File #: 2087-2019, **Version:** 1

To: Honorable Mayor and Members of City Council

From: Vincent Smith, Community Development Director

Prepared By: Lark Ferrell, Housing Manager

TITLE:
Junior Unit Initiative Program

RECOMMENDED ACTION:
Adopt a resolution approving amendments to the Junior Unit Initiative Program.

DISCUSSION:
The City's Junior Unit Initiative Program (the "Program") was launched two years ago. It provides financing and technical assistance to help homeowners create accessory dwelling units (ADUs) in their owner-occupied single family homes. This includes the creation of: (1) a junior accessory dwelling unit (Junior Unit), created by using one or more existing bedrooms to establish a separate unit within the existing home; and, (2) converted accessory dwelling units (Converted ADU), which involve the conversion of existing accessory structures into accessory dwelling units (collectively "ADUs"). Either the ADU or the primary unit must be rented to a low-income tenant at an affordable rent to qualify for the financing.

Since its inception, two units have been completed, three are going through Building Division approval, two are working with an architect on plans, and two others are waiting for Program amendments before proceeding with their units as it is very likely the costs to convert their accessory structures into ADUs would exceed the Program's current loan limit.

Under the Program's current guidelines, the City provides financing in the form of a forgivable loan of up to $50,000. For each year the homeowner provides an affordable rental unit, 5% of the loan is forgiven until after 20 years, the loan is fully forgiven. The Program also provides a grant of up to $5,000 if the homeowner desires to make improvements to the rental unit to make it accessible to persons with disabilities and an architectural grant of up to $2,000 if design services are required.

Based on its experience with the Program, staff is proposing the following changes to make it more effective in producing affordable rental units:

1. **Increase the maximum loan for Conversion ADUs to $75,000**. While the current Program loan limit of $50,000 works well for Junior Units, it is often insufficient to create Converted ADU units due to the cost of adding items, such as full kitchens or bathrooms, which are not required for Junior Units. Staff is not recommending any changes to the loan terms for Converted ADU loans of up to $50,000. However, for Converted ADU loans that exceed

$50,000, the portion of the loan that exceeds $50,000, up to a maximum of an additional $25,000, would be deferred and repayable in full in 20 years. For example, for a $75,000 Converted ADU loan, the first $50,000 would be forgivable in accordance with the City's existing Program guidelines, but the additional $25,000 would be required to be repaid in full in 20 years. This increased loan amount would help fund the creation of Converted ADUs. At $75,000, these units would still be considerably less to create than other types of housing.

2. **Increase the maximum grant for design services for Converted ADUs to $4,000.** Currently the Program provides architectural grants of up to $2,000. While this cap is sufficient for Junior Units that require design services, it does not fully cover the design costs for Converted ADUs, which are more complicated due to issues such as kitchen and bathroom requirements.
3. **Add an engineering grant of up to $3,000.** As staff has worked with homeowners to create ADUs through the Program, there have been at least two cases to date where projects required structural engineering services. To date, the impacted homeowners have agreed to pay for these costs themselves. However, not all future Program participants may be willing and/or able to pay for these costs.

Increasing the maximum loan and grant amounts would likely result in fewer units being produced through the Program. Under the Program's existing loan and grant limits, there is available funding to assist approximately 11 more homeowners create affordable rental units. If this agenda item is approved, it would potentially reduce this number by up to four units (assuming all future applicants utilize the maximum loan and grant amounts for Converted ADU's). However, even with this potential reduction in units, staff still recommends approving the changes as they will make the Program more effective in creating affordable rental units in the community given the high level of interest from homeowners in converting accessory structures into affordable ADU's.

FINANCIAL IMPACTS:
Increasing the maximum loan amount and increasing the design grant amount as well as adding an engineering grant does not increase the overall budget for the Program. It may reduce the number of loans by up to four since the per unit cost would likely increase.

CEQA:
The Community Development Director has determined that the Recommended Action described in this Agenda Report is not subject to California Environmental Quality Act (CEQA), pursuant to CEQA Guidelines Section 15060(c).

DOCUMENTS ATTACHED:
ATCH 1 - Resolution

NOTIFICATION:
Notice of this agenda item was posted 72 hours in advance of the meeting.