



Housing Department

CITY COUNCIL

BUDGET AMENDMENT AND LOAN AGREEMENTS FOR FIVE (5) PROJECTS UNDER THE SECOND UNIT ACCESSORY DWELLING PILOT PROGRAM

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April 26, 2021





Recommendation

Housing Department

- 1) Find that the recommended action is exempt from the California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines per Section 15061(b)(3);
- 2) Approve a budget amendment appropriating \$674,500 from the Inclusionary Housing Trust Fund's unappropriated fund balance to the Housing Department's FY 2021 Operating Budget to be used for loan funding (\$600,000) and third-party project management contract services (\$74,500);
- 3) Approve the five (5) loan agreements totaling \$600,000 for accessory dwelling unit projects under the Second Unit Accessory Dwelling Unit Pilot Program (the "Program") as described in the agenda report; and
- 4) Authorize the City Manager to execute, and the City Clerk to attest, the loan agreements, and any and all documents to effectuate the Program



ADU Pilot Background

Housing Department

- At the March 23 and October 29, 2018 Edtech meetings, staff presented two proposed ADU pilots, one to incentivize new ADUs to house rental assistance tenants, and another to bring existing illegal ADUs up to code
- Due to a steady stream of ADU bills proposed by the state the pilot was not launched until the regulatory landscape was stabilized



ADU Pilot Goals

Housing Department

- Assist in the creation of new ADUs to provide verifiable affordable housing to very low-income renters
- Address the decline of rental assistance landlords by producing new participating landlords
- Eliminate the life safety risks inherent with unpermitted residential construction
- Legalize existing unpermitted ADUs



Two Types of ADUs

Housing Department

New ADUs



Existing Unpermitted ADUs





Loan Program Options

Housing Department

Option #1 – New ADU Construction Loan (Up to \$150,000)

3-Year Loan with 1% simple interest	3-Year deferred payment period (two 1-year extension option)
Loan must be refinanced prior to the end of deferred payment period	Failure to refinance will result in loan conversion (1% conversion fee) to 30-year conventional loan at 1% plus prime rate (fixed)
Unit must be rented exclusively to a Pasadena Rental Assistance tenant for 7 years	
Loan must be re-paid upon sale, refinance or title transfer	

Eligibility Criteria

- Property must be single-family owner occupied the past two years
- The proposed ADU structure must not exceed 750 square feet
- Credit score greater than 650
- ADU loan payment plus current total monthly debt payments must be less than 50%
- Total mortgage loan and ADU loan must be less than 75% of home value

PASADENA

New ADU Application Preference

1st Priority

Properties located in CDBG eligible census tracts

2nd Priority

Existing Home Valued Below \$850,000

3rd Priority

Homes occupied by the owner continuously for previous 5 years or more

Tie-breaker

Lottery



Loan Program Options

Housing Department

- **Option #2 – Existing Unpermitted ADU Loan (Up to \$75,000)**

20-Year Loan	1% simple interest
Payments deferred for the 1 st five years	Loan may be modified if homeowner experiences an economic hardship
Loan must be re-paid upon sale, refinance or title transfer	

- **Eligibility Criteria**

- Property must be single-family owner occupied
- ADU structure is limited to 750 square feet
- Owner’s household income must be under 80% area median income (AMI)

# of Persons in the Household	1	2	3	4	5	6	7	8
Maximum Annual Household Income 80% AMI	\$63,100	\$72,100	\$81,100	\$90,100	\$97,350	\$104,550	\$111,750	\$118,950

Existing ADU Application Scoring

10 Points

Property has open citation for unpermitted ADU

8 Points

Property located in CDBG eligible census tract

6 Points

Household has vulnerable occupant (senior, severely disabled person or minor)

Tie-breaker

Urgent need as determined by a visual inspection



Outreach

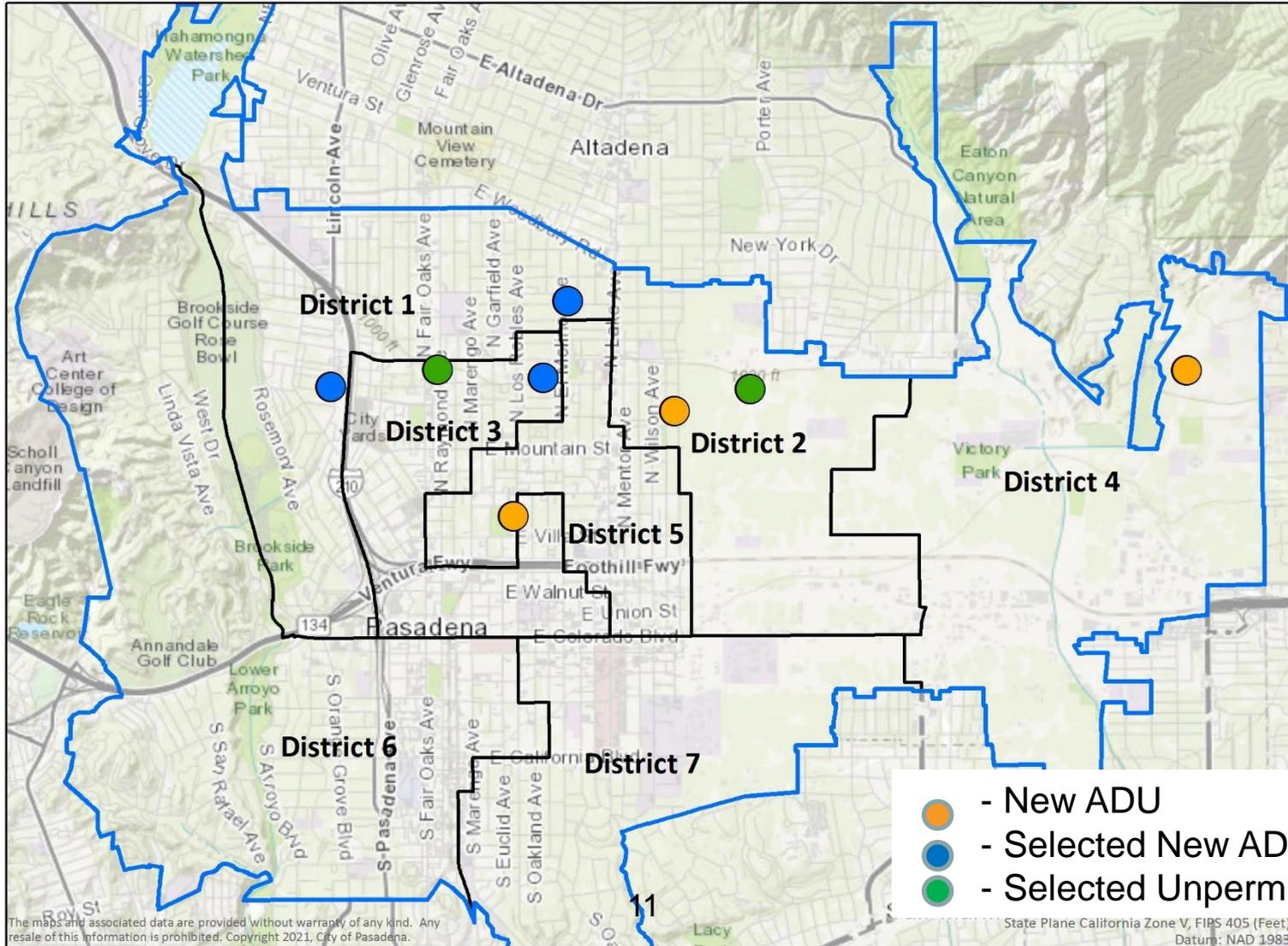
Housing Department

- Marketing and outreach efforts included creation of a website landing page, social media posts, a press release, e-mail blasts
 - Press, council offices, community organizations, housing advocates, faith-based organizations, realtors
- Two virtual info sessions for interested applicants (over 80 persons attended).
- Program applications made available on the City of Pasadena's Housing Department website www.cityofpasadena.net/Housing
- 30-day application window period
 - Eligible applications ranked according to program scoring & preference



Map of Applicants

Housing Department





Borrower Summary

Housing Department

Property Address	Council District	Loan Option Type	Loan Amount
560 Prescott Street Pasadena, Ca 91104	3	New ADU Construction	\$150,000
1181 Lincoln Avenue Pasadena, Ca 91103	1	New ADU Construction	\$150,000
681 E. Elizabeth Street Pasadena, Ca 91104	1	New ADU Construction	\$150,000
1295 N. Raymond Avenue Pasadena, CA 91103	3	Unpermitted ADU	\$75,000
1552 Asbury Drive Pasadena, Ca 91104	2	Unpermitted ADU	\$75,000



Selection and Award Process

Housing Department

- Consultant feasibility site visits for top 5 applicants in each category
- Selected applicants submitted documentation to verify eligibility to program requirements.
- On March 18, 2021, the Internal Housing Loan Committee recommended approval for all five (5) ADU loans.
- On April 20, 2021, approval recommended by the Economic Development & Technology Committee.
- An approval by City Council will allow the homeowners to begin working with the ADU Consultant for pre-design, permitting, bidding, and construction.



ADU Pilot Questions

Housing Department

- Are ADU homeowners willing to be Section 8 landlords for seven years?
- Are the loan amounts sufficient?
- How long will it take to build the ADUs?
- Are the consultant services essential to the success of the program?
- Will owners of unpermitted ADUs be willing to apply for the program?
- Will prioritizing CDBG eligible census tracts result in ADU investments in those tracts?



ADU Pilot Questions

Housing Department

- Will prioritizing homes below the median sales price significantly reduce demand for the program?
- Is the underwriting criteria too strict?
- Will homeowners be able to refi in year 3 to pay back their construction loan?
- Will the ADUs be geographically disbursed throughout the City?
- How can the program be brought to scale? More funding? Lower subsidy amounts?



ADU Pilot Questions

Housing Department

- Can the program assist low income homeowners who cannot qualify for a conventional refi, but who need the space or income from an ADU?
- Is it preferable to fund cohorts of ADUs or have an open over-the-counter process?
- Is there a demand for just the consulting services without the loan funds?
- How will pre-approved ADU plans streamline the process?