



City of Auburn, Maine

Business & Community Development

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Accessory Dwelling Unit Development (ADUD) Program

The office of Business & Community Development believes the construction of new rental units is essential in meeting the needs of current and future Auburn residents alike. We also believe that residents who rely on affordable housing services, such as housing choice vouchers (HCV) or affordable unit development, deserve a choice on where they live and which school their children attend. Each neighborhood in this city has a distinct style and value, as does each resident. Allowing all families, regardless of income, the freedom to choose their home and what environment in which to raise their children is an essential right. To this end, the city is embracing development models which increase housing choice for residents who rely on affordable housing while simultaneously leveraging private capital to meet the modern demand of a rapidly evolving housing market.

The City of Auburn received funds from the Maine State Housing Authority (MSHA) Community Solutions Grant to implement a new housing initiative designed to help residents overcome the financial barrier of creating new rental units on their property. This forgivable loan program is designed to rapidly enhance the creation of privately built secondary or accessory dwelling unit (ADU) housing where appropriate zoning and municipal infrastructure is accessible.

Goal: The program goal is to create 15 new housing units over 2 years by incentivizing infill and locally owned rental unit construction. These units are less costly to construct for state and local government and allows for more rapid creation of units by leveraging local contractors, private capital and municipal infrastructure. These initial units will further the intent of LD 2003 and serve as a catalyst for further private construction city-wide.

Target audience: Individuals with the desire to build small (less than <800 sq/foot) attached or detached accessory dwelling units for rent. This program has the added benefit of decentralizing the ownership and development of affordable housing while providing sustainable, residual income for Auburn property owners. This program will be available for owner-occupied properties where public water and sewer are available. Property owners will income qualify at or below 120% of the Area Median Income (AMI).

Local Needs Assessment: Auburn Housing Authority provided data on the Housing Choice Voucher centralized waitlist. This data quantifies 454 current applicants. 411 applicants currently

qualify under 60% AMI with 121 applicants residing in “temporary residences”, 26 being housed in a shelter or hotel and 33 reporting that they are currently “living in a place not normally used for housing.” Lastly, 57 of the current waitlist applicants are households of 3 or more.

Additionally, SafeVoices, a domestic violence shelter received a total of 325 local shelter requests in the previous year but were only able to house 83 individuals. This leaves an unmet need of 242 families which were under-served by their current capacity and ability to rapidly re-house domestic abuse victims within the city through a combined effort of the city security deposit assistance and SafeVoices resources. The creation of 15 new units supported in part by the city’s security deposit program will help to address this shortage and re-house low-income and at-risk residents.

Affordable Housing Development: Units enrolled in this program will be newly constructed after program launch date and will be rented to low-income tenants (qualified under 80% AMI) for a period of 5 years. Additionally, rent for enrolled units will not exceed the lower of HUD’s published Fair Market Rent (FMR), or 30% of tenant monthly income (including utilities) for a period of 5 years. The city of Auburn will monitor compliance during this affordability period and re-qualify any new tenants if there is turn-over in the unit.

Financial components: This program will provide a forgivable loan up to 15% of actual construction costs of a property which adds a new accessory dwelling unit. This construction will be verified by the Business & Community Development Department, Assessing & Code Enforcement. All work must take place after an approved and separate scope of work and budget. A closing for a forgivable loan will be executed and approved funds will be held in a city managed escrow account. Contractors will be paid pari passu to matching funds and other programs funds which may be included. All projects will be properly permitted and approved by the city Code Enforcement Office and must receive an occupancy permit within 6 months.

Occupancy: The city will manage applications and monitor occupancy of assisted units through its Security Deposit application process for 5 years. Tenants applying for Security Deposit grants must provide income verification documents and be approved by the Director of Business & Community Development per the current program guidelines. The tenant and landlord will execute a lease that conforms to HUD guidelines.

Timeline: The city expects to secure matching funds by November 1st. Contingent upon receipt of MSHA Community Solutions Grant, this program will be launched and begin taking applications by December 1st, 2022. Expectations are that construction will begin summer of 2023 with the first units being occupied by late fall 2023. The program will continue until all funds are disbursed. Monitoring and reporting will continue for 5 years after the final unit is occupied.

Proposed Budget: This program will employ \$225,000 of city ARPA funds, \$25,000 of HOME funds, \$25,000 in city funded staff hours and \$250,000 MSHA Community Solutions grant. Additionally, private leveraged funds are estimated at \$2.5 million.

As indicated in the Sources & Uses table below, the city intends to match MSHA funds with ARPA funds to capitalize the forgivable loan pool. In-kind matching funds will be provided by the city's CDBG & HOME allocations to facilitate and monitor these units for the duration of the 5-year affordability period. Additional HOME funds will be utilized to provide security deposits to qualified tenants. Upon vacancy, these funds, unless used by the landlord to repair the unit, will be turned over to the qualified tenant.

Sources and Uses	PY2022
<u>Sources</u>	<u>Budget</u>
-	-
Total Sources=	\$525,000
Community Solutions Grant Loan Pool Funds (CSG)	\$250,000
Auburn Matching Loan Pool Funds (ARPA)	\$200,000
Auburn Admin (ARPA)	\$25,000
Program Delivery (Entitlement)	\$25,000
HOME Funded Security Deposits	\$25,000
Total Uses=	\$525,000
Program Administration (5 years)	\$25,000
Anticipated New Units	15
Max expense per unit	\$33,333
Per Unit Averages	
Forgivable Loan	\$30,000
City staff (App, Inspections & Monitoring)	\$1,667
HOME Funded Security Deposit	\$1,667
Average unit development cost	\$200,000
Private Funds Leveraged=	\$2,550,000.00

Accessory Dwelling Unit Development (ADUD) Program Guidelines

A. PROGRAM GOAL

The goal of the **Accessory Dwelling Unit Development (ADUD) Program** is to create new housing units by incentivizing infill and locally owned rental unit construction. These units are less costly to construct for state and local government and allows for more rapid creation of units by leveraging local contractors, private capital, and municipal infrastructure. This program is funded by American Rescue Plan Act (ARPA) as well as the Maine State Housing Authority (MSHA) Community Solutions Grant and is subject to all requirements set forth by the funders as well as the Community Development Program rules herein. This program utilizes income standards and Fair Market Rent (FMR) as published annually by the U.S. Department of Housing & Urban Development (HUD).

B. ELIGIBILITY CRITERIA

1. The property must be an owner-occupied, year-round residential property.
2. Property owners must qualify at or below 120% of the Area Median Income (AMI) based on the current year limits as established by HUD.
3. Owners must not be delinquent on any taxes or utilities.
4. Funds must be used to construct a new secondary or accessory dwelling on the property.
 - a. Unit of no more than 800sq.ft.
 - b. Unit must be newly constructed or create a net increase of livable space by converting previously non-occupied space.
 - c. Unit must be completed within 6 months of agreement.
 - d. Unit will be rented to income-qualified tenants (under 80% AMI for the current year as published by HUD) for a period of 5 years.
 - e. Rental unit will not exceed the lower of HUD's published Fair Market Rent (FMR), or 30% of tenant monthly income (including utilities) for a period of 5 years.

C. ASSISTANCE CATEGORIES AND TERMS

Loan Terms

- 1.) Maximum loan assistance is the lesser of \$30,000 or 15% of actual construction costs.
 - a) Fully amortized loan @ 2% APR for 1-year, deferred payments.

b) IF all conditions of the agreement are met this loan will be converted to a grant on the 5th anniversary of the rental unit's first occupancy.

2.) If the property is sold or transferred prior to the end of the affordability period, the principal balance of the loan(s) and any accrued interest or fees shall be immediately repaid.

Funding

All work must take place after an approved and separate scope of work and budget. A closing for a forgivable loan will be executed and approved funds will be held in a city managed escrow account. Contractors will be paid pari passu to matching private funds and other programs funds included within the approved budget and scope of work.

D. NATIONAL OBJECTIVES

Projects will be eligible under the American Rescue Plan Act (ARPA) as well as the Maine State Housing Authority (MSHA) Community Solutions Grant. The allocation of loan pool funds will be monitored and adhere to the current and future requirements set forth by these funding sources.

Income Qualification: Applicants will be required to provide source income if they are the occupant or tenant certifications of income. Applicants will be required to sign a Rent Regulatory Agreement to assure 5-year occupancy after project completion by a qualified tenant.

Affordable Housing: Renters will utilize the Tenant-Based Rental Assistance (TBRA) Security Deposit Program. This objective will meet income qualifications as well as lease terms as established by HUD.

E. PROGRAM QUALIFICATION ASSESMENT

The Community Development Office has responsibility for administration of the **Accessory Dwelling Unit Development (ADUD) Program**. Community Development verifies source documentation in accordance with program guidelines and presents the loan request to the Program Director for approval based on achieving the national objective in part D above and part G below.

F. PRIVATE FUNDS

Private Funds: When matching funds are required, the applicant will have the option of using cash or borrowed funds. Disbursement of funds will be Pari Passu to matching funds on a per-invoice basis. Verification of private fund payments will accompany each disbursement request.

G. LOAN CONSIDERATIONS

In approving or denying loan requests, the Community Development staff shall be guided by the following loan considerations:

- 1.) Underwriting
 - a) Construction costs reasonable and arms-length.
 - b) Credit - credit history and reputation.
 - c) Payment of taxes or acceptable arrangements.
 - d) Collateral - Collateral coverage must be adequate as determined by the Community Development Staff.
 - e) Security - other assets.
 - f) Commitment of matching funds.
- 2.) Assessment Private/Public Benefit

The Community Development staff will also consider the broader implications of private and public benefits.

H. NON-DISCRIMINATION

Administration of this program shall be in accordance with Title VI of the Civil Rights Act of 1964. No person shall, on the ground of race, color, national origin, be excluded from participation in, be denied the benefits of, or subjected to discrimination under this program.

I. APPLICATION PRIORITY

Applications shall be processed on a first-come, first-served basis. Community Development staff shall use the receipt date of a complete application (including all required source documentations) to establish the order of priority. The applicant will be notified if there is funding available to proceed with the project, if there is inadequate funding then the application may be placed on a waiting list.

J. AFFORDABLE RENT STANDARDS

- a. Rental units that are improved with Community Development funds shall be available and affordable to households qualified at or below 80% AMI.
- b. The applicant will be required to furnish rental information to enable Community Development staff to evaluate the impact of the project on rent levels. The applicant will submit the current amount of rental charges for all units in the housing project, utility types, who pays the utilities, and the names of tenants.
- c. A rent cap shall apply to assisted units. The maximum allowable rent shall be based on the lower of 30% the qualified tenant's income or Fair Market Rent (FMR) established by HUD and equal to the amount of rent and utility costs being paid by the tenant and reviewed annually.

- d. The period of affordability shall be for five years after the date of initial occupancy by a qualified renter.
- e. The borrower will sign a Rent Agreement stipulating rent limitations at loan closing.

K. DEFINITIONS

a. Fair Market Rent

An annually published rent level prescribed by the U.S. Office of Housing and Urban Development based on a specified number of bedrooms.

b. Household Income

- i. For the purpose of determining eligibility, Community Development staff will calculate income by estimating the annual income of a family or household by projecting the prevailing rate of income of each person at the time assistance is requested based on the IRS Form 1040 method as defined by the Office of Housing and Urban Development.
- ii. Income of all members of the household over the age of 18 years is considered for computing income. This may include wages, salaries, overtime, bonuses, fees, tips, commissions, interest and dividend income, self-employment income, net rental income, income from estates or trusts, child support, alimony, Social Security benefits, SSI retirement, survivor or disability pension, VA payments, pension, or annuity, Temporary Aid to Needy Families, unemployment benefits, worker's compensation, and disability or benefits from any source.
- iii. For computing income, a household shall be defined as all persons who occupy a housing unit. The occupants may be a single family, one person living alone, two or more families living together or any other group of related or unrelated persons who share living arrangements.

c. Owner-Occupied

An applicant who holds the entire ownership interest of a property and lives in one unit of the property as a primary residence.

d. Construction Costs

The total of contractor estimates from the lowest eligible contractors, and the contingency determined to be reasonable by the Community Development Staff.

e. Residential Property

A property used entirely for residential purposes (household living space).

f. Income Limits

To qualify applicants for various loans under the **Accessory Dwelling Unit Development (ADUD) Program**, Community Development staff will use income limits for Lewiston-Auburn SMSA established by the Office of Housing and Urban Development. Revised charts will be used upon receipt.