



Date: April 8, 2025

Honorable Mayor and Council Members:

Author and title: Lynn Baumgartner, Program Analyst II

Title: **Accessory Dwelling Unit Creation Forgivable Loan Program Guidelines Update**

Jen Callaway, Town Manager

Recommended Action: 1) Approve the updates to the Accessory Dwelling Unit (ADU) Forgivable Loan Program Guidelines; 2) Adopt Resolution 2025-21 approving the Permanent Local Housing Allocation (PLHA) Funded ADU Construction Loan Guidelines

Discussion:

Background

Town Council approved the creation of the Town Accessory Dwelling Unit (ADU) Pilot Program in 2020 and expanded the 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. In January 2025, Council approved updates to the existing ADU loan programs, including approving the ADU Creation Forgivable Loan Program, which offers forgivable loans up to \$50,000 in exchange for deed restricting a workforce housing unit to either 120% AMI or 60% AMI for a term of seven to ten years and updates to the PLHA Funded ADU Construction Loan Guidelines (Attachment 1).

Figure 1: ADU Incentives Summary

Program	Amount	Incentive Structure	Occupancy requirement
Forgivable Loan for ADU Creation- <i>For new construction or after-the-fact permitting</i>	\$50,000	Forgivable loan- <i>forgiven based on compliance with occupancy requirements</i>	a. Rented to 60% AMI household for 7 years; or b. Rented to 120% AMI household for 10 years
PLHA Funded New ADU Construction Loan <i>For new construction</i>	a. \$200,000; or b. \$70,000	a. 1% 20-year loan; or b. 2% 10-year loan	a. Rented to 60% AMI household for 7 years; or b. Rented to 120% AMI household for 10 years
ADU Mini Grant <i>For new construction or after-the-fact permitting</i>	\$ 1,000	Grant	None
ADU Master Plan Reimbursement <i>Reimburses cost to utilize Town's pre-approved ADU master plans</i>	\$1,200	Reimbursement	Rented to full-time tenant for 1 year

Consistent with Town Council's strategic focus area to "actively support the development of workforce housing", the purpose of the ADU Program is to encourage the permitting of existing unpermitted ADUs, and to increase the inventory of ADUs as a means of expanding affordable, long- term housing within existing neighborhoods. By offering a range of resources, including technical assistance, educational resources, information, and incentives, the ADU Program aims to make it easier for Truckee residents to create new units and permit existing ADUs.

The Town's approved FY24/25 CIP budget includes PLHA grant funding to support three PLHA Funded New ADU Construction Loans (with no additional funding after FY24/25) and Measure K funding to support up to seven Forgivable Loans for ADU Creation. Since January 2025, staff have given final approval to two ADU Creation Forgivable Loans. There are currently four applicants who have begun the application process but have not yet submitted all required documents for the ADU Creation Forgivable Loan and the Town has received two applications for the three available PLHA Funded ADU Construction Loan. In summary, if all applicants move forward with ADU construction, available funding will support only one additional PLHA loan and one forgivable loan. With the short building season, high costs, and limited availability of building professionals, the process of creating an ADU in Truckee can be more than a year long. Additionally, some ADU projects do not make it past the planning stage, due to these barriers. While the ADU Program was created to help address these barriers, a large number of property owners who begin the process of considering an ADU do not move forward with construction.

The current Program Guidelines for both loans do not have a clear or realistic timeline for project completion, nor do they include any project or construction milestones beyond the final Certificate of Occupancy. Currently, when a loan is approved the funds are reserved for that project without a clear expiration on fund availability, therefore, even if the ADU project is stalled indefinitely, those funds are not available to be used for a project that is moving forward. Since the adoption of updated ADU incentive programs, as demonstrated above, demand for these programs has grown to a point where clear milestones are warranted to ensure that funds are only reserved for projects that are moving forward. To ensure responsible management of ADU program funds, staff recommend refining the loan application process and adding a construction milestone timeline requirement to the guidelines for both loan programs. This would give the Town the opportunity to cancel the loan and require repayment if the project does not move forward. The non-allocated and repaid funds would go back into the ADU Incentive Program budget.

Additionally, there was originally a requirement to split loan funds between pre-development and development costs for the ADU Creation Forgivable Loan. To streamline administration and make the loan more appealing to potential applicants, staff recommend removing that requirement.

Proposed Guideline Changes - ADU Creation Forgivable Loan Program (Attachments 2 & 3)

Section 8: Application & Loan Process:

Staff recommend updating the application and loan process with more specificity, including adding when the loan funds will be reserved for the applicants. The updated application and loan process are as follows:

Step 1: Applicant submits a completed ADU Loan Intake Form to Town staff for review.

Step 2: If the ADU project meets the preliminary criteria for the loan, applicant will be notified and will receive a request for financial and project documents from the Town's Program Administrator. Loan funds are NOT reserved at this time. These documents include:

- Completed Fannie Mae loan application (1003)
- Verification of equity in the home (may require an appraisal)*
- Preliminary title report to document ownership and property status
- Pre-approval letter from lender providing construction loan financing for project OR source of funds for project costs*
- Cost breakdown of project
- Complete set of plans
- Credit report*
- Proof of ownership of the Property (e.g. grant deed, mortgage statement)
- Application Disclosure & Authorization Form
- Information Release Authorization Form

- Signed and dated letters of explanation for any derogatory items
- Proof of clean mortgage history from the last 12 months*
- Photocopy of valid ID's (driver license or passport)
- Income verification documents including the following: Most recent year's federal tax returns (all schedules), 30-day most recent pay stubs, W-2*
- Most recent mortgage statement*
- Homeowners insurance declarations

*Note: Financial documents must be dated within 30 days of submission of complete application package.

Step 3: Program Administrator will review documentation and will issue a loan approval or denial. Additional documentation may be required for verification. If approved, applicant will receive loan acceptance documents that must be returned to program administrator within 7 days. Loan funds will be held at this point and the Applicant will become the Borrower.

Step 4: Borrower signs Deed Restriction, Promissory Note, Deed of Trust, and Notice of Default. Program Administrator will ensure recordation with Nevada County Recorder's Office. Borrower will pay the fee for recording loan documents with Nevada County. Loan document processing fees can be covered by loan funds.

Step 5: Payments are made as laid out in Section 14.

Step 6: At Certificate of Occupancy, 10% contingency is released.

Section 9: Construction Milestones Requirements

Staff recommend adding a timeline requirement for construction milestones, which, if not met, require loan cancellation and repayment. The new Construction Milestones Requirements are as follows: To ensure responsible use of Town funds, borrower must adhere to the following timeline in order to receive all loan funds. If a required construction milestone is not met, the loan will be canceled, and repayment must begin as outlined in Section 16. If a construction milestone is not met due to circumstances beyond the borrowers' control, such as supply chain issues or natural disasters, and progress is being made on the ADU project, an extension may be granted at staff's discretion.

1. Applicant must submit building permit application within 6 months of loan approval
2. Building permit must be issued within 12 months of loan approval
3. First inspection must be scheduled within 18 months of loan approval
4. Certificate of Occupancy issuance:
 - COO issued within 30 months of loan approval for new construction
 - COO issued within 24 months of loan approval for conversion of existing space or an existing, unpermitted ADU

Section 10: The Program Loan

The requirement that the loan funds be split \$25,000 towards predevelopment costs and \$25,000 towards development costs was removed.

Section 20: Workforce Housing Unit Rent/Lease Amount

The equation describing the calculation used to determine the maximum rent/lease amount for the workforce housing unit was incorrect and has been corrected.

Monthly rent charged must not exceed 30 percent of the current Nevada County annual area median income level for either 60% or 120% AMI, divided by 12 months adjusted for bedroom count.

- Maximum Rent Calculation for Workforce Housing Units deed restricted to households making up to 120% AMI
 Maximum Rent = Annual Income Cap ÷ 12 x 0.3
 Annual Income Cap = [Household Size at 120% AMI for Nevada County](#)
 Household Size = Workforce Housing Unit bedroom count + 1
- Maximum Rent Calculation for Workforce Housing Units deed restricted to households making up to 60% AMI
 Maximum Rent = Annual Income ÷ 12 x 0.3
 Annual Income = [Household Size at 60% AMI for Nevada County](#)
 Household Size = Workforce Housing Unit bedroom count + 1

Additionally, Sections 9, 10, and 11 were moved to become Sections 18, 19, and 20, so sections referring to the loan process and procedures are kept together.

Proposed Guideline Changes - PLHA Funded ADU Construction Loan (Attachments 4 & 5)

The changes to the PLHA Funded ADU Construction Loan guidelines mirror those to the ADU Creation Forgivable Loan. The changes are located in:

- Section 1.2: Application & Loan Process
- Section 3.1: Construction Milestones Requirements
- Section 5.0: ADU Rent/Lease Amount

Summary:

ADUs offer a promising way to increase the inventory of workforce housing types that are attractive for long-term housing within existing neighborhoods. Staff recommend that Town Council:

- Approve the ADU Creation Forgivable Loan Program Guidelines (Attachment 3)
- Approve the PLHA Funded ADU Construction Loan Program Guidelines (Attachment 5)
- Adopt Resolution 2025-21 (Attachment 6) approving the Permanent Local Housing Allocation (PLHA) Funded ADU Construction Loan Program Guidelines.

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: The recommended changes to the ADU Creation Forgivable Loan Program Guidelines will not have any fiscal impact. However, the adoption of milestone requirements will help increase the availability of funds by ensuring that funds are not reserved for projects that do not continue to make progress.

Staff believe that the bulk of the loan cancellations would occur before any draw on the loan funds are made. If the cancellation occurred after the funds had been sent, collection efforts could require significant staffing efforts as the borrower would likely have expended the funds. Ultimately, staff believe that the end result of collection efforts would be a lien on the underlying property that likely would not be recovered until or if the property is sold.

Public Communication: This Staff Report.

Attachments:

[Attachment 1 \(Link to\): Staff Report – Accessory Dwelling Unit Incentive Programs Update \(January 28, 2025\)](#)

Attachment 2: ADU Creation Forgivable Loan Program Guidelines – track changes version.

Attachment 3: ADU Creation Forgivable Loan Program Guidelines – clean version.

Attachment 4: PLHA Funded ADU Construction Loan Program Guidelines – track changes version.

Attachment 5: PLHA Funded ADU Construction Loan Program Guidelines – clean version.

Attachment 6: Resolution 2025-21 Approving the Town of Truckee Permanent Local Housing Allocation Funded Accessory Dwelling Unit Loan Program Guidelines.