



# AGENDA REPORT

**TO:** Edward D. Reiskin  
City Administrator

**FROM:** Christina Mun  
Interim Director, Housing  
and Community  
Development

**SUBJECT:** CalHFA ADU Predevelopment Grant

**DATE:** November 15, 2022

City Administrator Approval

Date: Nov 18, 2022

## **RECOMMENDATION**

**Staff Recommends That City Council Adopt A Resolution:  
Authorizing The City Administrator To Apply To Participate In California Housing Finance Agency's (CalHFA) Accessory Dwelling Unit Grant Program, Enter Into A Lender Participation Agreement With CalHFA, Oversee The Disbursal Of Grant Funds From CalHFA To Homeowners Eligible For An Accessory Dwelling Unit Grant From CalHFA And Appropriate Such Grant Funds To Fund 2144, Organization 89939, Project Code To be Determined, Account 54912.**

## **EXECUTIVE SUMMARY**

In October 2022, Housing and Community Development Department (DHCD) staff applied to participate in the California Housing Finance Agency's (CalHFA) Accessory Dwelling Unit (ADU) predevelopment grant program. If awarded, the CalHFA program would provide up to \$40,000 to low-income City of Oakland (City) homeowners legalizing an ADU through DHCD's existing ADU Loan Program (ADULP)<sup>1</sup>. Specifically, the CalHFA funds could cover a range of predevelopment expenses including architectural plans, permit fees, sewer lateral inspections, and property surveys, making it possible for the City's ADU Loan Program to serve more complex and more expensive ADU legalizations than prior to the additional funding. The City's role in the CalHFA program will be to hold the funds in escrow on behalf of CalHFA and to disburse the funds to the homeowner. By increasing the funding available to ADU legalizations through ADULP, the CalHFA program will support the preservation of an important source of lower-cost housing while safeguarding the health and safety of ADU tenants that may be residing in unpermitted ADUs. As the CalHFA grant fits neatly into the existing structure of the City's ADU Loan Program, there is no negative budgetary impact. Due to the geographic targeting of the City's existing ADU Loan Program, the CalHFA grants will primarily go to homeowners located in the parts of East and West Oakland shown in the map below.

<sup>1</sup> The webpage for the City's ADU Loan Program is available at:  
<https://www.oaklandca.gov/resources/accessory-dwelling-unit-loan-program>

## **BACKGROUND / LEGISLATIVE HISTORY**

According to the 2020 “Existing Conditions and Barriers Report”<sup>2</sup> on ADUs in Oakland, there are approximately 7,500 to 13,600 unpermitted ADUs in the City. The condition of these units varies considerably - while some are almost indistinguishable from legal construction, other units were built in the 1940s and have not been updated to modern health and safety standards. Some of these substandard units are structurally unsound, lack proper evacuation routes, or have hazardous electrical setups. These conditions represent an ongoing health and safety threat to the ADU tenants and an especially severe danger during an earthquake.

At the same time, these unpermitted ADUs serve as a source of desperately needed lower-cost housing. ADUs in the Bay Area generally rent for somewhat less than a comparable apartment, and many ADUs are rented to relatives for little or no expense.<sup>3</sup> The legalization of unpermitted ADUs is therefore an important housing preservation issue.

In 2021, the City of Oakland received a \$3 million grant from the State of California’s CalHome Program to establish an ADU legalization loan program<sup>4</sup>. This program, administered by the Department of Housing and Community Development, is expected to provide approximately 27 loans of \$100,000 each in combination with no cost project management assistance for participating homeowners. The ADU legalization loan program will accept low-income, owner-occupant homeowners living in federally designated Opportunity Zones (see map at right). The loan program began accepting applications in October 2022. While the CalHome loan is capped by State regulations at \$100,000 per unit, and many prospective legalization projects are expected to cost more than this amount.



As part of the 2022-23 State Budget, the California Housing Finance Agency (CalHFA) was provided with \$50 million to make ADU grants to California homeowners. Combined with budget allocations from prior years, CalHFA had a total of \$100 million available for making ADU grants. CalHFA decided to disburse these funds through a predevelopment grant program of up to \$40,000 per project. To access these funds, homeowners must receive a construction loan from a qualified lender.<sup>5</sup> Homeowners must also meet an income test - in 2022, Alameda County households must have an annual income of under \$282,000 to qualify.

<sup>2</sup> Oakland Existing Conditions and Barriers Report available at: <https://cao-94612.s3.amazonaws.com/documents/Oakland-ADU-Research-Report-Jan-2020-Rev-June-2020.pdf>

<sup>3</sup> Oakland Existing Conditions and Barriers Report available at: <https://cao-94612.s3.amazonaws.com/documents/Oakland-ADU-Research-Report-Jan-2020-Rev-June-2020.pdf>

<sup>4</sup> As authorized by [88061 C. M. S.](#)

<sup>5</sup> A list of qualified lenders participating in the CalHFA ADU Grant program is available at: <https://www.calhfa.ca.gov/adu/index.htm>

While most ADU grants from CalHFA are disbursed through private banks and credit unions, CalHFA has recently started partnering with local governments and nonprofits on a pilot basis. CalHFA has thus far partnered with the Pasadena Second Unit ADU Program,<sup>6</sup> the San Diego Housing Commission's Accessory Dwelling Unit Finance Program,<sup>7</sup> and the Oakland Keys to Equity Program.<sup>8</sup>

## **ANALYSIS AND POLICY ALTERNATIVES**

Participating in the CalHFA ADU Predevelopment Grant program would advance the citywide priority of housing, economic, and cultural security by preserving existing ADUs as safe and affordable homes. Although ADU legalization projects in the City's ADU Loan Program will likely incur less than \$40,000 in predevelopment costs, the impact for homeowners and the ADU Loan Program itself would be significant. After accounting for architectural costs, permitting fees, sewer lateral inspections, and site surveys, staff estimate that the typical homeowner will directly benefit by at least \$5,000-\$15,000, and potentially more for complicated projects. The CalHFA grant will also be able to cover expenses that would have otherwise been paid for by the City's ADU Loan Program. These covered predevelopment expenses are estimated at \$107,595 across the 27 loans, which includes title insurance (\$14,850), pest inspections (\$24,300), appraisals (\$25,785), lead inspection (\$18,495), and loan processing fees (\$24,165). The \$107,595 will instead be available to cover program improvements for the ADU Loan Program, such as upfront feasibility assessments or an extended application window.

The City's participation in the CalHFA grant program would be a notable departure for CalHFA, as thus far almost all the participating lenders have been limited to construction loans for newly built ADUs. The City's participation would therefore serve the needs of Oakland residents with unpermitted ADUs that have no other way of accessing the CalHFA grant program. Thus far, private lenders have generally been reluctant to make construction loans to legalize unpermitted ADUs. There is a limited window of opportunity to offer the benefits of the CalHFA grant program to ADULP participants, as the ADULP must issue all its loans by early 2023 to meet program funding deadlines. The CalHFA grant program is not retroactive to completed ADU projects, so prompt Council approval to apply for the CalHFA Grant Program will be essential to access this opportunity.

## **FISCAL IMPACT**

If City Council adopts the recommended resolution, no commitment of City funds will be required. As the CalHFA grant would align closely with the existing ADU Loan Program, the administrative costs would be negligible. The CalHFA grant funds will be appropriated to Fund

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<sup>6</sup> More information on the Pasadena Second Unit ADU Program is available at: <https://www.cityofpasadena.net/housing/second-unit-adu-program/>

<sup>7</sup> More information on the San Diego Housing Commission's Accessory Dwelling Unit Finance Program is available at: <https://www.sdhc.org/housing-opportunities/adu/>

<sup>8</sup> The Keys to Equity Program is a nonprofit-operated program serving Oakland homeowners building a new Accessory Dwelling Unit, with a special focus on serving Black homeowners. More information on Keys to Equity is available at: <https://keystoequity.org/>

2144 - California Housing and Community Development, Residential Lending (Org 89939),  
Project Code: TBD.

### **PUBLIC OUTREACH / INTEREST**

City staff are currently conducting outreach for the City's recently launched ADU Loan Program through online, social media, and community partner outreach focused on eligible areas of East and West Oakland. Fact sheets are currently available in English, Spanish, and Chinese. Interviews with potential applicants have identified the high cost of ADU legalizations as a significant barrier to participation, which the CalHFA grant will help address. If approved, staff anticipate featuring the CalHFA grant as part of the outreach for the existing ADU Loan Program.

### **COORDINATION**

This item was reviewed by the Budget Bureau and Office of the City Attorney.

### **SUSTAINABLE OPPORTUNITIES**

***Economic:*** Legalizations resulting from the CalHFA predevelopment grant will result in significant cost-savings for property owners, residents, and public agencies by mitigating damage to buildings, loss of human life, serious injuries and loss of needed housing units that may result from seismic events.

***Environmental:*** Unpermitted ADUs are typically small housing units that already share a lot with a main house. This provides inherent energy efficiency and water savings that will be preserved by ADU legalizations. ADU legalizations may in some cases require upgrades to insulation or utility setups that will reduce energy and water waste. By preventing potential loss of infill housing units, ADU legalizations curb longer commutes that result in increased greenhouse gas emissions.

***Race and Equity:*** Demographic data shows that Oakland's housing and homelessness crisis disproportionately impacts Oakland's lower-income residents and especially African American residents. By tying into the City's existing ADU Loan Program, the CalHFA grants would be targeted to low-income, owner-occupants in East and West Oakland. ADU legalizations protect housing occupied by elderly, disabled, low-income or otherwise vulnerable residents, who are most likely to be permanently displaced or rendered homeless due to earthquake damage. This program will therefore reduce disparities in earthquake vulnerability and housing habitability.

**ACTION REQUESTED OF THE CITY COUNCIL**

Staff Recommends That City Council Adopt A Resolution:

Authorizing The City Administrator To Apply To Participate In California Housing Finance Agency's (CalHFA) Accessory Dwelling Unit Grant Program, Enter Into A Lender Participation Agreement With CalHFA, Oversee The Disbursal Of Grant Funds From CalHFA To Homeowners Eligible For An Accessory Dwelling Unit Grant From CalHFA And Appropriate Such Grant Funds To Fund 2144, Organization 89939, Project Code To be Determined, Account 54912.

For questions regarding this report, please contact Caleb Smith, Program Analyst, at (510) 590-6275.

Respectfully submitted,

*Christina Mun*

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