



Date: November 28, 2023

Honorable Mayor and Council Members:

Author and title: Lynn Baumgartner, Program Analyst II

Title: **New and Updated Accessory Dwelling Unit Incentive Programs**

Jen Callaway, Town Manager

Recommended Action: Approve 1) New program guidelines for a New Accessory Dwelling Unit (ADU) Creation Forgivable Loan Program, Unpermitted ADU Forgivable Loan Program, and ADU Master Plan Reimbursement Program; 2) Updated program guidelines for ADU Mini-Grant Program.

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 (**Attachment 1**).

Consistent with the recently reaffirmed Town 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.

In order to continue improve the ADU incentive options to better match the unique needs of Truckee, Council directed staff to create Program Guidelines for the following new ADU incentive products in September 2023: New ADU Construction Forgivable Loan Program, Unpermitted ADU Forgivable Loan Program, and ADU Master Plan Reimbursement Program. Council also directed staff to update the Unpermitted ADU Mini-Grant Program to allow newly created ADUs to participate. (**Attachment 2**).

New and Updated ADU Incentive Program Details

New ADU Creation Forgivable Loan Program:

The proposed program is a \$50,000 forgivable loan for new construction ADUs or JADUs or the conversion of existing space into ADUs or JADUs.

Selected Program details (for full program details, review **Attachment 3**):

- This loan may be layered with the PLHA Funded ADU Loan if it follows the guidelines for both programs.
- The term of the loan is 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 who meet the local employment qualification; or

- 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 120% AMI or below who meet the local employment qualification.
- Up to \$25,000 can be used towards predevelopment costs, and up to \$25,000 can be used toward development costs. Costs must be split this way to avoid triggering prevailing wage.
 - Development Costs: Costs directly related to ADU construction including material and labor costs.
 - Predevelopment Costs: Costs not directly related to the construction budget such as site prep, architectural fees, soil tests, impact fees, property survey, energy reports, or permit fees.
- The employment qualification is that at least 50% of the people over 18 who are not full-time students in the household renting the Workforce Housing Unit must work at least 20 hours per week or meet the half-time employment equivalency with employer verification for an employer based in the Tahoe Truckee Unified School District (or equivalent amount over a period of a year).
- There is no income qualification or occupancy requirement for the loan applicant.
- Monthly rent charged must not exceed 30% of the Nevada County AMI level for 60% or 120% AMI, divided by 12 months, adjusted for bedroom count.
 - $[(\text{Workforce Housing Unit bedroom count} + 1) \times (120\% \text{ AMI})] \times 0.3 \div 12$
 - $[(\text{Workforce Housing Unit bedroom count} + 1) \times (60\% \text{ AMI})] \times 0.3 \div 12$
- Loan forgiveness will commence three hundred and sixty-five (365) days after the issuance of the Certificate of Occupancy and the commencement of the Deed Restriction term.
- If the property is sold before the loan term matures, the property owner is responsible for paying the remaining balance of the loan, including both the principal and the interest, at the time of the sale.

Unpermitted ADU Forgivable Loan Program:

The proposed program is a \$25,000 forgivable loan to permit existing and unpermitted Accessory Dwelling Units (“ADUs”) and Junior Accessory Dwelling Units (“JADUs”).

Selected Program details (for full program details, review **Attachment 4**):

- The loan is a 3% annual (simple) 10-year loan. The loan will be forgiven at 10% per year in exchange for a 10-year deed restriction requiring the ADU be rented to tenant(s) making 120% of the area median income (AMI) or below who meet the local employment qualification.
- The maximum loan amount is \$25,000.
- The loan does NOT need to be split between predevelopment and development costs.
- The employment qualification is that at least 50% of the people over 18 who are not full-time students in the household renting the Workforce Housing Unit must work at least 20 hours per week or meet the half-time employment equivalency with employer verification for an employer based in the Tahoe Truckee Unified School District (or equivalent amount over a period of a year).
- There is no income qualification or occupancy requirement for the loan applicant.

- Monthly rent charged must not exceed 30% of the Nevada County AMI level for 60% or 120% AMI, divided by 12 months, adjusted for bedroom count.
 - $[(\text{Workforce Housing Unit bedroom count} + 1) \times (120\% \text{ AMI})] \times 0.3 \div 12$
- If the property is sold before the loan term matures, the property owner is responsible for paying the remaining balance of the loan, including both the principal and the interest, at the time of the sale.
- No loan proceeds will be disbursed until the ADU has received a final Certificate of Occupancy and the Deed Restriction has been executed.

ADU Master Plan Reimbursement Program:

The ADU Master Plans were developed in partnership with Nevada County, Sierra County, Placer County, City of Grass Valley, and City of Nevada City 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. While the ADU Master Plans are free to use, constructing an ADU from the plans requires site specific Title 24 calculations that cost \$1,200. The proposed program offers reimbursement for this \$1,200 cost in exchange for leasing the ADU for at least one year to a full-time tenant.

Selected program details (for full program details, review **Attachment 5**):

- The applicant must have constructed an ADU on their property using the ADU Master Plans.
- The applicant must have rented the ADU to a full-time occupant for at least one year.
- There are no tenant income or local employment requirements associated with the grant.
- There is no income qualification or occupancy requirement for the applicant.

Staff recommend structuring this incentive as a reimbursement after the ADU is rented to a full-time occupant, rather than subsidizing free access to plans up-front, to ensure that the subsidized Master Plans support an ADU project that is ultimately constructed and contributes to the Town's housing stock..

Additional Information:

In exchange for the Town's contribution to developing the plans, the Town of Truckee has access to five sets of plans and Title 24 calculations at no charge, to distribute in a manner determined by the Town. Staff proposes to use the five free plan sets as the first five reimbursements in this program. If there are more than five applications to this program, additional funds would come from the ADU incentive line item in the ADU CIP.

ADU Mini-Grant Program

In September 2023, Council approved extending the ADU Mini-Grant Program through the end of FY 24/25 and directed staff to update the program guidelines to expand the program to include both existing unpermitted ADUs and new construction and new conversion of existing space ADUs as eligible for the program. (**Attachment 6**)

Selected program details (for full program details, review **Attachment 6**):

- The maximum grant amount is \$1,000.
- The funds are not required to be paid back.
- There are no occupancy, rental, or tenant income requirements associated with the grant.
- There is no income qualification or occupancy requirement for the applicant.

Additional Information:

The program has received 15 applications, 14 of which were approved. Six projects have been completed and the grant disbursed. Two projects have been canceled. The Mini-Grant Program budget was originally \$60,000. As of November 15th, \$6,000 has been paid and \$6,000 has been reserved for approved applicants. There is \$48,000 remaining in the Mini-Grant Program Budget, allowing for 48 more grants. Staff does not anticipate receiving 48 applications before the end of FY 24/25.

In September, two Council members were interested in potentially increasing the grant amount from \$1,000 to \$3,000. As there was not Council consensus on this increase, staff did not include the increase in the new Mini-Grant Program Guidelines, but Council may choose to revisit whether to increase the grant amount. If the grant amount is increased to \$3,000, the currently approved but not yet completed applicants would have their grant amount increased as well. This would put the remaining budget at \$36,000, allowing for 12 more grants.

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. 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 approve the program guidelines for the new programs:

- New ADU Creation Forgivable Loan Program
- Unpermitted ADU Forgivable Loan Program
- ADU Master Plan Reimbursement Program

Staff recommends that Council approve the updated program guidelines for ADU Mini-Grant Program.

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 in C2011, 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 programs are approved, staff anticipates proposing an increase in the ADU incentive budget for the next three fiscal years. Staff anticipates approving two New ADU Creation Forgivable Loans, two Existing Unpermitted ADU Forgivable Loans, five ADU Mini-grants, and one ADU Master Plan Reimbursement per year, for a total of \$155,000 in ADU incentives per year. For FY23/24 and FY 24/25, there is \$60,000 for ADU incentives (non-PLHA) in the budget, and staff plans to increase this by \$95,000 for a total of \$155,000 each FY. Currently, there is nothing budgeted for ADU incentives (non-PLHA) for FY25/26, and staff plans to increase that to \$155,000.

Public Communication:

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

Attachments:

1. Staff Report: Housing Program Expansion: Accessory Dwelling Unit Pilot Program--Grant and Loan Incentive Package for New and Unpermitted ADU Construction and Permitting - January 26, 2021, available: <https://portal.laserfiche.com/Portal/DocView.aspx?id=59515760&repo=r-6a91ddbc>
2. Staff Report: Accessory Dwelling Unit Incentives Program Status Report and Proposed Incentive Program Changes – September 9, 2023, available: <https://portal.laserfiche.com/Portal/DocView.aspx?id=59664702&repo=r-6a91ddbc>
3. New Accessory Dwelling Unit Creation Forgivable Loan Program Guidelines
4. Unpermitted Accessory Dwelling Unit Forgivable Loan Program Guidelines
5. Accessory Dwelling Unit Master Plan Reimbursement Program Guidelines
6. Accessory Dwelling Unit Mini-Grant Program Guidelines