

**B. Application Cover Sheet**

**Project Name:** ADU Development Program

**Applicant Information:**

Applicant Name: City of Santa Cruz

Address: 809 Center Street

City: Santa Cruz State: California ZIP 95060

Tel: (831) 420-6226 Fax: (831) 420-6458 E-mail: cberg@ci.santa-cruz.ca.us

Contact Person:

Last Name: Berg First Name: Carol

Title: Housing and Community Development Manager Tel: (831) 420-6226

E-mail: cberg@ci.santa-cruz.ca.us

**Project Location:**

City: Santa Cruz

County: Santa Cruz

Zip: 95060 & 95065

Project Area: City of Santa Cruz

***Funding Information***

Amount of Loan requested: \$ 150,000

Amount of Grant Requested: \$ 318,300

Amount of Other Funds Available: \$ 537,200 + staff time

**Total Amount of Project:** \$ 1,005,500

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***The CPCFA reserves the right to request additional information for its review.***

The applicant declares under the penalty of perjury that the information contained in the Application, exhibits, and attachments is true and correct to the best of its knowledge and belief. We understand that misrepresentation may result in the cancellation of the approved funding, and other actions, which CPCFA may take.

\_\_\_\_\_  
Signature of Applicant's Senior Official

Richard C. Wilson  
Print Name

City Manager                      June 28, 2002  
Title                                      Date

### **C. ADU Development Program Project Description**

*Program Goal: Over a three year program period, increase the number of legal Accessory Dwelling Units (ADUs) that receive building permits to an average of 30-35 per year.*

The purpose of the proposed ADU Development Program is to: (1) implement the development of well-designed Accessory Dwelling Units in the City of Santa Cruz; (2) help minimize the impact of population growth on the community by providing more rental housing in the developed core of the City; and (3) promote infill development of the inner City to help preserve the surrounding natural greenbelt and 4) foster the use of public transportation within the City.

An Accessory dwelling unit (ADU), also known as “mother-in-law” or “granny” unit, is an additional living unit that has separate kitchen, sleeping, and bathroom facilities, attached or detached from the primary residential unit on a single-family lot. ADUs provide housing opportunities through the use of surplus space either in or adjacent to a single-family dwelling. In most cases they are either a garage conversion or a small backyard cottage or guest-house style structure.



The City currently has an ADU ordinance that regulates construction of ADUs. However, applications for ADU building permits under this ordinance have been relatively few in number. During the period from 1991 to 2002, a total of only 89 legal ADUs were built. However last year, ADU development picked up with 15 building permits being issued for ADUs. With economic and housing pressures, ADU development is expected to continue growing.

On June 25, 2002, the City Council amended the ADU ordinance to encourage increased ADU development. This proposed ADU Development Program is designed to augment City Council actions by further encouraging development of this valuable housing type and discouraging the proliferation of poorly-constructed illegal ADUs.

With over 18,000 single family lots in the City of Santa Cruz, construction of ADUs will provide an excellent opportunity to increase the amount of affordable rental housing in the community while providing home owners with a chance to supplement mortgage payments, thus making their own housing more affordable. At the present time, Santa Cruz is one of, if not the most, unaffordable city in the United States. Statistics show that only 6.9% of Santa Cruz residents can easily afford to buy a median-priced home.

At the same time, implementing construction of ADUs promotes infill development and sustainable land use patterns, including transportation patterns which in turn will reduce pollution.

The proposed ADU Development Program is a collaborative effort of the City of Santa Cruz with the Community Action Board of Santa Cruz County and the Santa Cruz Community Credit Union. The proposed program has four basic components:

- A. Design
- B. Technical Assistance

- C. Development/Construction
- D. Program Management

## A. DESIGN

*Objective: To develop a series of six creative, high quality, energy efficient design prototype for ADUs.*

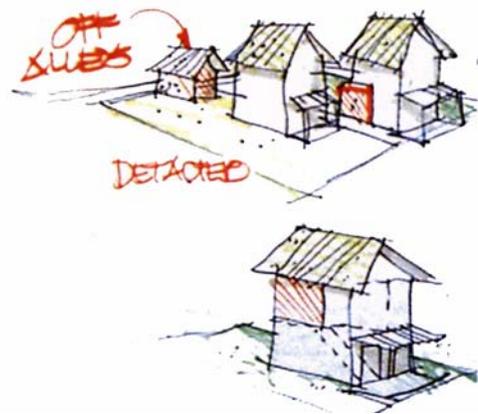
The purpose of the design component of the program is twofold: first, to create a basis for high- quality ADUs that are designed to blend into neighborhoods with minimum impact on neighbors; and second, to reduce costs to the homeowner by providing basic plans that have been pre-approved by the City. The Housing & Community Development Division of the Department of Planning and Community Development will manage this component.

The design component has three phases:

### A.1 Phase One Design Competition

A design competition for local architects will be conducted in the form of an all day Charette to create 6 prototypes for ADUs. These prototypes will cover the most common types of ADUs, including:

- Detached Garage Conversion
- Attached Garage (or In House Room) Conversion
- Basement Conversion
- Apartment Over Garage
- Free Standing Unit in Back Yard
- Alley Unit



### A.2 Phase Two Development of 6 Prototype Designs

At the conclusion of the Design Competition, six architects (or teams of architects) will be selected to develop prototypical design details. When possible, actual home situations will be used for each prototype. To accommodate all these types of units while still allowing for individualization of units, these plans will be done in a flexible manner, using generic constructions details applicable to many if not most situations. This will allow for compatibility in any neighborhood as well as personal expression of the homeowner. These prototype designs will be included in a manual that will be made available to other California cities. This will make the program directly replicable by other agencies and jurisdictions.

### A.3 Phase Three Review and Pre-Approval of Prototypes.

City building department staff will review all plans and details to ensure compliance with City and national building codes. An architectural peer group will review and comment on the designs. Changes will be incorporated in the plans for the prototypes following these reviews.

## **B. TECHNICAL ASSISTANCE**

*Objective: Over the three-year period of the grant, to assist at least 100 homeowners through workshops and/or with the Technical Support Program in developing plans for an ADU and to share the technical information with at least 10 other California cities.*

At a recent community workshop on housing issues, concern about going through a building process with a lack of technical knowledge was identified as a major impediment for homeowners to build an ADU. It was generally felt that if technical support were provided, more homeowners would build ADUs. Therefore, the purpose of this Technical Assistance Component is to provide technical and architectural information to homeowners to encourage ADU development. The Building Inspection and Housing & Community Development Divisions of the Department of Planning and Community Development will manage this component jointly.

Again, there are three parts to this Program component.

### **B.1 ADU Workshop Series**

After completion of the design prototypes a series of four workshops will be held. City staff will facilitate meetings with the design architects, a building inspector, and a plan check review staff person present for questions. Workshops will cover:

1. Free Standing and Alley Units;
2. Detached Garage Conversion and a Second Story Apartment Built Over Garage;
3. Attached Garage (or Room in House) and Basement Conversions; and
4. “How to Use” ADU Manual; Bringing an Illegal ADU Up to Code, and Overview of the Building Permit/Design Review Process.

The first three workshops will occur after the design prototypes are complete. Responses to comments from the workshops will be incorporated into the Prototype plans, adding details or information as needed. Commonly asked questions and answers will also be recorded and included in the ADU Technical Assistance Manual. In addition, each workshop will be video taped by and for the local Community Television Network.

The final Workshop will be done after the ADU Technical Assistance Manual is complete. (See description below.) This final workshop will wrap up the series, having a presentation on using the ADU Technical Assistance Manual, an overview of the Building Permit/Design Review process, and a discussion about how illegal units can be brought up to code. (In the next year, the City Council may be considering an “amnesty program” tied to affordable covenants to help bring these units up to code and create more restricted affordable housing.)

### **B.2 ADU Technical Assistance Manual & Videos**

The ADU Technical Assistance Manual will include reduced versions of the prototype designs, relevant codes and zoning requirements, a description of the permit application process, and other supplementary information that is identified during the workshops as being useful/needed information. The City will hire an architectural/planning consultant to assist in writing, editing and assembling the document. City staff will research what other ADU design guidelines, collect pictures, and when available, plans of successful ADUs in

other cities. The manual will also be updated bi-annually to reflect input from consultants hired to provide the technical support described below.

The videos tapes from the four workshops will be edited into a usable information format and made available on the Community Television Network as well as in public libraries throughout the County.

The ADU Technical Assistance Manual and videotape sets will be made available to other communities. Sets of architectural plans will also be available at cost.

### **B.3 ADU Technical Support**

Once a homeowner is able to envision what they want to build, received some assistance at an ADU workshop, and has an ADU Manual for reference, there will still be unanswered questions for which they will need assistance. The ADU Technical Support component would provide up to two hours of technical support to each homeowner building an ADU. A one-hour consultation will be available with a City building inspector/plan checker. A second hour will be made available to each applicant with a building professional. To accommodate this second hour consultation, the City will enter into a contract with an architect, an electrical engineer or electrician, and a plumbing consultant to provide technical support to solve a specific problem or problems that the homeowner might have in adapting the prototype plans to their situation. The homeowner may consult with these professionals during the design development or construction phase of developing the ADU.

## **C. DEVELOPMENT/CONSTRUCTION**

*Objective: As a result of loans, alley improvements, or contractor labor assistance as well as Technical Support Programs, build an average of 30-35 ADUs per year with at least 10 of these units having affordable covenants.*

The final component of the ADU Development Program is assistance to construct the ADU. Under this component, there are three sub-programs: (1) Alley Improvement Program; (2) Loan Program; and (3) Job Training Program.

### **C.1 Alley Improvement Program**

*Objective: Within five years, improve at least two alleys to allow for development of ADUs.*

The City of Santa Cruz has about 70 alleys that could be used as access to potential ADU locations. One of the impediments to using alleys in this way is that many alleys in the City of Santa Cruz are unused, unpaved, and might have vegetation or other obstacles to development.

Improving alleys to allow access for an ADU, or a number of ADUs, would be prohibitively expensive for the homeowner.

Therefore, this program would provide funding to improve select alleys that are either good candidates for ADU access or where homeowners have shown an interest in developing an



ADU with alley access. Under the proposed budget four to six alleys might be improved. This program would be managed by the City's Public Works Department.

## **C.2 ADU Loan Program**

*Objective: Within three years, make at least 30 loans for affordable ADUs and establish a fund that will support an additional 30 loans for the subsequent three years.*

The City of Santa Cruz and the Santa Cruz Community Credit Union (SCCCU) have initiated a Loan Program to encourage the development of ADUs that have affordability covenants. The purpose of the Loan Program is to leverage City funds to create access to low interest loans for construction of ADUs to: (1) increase the number of low or very low income rental units in the City; (2) assist moderate/low-income residents to become home owners; & (3) create scenarios that would allow elderly residents to remain in their homes.

A 4½ % loan of up to \$70,000 will be provided to qualified borrowers. To qualify, borrowers must: (1) live in the City of Santa Cruz and at the same address as the proposed ADU; (2) have 50% of the loan amount as equity in their home; and (3) agree to rent only to low or very-low income tenants. The program is a three-way partnership:

- The City of Santa Cruz will initially fund a loan pool to be used as a partial guarantee for ADU loans;
- Community Ventures Inc. (CVI) the non-profit organization linked to the SCCCUC will administer the Program; and
- SCCCUC (and other lenders after the initial pilot year) will make loans at cost, processing the loan applications, initially providing 50% of funds for each loan, and recording affordability covenants on the property.

Both the City of Santa Cruz and CVI will continue to seek additional funding for the Loan Pool. Once the Loan Pool is fully funded and Credit Union/Bank funds are no longer needed, a two- tiered loan program may be considered with a 3% loan for very-low income housing (50% median) and 4½% loan for low-income housing (80% of median).

CVI and the SCCCUC share a common mission, which they approach from their unique structures and perspectives. Essentially, their shared mission is to effect local community social and economic development with a particular focus on serving people in need in our local region. CVI pursues this mission as a 501(c)(3) nonprofit, tax-exempt organization that can receive, and is largely dependent upon, charitable donations and is not regulated either financially or geographically as a financial institution. The SCCCUC pursues this mission as a 501(c)(14) regulated nonprofit, tax exempt, state chartered credit union that is responsible to and governed by its members as a financially self-sufficient Community Development Financial Institution (CDFI). In this context of separate entities sharing a common mission, it is most probable that all of the activities of CVI will have at least some overlap with the community development work of the Community Credit Union. Hence, much of the work of CVI is joint programs, such as this ADU Development Program, with the SCCCUC.

## **C.3 Job Training Program/Contractor Labor Assistance**

*Objective: Train 22 women over a three-year period in basic housing construction skills through the building of ADUs.*

Since ADUs are essentially miniature houses with all the elements of their larger counterparts, the construction of ADUs would provide an excellent opportunity for on the job training for carpenter's apprentices. Therefore, this proposal takes the opportunity to link an existing job-training program, the Women Ventures Project (WVP), a program of the Community Action Board of Santa Cruz County, Inc., with the development of ADUs.

The WVP is a free job training and job placement program for low-income Santa Cruz and Monterey County women with incomes under 200% of the poverty level who are interested in living wage, Non-Traditional Occupations (NTO's). WVP focuses on the building trade, transportation and public safety fields, and conducts quarterly 4-week training sessions with follow up job placement and retention services. Since inception in July 1999, WVP has graduated 78 women and has a 70% job placement rate. WVP is a certified Pre-Apprenticeship training program with the Carpenters Training Committee for Northern California and works collaboratively with a number of social service and community partners, including the County's One-Stop Career Centers, the Santa Cruz County Workforce Investment Board, the local ROP and Adult School program, and Cabrillo College.

WVP will manage the Job Training Component of the ADU Development Program. Essentially, the program is a wage subsidy program with the purpose of giving a WVP graduate a boost into the job market in order to get that "first job" experience. Job Training Program components include:

- Graduates from the WVP building trades training program will be placed with contractors to build ADUs, with the incentive of reduced salary costs.
- The program will provide ½-matching wage for apprentices at Union Scale for introductory apprentices (example: \$14.77 per hour in 02-03 = \$7.39 grant funds + \$7.38 contractor). Grant funds will only be used for work on ADUs.
- Contractors, are not required to but may pass a portion of their salary savings on to the ADU owner, resulting in lowered costs for the homeowner.
- WVP Apprentices can participate in subsidized employment for 3 months, depending upon demand.
- WVP will provide ongoing case management of approximately 2 hours a week for apprentices placed in the program. In other job placement programs, this guidance has proven to be crucial to the future success of the participants.
- A brochure advertising the program will be made to promote the program to contractors and homeowners building ADUs, with both the City and WVP participating in outreach efforts.
- A program evaluation survey tool will be developed to assess program results for placed apprentices and participating contractors and homeowners.

## **D. PROGRAM MANAGEMENT**

*Objective: To comply with all CPCFA requirements.*

The City of Santa Cruz Housing and Community Development Division and the Finance Department will manage the ADU Development Program.

### **D.1 Quarterly and Annual Reports**

The Housing and Community Development Manager will be responsible for making quarterly reports.

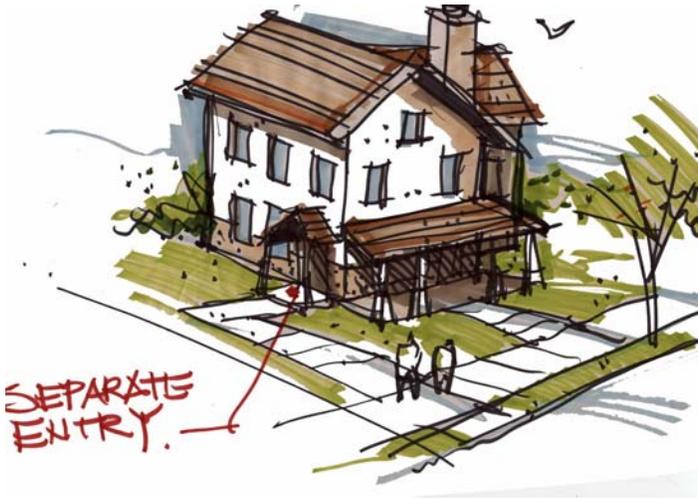
**D.2 Funding Management**

The City of Santa Cruz Finance Department will be responsible for reviewing, pre-approving, and submitting all required documents to the California Pollution Control Financing Authority for reimbursement and then disbursing funds to grant participants, as required.

## D. Eligibility and Funding Priority Worksheet

### Project Eligibility

#### Sustainability



The City of Santa Cruz has policies in place to “maintain a compact City with clearly defined urban boundaries” and to “develop a sustainable community in terms of environmental protection, land use distribution and densities, housing types and styles, economic development and job opportunities, and opportunities for social and cultural expression and recreation.” (Source: *City of Santa Cruz General Plan Policies*).

With these policies guiding development of the City over the last 20 years, the City has: (1) created a greenbelt around

the City; (2) continued to implement a policy of no annexation; and (3) developed a bus system where 95% of the city’s homes are within ½ mile of public transportation. The City has also developed extensive bike lanes and requires all new development to adequately provide for bicycle facilities. In addition, the City has turned its back on developing large malls that are car oriented in favor of strengthening a traditional downtown, resulting in a very lively, walkable environment providing shopping, entertainment, housing, and services in a more centralized location.

Densification of the surrounding neighborhoods through the ADU Development Program reinforces this centralized, “sustainable” policy that the City currently promotes.

#### Infill Development

The proposed ADU Development Program will meet the eligibility goal of promoting infill development in a unique way. ADU infill development takes place on existing lots allowing densification to occur with minimal disruption to the neighborhood fabric.

#### Pollution Reduction

By promoting ADU infill development, the proposed program will also help implement City policies to reduce pollution hazards and the degradation of the environment within existing neighborhoods/communities. Pollution hazards are reduced when more compact development occurs. Access to public transportation is enhanced. The distance to shops and services is reduced to walkable or bikable distances. And proximity to employment centers is improved. All of this adds up to a reduced dependence upon the automobile and resulting in less pollution and a reduced use of fossil fuel.

## Reduces Economic Distress

In May 2002, the median sale price for a single family home was \$532,000. This is up by \$50,000 from just last April. As the price of housing increases, so do rents. Over the last five years rents have increased by 29% for a two bedroom apartment and 18% for a three bedroom apartment. During this same time, the median household income only increased by 6.2%. Unfortunately the gap is growing.

Low and very-low income tenants cannot rent without overpaying for their homes. (Statistics show that 57% of renters overpay their rent in Santa Cruz.) Moderate income families can afford to rent but cannot afford to buy a home.

- For renters, ADU development helps increase the amount of affordable rental housing and, with the help of the proposed program, this housing will also be of good quality.
- For homeowners or buyers, ADUs provide an opportunity to augment mortgage payments with rental income. This makes the difference between owning and renting for many potential homebuyers or owners.

In relieving the economic distress for residents, economic distress in the City is also lightened. Without affordable housing, businesses have been and will continue to locate elsewhere. Affordable housing is one of the keys to a healthy economy in the City of Santa Cruz.

## Funding Priority

### Alternative Funding Sources and Lack of Resources

◆ **City General Fund:** The City's General Fund is used to fund the day-to-day operations of the City as well as projects that are necessary for the running and maintenance of the City where no other funding is available. This would be the usual funding source for capital improvements such as the proposed alley improvements. Housing related projects are typically funded from other sources.

**1. Actions Taken to Access Funding:** The City will commit staff time and resources to work on and help guide the program, part of which will be covered by the City's General Fund. However, requests for any additional funding have been turned down. During this year's round of budgets, the City Manager's Office has indicated that no new consultant contracts will be let or new projects started, given the current fiscal crisis of the City.

**2. Lack of Resources:** Over the last few months, the City of Santa Cruz has had to trim about 25 positions and cut numerous programs because of a fiscal crisis that is a result of a statewide economic slowdown and loss of several major businesses. Added to this is a threat that voters may repeal the City's Utility Tax, which makes up about 20% of the City's General Fund. Utility Tax Repeal is on the November 2002 ballot. Given the difficult fiscal situation facing the City, no City General Funds are available for an additional program such as this. The City Manager has made it clear that if this project proceeds, that it must be done through other funding sources.

◆ **Community Development Block Grant (CDBG):** CDBG funds are allocated to the City of Santa Cruz by the federal Housing and Urban Development Department (HUD)

to provide for a wide range of community development activities. The City has an annual allocation of about \$750,000 in CDBG funds of which \$150,000 would be available for social service programs and \$350,000 for projects. The remaining funds cover administration and staff costs. The proposed ADU program has potential to be partially funded under either category if funds were available.

**1. Actions Taken to Access Funding:** CDBG administration funds will be used to hire a consultant to facilitate workshops and the ADU Development Manual, which are eligible expenses for administrative funds under CDBG requirements. In addition, City staff members that are funded by CDBG will be working on the project.

**2. Lack of Resources:** The City's CDBG funds are allocated annually to non-profit organizations that provide needed services in the City. Funds were committed in March of this year. No extra funds other than limited administration funds are now available. In fact the CDBG project budget is over committed to the point that the City has had to take out a Section 108 loan from HUD, committing future CDBG funds over the next five years, in order to finance construction of a community and childcare center that will be part of a 48 unit low income housing development that is in the poorest neighborhood of our City. Construction is scheduled to start this year. No other funds are available other than administration funds, which will be used for the project as noted above.

- ◆ **HOME Investment Partnership (HOME):** HOME funds are allocated to the City by HUD to increase the supply of housing for low-income persons. The City has an annual allocation of about \$450,000. Under HUD regulations, a portion of this program could be funded.

**1. Actions Taken to Access Funding:** Staff has reviewed the current HOME budget and potential unused funds to determine if any funds might be available for this ADU Development Program. Unfortunately at this time no funds are available.

**2. Lack of Resources:** The City Council has already committed all available HOME project funds for a 38-unit senior housing project, which will start construction next year. Again, because of the severe funding shortage and the great need for housing in the City, any unused funds in other City housing programs have even been reallocated to fund this project. In addition, because of the severe budget crisis facing the City, funds to complete the City's Housing Element have been shifted from the General Fund to the HOME fund, essentially using up available administrative funds. Therefore no HOME funds are available.

- ◆ **"In Lieu Funds":** The City of Santa Cruz has an "Inclusionary Ordinance" that requires developers to either build 15% of any project over 5 units as affordable housing or, "In Lieu of" constructing units, the developer may pay into an affordable housing fund to be used for other affordable housing development.

**1. Actions Taken to Access Funding:** Pending final Council approval, up to \$400,000 of the "In Lieu Fund" (\$450,000) will be used as seed money for the ADU Loan Pool.

**2. Lack of Resources:** Since the intent of this fund is to build new housing units, this source is being used to fund the ADU Loan Pool. Under the proposed parameters for the Loan Program, this would fund only about 12 affordable ADUs; therefore, we are

requesting a loan of an additional \$150,000 to be paid back in five years. This \$550,000 Pool could then fund about 16 units. Currently the “In Lieu Fund” contains about \$450,000 of which \$400,000 would be committed to this program. The additional \$50,000 must be available to cover a previous commitment.

- ◆ **California Housing Finance Agency (CHFA) HELP Program:** Under the HELP Program, a City may apply to borrow up to \$500,000 at 3% interest. The program is competitive and there are currently two rounds of funding (spring and fall). HELP Program funds must be used to directly provide affordable housing units and may not be used for technical assistance or administrative costs.

1. **Actions Taken to Access Funding:** The City has initiated a discussion with CHFA staff regarding the possibility of applying for a HELP Program loan for the ADU Loan Pool. An application may be submitted for the spring ‘03’ round of funding.

2. **Lack of Resources:** CHFA HELP Program funds are competitive. In order to be competitive, the ADU Loan Program should be initiated and existing funds in use.

- ◆ **Other Grant Sources:** The City of Santa Cruz and Community Ventures, Inc. have made a commitment to pursue at least three additional funding sources for the ADU Loan Pool. The City of Santa Cruz will also continue to pursue other grant funding for other portions of the project.

1. **Actions Taken to Access Funding:** City staff has been searching for appropriate grants that might fund a portion of the project. At this time one funding source (Ford Foundation) has been identified and a letter of inquiry sent. The City is committed to continuing pursuit of alternative funding sources.

2. **Lack of Resources:** Grant resources are highly competitive and typically take a significant lead to get. Since this program has just been developed, there has been insufficient time to receive other grant funds.

- ◆ **Other Collaborative Partners Funding:** The Santa Cruz Community Ventures Inc. and the Community Action Board of Santa Cruz County Women Ventures Project have funding sources that are independent of the City.

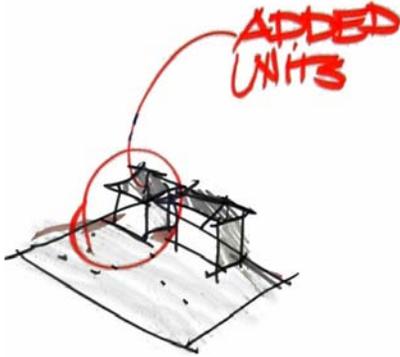
1. **Actions Taken to Access Funding:** Each organization that is collaborating on this project has been asked if they have any additional funding that might be available at this time. In addition to staff time, the Women Ventures Project will contribute their standard training program for the ADU Development Program participants.

2. **Lack of Resources:** None of the organizations have additional uncommitted funds available.

## **E. Project Evaluation Information**

### **1. The proposed ADU Development Program promotes the Sustainable Development objectives in the following ways.**

- **Promotes Infill Development**



Santa Cruz is a built out City with very little land left for traditional infill development. With the high value of land, even the hard to develop sites are being used. ADU development provides a great opportunity to create new infill opportunities by encouraging homeowners to essentially double-up on their single-family lots.

This proposed Program and recent zoning code amendments geared toward encouraging ADU development, are intended to “jump start” what has been a slow development opportunity. Many homeowners want to build an ADU but feel they lack the ability or are concerned with the going through the difficulties of going through the development process. The ADU Development Program will give homeowners the skills to move forward with their ADUs. The ADU Development Manual and Videos and Loan Program will provide a solid resource base for homeowners to complete ADUs. The impacts of the proposed ADU Development Program will continue well beyond the three-year program period, resulting in potentially hundreds of “infill” development housing units.

- **Ensures more efficient, well-planned higher density use of land.**

*The New Urban News (December 2001 issue)* states that, “Accessory units are an easy way to get more people in the same area and therefore support low vehicle miles traveled and all of the good environmental outcomes from density. Accessory units offer density without making the street appear overbuilt.”

The City of Santa Cruz, as with many urban areas that wish to preserve the surrounding environment, has recognized that it can no longer be a city only of single-family homes. In addition to development of new high density housing along transit corridors and in the downtown area (over 200 new multi-family units are currently being built or are in the planning stages in the Downtown area), ADU development will provide an alternative housing type that will result in more efficient use of land in the City’s single family neighborhoods. The new high-density multi-family infill development and the ADU program will work symbiotically to provide for a well-planned densification of the City to accommodate population growth in an efficient manner.



- **Balances job growth with new housing.**

The ADU Development Program affects the balance of job growth with new housing in two ways: (1) there is a potential of 20-25 new jobs and 30 new housing units (per year) as a result of the Program; and (2) the new ADU housing, with its inherent

affordability, will actually help retain jobs that might be lost in the City due to the current lack of affordable housing.

In January 2002, the National Association of Home Builders ranked Santa Cruz as the least affordable housing market out of 186 metropolitan areas in the United States. This has had a major impact on the ability of the City to retain and attract new businesses. In the last 5 years, the City of Santa Cruz has lost three major industries, representing over 2,000 jobs. The University of California at Santa Cruz surveyed prospective staff members who turned down positions with the University. Virtually every one cited lack of housing as one of, if not the main reason for not accepting a position.

The true key to job/housing balance in the City of Santa Cruz is the provision of affordable housing units. The proposed Loan Program is designed for homeowners that are willing to sign affordability covenants for ADUs in exchange for technical and financial assistance, thus providing extra incentives to create low or very-low income housing. In addition, it is anticipated that essentially all ADUs will have affordable rents, even without covenants.

A survey of rents relating to ADUs in the City of Santa Cruz indicates that ADUs appear to rent for between \$750 and \$1,000 with some going as high as \$1,200. This matches restricted affordable rents (complying with HUD standards) for a person between 80% and 100% of the median family income in the City of Santa Cruz. By virtue of their size and the local market, ADUs provide an excellent source of affordable housing thus helping the jobs/housing balance by providing homes for the workers of the community, allowing them to continue to work in the area..

- **Ensures a proper mix of business and housing, including affordable housing, in communities and neighborhoods.**

ADUs represent a form of affordable housing that can be scattered throughout any neighborhoods, thus providing for a better mix of income levels throughout the community. By providing for an ADU as an affordable housing unit, in virtually every neighborhood in the City, low and moderate income employees are more likely to be able to find housing close to their work in addition to creating more economically heterogeneous neighborhoods.

This spread of units and the densification of traditional single family neighborhoods will also help increase the client base for neighborhood commercial centers, this helping to support smaller businesses that are located in these centers, helping to retain a proper mix of business and housing in the community as a whole.

In addition, the City of Santa Cruz has a number of small, corner grocery stores scattered throughout its neighborhoods. In many Cities, these “Ma & Pa” type of stores have had to close their doors because of competition from larger grocery stores. Santa Cruz is fortunate to have retained many of these stores. The densification of neighborhoods will increase the likelihood that these stores may remain open, thus preserving a vital part of the neighborhood character.

To again quote the December 2001 article in *New Urban News*, ADUs “are achieving the mix of affordability that we want on an inclusionary basis, rather than through the

Pods of the conventional subdivision. It's a practical way of achieving one of the more elusive goals ...” of a community.

- **Promotes land use and policies, programs and projects that support alternative transportation options;**

The City of Santa Cruz aggressively promotes alternative transportation in all of its policies and Council decisions. The number one goal of the General Plan Circulation Element is to: “Develop a comprehensive, multi-modal circulation planning program that takes as its highest priority reduction of automobile trips by the creation of viable alternative transportation modes, effective transportation systems management programs, and integration of land use and circulation planning.” In addition, a key goal of the Land Use Element is to “Develop compatible relationships between land use and circulation patterns and encourage land use patterns that encourage an efficient transportation system and discourage urban sprawl and excessive dependence on the automobile.”

The proposed ADU Development Program promotes both of these policies in that densification of neighborhoods, allows for and promotes a stronger bus system, encourages greater use of bicycles and increases the walkability of the City. As previously noted, 95% of the homes in the City of Santa Cruz are located within ½ mile of a bus route. Because of this coverage, ADU developments in all neighborhoods will support/reinforce this extensive bus system. Santa Cruz also supports extensive use of bicycles and it is anticipated that residents in ADUs will also take advantage of the numerous City bike routes as well as bike racks and lockers located throughout the City and in all new developments.

- **Develops and implements policies, programs and projects that reduce pollution hazards and the degradation of the environment.**

Goal number five of the Environmental Quality Element of the City’s General Plan is to: “Implement to the greatest degree possible, transportation strategies that reduce the consumption of fossil fuel, and energy strategies that increase energy efficiency and energy conservation in all sectors of energy usage and which increase the production and use of renewable energy sources within the City.”

As noted above, the development of ADUs supports the transportation strategy to reduce consumption of fossil fuel through the reduced use of automobiles that will result from the more compact development of the City and accessibility to public transportation. Additionally, the ADU Development Program supports increases in energy efficiency and energy conservation by including energy efficiency/conservation measures in the ADU Development Manual and will require all ADU development that is assisted under this Program, with either a loan or job training assistance, to include these measures in the ADU design, whenever feasible.

The combination of reducing automobile trips and building more energy efficient housing will result in a reduction of pollution and degradation of the environment as well as reducing the need for additional infrastructure such as streets, storm drains, etc.

- **Encourages communities centered around civic spaces.**

Densification of existing neighborhoods combined with City policies that focus commercial development efforts in the Downtown, reinforces the goal of centering the

community around the downtown area, which represents the City's most prominent civic space. Densification of the existing neighborhoods as apposed to development of new housing areas, allows this existing, historic pattern of streets to direct activities into this central civic space in the downtown. As previously discussed, most entertainment, shopping, and civic interaction occurs in Santa Cruz's Downtown.

- **Protects environmental resources.**

The first goal of the Community Design Element of the City's General Plan is to: "maintain a compact City with clearly defined urban boundaries". Goal number two is to "Protect and enhance the City's natural setting and scenic resources."

The proposed ADU Development Program promotes both of these policies in that densification of neighborhoods to accommodate current and future population growth allows the community to maintain the urban boundaries that have been established around the City, preserving the natural beauty of the area. Santa Cruz is blessed with a beautiful environment because these goals were established twenty years ago. Promoting ADU development continues to reinforce these goals by helping to reduce development pressures on key environmental lands.

## **2. The proposed ADU Development Program promotes economic development within Economically Distressed communities of Santa Cruz in the following ways.**

Although Santa Cruz may not fit the technical definition of an "Economically Distressed Community", on a functional basis, it is distressed because of the high cost of housing. In January 2002, the National Association of Home Builders ranked Santa Cruz as the least affordable housing market out of 186 metropolitan areas in the United States. (The association, a federation of 800 home-building groups, compares an area's median home price with its median income.) The study also indicated that just 6.9 percent of Santa Cruz County residents could afford to buy a median-priced home. In May 2002, the median sale price for a single family home was \$532,000 and for all homes, which includes condominiums, it was \$475,000. This is up nearly \$50,000 from April's median price.

Between 1996 and 2001, the median housing price increased 17.5% while rents for two bedroom and three bedroom apartments went up 29% and 18% respectively. During this same time period, the median household income only increased by 6.2%.

In 2000, about 50 percent of residents surveyed in a United Way telephone survey indicated that they spent over 50 percent of their income on housing and almost 18 percent spent over 75 percent of their income. Even though the median household income in the City of Santa Cruz, (\$65,500) is slightly higher than the median income for the State of California (\$58,400), a Santa Cruz family's disposable income that is left for food, schooling, and other expenses is reduced relatively more than other communities, reducing the effective family income so it is well below the median income for California.

If these trends continue, the increasing gap between housing costs and family income will bite even more deeply into a family's disposable income.

This program and these funds will do the following to promote economic development within the "distressed" community of Santa Cruz:

- **Potential to create 20-25 new jobs.** It is anticipated that the increased development of ADUs may result in about 20 to 25 new construction jobs. (Based on an estimate of

30-40 ADUs being built each year). The more innovative aspect of the program is that an ADU can be built where no other activity might take place (on a developed single family lot). Therefore, these 20+ jobs would be in addition to other construction jobs that will result from work on more traditional development sites.

- **Increase competitiveness of the City to attract businesses and therefore jobs.** Creation of more affordable housing units will increase the economic competitiveness of the City. In the last 5 years, the City of Santa Cruz has lost three major industries, representing over 2,000 jobs. The Wrigley's plant left the City in 1997; Texas Instruments left in 2001; and the Lipton processing plant will be leaving this fall.

Both the Wrigley's and Texas Instrument's manufacturing facilities are still vacant with no prospects in sight. Lack of affordable housing for workers is a major deterrent for new industries considering relocation to Santa Cruz. It is difficult to attract and then hold workers in this community. Even children of long-term residents are being forced to leave because of high housing costs. As previously stated, the University of California at Santa Cruz surveyed prospective staff members who turned down positions with the University. Virtually every one cited lack of housing as one of, if not the main reason for not accepting a position.

Recognizing that the ADU Development Program will not solve all of the City's housing problems, the addition rental units the program will generate will contribute to improving the housing and jobs crisis, helping to attract both industries and potential employees to the area. Increasing the availability of affordable housing is considered a major key to business attraction in Santa Cruz.

- **Links an existing building skills training program for women to ADU construction.** Since an ADU represents a "miniature" house, these units are excellent training ground for learning construction skills. Although the City of Santa Cruz has worked with the Community Action Board of Santa Cruz County on other efforts, this will be the first time in working with the WVP. Since the WVP is a certified Pre-Apprenticeship training program with the Carpenters Training Committee for Northern California and works collaboratively with a number of social service and community partners, including the County's One-Stop Career Centers, the Santa Cruz County Workforce Investment Board, the local ROP and Adult School program, and Cabrillo College, the links will also link the proposed ADU Development Program with these organizations as well.

### **3. The proposed ADU Development Program incorporates creative approaches to achieve development of affordable infill housing in the following ways.**

#### **Creative solutions to existing problems and demonstration of new and innovative approaches to planning and implementing ADU development.**

- **Creative Planning:** By encouraging the development of ADUs, the City of Santa Cruz is building upon the existing fabric of its neighborhoods. Instead of designating and/or rezoning sites for multi-family housing, the City is encouraging this densification to be scattered throughout the neighborhoods. The added benefit here is that there is no concentration of these new affordable units, thus spreading the impact of the housing throughout the City rather than concentrating it in just one neighborhood.

- **Creative Implementation:** Traditionally, rental housing is built as large multi-family developments. However, through a “lot-by-lot” approach, the City expects to equal or exceed the average number of units built in the City. For example, it has taken over five years to assemble land, complete the design, and get funding for a 48 unit affordable housing project in the City’s Beach Flat Community. By doing affordable rental housing development “lot-by-lot”, the City expects to increase the affordable rental housing stock in the city by up to 150 units in the same time period, with the goal that at least 50 of those units will have affordable covenants.
- **Creative problem solving regarding lack of available land:** One of the greatest problems facing the City is the lack of developable land. By encouraging development of ADUs, it is tantamount to creating a site where one did not exist. This is an extremely creative use of resources (land) and addresses one of the Cities greatest problems.
- **Creative problem solving regarding slow development rate of ADUs.** Traditionally the City allows a combination of market forces and development codes to regulate the number of housing units that get developed. Essentially this Program will create a partnership between the City and the homeowner to build ADUs. The City will make the path easier for the homeowner to design, build, and fund an ADU while the homeowner will agree to use their property to increase the amount of affordable rental housing in the City of Santa Cruz.

**Involvement of Other Jurisdictions:**

- **County-wide Collaboration:** Both the Community Action Board of Santa Cruz County and the Santa Cruz Community Credit Union are County-wide non-profit organizations that will be participating and partially funded by program elements.
- **Public Workshops:** Other jurisdictions in Santa Cruz County that are facing the same problem will be invited to attend all workshops and participate in the Design Charette.
- **Manual & Video Tape Availability:** Materials that are produced by the program will be made available to other jurisdictions.

**Other creative features:**

- **Collective Design Approach:** By bringing local architects into a “charette” (a term that is used for a lengthy working session typically used by design professionals), we are able to bring a great range of experience and build upon the creative energy that typically results in these collaborative working sessions. By doing this, we hope to get all of the creative design ideas for solving common problems facing the development of ADUs. However recognizing that it is difficult to do actual working drawings “by committee”, the design of the prototypes will be assigned to only one or two architects to complete. This dual approach is indeed different in that typically a City would hire an architect to do the designs without the benefit of the creative charette as a kick-off.
- **Variety of Incentives:** The program uses a variety of incentives to assist homeowners in building their ADU. This is in recognition that not everyone’s needs are the same and that by providing this variety, the City has a better chance of reaching a larger pool of homeowners.

- **Loan Pool:** Combining City funds in a loan pool and bank funds to create a low interest loan is unique. Essentially the City funds will be used to back ½ of the loan while bank funds will be used for the remainder. Typically, loans are only from one source. In this program, the City is able to leverage its funds by 50% while still keeping the loans low enough to act as an incentive to build an affordable ADU.
- **Links with Job Training:** Although this component does not directly impact the number of ADUs that are built, it seemed like such a good opportunity to bring the efforts together and it does help to improve the local economy through job creation.

#### **4. The expected outcomes of the proposed ADU Development Program will be implemented for the following reasons.**

The expected outcome of the proposed ADU Development Program is to build at least 30 ADUs a year, promoting infill development, reducing pollution primarily through reduced use of automobiles, and reducing economic distress by providing affordable rental housing. There are numerous reasons that the City is confident that these ADUs will be built and other outcomes will be realized, including:

##### **(1) The program provides incentives for and makes it easier to build ADUs.**

- **ADU Loan Program:** Availability of a 4 ½ % loan will reduce the investment required to build an ADU. (The monetary incentive of rental income will also provide an incentive to develop ADUs.)
- **ADU Construction Training Program:** The salary supplement program through Women Ventures may provide added incentives for contractors to be willing to build ADUs, with the possibility of passing savings on to the homeowner.
- **Technical Support:** Under the proposed program, professional assistance will be available to homeowners in designing their ADUs.
- **Prototype Plans:** Homeowners will have a leg up in designing their ADU by using the prototypical plans that will be developed as a part of this program.

##### **(2) Major impediments for ADU development have been or, with this program, will be removed.**

- **Changes in Zoning Code:** On June 26, 2002, the City Council passed a sweeping ADU zoning code amendment that removes three major impediments for developing legal ADUs. The first is removal of the covered parking requirement. This frees up garage space to be used for ADU development. This is the easiest and most popular form of ADU in Santa Cruz. Secondly, a portion of a front yard can be paved and counted for up to three parking spaces. This means that a lot that might have been too small to contain an ADU and the required parking, now will only have to accommodate the ADU. Third, ADUs will no longer have to go to the Planning Commission for approvals which reduces fees and eases the approval process.
- **Fee Reductions:** Planning fees for ADUs have been reduced by using a square footage fee versus a unit fee. In the past, fees for a 3,000 square foot house were the same as for a 400 square foot ADU. The City Council is considering further fee reductions in water hook-up and recreation fees.

- **Technical Support:** One of the major impediments to developing ADUs has been lack of knowledge on the part of homeowners. The proposed ADU Development Program will provide an opportunity for homeowners to learn about how to develop an ADU.
- (3) Increased awareness of the economic advantages of building ADUs has begun and will continue, with the help of this program.**
- **Community Outreach:** As a part of the workshop series, the City will be promoting ADU development through newspaper ads and brochures. Through these efforts, homeowners will have increased knowledge of the advantages of building ADUs as well as help in learning how to actually develop one.
  - **Economic Conditions:** The time is ripe for homeowners in Santa Cruz to build ADUs. The cost of housing continues to be extraordinarily high. One way homeowners have to get help with mortgage payments is to build an ADU. It is estimated that a typical ADU is paid off within 7 years. Now that many of the impediments to building ADUs are gone with the new zoning changes, it is expected that more homeowners will take advantage of today's lower interest rates, and invest in augmenting their mortgage payments with income from an ADU. The Planning Department has already seen a 300% increase in applications for building permits, up from 5 in 2000 to 15 in 2001.
- (4) Community support for increased ADU development will help in the success of the program.**
- **Community Support:** There is a great community awareness of the need for affordable housing. Community groups and individuals will help in the promotional efforts to get ADUs built. Please refer to the attached letters (Section I. Program Documentation) that have been written in support of ADU development as well as a recent editorial article supporting ADUs.

**5. The proposed ADU Development Program is applicable and transferable to other communities in the following manner.**

One of the strengths of the ADU Development Program is that it is both applicable and easily transferable to other communities. The City of Santa Cruz is not alone in facing the dilemma of the need to accommodate housing growth within a City that is dominated by single-family neighborhoods. The following are ways that this information will be transferred to other constrained communities:

- The ADU Manual and Workshop Videos will be available for other communities to use to help develop zoning and design guidelines or to promote development of ADUs. The project budget includes copying costs for 50 extra manuals and 20 extra videotape sets that can be given to other communities in California on a first come first serve basis.
- Full sized architectural plans of the design prototypes can be provided to other cities at cost, upon request.
- The Manual will also be available for downloading on the City of Santa Cruz's website.

Substantial research for ADU prototypes on the Internet indicates that there is nothing like this now available to Cities. Easy accessibility of this information may go a long way to promote this type of infill development in other cities. To help demonstrate how useful the

ADU Development Manual can be to other communities, the following is a draft outline of the proposed manual.

#### Draft ADU Development Manual Table of Contents

1. Introduction to ADUs
2. ADU Zoning and Design Standards
3. Prototypical Designs & Details for Typical ADUs
  - Detached Garage Conversion
  - Attached Garage (or In House Room) Conversion
  - Basement Conversion
  - Apartment Over Garage
  - Free Standing Unit in Back Yard
  - Alley Unit
4. Energy Conservation
5. Building Code Compliance
6. Approvals Process
7. Construction Tips
8. Lessons Learned: A description of common mistakes and how to avoid them.
9. Examples of ADUs in Other Communities: Photographs; Design Guidelines; Other Related Studies.
10. Resource Material: Glossary of Terms, Useful Websites, list of manufacturers for special components, other reference material.

## F. Project Budget

Program Component	Budget Category	Description	Other Program Funding		SCGL Funding	Total
			Source	Amount		
A.1 Design Competition	Program Expenditures	Meeting Facilitator	CDBG Admin.	\$1,000		\$1,000
		Information Packets for Participants			\$1,000	\$1,000
	Program Promotion	Mail Out to AIA members	CDBG Admin.	\$200		\$200
	Meeting Supplies	Charette/Workshop Materials & Meals/Travel Expenses			\$5,000	\$5,000
A.2 Prototype Development	Program Expenditures	6 Design Contracts -- average @ \$10,000			\$60,000	\$60,000
A.3 Prototype Review	Program Expenditures	Consultant Assist in Design Review	CDBG Admin	\$1,000		\$1,000
B.1 Workshop Series	Program Expenditures	Meeting Facilitator	CDBG Admin.	\$4,000		\$4,000
	Contractual/Promotion	Brochure Dev. & Printing & Newspaper Ads			\$3,000	\$3,000
	Meeting Supplies	Meeting/Workshop Materials & Refreshments			\$2,000	\$2,000
B.2 Manual & Videos	Program Expenditures	Consultant for Manual Development	CDBG Admin.	\$10,000	\$10,000	\$20,000
		Video Production			\$4,000	\$4,000
	Training & Conferences	Reproduction of Manual & Video Copies			\$10,000	\$10,000
B.3 Technical Support	Program Expenditures	Arch., Electric. & Plumb Consultants -- 40 hrs/yr @ \$150-200/hr			\$21,000	\$21,000
B.4 On-Going Evaluation	Program Expenditures	Survey Development & Processing			\$2,000	\$2,000
C.1 ADU Alley Improvements	Program Expenditures	Construction Improvements			\$100,000	\$100,000
C.2 ADU Loan Program	Program Expenditures	Loan Pool	City "In Lieu" Fees	\$400,000	\$150,000 (Loan)	\$550,000
C.3 ADU Job Placement	Program Expenditures	22 women 4 week training @ \$5,500	Other CAB Grants	\$121,000		\$121,000
		22 women, 12 wks. @ ½ union wage (\$7.50/hr. ±)			\$79,200	\$79,200
		Program Survey			\$300	\$300
		Program Administration			\$12,000	\$12,000
	Contractual/Promotion	Program Brochure Development & Printing			\$1,000	\$1,000
	Personnel	Case Management			\$7,800	\$7,800
<b>TOTAL</b>				\$537,200	\$468,300	\$1,005,500

## G. Project Timeline

Component	Task	Activity	Timeline	Benchmarks	Product
<b>A. Design</b>	A.1	Competition Development	9-10/02	<ul style="list-style-type: none"> <li>Contact all architects in Santa Cruz and Monterey Counties 10/14</li> </ul>	Competition Brochure
		Charette/ Workshop Competition	Saturday, 11/2/02	<ul style="list-style-type: none"> <li>Report on Concepts &amp; Key Issues Complete 11/18</li> </ul>	Summary of Results of Charette
	A.2	Prototype Development	11/02-2/03	<ul style="list-style-type: none"> <li>Kick-off Meeting /Pairing of Designer &amp; Homeowner 11/20</li> <li>Preliminary Plans Complete 1/10/3</li> <li>Plans Complete 2/21/03</li> </ul>	Architectural plans and details for 6 prototype ADUs
	A.3	Plan Review	2/03-4/03	<ul style="list-style-type: none"> <li>Individual Mtgs with homeowners &amp; City staff</li> <li>Revised Plans Submitted</li> <li>Planning Commission Hearings</li> <li>Planning &amp; Building Approvals Complete</li> </ul>	Approved Prototype ADU Plans
<b>B. Technical Assistance</b>	B.1	Homeowner Workshops	5/03	<ul style="list-style-type: none"> <li>Homeowner outreach through mailers and newspaper ads.</li> <li>4 workshops completed</li> </ul>	Videos and Meeting Records
	B.2	Manual and Video Development	6-7/03	<ul style="list-style-type: none"> <li>Draft Manual Complete by 7/03</li> <li>Final Manual Complete by 8/03</li> <li>Videos Edited for Television by 8/03</li> </ul>	Manual and Television Ready Video Tapes
	B.3	Technical Support	9/03-8/05	<ul style="list-style-type: none"> <li>At least 100 homeowners receive ADU manual</li> <li>At least 30 homeowners provided technical assistance each year.</li> <li>30 homeowners per year construct ADUs with help of program..</li> </ul>	Homeowner Applications for ADU Development
<b>C. Development/ Construction</b>	C.1	Alley Improvement Program	9/04-8/05	<ul style="list-style-type: none"> <li>Alleys identified for improvements.</li> <li>Engineering plans completed.</li> <li>Alley Improvements Constructed</li> </ul>	2-3 alleys improved for ADU access
	C.2	ADU Loan Program	9/02 continuous	<ul style="list-style-type: none"> <li>City/SCCCU Agreements Completed 9/02</li> <li>Loan Pool Established 9/02</li> <li>Pilot Program Completed 9/03</li> <li>Program opened to other lenders 9/04</li> </ul>	Loan Program
	C.3	Job Training/Contractor Labor Assistance	1/03-8/05	<ul style="list-style-type: none"> <li>Contractor/Homeowner Brochure Complete</li> <li>Enrollment of Trainees</li> <li>Enrollment of Contractors</li> <li>Year 1: 5 participants</li> <li>Year 2: 7 participants</li> <li>Year 3: 10 participants</li> </ul>	22 women trained to build homes.
<b>D. Program Management</b>	D.1 & 2	Reports and Fiscal Management	9/02-8/05 or 8/07 (for loan)	<ul style="list-style-type: none"> <li>Reporting formats established</li> <li>Funding Agreements with Community Ventures (SCCCU) and Women ventures Project (CAB) completed &amp; operational.</li> <li>Quarterly and Annual Reports submitted on time.</li> </ul>	Quarterly & Annual Reports

## **H. Resumes**

Resumes of the following are provided:

**Overall Project Manager: Carol Berg,** City of Santa Cruz Housing and Community Development Manager

**Finance Staff:** Lisa Saldana, CPA, City of Santa Cruz Accountant II

**Technical Support Co-Manager:** Richard Stubendorff, City of Santa Cruz Chief Building Official

**Alley Development Program Manager:** Christopher J. Schneider, Assistant Director/City Engineer City of Santa Cruz Public Works Department Assistant Director/City Engineer

**ADU Loan Fund Program Manager:** William Leland, Executive Director, Community Ventures Inc.

**ADU Job Training Manager:** Helen L. Ewan Program Director Community Action Board of Santa Cruz County, Inc., Women Ventures Project

## **I. Project Documentation**

### **Additional Information Provided:**

Newspaper Article: “Granny-unit vote tonight”, Editorial Page, Santa Cruz Sentinel, June 24, 2002.

### **Letters of Community Support:**

- Housing Choices Coalition
- Community Housing Land Trust of Santa Cruz County, Inc.
- Affordable Housing Advocates
- Barry Swenson Builder