

## COUNTY OF SANTA CRUZ

## Planning Department

**MEMORANDUM**

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Date: June 30, 2017  
To: Housing Advisory Commissioners  
From: Julie Conway, Housing Manager  
Re: Proposed Accessory Dwelling Loan Program

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Over the past year, your Commission has been actively participating in the County's update of its Accessory Dwelling Unit Program, hosting a number of public meetings and providing input into the developing Program. The County's ADU initiative aims to address promote the creation of ADUs with a multi-pronged approach that includes the production of accessible, user-friendly guidance materials; recommendations for changes to County policies, regulations, and practices; and recommendations for new programs to assist with design, financing, and negotiating the permit process.

To that end, staff is proposing to establish a \$200,000 pilot ADU Lending Program with funds from the Housing Services Contract and the Affordable Housing Impact Fee Fund. Attached please find a draft summary of a Accessory Dwelling Unit Loan Program to be discussed at the HAC meeting on July 12th. Following your discussion we will propose the Program and funding on the Board at the August 22<sup>nd</sup> agenda.



# COUNTY OF SANTA CRUZ

## PLANNING DEPARTMENT

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KATHLEEN MOLLOY PREVISICH, PLANNING DIRECTOR

## Accessory Dwelling Unit Loan Program September, 2017

### Program Summary

The purpose of the County's Accessory Dwelling Unit Loan Program (ADU Loan Program) is to provide up to \$40,000 of County financing to property owners interested in constructing an ADU on their property who are willing to commit to renting the unit to low income households at affordable rents.

In exchange for participating in the ADU Loan Program, Homeowners will enter into a deed restriction for a period of 20 years that will require them to rent the ADU at a cost calculated to be affordable to low income households, defined as those whose incomes are at or below 80% of Area Median Income adjusted for household size as set forth in the County's Affordable Housing Guidelines.

The County's financial assistance is in the form of a three percent (3%) simple interest loan, deferred for 20 years and forgiven after twenty years if the unit has been rented as required by the Program. Homeowners may opt-out of the County's deed restriction agreement at any time, but they will be required to pay back the full amount of the loan plus interest.

Loan funds can be used to defray the cost of constructing the unit including for County fees (including building fees, and impact fees such as capital improvement, sanitation, drainage district, school district and building permit fee) and other costs, such as water district hook-up fees or septic system repair, expansion or replacement. The cost of construction, design and required studies are also permissible. Once applicants are approved and a project budget has been finalized, the County will transfer funds in three stages, the first upon recordation of a deed restriction.

For detailed information on the County's ADU Ordinance for the construction of new ADUs, please call the County Planning Department, Zoning Information at 454-2130.

### Program Guidelines

#### Property Location

The new second unit must be located in the unincorporated Santa Cruz County area that includes the North Coast, San Lorenzo Valley, Live Oak, Soquel, Aptos, Corralitos, Freedom and Amesti areas.

#### Loan Terms

Maximum loan amount: \$40,000

Interest rate: Three percent (3%) simple interest

Term: 20-years

Loan Forgiven: Loan is forgiven at the end of the 20-year term

Opt-Out Provision: County rent restrictions will be released prior to the 20 year term of the loan with payment of the principal plus accumulated interest.

Security: Loan and rent restriction agreement are secured by a deed of trust recorded against the property.

### Maximum Loan to Value Ratio

Total liens of record (including County loan) cannot exceed 100% of "post-construction" value of the property at the time of loan closing as estimated by an appraisal.

### Approved Expenses

Loan transaction costs: Loan transaction costs including property appraisal, escrow fees and title insurance costs (totaling about \$500) are eligible loan expenses.

Other expenses: County must approve budget for eligible costs including permit fees, design and construction. Funds will be released in three payments: at recordation of the County restrictions, at 50% completion, and at final inspection.

### Ineligible Expenses

Code enforcement costs: Code enforcement staff costs to investigate existing units that were built without permits will not be reimbursed from Agency loan proceeds.

### Tenant Income Limits

County assisted ADUs can only be rented to "lower income households" at "lower income rental unit" amounts as defined in the Santa Cruz County Affordable Housing Guidelines. The 2017 "lower income" limits, as adjusted by household size, are as follows:

Household Size	1	2	3	4	5
Income Limit (80% of median)	\$56,500	\$64,550	\$72,600	\$80,650	\$87,150

### Maximum rents

The 2017 maximum allowable monthly rents, that include reasonable utility allowances, are as follows:

Unit Size	Lower Income Rents	Housing Choice Voucher Maximum Rent Subsidy
Studio	\$913	1,275
1 Bedroom	\$1,044	1,512
2 Bedrooms	\$1,174	1,931

### Opt Out Provision

The owner may opt out of the affordability provision by paying off the County loan plus accumulated interest. The County's rent restriction agreement and deed of trust will then be removed from the property's title.

### General Terms

Tenant Income Verification: Housing Division staff will verify the initial lower income eligibility of all new tenants.

Ongoing unit monitoring: Housing Division staff will verify affordable rent levels annually

Exceptions to Guidelines: The Planning Director may make reasonable exceptions to these guidelines.

### More Information

For more information on the County's ADU Loan Program, please call Carlos Landaverri, Housing Specialist, at 454-2523.