

MEMORANDUM

Date: February 24, 2022
To: Housing Advisory Commission (HAC)
From: Suzanne Isé, Principal Planner, Housing Division
Re: Consider Proposed Accessory Dwelling Unit (ADU) Incentives Program and Make Recommendation to Board of Supervisors

BACKGROUND

On December 7, 2021, staff provided a report to the Board of Supervisors on two current ADU incentive programs offered by the County since 2019: an ADU fee waiver program and an ADU loan program. That report, its attachments, and Board direction is available online for review: https://santacruzcountyca.igam2.com/Citizens/Detail_Legifile.aspx?Frame=&MeetingID=1886&MediaPosition=&ID=11500&CssClass=

As explained in that Board report, the current fee waiver program is available for ADUs of 640 square feet or less. The Planning Department's survey data and housing analysis indicate that ADUs in that size range are "affordable by design". Construction of these small units provides an important housing option in Santa Cruz County. However, it was not clear from the data analysis that these fee waivers had a significant impact on production of these small ADUs, as the percentage of ADUs permitted in this size range did not increase after the program began, and those fees are a very small percentage of the total cost to develop an ADU. Regarding the current ADU forgivable loan program, it is costly to administer, and has not been attractive to property owners, with only one complete application received to date. Based on this information, the Board directed staff to extend the ADU fee waiver and ADU forgivable loan programs through the end of the fiscal year 2021/2022, and to work with the HAC to develop a proposal for an alternative "ADU Incentives Program" that is feasible with current County resources and the current lending environment, and better targets significant barriers to ADU development.

At the January 12, 2022, HAC meeting, the Commission heard a presentation on ADU incentive programs operating in the San Francisco Bay Area, and lessons learned to date. The Commission also discussed this matter and provided input to staff for a revamped ADU Incentives program:

- Provide technical assistance;
- Retain the fee waiver component;
- Eliminate the ADU loans component; and
- Request budget appropriation (subject to Board approval) for up to \$1 million in funding for the revamped program.

PROPOSED ADU INCENTIVES PROGRAM

A summary of the proposed program design is attached to this Memorandum.

STAFF RECOMMENDATION

Review the proposed program, consider public comment, and make a motion to recommend that the Board:

- 1) Approve a revamped ADU Incentives Program as described below, to be funded and launched in Fiscal Year 2022/23 as a 3-year pilot program; or
- 2) Approve an ADU Incentives Program as described below, with modifications recommended by the Commission, to be funded and launched in Fiscal Year 2022/23 as a 3-year pilot program; or
- 3) Take other action related to an ADU Incentives Program, as specified by the Commission.

PROPOSED ADU INCENTIVES PROGRAM

The program shall include the following components, all subject to funding availability:

1) Outreach and Education:

- Informational materials about ADU development, budgeting, contracting, and related guidance, available online and in printable formats for local distribution, in English, Spanish, and possibly other local languages;
- Group workshops, classes, and/or recurring ADU interest group meetings available to any local homeowners interested in ADU development. Classes may be held either in person, through virtual meetings and/or broadcast media (such as CTV or Youtube), in English, with Spanish interpretation where needed.
- Information about applying for the ADU technical assistance program.

2) Technical Assistance: Available to a limited number of eligible homeowners per three-year period, subject to funding availability. This includes feasibility analysis and project management support to help navigate the process of developing an ADU or JADU, such as:

- Feasibility assessment of the property, review of local codes
- Coordination and guidance with all aspects of ADU planning and construction: design, cost estimating, contracting, insurance, budgeting, and financing
- Support with permit applications and permitting process
- Construction management
- Landlord training and tenant matchmaking

3) Fee Waivers: Available to those participating in the technical assistance program who submit a complete building permit application for a new ADU/JADU of up to 750 square feet during the 3-year program term. Fees to be waived are the same Planning application fees waived through the current ADU fee waiver program.

4) Eligibility for Technical Assistance (TA):

All participants in the TA program must own and occupy a home located in a residential zone (R-1, RB, RA, RR, or RM) in unincorporated Santa Cruz County. The proposed ADU/JADU must be developed on the property that is the owner's principal residence. Program participants must also:

- Continue to own and occupy the property where ADU is developed;
- Have access to sufficient financial resources (savings or other assets, and/or ability to obtain a loan) to cover anticipated costs to design and build the ADU;
- Take a landlord training and fair housing course before leasing the ADU;
- Enter into a written lease with ADU tenant.

Due to the source of funds available for this program (the Affordable Housing Impact Fee (AHIF) fund or other Housing funds), participants must also meet one of the following criteria:

- Homeowner qualifies as a moderate-income household with an income at or below 120% of area median (bottom row on table below); or
- Homeowner agrees to rent the ADU/JADU to be developed (or the main home if homeowner moves into ADU) to a moderate- or lower-income household at an affordable rent within the program limits, for at least the first three years of occupancy; or
- Homeowner is building the ADU/JADU for occupancy by an adult with developmental disabilities or other permanently disabled dependent (to be identified at time of program application).

Initial outreach and education component will generate a pool of potential participants for the TA program. A lottery and/or waitlist may be used, if needed, to select the target number of participants for the TA program needed to develop 18-20 ADUs during the three-year pilot period.

ADMINISTRATION

The ADU Incentives Program shall be implemented by the Planning Department through contract with a qualified program administrator. The Planning Director or their designee shall be authorized to make reasonable adjustments to the above guidelines following consultation with the selected administrator, to ensure program feasibility, achieve the program objectives within a reasonable timeframe, and/or comply with requirements related to Program funding sources. Final program guidelines will be published on the Department's website following County approval of an agreement for program administration. The Department shall provide an annual update to the HAC on the Program's progress to date, and any changes recommended to improve the program.

For Reference:

2021 State Income Limits for Santa Cruz County

Number of Persons in Household:		1	2	3	4	5	6	7	8
Santa Cruz County Area Median Income: \$111,900	Acutely Low	11750	13450	15100	16800	18150	19500	20850	22200
	Extremely Low	29200	33400	37550	41700	45050	48400	51750	55050
	Very Low Income	48650	55600	62550	69500	75100	80650	86200	91750
	Low Income	78050	89200	100350	111500	120450	129350	138300	147200
	Median Income	78350	89500	100700	111900	120850	129800	138750	147700
	Moderate Income	94000	107450	120850	134300	145050	155800	166550	177300