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Creating Financing Programs, Incentives, and Technical Assistance to Increase Production of Accessory Dwelling Units

The County of Los Angeles (County) is facing an unprecedented housing crisis. Prior to the COVID-19 pandemic, over 500,000 affordable units were needed to meet the needs of the renters across the County. Due to the economic downturn from the pandemic over the past year, a staggering number of households are at risk of falling into homelessness. The expansion of affordable housing options in Los Angeles cannot come soon enough.

Over the last decade, there has been an increasing interest in Accessory Dwelling Units (ADUs) across California. An ADU—also known as granny flats, second units, guest houses, and casitas—is an attached or detached residential dwelling unit that provides complete independent living facilities for one or more persons and is located on the same lot as a proposed or existing primary dwelling. Sweeping State legislation in 2016 and 2019 has made it easier than ever to build new ADUs or permit existing ADUs in many jurisdictions.

Since 2016, the Board of Supervisors (Board) has taken a number of actions to

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promote the production of ADUs, including launching programs and streamlining processes. In February 2016, the Board adopted strategy F4—Development of Second Dwelling Units Pilot Program—as one of the 47 Homeless Initiative Strategies to combat and prevent homelessness in the County. The strategy allocated \$550,000 to launch a program for the construction of ADUs to house people experiencing homelessness. In 2019, the County allocated additional funds to expand ADU development. In October 2020, the Board adopted Ordinance No. 2020-0059 amending the Los Angeles County Code, Title 22 – Planning and Zoning, establishing new development standards and case processing procedures for accessory dwelling units and junior accessory dwelling units in unincorporated areas of the County consistent with revisions to State law. In May 2021, the Board also adopted a motion to include an implementation program in the Draft 2021-2029 General Plan Housing Element Update increasing production of ADUs through the development of template ADU plans and other strategies for the Unincorporated areas of the County. And in November 2021 the Department of Regional Planning (DRP) responded to this motion with a proposal to implement a Standard ADU Plans Program modeled after the City of LA Program in which local design firms would be invited to submit standard ADU plans that would be pre-approved and made available for property owners to access.

Though the steps taken by the State and County have created some progress, the actual construction of ADUs still remains virtually unattainable to many residents. In April 2021, Inclusive Action for the City, a community development organization and financial institution (CDFI), produced a report with recommendations to help increase the production of ADUs in the County through streamlined processes and the creation and expansion of incentives and financing tools. According to the report, because ADUs

tend to rent at a more affordable rate than other housing options, they serve as an opportunity to build wealth for property owners while also increasing the stock of high-quality, affordable housing options.

Referencing this report, the County should explore all opportunities to create and expand financing and development programs that incentivize the production of ADUs and complement the Standard ADU Plans Program as proposed by DRP in the November 2021 report. This would, in turn, increase the number of units that could be rented at an affordable rate. To facilitate the development of ADUs in an equitable manner, the County must also take a racial equity approach to any new programs, incentives, or process developments in conjunction with the newly developed Anti-Racism, Diversity and Inclusion (ARDI) Initiative at the County. Racial equity must be incorporated into any initiative or program developed by the County, rather than establishing a separate program to enforce it after the fact.

WE, THEREFORE, MOVE that the Board of Supervisors:

1. Direct the Chief Executive's Office to work with the Los Angeles County Development Authority (LACDA), DRP, the Department of Public Works (DPW), the Treasurer and Tax Collector, the Office of the Assessor, CEO Legislative Affairs, County Counsel, and in consultation with Inclusive Action for the City and other community organizations and stakeholders as appropriate, to report back in 120 days on the feasibility of establishing and/or expanding incentives and financing mechanisms to support all opportunities for the development of ADUs in Unincorporated County. This analysis should include, but is not limited to:
 - a. An internal assessment of existing governmental and nongovernmental programs & initiatives across the County facilitating the financing of ADUs,

- identifying which programs can be expanded and provided to property owners who commit to renting their units at an affordable rate;
- b. A County-guaranteed loan program for property owners who do not qualify for traditional refinancing or home equity lines of credit (HELOC) options due to credit requirements and other rigid underwriting standards. This assessment should include: 1) a plan for identifying experienced lending institutions that could work with non-traditional applicants; 2) a draft of character-based and equity-driven credit and underwriting standards to guide prospective lending partners in working with non-traditional borrowers; 3) equity-driven underwriting standards to avoid setting minimum credit scores for eligibility; 4) the consideration of future rental income as part of a borrower's debt service coverage ratio; and 5) opportunities to connect LACDA Section 8 Housing Choice Voucher holders with such units;
 - c. A County-administered ADU construction loan program catering to smaller projects such as garage conversions, with low-to-no interest, subject to holistic eligibility requirements assessed through an equity lens;
 - d. Leveraging County and State funds to partner with traditional lenders to include property owners who do not qualify for conventional refinancing tools. This analysis should include a plan for identifying potential lending institutions willing to partner with the County, draft loan products with attractive terms, such as deferred payments during construction, etc., and which are conditioned on an affordable rent requirement for the unit for a set number of years;
 - e. Exploring advocacy for a property tax abatement program at the State level to

incentivize affordable ADU rental units, building on existing systems such as the property owners' exemption for a principal residence. This analysis should include:

- i. The projected amount of affordable housing that would be built through private monies (individual property owners) and the offset costs that will accrue to the County due to these private developments;
 - ii. Scenarios for feasible amounts of property tax abatements that will both incentivize property owners to build ADUs, while not imposing a significant cost burden to the County; and
 - f. An assessment of the resources needed, including but not limited to potential consultants, to explore, establish, and/or expand on the proposed programs, and the identification of potential funding streams.
2. Direct the Chief Executive's Office to work with DRP, DPW, LACDA, the Department of Consumer and Business Affairs, the Department of Arts and Culture, the Los Angeles County Fire Department, and in consultation with Inclusive Action for the City and other community organizations and stakeholders as appropriate, to report back in 120 days on opportunities to streamline ADU development processes in Unincorporated County, including but not limited to:
- a. An internal assessment of existing governmental and nongovernmental programs & initiatives within the County facilitating the development of ADUs, identifying which of the programs can be expanded and provided to property owners who commit to renting their units at an affordable rate. The assessment should include programs that have complementary services such as property management, tenant placement, financing, and technical

- assistance;
- b. The creation of a clear step-by-step guide for property owners that details how to build a new ADU from the ground up, how to bring unpermitted units up to code, and how to renovate existing structures to turn them into an ADU. The guide should be available in multiple languages, easy to read and include information about lead agencies for each part of the process, a timeline for each step, and potential deviations in the process;
 - c. Identification of opportunities to streamline processes and increase coordination across County departments. For example, establishing an “ADU Concierge” team made up of representatives from each relevant County department to work collaboratively in supporting ADU development by providing technical assistance, helping overcome language barriers, technical divide challenges, and decreasing the wait time for obtaining building permits;
 - d. Identification of opportunities to create a list of preferred contractors, designers, etc. to serve as consultants for property owners developing an ADU. Any such “consultant bench” would be selected through an open solicitation and approved by the County;
 - e. Determine next steps for implementing the Standard ADU Plans Program as proposed by DRP in the November 19, 2021 report, and how this work would interact with the abovementioned proposals, and;
 - f. An assessment of the resources needed, including but not limited to potential consultants to explore, establish, and/or expand the proposed programs and materials, such as a step-by-step guide, and the identification of potential funding streams.