR homeowners and borrowers to field questions that may come up around compliance with program requirements. The BMR Deed Restrictions and Program Guidelines contain policies on several aspects of owning a BMR home that each homeowner agreed to follow. Hello Housing works with homeowners on an ongoing basis to provide clarity on these policies when questions come up. Topics may include transfers of title, inheritance of BMR homes, refinancing requirements, the resale process, City policy on owner occupancy, preferred lender referrals for refinancing, and other questions.



# Essential Housing

## Crisis

California has failed its essential middle-income workforce...

- Our nurses, teachers, first responders and civil servants earn in excess of traditional affordable housing income limits, yet are priced out of the very communities they serve
- Ripple effects of housing shortfalls include congestion, pollution, crime, homelessness, health issues, poor academic performance, involuntary mobility and social dislocation
- The future prospects of our state hinge predominantly on providing adequate and reasonably affordable housing accommodations for our essential workforce

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## Problem

California's middle-income housing crisis is complex...

- Restrictive land use policies
- Organized NIMBY protectionists
- Record construction costs
- Widening income inequality
- Aggressive value-add investors
- Tax law changes
- Insufficient affordable housing subsidies
- Nonexistent middle-income motivations

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## Team

Catalyst has partnered innovative housing experts to connect arcane aspects of the California Constitution, municipal finance and property tax law...

- Catalyst Housing Group ("Catalyst")
- California Community Housing Agency ("CalCHA")
- Orrick
- Ballard Spahr
- Meyers Nave
- Jefferies

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## Solution

Catalyst has developed a scalable and unsubsidized capital structure to create perpetually affordable housing for California's essential middle-income workforce...

- Leverages by-right mechanisms
- Operates without public subsidies
- Requires no equity investments
- Preserves existing tenant populations
- Imposes middle-income regulatory agreements
- Restricts annual rent increases
- Grants surplus economics to underlying jurisdictions

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## Comparison

Our Essential Housing model compared to traditional "Capital A" affordable housing...

Program Attribute	Affordable Housing	Essential Housing
Tax Credits	Yes	No
Bond Financing	Private Activity Bonds	Governmental Bonds
Competitive Nature	Highly	NA
Demographic Served	<60% AMI	<120% AMI
Annual Increases	Uncapped	<4%
Tax Exemption	Partial (<80% AMI)	Full
Required Subsidy	Yes	No
Required Equity	Yes	No
Public Benefits	Tenants	Tenants & Cities

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## Success

Catalyst recently closed a first-of-its-kind essential housing transaction in Santa Rosa, California...

- Existing "Class A" market-rate rental community
- 100% income restriction for 80-120% AMI households
- Significantly below market rents
- 4% cap on annual rent increases
- Preservation of existing tenants
- \$200 million total capitalization
- 100% debt financed for 30 years at 4.65%
- All upside granted to the City of Santa Rosa



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## Approvals

Catalyst's essential housing program requires Council approval of a single Resolution...

- CalCHA membership (no cost, no liability)
- Issuance acknowledgement (no TEFRA)
- Acceptance of surplus economics (Purchase Option Agreement)

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## Together

Together we can...

- **PROVIDE** desperately needed middle-income housing
- **PRESERVE** valuable rental assets as perpetually affordable essential housing
- **PROTECT** at-risk tenant populations from unsustainable future rental increases
- **CREATE** significant public benefits to be reinvested into additional housing resources
- **INFLUENCE** the quality of life and continued economic vitality of Menlo Park



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# SHORT TERM RENTAL REGULATION

## Introduction & Overview



## OUTLINE

- City Council Initiative – Work Plan Item
- Housing Commission Role & Community Engagement
- Summary of Regional Regulations & Ordinances
- Short Term Rental Market
- Key Issues
- Regulation & Enforcement Methods
- Next Steps



## CITY COUNCIL INITIATIVE

- City Council identified Short Term Rental ordinance as a project of importance in the 2019 work plan
- City Council referred item to the Housing Commission
- “Project on a Page”



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## HOUSING COMMISSION

- Role
  - Make an informed recommendation to City Council on a Short Term Rental Ordinance
- Subcommittee
  - Community engagement planning and process
  - Review and analyze data and best practices
  - Summarize key findings and make recommendations to Housing Commission
- Community Engagement
  - Outreach
  - Host community meetings and/or workshops
  - Conduct survey/s
- Staff
  - Support HC and staff the subcommittee
  - Provide data resources and conduct analysis
  - If directed, draft ordinance



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## PROJECT ON A PAGE - TIMELINE

### Phase I – Project scoping and data collection (1<sup>st</sup>-2<sup>nd</sup> Quarter 2019)

- Determine the scope of the project
- Gather data on existing units (residence and building type, operator presence, length of each stay, number of total stays, transient occupancy tax and business license requirements, zoning considerations, etc.)

### Phase II - (2<sup>nd</sup> - 3<sup>rd</sup> Quarter 2019)

- Draft a shared definition for short-term rentals and identify potential impacts to consider in any regulation
- Conduct outreach to community stakeholders and hold community meetings
- Prepare a draft ordinance

### Phase III - (4<sup>th</sup> Quarter 2019)

- Proposed draft ordinance for City Council consideration



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## REGULATORY STRATEGIES

- Don't regulate at this time
- Tax only
- Regulate lightly (few rules)
- Regulate heavily
- Ban



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## SHORT TERM RENTAL TRADE OFFS

### Advantages of Short Term Rentals

- Hotel tax revenue (TOT)
- Extra spending on local goods and services
- Additional income for homeowners (if they rent an extra bedroom occasionally)

### Concerns / Disadvantages

- Loss of housing stock
- Effects on hotel industry
- Incompatibility with residential neighborhoods/loss of community character
- Other – disability access, safety

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## COMMON CONCERNS

- Reduce noise, parking, traffic and trash problems
- Eliminate house parties
- Reduce STR's impact on neighborhood character
- Ensure building safety
- Improve City's responsiveness to neighbor complaints
- **Stem STR's negative impact on housing availability**
- Improve permit and **tax compliance to increase tax revenue**
- Ensure a level playing field between law abiding traditional lodging providers and illegal short-term rentals
- Reduce tension between short-term rental property owners and their neighbors
- Other?

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## LOCAL ORDINANCES AND TRENDS

### Short Term Rental Ordinances

- Millbrae (eff. 8/29/18)
- Pacifica (eff. 7/10/18)
- Redwood City (eff. 5/1/19)
- South San Francisco (adopted 6/26/19)
- San Mateo County (eff. 6/2017)
  - Coastal Zone only

### Ordinances Currently Under Review for Adoption

- Brisbane
- San Bruno

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## REGULATORY OPTIONS

- Prohibition
- Applicability (e.g. single family residence, ADU's)
- Quantitative restrictions
- Geographic restrictions
- Concentration
- Operational requirements
- Rental period
- Owner occupancy requirements
- Permitting
- Enforcement



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## SHORT TERM RENTAL MARKET

- Industry Market Context
  - 800% growth since 2011 (approx. 8MM)
  - Airbnb 4.5MM, HomeAway 1.5MM, Booking.com 1.2M, TripAdvisor 0.8M
  - Over 100 web platforms
- Approximately 396-524 short term rental listings in Menlo Park as of February 2019
  - Approx. 3-4% of total housing stock
- Transit occupancy tax – revenue that could potentially be used to support other city services or affordable housing programs

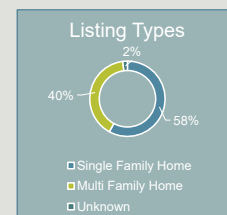
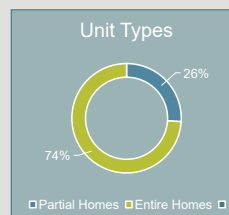


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## MENLO PARK DATA

Median Nightly Rate (USD) - \$172



Source: Host Compliance data as of 2/2019

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## REGULATION & ENFORCEMENT



- Generally less than 10% of STR owners voluntarily get a permit and pay all of their hotel taxes
  - Menlo Park has some STR owners that voluntarily remit taxes
- Manual compliance and monitoring is ineffective and prohibitively expensive
  - Listings on 100's of websites
  - Monitoring listings nearly impossible as listings are changed, added or removed
  - Address data hidden making it difficult to identify owners
  - Difficult to collect taxes as there is no way to verify how often properties are rented and for how much

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## NEXT STEPS



July 2019: STR Subcommittee to plan community engagement process, review data and conduct analysis

August & September 2019: Conduct community outreach and engagement

October 2019: Return to Housing Commission with recommendations

November 2019: Housing Commission recommendations to City Council

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## REGULATORY STRATEGIES



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- **Regulate heavily**
- Ban



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