



Date: January 28, 2025

Honorable Mayor and Council Members:

Author and title: Lynn Baumgartner, Housing Program Analyst II

Title: **Accessory Dwelling Unit Incentive Program Update**

Jen Callaway, Town Manager

Recommended Action: Staff recommends that Town Council:

1. Adopt Resolution 2025-03 approving the Permanent Local Housing Allocation (PLHA) Funded ADU Construction Loan Program Guidelines; and
2. Approve the program guidelines for the Accessory Dwelling Unit (ADU) Creation Forgivable Loan Program; and
3. Approve the ADU Mini-Grant Program Guidelines; and
4. Authorize a budget amendment reallocating \$70,000 from FY 2025/26 C2011: ADU Pilot Capital Improvement Project (CIP) to FY24/25 C2011: ADU Pilot CIP, for a budget total of \$270,000 in FY 24/25.

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.

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 currently offers three ADU loan products:

- PLHA Funded New ADU Construction \$50,000 Loan, with two options
 - 120% AMI, 15-year deed restriction and loan term, 3% interest rate
 - 60% AMI, 10-year deed restriction and loan term, 2% interest rate
- Town Funded New ADU Creation \$50,000 Forgivable Loan, with two options
 - 120% AMI, 15-year deed restriction and loan term, 3% interest rate, forgiven at 6.67% per year
 - 60% AMI, 10-year deed restriction and loan term, 2% interest rate, forgiven at 10% per year
- Town Funded After the Fact ADU \$25,000 Forgivable Loan

- 120% AMI, 10-year deed restriction and loan term, 3% interest rate, forgiven at 10% per year

Since the launch of the ADU loan products, the Town has received fourteen ADU loan applications, however, seven of these applications have been withdrawn. Four applicants have been approved by the ADU loan program administrator (one for the PLHA funded loan, three for the forgivable loan for new ADU creation), though none of the loans have been executed as of January 2025. The feedback that the Town has received from property owners is that a \$25,000 or \$50,000 loan is not enough for a property owner to commit to a 10 or 15-year deed restriction.

On December 10, 2024, Town Council adopted resolution 2024-74 approving an updated PLHA Plan (Attachment 2). The updated PLHA Plan includes the creation of a new down payment assistance low interest loan program, a deferred low-interest loan for affordable housing development, and revisions to the ADU low-interest loan discussed in this staff report. The PLHA-funded loan is able to be layered with the Town's forgivable loan for new ADU creation. With the proposed new terms for the PLHA funded ADU loan, staff recommend changes to the Town funded loans to bring them in line with the PLHA loan.

Staff has researched the ADU loan programs of other California jurisdictions, including speaking to staff at the City of Long Beach and Pasadena. The majority of other jurisdictions' ADU loan programs have a shorter deed restriction term, ranging from five to ten years and interest rates of 0% - 2%. Staff recommend that Council direct staff to make the following changes to make the ADU loan products more attractive by substantially increasing loan amounts for the PLHA funded loan and lowering interest rates and decreasing the length of deed restrictions for all loan products. Additionally, staff have drafted clean-up revisions for the guidelines for Council consideration.

Proposed Program Changes

PLHA Funded New ADU Construction Loan Program

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

- Section 4.0 ADU Location and Characteristics: Remove the ADU size cap of 750 square feet. A size limitation may impact the construction of new ADUs by conversion of existing space, which is often the most cost-effective way to create an ADU.
- Section 5.0 ADU Rent/Lease Amount: The calculation for the ADU rent cap was changed to align with the maximum rent calculation that is used by the Town's other housing programs.
- Section 6.0 ADU Occupant: Added language clarifying that the selection of the qualified tenant(s) is up to the homeowner.
- Section 7.1 Loan Term and Interest Rate: The loan amount, term, and interest rate were changed to those in the amended PLHA plan approved by Council on December 10, 2024.
 - A \$200,000, 20-year 1% (simple) interest loan requiring a 7-year deed restriction requiring that the ADU be rented to a household at or below 60% of AMI.
 - A \$70,000, 10-year, 2% (simple) interest loan requiring that the ADU be rented to a household at or below 120% of AMI.
- Section 8.0 Program Loan Repayment: Clarified the loan repayment process, including when the payments commence.
- Section 10.0 Program Loan Proceeds Distribution: Added a maximum number of draws and minimum draw request.

New ADU Creation Forgivable Loan Program and Unpermitted Accessory Dwelling Unit Forgivable Loan Program

Staff recommend combining the New ADU Creation and the Unpermitted ADU Forgivable Loan Program into a single program, the ADU Creation Forgivable Loan Program. As of January 2025, there have been no applicants for the Unpermitted ADU Forgivable Loan Program. Community feedback has indicated that for larger after-the-fact projects, \$25,000 is not enough funding to permit the unit or incentivize signing a 10-year deed restriction. Additionally, having a single, forgivable ADU loan product will make the ADU Incentive Program simpler to administer with a single application and set of guidelines. The City of Pasadena has made this change to their ADU loan program for their second round of funding.

The proposed program guidelines have been adapted from the New ADU Creation Forgivable Loan Program Guidelines. Selected program changes (for full program details, review Attachment 5):

- Section 1 General:
 - The program name was changed to ADU Creation Forgivable Loan Program
 - The amount of the loan is \$50,000 which is unchanged from the previous “New ADU Creation” program, but an increase from \$25,000 for existing, unpermitted units.
 - “To permit existing unpermitted ADUs and JADUs” was added to clarify which properties qualify for this program
- Section 1 Definitions:
 - Added definitions for After-the Fact Permit Process and Unpermitted ADU or JADU to reflect the eligibility of unpermitted, existing ADUs.
- Section 7 ADU Location and Characteristics:
 - The existing Unpermitted Loan Program had a requirement that stated, “In no case will the unpermitted ADU be held to prior years’ building or code standards.” This was not carried over in order to align with the approval of Assembly Bill 2533, which expands the existing amnesty program for unpermitted ADUs and JADUs built before 2020, allowing local agencies to deny permitting of the structure only if correcting the violation is necessary to protect the health and safety of the public or the occupants of the structure.
- Section 12 The Program Loan:
 - The loan term and interest rate were changed to align with the PLHA funded loan product.
 - A 1% annual (simple) 7-year loan. Both principal and interest will be forgiven at 14.3% per year, contingent upon receipt of a building permit for the ADU and continued compliance with the deed restriction requiring the ADU be rented to tenant(s) making 60% of the area median income (AMI) or below and meeting the local employment qualification.
 - A 2% annual (simple) 10-year loan. Both principal and interest will be forgiven at 10% per year, contingent upon receipt of a building permit for the ADU and continued compliance with the deed restriction requiring the ADU be rented to tenant(s) making 120% of the area median income (AMI) or below and meeting the local employment qualification.
 - The Unpermitted ADU Loan Program had only a 10 year, 3% interest, 120% AMI option, and the new program will offer the two above options for all applicants.
- Section 19 Program Loan Proceeds Distribution: Added language clarifying the process for distributing loan funds.
 - 19.B: Added clarification that the applicant must obtain building permits before commencing work on the ADU.
 - The following are changes to the existing Unpermitted ADU Loan Program

- 19.A: The loan disbursement was changed to allow disbursement when the building permit has been issued and loan documents have been recorded. Previously, the loan disbursement was at Certificate of Occupancy which limited the program to applicants who could cover the permitting costs up front and be reimbursed.
- 19.C: Added a maximum number of draws and minimum draw request amount.

Mini-Grant for Existing and New ADUs

Since program launch, staff has received and approved 32 applications for the \$1,000 mini-grant, and 16 have been funded. Council has allocated \$60,000 towards this loan, and \$28,000 is remaining. Staff does not propose any programmatic changes to the Mini-Grant for Existing and New ADUs. However, the program currently has an end date of December 31, 2025. Due to the popularity of this program and remaining funding, staff recommend removing the program end date. The program would continue until the initial funding allocation has been spent (Attachment 7).

Summary:

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 revised ADU incentives will help to address some of the challenges that we have observed that have limited use of our current incentives.

Staff recommend that Town Council:

- Adopt Resolution 2025-03 approving the Permanent Local Housing Allocation (PLHA) Funded ADU Construction Loan Program Guidelines (Attachment 9).
- Approve the program guidelines for the ADU Creation Forgivable Loan Program.
- Approve the ADU Mini-Grant Program Guidelines.
- Authorize a budget amendment reallocating:
 - \$70,000 of PLHA funds from C2011 FY 25/26 to FY24/25 C2011, for a budget total of \$270,000 in FY 24/25 C2011.
 - \$130,000 of PLHA funds from C2011 FY 25/26 and \$8,480 from C2011 FY 26/27 to a new CIP created for the PLHA Funded Down Payment Assistance Program for a total FY 24/25 budget of \$138,480.
 - \$191,420 of PLHA funds from C2011 FY 26/27 and \$16,302 of unallocated PLHA funds to C2306 (Housing Partnerships) FY 24/25 for a total budget of \$207,722 to fund the loan to the Pacific Crest Commons Development.

FUNDING SOURCES	CUMULATIVE TOTAL TRU FY 22/23	FY 23/24 ACTUAL	ORIGINAL FY 24/25	ORIGINAL FY 25/26	ORIGINAL FY 26/27	ORIGINAL FY 27/28	ORIGINAL FY 28/29	TOTAL
C2011 - ADU Pilot								
General Fund Housing Designation	\$ 14,661	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,661
Measure K	\$ 47,221	\$ 11,780	\$ 400,000	\$ 10,000	\$ 12,400	\$ 10,400	\$ 2,400	\$ 494,201
PLHA Grant	\$ -	\$ -	\$ 200,000	\$ 200,000	\$ 200,000	\$ -	\$ -	\$ 600,000
TOTAL:	\$ 61,882	\$ 11,780	\$ 600,000	\$ 210,000	\$ 212,400	\$ 10,400	\$ 2,400	\$ 1,108,862

FUNDING SOURCES	CUMULATIVE TOTAL TRU FY 22/23	FY 23/24 ACTUAL	AMENDED BUDGET FY 24/25	AMENDED BUDGET FY 25/26	AMENDED BUDGET FY 26/27	AMENDED BUDGET FY 27/28	AMENDED BUDGET FY 28/29	TOTAL
C2011 - ADU Pilot								
General Fund Housing Designation	\$ 14,661	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,661
Measure K	\$ 47,221	\$ 11,780	\$ 400,000	\$ 10,000	\$ 12,400	\$ 10,400	\$ 2,400	\$ 494,201
PLHA Grant	\$ -	\$ -	\$ 270,000	\$ -	\$ 100	\$ -	\$ -	\$ 270,100
New CIP - Down Pay Assist								
PLHA Grant	\$ -	\$ -	\$ 138,480	\$ -	\$ -	\$ -	\$ -	\$ 138,480
C2306 - Housing Partnership								
PLHA Grant	\$ -	\$ -	\$ 207,722	\$ -	\$ -	\$ -	\$ -	\$ 207,722
TOTAL:	\$ 61,882	\$ 11,780	\$ 1,016,202	\$ 10,000	\$ 12,500	\$ 10,400	\$ 2,400	\$ 1,125,164

CHANGE: \$ - \$ - \$ 416,202 \$ (200,000) \$ (199,900) \$ - \$ - \$ 16,302

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 funding for these loans has already been allocated in C0211, and no additional costs are anticipated due to these changes. The PLHA Funded Loan program funds come from already allocated PLHA funds, and the Forgivable ADU Creation Loan is funded by Measure K funds. However, PLHA funding is currently budgeted in C2011 in FY 24/25 through FY 26/27. If Council approve staff's recommendation for the budget amendment, all PLHA funds will be allocated in FY 24/25 across three CIPs to also fund the Pacific Crest Commons loan and the PLHA Funded Down Payment Assistance Program.

The unallocated PLHA funds that are being added to the budget for C2306 are from the total award to the Town. While the Town has been awarded a total of \$627,912, only \$600,000 has been included in the budget thus far.

Public Communication: This Staff Report.

Attachments:

Attachment 1: Staff Report – Permanent Local Housing Allocation Grant here:

<https://portal.laserfiche.com/Portal/ElectronicFile.aspx?docid=59442805&repo=r-6a91ddbc>

Attachment 2: Staff Report – Approval of Permanent Local Housing Allocation Plan and 5-year plan amendment for PLHA Formula Component grant funds here:

<https://portal.laserfiche.com/Portal/DocView.aspx?id=59764210&repo=r-6a91ddbc>

Attachment 3: PLHA Funded ADU Construction Loan Program Guidelines – clean version.

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

Attachment 5: ADU Creation Forgivable Loan Program Guidelines – clean version.

Attachment 6: ADU Creation Forgivable Loan Program Guidelines – track changes version.

Attachment 7: ADU Mini-Grant Program Guidelines – clean version.

Attachment 8: ADU Mini-Grant Program Guidelines – track changes version.

Attachment 9: Resolution 2025-03 Approving the Town of Truckee Permanent Local Housing Allocation Funded Accessory Dwelling Unit Loan Program Guidelines.