



Date: August 22, 2023

Honorable Mayor and Council Members:

Author and title: Lynn Baumgartner, Program Analyst II

Title: **Accessory Dwelling Unit (ADU) Incentives Program Status Report and Proposed Incentive Program Changes**

Jen Callaway, Town Manager

Recommended Action: 1) Receive Accessory Dwelling Unit (ADU) incentive program status report; 2) Extend the Unpermitted ADU Mini-Grant Program through the end of FY 24/25, and 3) provide feedback on changes to ADU incentives and direct staff to create program guidelines for the proposed new incentives.

Discussion:
Background

In 2020, the Town Council approved the creation of the Town Accessory Dwelling Unit (ADU) Pilot Program and expanded the ADU Program in January 2021 to include loan and grant incentives for new and existing unpermitted ADU and junior accessory dwelling unit (JADU) permitting and construction (**Attachment 1**).

Consistent with the recently reaffirmed Town focus area to “actively support the development of workforce housing”, the purpose of the ADU Program is to encourage the creation of ADUs as a means of expanding affordable, long-term housing within existing neighborhoods through technical assistance, educational resources, information, and incentives. By offering a range of resources, the ADU Program aims to make it easier for Truckee residents to create new units and permit existing ADUs. In February 2020, Council adopted a goal to permit 15 ADUs per year. In FY 22/23, there were 37 ADU permits applied for (a 270% increase since 2020), 60 new ADU inquiries, and 30 after-the-fact permit inquiries. After establishing the ADU Program, the Town has seen a marked increase in ADU permits.

Educational Resources & Information

In order to make it easier for homeowners and building professionals to navigate the process of building and permitting an ADU, staff has created a variety of materials to explain the regulations and permitting steps (e.g., handouts, social media posts, press releases, etc.). The Town maintains an ADU webpage with contact information, resources, steps for permitting, building permit fee estimates, loan/grant information, and more.

Town Staff has also hosted four free educational ADU webinars. In 2021, staff offered two webinars, one for building industry professionals and one directed at individuals interested in building or permitting an existing ADU. In 2023, staff hosted two more webinars focused on ADU-related code updates, an overview of the incentive options, and included staff from Nevada County Environmental Health to discuss permitting ADUs on septic systems. Ninety people attended these two workshops, and a recording is available as a resource on the ADU website here:

<https://vimeo.com/834100047?share=copy>. Town staff also participates in ADU education on webinars hosted by local housing groups, homeowners' associations, realtor groups, etc.

Technical Assistance

Along with resources and information, homeowners interested in building or permitting ADUs often need assistance understanding the regulations and how they apply to their specific set of circumstances and property. In April of 2020, staff established the Town ADU Team to provide one-on-one technical assistance to the community. The Town ADU Team is currently comprised of Senior Planner, Jaime LaChance, who serves as the main point of contact for homeowners, Chief Building Official, Mike Ross, and Housing Program Analyst, Lynn Baumgartner. The role of the Town ADU Team is to assist individual homeowners or building professionals in understanding the Town Code and process for ADUs, answer specific questions in relation to their projects, track projects as they go through the permit process, and provide information about financial incentives for ADU projects. For complicated projects involving the conversion of existing space into an ADU, Town staff offers to meet homeowners onsite to identify what would be required in order to achieve permitting. The goal of technical assistance is to provide a consistent staff point person throughout the ADU process in order to provide a high level of customer support.

Accessory Dwelling Unit Master Plans

The Town partnered with Nevada County, Sierra County, Placer County, City of Grass Valley, and City of Nevada City to create low-cost, pre-approved master plans that can be used for ADUs. **(Attachment 2)** The goal of the ADU Master Plans is to streamline efforts to achieve affordable and workforce housing development, improving access to a less expensive and more streamlined permitting process and to improve achievability of construction for housing in the Town. There are currently five pre-approved designs with 1-, 2-, and 3-bedroom options, with another 1-bedroom option to be available within the next month. Three existing designs and the new design are all under 750 square feet. Although the master plan is already cleared through permit plan check, there are other submittal requirements that applicants will need to prepare, such as a property survey, grading and drainage plans, engineered solar panels, etc. We are currently finalizing the streamlined application submittal process and requirements for the ADU Master Plans and plan to have that available by the end of September, along with an ADU cost calculator to help homeowners estimate their potential development costs and return on investment.

Incentives

In order to accelerate the construction of new ADUs, encourage permitting of existing unpermitted ADUs, and increase the inventory of safe, long-term housing in Truckee, the ADU Program offers loans, grants, and fee waivers. These funding tools complement the other services of the ADU Program and aim to offer incentives unique to Truckee's needs. Staff have promoted the available ADU incentives in a number of ways, including the ADU website, e-notifications and news items on the main Town website, webinars, press releases, and sharing information with housing industry partners, including Mountain Housing Council and the Contractors Association of Truckee Tahoe. Information about the ADU incentives is sent out to all ADU permit applicants and is shared with property owners whose ADUs are involved with code compliance cases. The ADU incentives have been available for more than two years. While there has been significant interest in ADUs and incentives, we have had mixed results with several of these incentives and recommend considering changes to our incentive programs based on program interest, challenges, and feedback. Below is a description of each of our current incentive programs, performance and feedback on the program, and recommendations for program changes.

- **Permanent Local Housing Allocation (PLHA) Funded ADU Loan Program**

Current program: \$50,000 loan for new ADU or JADU Construction or Conversion. This loan product is for construction of smaller ADUs (under 750 square feet) or JADUs that will be used

as long-term rentals for income qualified tenants over a period of 10 or 15 years. The Town has \$400,000 in loans available (8 loans) through a grant from the State through the Permanent Local Housing Allocation Program, and the loans are available through FY24/25. There are two loan options:

- A 2% annual (simple) 10-year loan in exchange for a 10-year deed restriction requiring the ADU be rented to tenant(s) making 60% of the area median income (AMI) or below.
- A 3% annual (simple) 15-year loan in exchange for a 15-year deed restriction requiring the ADU be rented to tenant(s) making 61-120% AMI.

Performance and feedback: The program has received four applications and staff has approved all four. Three projects have been cancelled or suspended due to project costs, and one was currently in the process of obtaining building permits. Staff has received feedback that \$50,000 is not enough to substantially fund construction or conversion of an ADU, especially as the funds do not cover soft costs to prepare the building permit submittal, and up-front costs can be insurmountable.

Staff's Perception of Loan Obstacles: Cost of construction is typically much more than \$50,000, availability of building professionals, high interest rates for remaining pre-development and construction costs, and owners do not want the rental restrictions.

Recommendation: Maintain this grant-funded program and supplement with the new forgivable loan for new construction or conversion program, described below.

- **Unpermitted ADU Loan**

Current Program: \$15,000 1% annual (simple) 5-year loan for existing, unpermitted ADU or JADU. This loan product is intended to help with the costs of construction and permitting required to bring existing unpermitted ADUs or JADUs into compliance. Eligibility for this loan requires homeowners to long-term rent the unit for five years to a household making a maximum of 120% AMI and 50% of the adult household members must work for an employer located within the geographic boundaries of the Tahoe Truckee Unified School District (TTUSD). The loan is funded by the General Fund and Measure K. Council approved the program through October 31, 2023.

Performance and feedback: The program has received no applications. Staff has received feedback that \$15,000 is not enough to offset the limitation of the five-year deed restriction if it needs to be paid back.

Staff's Perception of Loan Obstacles: Cost of construction/repairs, owners' belief that rental limitations aren't worth \$15,000, and illegal ADUs may not need to invest an additional \$15,000 to permit the ADU.

Recommendation: Do not renew this program and replace it with the new forgivable loan for existing, unpermitted ADU program, described below.

- **Unpermitted ADU Mini-Grant**

Current Program: \$1,000 mini-grant for existing unpermitted ADU or JADU. This mini-grant product assists with construction and/or permitting cost associated with bringing existing unpermitted ADUs or JADUs into compliance. Council approved the program through Dec 31, 2023 and it is funded by Measure K. There are no rental requirements and no repayment of funds.

Performance and feedback: The program has received 13 applications, 12 of which were approved. Four projects have been completed and the grant disbursed. Two projects have been cancelled and six are ongoing.

Recommendation: Due to the success of the mini-grant, staff proposes extending this option through the end of FY 24/25 and expanding the program to include new construction and conversion ADUs. ADU projects that receive the ADU Mini-grant would not be eligible for any other ADU loan products. The program name will be changed to Accessory Dwelling Unit Mini-Grant Program. Grants disbursed have not reached the total of 60 authorized in the pilot program, and the volume of after-the-fact inquiries by homeowners shows that there are still many unpermitted ADUs that exist and can be brought into compliance. Additionally, inquiries and permits for new ADUs continue to request financial incentives to offset a portion of permitting fees without the deed restrictions required by the loan products. The purpose of this grant is much like rebate programs for energy efficient appliances; it is not designed to cover full permitting fees yet is appreciated by homeowners as a welcomed incentive for legalizing ADUs. ADUs are not eligible to be short-term rented once permitted, and staff will continue to encourage these units to be used as long-term rentals by promoting Lease to Locals to these mini-grant recipients.

- **Lease to Locals**

Current Program: Lease to Locals aims to unlock existing housing stock for the local workforce by offering grants up to \$18,000 to homeowners that long-term rent housing units (including ADUs) that were not previously long-term rentals to income-qualified local workers funded by the General Fund Housing Designation and Measure K.

Performance and feedback: 19 of the 138 Lease to Locals properties are ADUs. Of the four properties that have completed mini-grant ADU projects, two homeowners have also done Lease to Locals.

Recommendation: Continue to promote Lease to Locals to homeowners with newly constructed or permitted ADUs to incentivize these units as workforce housing.

- **Fee Waivers**

Current Program: Pursuant to state law (2019 Senate Bill 13 for Accessory Dwelling Units), local jurisdictions cannot collect impact fees for ADUs under 750 square feet. This law was created to incentivize the creation of ADUs with an added incentive that ADUs under 750 square feet are exempt from development impact fees. This incentive results in up to \$9,145 in permitting cost savings for the creation of smaller ADUs.

In order to continue the successes and improve the options to better match the unique needs of Truckee, staff is proposing several changes to the ADU Incentive Program.

Proposed Changes to the ADU Incentives

Unpermitted ADU Loan: Staff proposes to change this from a \$15,000 interest-accruing loan to a \$25,000 forgivable loan and change the name to the Forgivable Loan for Unpermitted ADUs. Recommended terms:

- 10-year 3% loan forgiven at 10% per year provided that the property owner complies with deed restriction requirements.
- 10-year deed restriction requiring that ADU must be rented to a household making a maximum of 120% AMI and 50% of the adult household members must work for an employer located within the geographic boundaries of the Tahoe Truckee Unified School District (TTUSD)

- Up to \$12,500 can be used towards soft costs, and up to \$12,500 can be used toward hard costs. The costs for permitting existing unpermitted ADUs are usually substantially lower than new construction or conversion. Staff believes that increasing the loan amount and the ability to have the loan forgiven will be more enticing to homeowners and increase the number of workforce housing options available.

Recommended new incentives:

Forgivable Loan for New ADUs: Staff proposes to add a new \$50,000 forgivable loan for new construction ADUs or JADUs or the conversion of existing space into ADUs or JADUs. Recommended terms:

- This loan may be layered with the PLHA Funded ADU Loan and follow the same guidelines.
- Either:
 - A 2% annual (simple) 10-year loan forgiven at 10% per year in exchange for a 10-year deed restriction requiring the ADU be rented to tenant(s) making 60% of the area median income (AMI) or below.
 - A 3% annual (simple) 15-year loan forgiven at 6.67% per year in exchange for a 15-year deed restriction requiring the ADU be rented to tenant(s) making 61-120% AMI.
- Up to \$25,000 can be used towards soft costs, and up to \$25,000 can be used toward hard costs. Costs must be split between soft and hard costs to avoid triggering prevailing wage.

Staff believes that adding another significant funding option that can be layered with PLHA for up to \$100,000 for new ADU construction will enable more homeowners to build new ADUs and increase the number of workforce housing options available.

ADU Master Plan Cost Reimbursement: The Town of Truckee partnered with five other jurisdictions to provide low-cost, pre-approved accessory dwelling unit master plans to expedite and reduce design costs for homeowners. These plans were recently completed and are available to the public for \$1,200 per use. The \$1,200 is a fee paid by the homeowner directly to the engineering firm that created the plans in order to cover the property-specific Title 24 energy report costs. Staff proposes that the Town reimburse the \$1,200 cost for homeowners who provide proof that the ADU is used as a full-time residence for at least one year. The application for reimbursement would require the owner to provide a copy of an executed 12-month lease. Staff believes that offering this incentive is a way to encourage the creation and use of ADUs as full-time residences, as opposed to guest residences for friends and family. Staff recommends that this \$1,200 reimbursement option would not be eligible to be used in conjunction with the Forgivable Loan for New ADUs or the PLHA Funded Loan Program.

Conclusions and Next Steps

ADUs offer a promising way to increase the inventory of workforce housing types that are attractive for long-term housing within existing neighborhoods. While we have seen significant interest in ADUs, the creation and construction of an ADU is both complex and expensive. So far, we have had mixed success with our incentive programs, due to some of the factors addressed above. Staff believes that the proposed new and revised ADU incentives will help to address some of the challenges that we have observed that have limited use of our current incentives.

Staff Recommends that Council extend the Unpermitted ADU Mini-Grant Program through the end of FY 24/25, and to direct staff to create program guidelines for the new ADU incentives: Forgivable Loan for Unpermitted ADUs, Forgivable Loan for New ADUs, and ADU Master Plan Cost Reimbursement. Additional staff will not be required to expand these ADU programs.

If Council supports staff recommendations, staff anticipate bringing the new guidelines to Council in late 2023.

Priority:

<input type="checkbox"/>	Enhanced Communication	<input checked="" type="checkbox"/>	Climate and Greenhouse Gas Reduction	<input checked="" type="checkbox"/>	Housing
<input type="checkbox"/>	Infrastructure Investment	<input type="checkbox"/>	Emergency and Wildfire Preparedness	<input type="checkbox"/>	Core Service

Fiscal Impact:

For FY 23/24, there is \$160,000 in the budget for ADU incentives, with \$100,000 for the PLHA Funded ADU Loan Program and \$60,000 for other incentives coming from Measure K. Due to the long-time frame of ADU projects, staff does not anticipate needing a budget amendment for this fiscal year for the additional incentives. If the new ADU incentives are approved, staff anticipates proposing an increase in the ADU incentive budget for the next three fiscal years.

Public Communication:

Public notice was provided as part of the regular Council agenda noticing.

Attachments:

Attachment 1 –Staff Report: Housing Program Expansion: Accessory Dwelling Unit (ADU) Pilot Program--Grant and Loan Incentive Package for New and Unpermitted ADU Construction and Permitting (“Amnesty Program”) - January 26, 2021, available:

<https://portal.laserfiche.com/Portal/DocView.aspx?id=59515760&repo=r-6a91ddbc>

Attachment 2 – Accessory Dwelling Unit Master Plans, available:

<https://www.townoftruckee.com/government/housing/accessory-dwelling-units/accessory-dwelling-unit-master-plans#ad-image-0>