



Department Source: Community Development - BSD

To: City Council

From: City Manager & Staff

Council Meeting Date: November 5, 2018

Re: Accessory Dwelling Unit incentives and changes to the affordable housing fee waiver ordinance

## Executive Summary

The City Council has requested development of a fee waiver incentive program that would waive certain building permit-related fees for accessory dwelling units (ADUs), for a limited time or number, as a means to induce more construction of smaller affordable housing units. Attached for council consideration is an ordinance that will waive fees for accessory dwelling units.

The ordinance in a separate section also broadens fee waiver assistance to housing development organizations that are building affordable units without the benefit of another city subsidy.

Additional actions concerning ADUs may include amendments to Chapter 29, the Unified Development Code, to remove potential regulatory barriers to the housing.

## Discussion

The City has made amendments to the previous zoning ordinance to include a housing type known as "accessory dwelling units." Historically, these small houses or apartment additions have been known simply as second dwellings or cottages. Depending on style and purpose, the second dwelling units may also be referred to as "granny flats," "mother-in-law units," "elder cottages," "carriage houses," "alley houses," "garage apartments," or other names. The ADU housing type is permitted by the Unified Development Code, subject to "use-specific standards." The ADUs are permitted-as-of right, subject to development standards, in the two-family and multi-family districts, and they are permitted as conditional uses in the single-family district (a conditional use requires a Planning & Zoning Commission hearing and a Council approval of the specific site).

Since the concept of ADUs has been introduced to the zoning code in 2014, only two true ADUs have been constructed. The dearth of ADUs could be explained by a number of factors including front-end development costs and regulatory constraints. Council has heard some testimonials that the cost of development fees and charges and some of the development regulations may be an impediment to ADU construction. The Council has responded by requesting that a program be created to waive development fees for ADUs for up to three years or 30 total dwelling units, whichever will be the first to occur.



## **Proposed ADU Incentive Program**

The following program would launch the ADU incentive. The ordinance provides that staff will report on the ADU program and the waiver programs in general to Council and the Council may then extend, modify, or discontinue the program as it deems appropriate. A periodic review will be easier to manage than a maximum number of housing units.

### **Eligibility:**

1. The proposed dwelling must satisfy the definition of accessory dwelling unit and must be in compliance with applicable regulations.
2. The ADU must be constructed in an already developed area and not part of a new development that requires extensions of public infrastructure. Lot reconfigurations and resubdivisions in developed neighborhoods with available infrastructure are not considered new development.
3. The applicant must provide a guarantee that the ADU will not be used as a short-term rental or other type of guest residence.

### **Waived fees (rates)**

Full waiver of building-related fees for an ADU involve the following:

Building permit fee: \$2.25 per \$1,000 of value

Electric, plumbing, mechanical & fuel gas fees: \$35.00 minimum, each

Right of way permit (driveway apron, sidewalk) \$50.00

Development charge: (funding for major roadways) \$0.50 per gross square foot

Storm water development charge: \$0.09 per gross square foot

Sewer utility connection: \$2,400 per dwelling unit for 5/8-inch water meter

Water system equity charge: \$1,576.00

Water meter fee: \$700.00

A building permit fee on an 800 square-foot ADU, no basement, is approximately \$207. Eight-hundred square feet is used because that is the maximum size of ADU. Adding in the other charges, the total "out-the-door" cost of a building permit is approximately \$5,500.

### **Discussion**

The fee incentive may be viewed as an inducement to build more ADUs in existing neighborhoods which are desired because they are by nature more affordable for their occupants and provide supplementary income or related living convenience to their owners. Alternatively, Council may take the extra step of making the incentive conditional on guarantees that accessory units will be sold or rented at affordable rates, and leased to families that may not otherwise be able to afford a house. This would add an administrative burden to the program.

A number of cities and jurisdictions include fee incentives in their affordable housing programs. Portland, Oregon has a program designed specifically for ADUs.



Advocates for a Columbia ADU incentive program have cited Portland, Oregon's program. The Oregon city recently made its fee incentive permanent. The Portland program has the following features:

- ADUs that add housing capacity by renting on at least a month- to-month lease receive waivers of "system development charges" (or SDCs, i.e., infrastructure connection charges) for a period of 10 years.
- Because construction of ADUs for use as short-term rentals has been controversial and is not considered to add affordable housing capacity, applicants must sign a covenant guaranteeing that they will not use their ADU for short-term rental. The amount of the fee waiver must be paid back at a 150 percent rate if violations occur.
- Other than adherence to development restrictions and the promise to use the ADUs for homeownership or long-term rental for ten years, the Portland incentive program does not demand continuous occupancy by low- or moderate-income households. The philosophy is that the smaller space in a central location is by nature more affordable to occupants and less costly to the public because smaller living space encourages less energy consumption, reduced goods accumulation, and generally shorter journeys to work, schools, clinics, and grocery stores.

### **Amendments to Fee Waiver Ordinance**

The city has an existing fee waiver ordinance for affordable housing units that are already funded by the city's affordable housing programs. Staff recommends that separate sections be created in the fee waiver ordinance so the ordinance provides an overview of all fee waiver programs related to housing. Therefore the ordinance prepared for Council consideration also extends fee waivers to housing development organizations constructing affordable housing units regardless if they receive city housing funds to do so or not. A request for such assistance was made by Habitat for Humanity in May of this year.

At some stage the fiscal impact of construction fee waivers will have an impact on the fee and rate structures for other customers. Staff recommends the total number of fee waivers be monitored not only for fiscal impact but also effectiveness in meeting Council's affordable housing and affordable living objectives.

### **Zoning Changes**

In addition to the fee waiver program Council has also requested an ordinance reducing requirements for driveway construction and off-street parking for accessory dwelling units. While amendments to Chapter 29 must follow a separate track through the Planning and Zoning Commission, staff has prepared an initial draft amendment to the "use-specific standards" that currently govern the size, location, and site improvement requirements for ADUs. In this proposal existing gravel driveways may be used or new gravel driveways may be constructed provided a hard surface is not required by another section of the city code, for example fire access. Driveway aprons or approaches in the public right-of-way would still have to be paved according to city specifications. The off-street parking requirement is reduced from one additional space to no required additional off-street



parking for one to two bedroom ADUs and reduced from two to one additional space for three bedroom ADUs. A cap on the number of bedrooms is recommended.

## Fiscal Impact

Short-Term Impact: Construction of 30 ADUs (which was the suggested maximum) in a three-year period would result in gross revenue forgone to the Utilities enterprise funds and to a lesser degree, to the General Fund building-related fees. Fee revenue forgone could be as much as \$120,000. If the premise is accepted that the fee waivers induce the construction, however, the connection and meter charges would not be collected anyway. It can be argued that the fee waiver adds additional customers for city services without adding additional infrastructure.

Long-Term Impact: If the program succeeds during the pilot period, staff can evaluate the benefits of infill construction against the fee revenues forgone.

## Vision & Strategic Plan Impact

Primary Impact: Health, Social Services & Affordable Housing, Secondary Impact: Development, Tertiary Impact: Community Character

### Strategic Plan Impacts:

Primary Impact: Social Equity, Secondary Impact: Economy, Tertiary Impact: Infrastructure

## Legislative History

| Date           | Action  |
|----------------|---|
| March 20, 2017 | Approval of the Unified Development Code including use-specific standards for accessory dwelling units. |
| June 20, 2016  | Creation of the Affordable Housing Fee Waiver and Fee Rebate Programs                                   |
| April 21, 2015 | Accessory dwelling units zoning ordinance amendment (definitions; clarifications)                       |
| July 7, 2014   | Accessory dwelling units zoning ordinance amendment   |

## Suggested Council Action

Approve the amendments to Affordable Housing Fee Waiver Program to authorize the Accessory Dwelling Unit incentive program and extend affordable housing fee waivers to CHDOs building affordable housing.