

Agenda Report

December 13, 2021

TO: Honorable Mayor and City Council

THROUGH: Economic Development and Technology Committee
(December 8, 2021)

FROM: William K. Huang, Housing Director

**SUBJECT: ACCESSORY DWELLING UNIT LOAN PILOT PROGRAM
("PROGRAM") – ADDITIONAL PROGRAM FUNDING IN THE AMOUNT
OF \$200,000 AND INCREASE IN PROGRAM LOAN CAPS**

RECOMMENDATION:

It is recommended that the City Council:

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), the "common sense" provision that CEQA only applies to projects that may have a significant effect on the environment;
2. Increase the loan caps under the Second Unit Accessory Dwelling Unit Loan Pilot Program ("Program") as specified in this agenda report;
3. Amend the Housing Department's FY 2022 Operating Budget by appropriating an additional \$200,000 from the Inclusionary Housing Trust Fund's unappropriated fund balance for the Program (23916003-816700-51402) to cover increases in Program loan amounts up to the revised loan caps; and
4. Authorize the City Manager to execute, and the City Clerk to attest, any and all documents necessary to amend the existing Program loan agreements which may be necessary to increase the loan amounts up to the revised caps.

BACKGROUND:

In 2020 the Housing Department launched the Second Unit Accessory Dwelling Unit Loan Pilot Program (the "Program"), funded with a budget totaling \$674,500 (\$600,000 for loans, \$74,500 for third-party project management). Through this affordable housing initiative homeowners are incentivized to create an accessory dwelling unit (ADU) to be operated as an affordable rental unit on their property. This program provides

homeowners with comprehensive advisory assistance for financing and project management assistance for the construction of a new ADU or rehabilitation of an existing one. Specifically, the program offers two options: 1) financial assistance to build an ADU through new construction or garage conversion; and 2) assistance to rehabilitate and bring up to code an existing unpermitted ADU. Design with Skill, the consultant under contract with the City (the "ADU Consultant") will provide advice to homeowners in choosing the designers, builders, planners, and contractors needed for the ADU design and construction. The ADU Consultant will assist the homeowner at every stage from pre-design to permitting to bid preparation, and project oversight.

The Program loans for the two ADU project options have the following key terms and provisions:

New ADU Construction (loan cap \$150,000)

- 3-year loan term with 1% simple interest
- No payments required for the term of the loan
- Loan must be paid in full through refinance prior to the end of the term
- Homeowner agrees to rent the ADU exclusively to Pasadena housing voucher tenants for seven years

Rehabilitation of Existing Unpermitted ADU (loan cap \$75,000)

- 20-year loan term with 1% simple interest
- Deferred payments for the first five years
- Loan must be paid in full prior to the end of the term
- Homeowner's household income cannot exceed 80% area median income

The five (5) ADU projects that have been selected consist of three (3) new ADU projects and two (2) existing unpermitted ADU project. These projects are currently in the design phase, with loan amounts at the Program limits of \$150,000 for the new ADU projects and \$75,000 for existing unpermitted ADU projects. However, estimated costs for construction have increased due to the rising prices of materials from supply chain issues that are occurring throughout the building industry. A survey of developers with residential projects in Pasadena indicates that hard costs have risen by a range of 4% to 30%. Statewide, construction costs have increased by 14% within the past 10 months, as measured by the California Construction Cost Index, and published by the State Department of General Services, Real Estate Service Division. To address construction funding gaps that are expected to arise for these projects, it is recommended that the Program loan caps of \$150,000 and \$75,000 be increased to \$200,000 and \$100,000, respectively. To fund these potential increases, it is recommended that the additional funding in the amount of \$200,000 be appropriated for the Program budget.

On November 18, 2021, the Internal Housing Loan Committee recommended approval of the proposed increase of the loan caps and Program budget increase in the amount of \$200,000.

COUNCIL POLICY CONSIDERATION:

This proposed action supports the City Council Strategic Planning Three-Year Goals in the areas of improving affordable housing, mobility and accessibility throughout the City of Pasadena; and supporting and promoting the quality of life and the local economy.

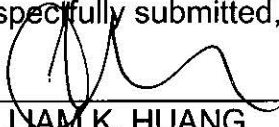
ENVIRONMENTAL ANALYSIS

The action proposed herein is exempt from the California Environmental Quality Act (CEQA), pursuant to State CEQA Guidelines Section 15061 (b)(3), the "common sense" provision of CEQA which applies to projects which may have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. The recommended actions to increase Program funding and loan caps will not have a significant effect on the environment and, hence, is not subject to CEQA.

FISCAL IMPACT:


Approval of this action will increase the Housing Department's FY 2022 Operating Budget by \$200,000. Funding for this action will come from the unappropriated fund balance of the Inclusionary Housing Trust Fund, resulting in a balance in the amount of approximately \$2.1M. An appropriation in the amount of \$200,000 will be allocated to fund any loan increases under the Program (23916003-816700-51402).

Respectfully submitted,



for WILLIAM K. HUANG
Housing Director

Prepared by:



RANDY MABSON
Program Coordinator

Approved by:



CYNTHIA J. KURTZ
Interim City Manager