

Memorandum

TO: CITY COUNCIL

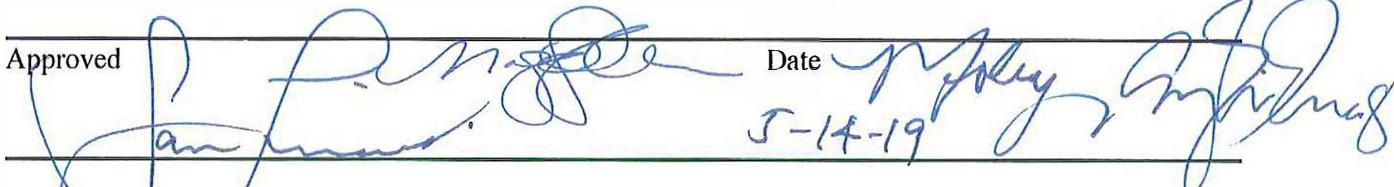
FROM: Mayor Sam Liccardo
Councilmember Magdalena Carrasco
Councilmember Sylvia Arenas
Councilmember Pam Foley

SUBJECT: SEE BELOW

DATE: May 14, 2019

Approved

Date


5-14-19

SUBJECT: "YES, IN MY BACKYARD" (YIMBY) AFFORDABLE HOUSING PROGRAM

RECOMMENDATION

As part of the Moderate-Income Strategy coming to Council in June, direct the City Manager to develop a "Yes, In My Backyard" affordable housing program with key partners, such as the Housing Trust Silicon Valley (Housing Trust), to waive fees and provide forgivable loans for homeowners in San José who build an accessory dwelling unit (ADU) or convert a garage into a housing unit and agree to restrict rents to a level of affordability that enables the tenancy of a low-to moderate-income household for at least five years. The elements of this program would include:

1. Partner with the Housing Trust to administer the program, including initial loan set up, outreach and compliance.
2. Waive all City impact fees associated with developing an ADU or converting a garage for homeowners who participate in the program if the loan applicant agrees to restrict the rent of the unit for the designated duration to ensure affordability.
3. The forgivable loan program should include the following terms:
 - a. Homeowners who agree to a deed of trust to rent their ADU to low-to moderate-income households will be provided with loans they can use to pay permit fees and construction costs;
 - b. Such loans will be forgiven on an annual basis as homeowners establish that they have complied with the deed of trust;
 - c. The restricted rent must be affordable for low-to moderate-income households;
 - d. The per-unit loan will not exceed a maximum amount, such as \$20,000 or other reasonable amount recommended by Staff and approved by Council, that will ensure that city processing fees will not add to the cost of ADU development;
 - e. The loan would be in default if the homeowner attempts to list the ADU via AirBnB or other similar short-term rental service within the loan duration.

4. To fund this loan program,
 - a. Evaluate the allocation of up to \$5 million from the City's Low-Moderate Income/Multi-Source Housing Funds for the loan program through the budget process, and during the discussion of the Moderate-Income Housing Strategy;
 - b. Explore funding opportunities that may become available with legislative approval of "missing middle" funding in the upcoming state budget cycle;
 - c. Continue conversation with other partners to coordinate with the City and the Housing Trust to leverage private funds that could expand the program's impact and reach;
 - d. Return to Council to consider additional funding commitments if the program demonstrates success:
5. Return to Council in August with a verbal report identifying solutions to the obstacles in the permitting process that inhibit the construction of an accessory unit, with a focus on solutions to overcoming delays in fire inspection, resolving contradictory direction from City inspectors, conflicts in state building codes, and permitting.
6. Include within the existing PBCE work on the Council priority for facilitating garage conversions, if workload permits:
 - a. Evaluating the applicability of fee waivers and forgivable loans in exchange for imposing deeper affordability (e.g., extremely low income) rent restrictions, utilizing City affordable housing, state (e.g., HEAP), and grant dollars.
7. Work with business, advocacy, and philanthropic organizations—including several that have already expressed a willingness to help, such as the Silicon Valley Leadership Group—to:
 - a. Convene modular, pre-fabricated builders of ADUs to determine if a competitive process—either conducted by an independent organization or the City—could yield a short list of willing ADU manufacturers who will offer transparent, low-cost, all-inclusive packages to homeowners to rapidly scale ADU production;
 - b. Direct the Housing Department and PBCE to coordinate with the Housing Trust and external business organizations willing to host ADU showcasing event in 2019 that allows homeowners to review various available floorplans, designs, and start-to-finish costs for installing an ADU on their property;
 - c. Explore and evaluate the feasibility of using innovative financing models akin to solar and energy-efficiency financing concepts already in effect that eliminate up-front all costs of ADUs for homeowners.

DISCUSSION

My September 2017 "Responding to the Housing Crisis" memo identified a variety of programs and strategies that the City should undertake to address our housing crisis, including facilitating the development of secondary units. Since then, we have made streamlining the ADU and garage conversion process and eliminating unnecessary regulations a Council priority, and have seen some modest success in increasing the number of homeowners applying to build these units. We've seen less success in actually getting those ADUs built and inhabited.

We need to do more to take advantage of the untapped potential for adding compatible housing within our dispersed, sprawling neighborhoods. We are hearing, however, that construction costs and financing may deter many homeowners, and City fees are not an insignificant barrier either.

We now have a unique opportunity to partner with the Housing Trust, which has similarly sought to create a construction loan program that can ease the initial financial strain on homeowners and spur the building of affordable backyard homes. The Housing Trust has been doing great work in educating homeowners about ADUs, and strengthening our partnership with them and their clients can also provide a valuable feedback loop to our City building and inspections teams about problems they might experience in the application and construction process. We know that other partners are interested as well—including developers of lower-cost, modular, pre-fabricated ADUs— and we should make room at the table for anyone with better ideas or more resources.

In addition to the loan program, we should identify other opportunities to incentivize and streamline garage conversions and the construction of ADUs in single-family neighborhoods, as listed above. Based upon the feedback of the City Manager, we believe we can integrate this proposal within our current prioritization of ADU programs.