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To: Deputy Mayor Gladyszewski and Assembly Committee of the Whole      Date: 7/14/2023  
From: Rorie Watt, City Manager  
Subject: ADUs: An Integral Part of the Juneau Housing Strategy

### **Background Information**

At the April 24, 2023, meeting of the Lands, Housing & Economic Development Committee ([LHEDC](#)), and at the May 22, 2023 meeting of the Committee of the Whole ([COW](#)), staff presented a status report and proposed options for updating the Accessory Apartment Grant Program (AAG). The current AAG program expired on June 30, 2023. The LHEDC also supported staff's recommendation to rename the AAG to a more holistic title—the Accessory Dwelling Unit Grant Program.

The draft recommendation was to pursue a two-tiered structure as follows:

- Tier 1 grants of \$13,500, short-term rentals (STRs) not allowed for three (3) years by deed-restriction with annual reporting.
- Tier 2 grants of \$50,000, short-term rentals (STRs) not allowed for 10 years, and affordability capped at 60% AMI for 10 years by deed restriction with annual reporting.

Based on the discussion at the May 22, 2023, COW meeting, several questions were raised, which are discussed below.

### **Average Median Income (AMI) Calculation**

For the proposed Tier 2 level, applicants would be required to maintain the ADU unit at 60% AMI for 10 years through a recorded deed restriction. The policy issue here is whether the public financial support of an additional rent-controlled housing unit can be done in a manner that results in housing availability to those that need it. In order to not have a big loophole (builder of an apartment rents at a low rate to a friend or family member), close monitoring including the following would have to occur:

1. Evidence that the unit was broadly available to the public
2. Evidence that renters met the income limits
3. Evidence that rent levels are maintained

Absent these measures, there is substantial likelihood that the program would be misused. However, for a small and new CBJ program, the monitoring and enforcement of these conditions over a ten year period could be administratively onerous, and difficult to properly monitor.

### **Vacancy**

A goal of the ADU Grant program is to provide grants for the creation of quality housing units at a rental level affordable to Juneau's workforce. Building an ADU is an expensive investment, and staff finds that enacting a vacancy requirement is not pertinent to the success of the program. If a property owner invests in constructing an ADU, it is highly unlikely that they will not follow through on renting the unit given that they will likely work towards recouping their expenses. Additionally, given the housing crisis in Juneau, it is also highly unlikely that a quality, affordable unit would lie vacant for any length of time. A property owner may need some time to prepare the unit as it turns over, as is the normal course of renting.

If vacancy limits are required, staff recommends that those limits are included in the grant program guidelines and requirements, and not in the Resolution governing the update to the program. Staff has reviewed vacancy requirements for similar programs and found that maximum vacancy ranges from one (1) month (Claremont,

California), to 90 days (Eagle County, Colorado). However, the majority of comparable programs have no maximum vacancy standards to secure funding. Comparable programs without a vacancy requirement include: West Denver, Colorado; Montpelier, Vermont; Kittery, Maine; and Hyannis, Massachusetts. During the research process, several Alaskan communities were reviewed including Anchorage, Fairbanks, Wasilla, Ketchikan, and Sitka. None have an ADU program of this type.

### **Tax Abatement**

CBJ has four tax abatement programs. They are as follows:

- Downtown Tax Abatement: Provides 12-year tax abatement for projects that develop at least four (4) new residential units in the area of the Downtown Juneau Residential Tax Abatement Map.
- Senior Assisted Living Tax Abatement: Provides 12-year tax abatement for projects that provide at least 15 new residential units of assisted living for senior citizens in the urban service area.
- Subdivision Property Tax Abatement: Property taxes derived from the increase in assessed value and directly attributable to the subdivision of a single parcel of property into three (3) or more parcels and any improvements made to the property necessitated by its subdivision may be exempted for a maximum of five (5) years.
- High-density Tax Abatement: Provides 12-year tax abatement for projects that develop at least four (4) new residential units within the Urban Service Area.

ADUs are not generally constructed in multi-family zoning districts, because units in multi-family zoning districts are simply considered dwelling units, and not *accessory* dwelling units, and the units count toward density. ADUs are typically found in single-family zoning districts (staff can explain this in more detail if desired).

The result is that ADUs are not eligible for three of the four tax abatement programs. The final tax abatement option, subdivision property tax abatement, would only apply to subdivisions creating three or more lots. It would be possible to construct an ADU, subsequently subdivide the land, and stack the tax abatement. However, the abatement would only be applicable for the value attributable to the subdivision and subsequent improvements. At five years, this abatement program has the shortest timeframe of any of the existing programs. Staff does not believe there will be much overlap, if any, between the ADU and Tax Abatement programs.

### **Recommendation**

Staff recommends that the COW forward the draft Resolution to the full Assembly for the continuation of the Accessory Dwelling Unit (ADU) Grant Program for Tier 1 grants of \$13,500.

The Assembly should further discuss its comfort level with the Tier 2 grant concept, considering the balance between creating needed housing, provision of significant capital, creation of a new program that is not administratively burdensome and the need to have grant conditions that are easily enforceable. Consider whether other non-profits (THRHA for example) are perhaps better situated to implement this type of program.