



Eugene City Council

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EUGENE CITY COUNCIL AGENDA

February 12, 2020

12:00 p.m. CITY COUNCIL WORK SESSION
Harris Hall, 125 East 8th Avenue
Eugene, Oregon 97401

Meeting of February 12, 2020;
Her Honor Mayor Lucy Vinis Presiding

Councilors

Emily Semple, President
Mike Clark
Chris Pryor
Betty Taylor

Jennifer Yeh, Vice President
Greg Evans
Claire Syrett
Alan Zelenka

12:00 p.m. CITY COUNCIL WORK SESSION

1. WORK SESSION: Incentives for Accessory Dwelling Units

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El consejo de la Ciudad de Eugene agradece su interés en estos asuntos de la agenda. El lugar de la reunión tiene acceso para sillas de ruedas. Se puede proveer a un intérprete para las personas con discapacidad auditiva si avisa con 48 horas de anticipación. También se puede proveer interpretación para español si avisa con 48 horas de anticipación. Para reservar estos servicios llame al 541-682-5010. Las reuniones del consejo de la ciudad se transmiten en vivo por Metro Television, Canal 21 de Comcast y son retransmitidas durante la semana.

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EUGENE CITY COUNCIL AGENDA ITEM SUMMARY



Work Session: Incentives for Accessory Dwelling Units

Meeting Date: February 12, 2020
Department: Planning and Development
www.eugene-or.gov

Agenda Item Number: 1
Staff Contact: Anne Fifield
Contact Telephone Number: 541-682-5451

ISSUE STATEMENT

This work session will provide City Council information on incentives that could lower the cost of developing or owning an accessory dwelling units.

BACKGROUND

Housing affordability and availability is a long-standing and growing problem in Eugene. In 2018, City Council directed staff to implement what became the Housing Tools and Strategies project, to identify potential tools and strategies available to the City to address housing affordability, availability and diversity for all income levels. That project included technical research and stakeholder input to identify a variety of actions the City could pursue to reduce costs and/or barriers to building more housing.

In the Housing Tools and Strategies project, the City contracted with Strategic Economics to evaluate barriers to housing affordability, availability and diversity. Strategic Economics submitted a final report in January 2019, which stated that an effective ADU policy can contribute to achieving or maintaining affordability while accommodating growth. ADUs are a relatively low-cost housing type since there are no land costs and because they capitalize on existing infrastructure.

In the September 16, 2019 Work Session regarding Accessory Dwelling Units, City Councilors asked staff to explore the creation of incentives that could reduce the cost of constructing ADUs. Council passed a motion that asked the City Manager to deliver a memorandum that addresses a 10-year property tax exemption, an SDC discount or credit, or other financial incentives identified by staff that could lower the cost of building ADUs.

To identify and understand potential financial tools, staff reviewed analysis conducted during the Housing Tools and Strategies project and conducted additional research. We identified six different potential tools that could lower the cost of developing or owning an ADU in Eugene. The six potential tools include:

- A. Property tax exemption;
- B. Waive System Development Charges;

- C. Scale SDCs;
- D. Waive building permit fees;
- E. Waive land use application fees; and
- F. Develop pre-approved building plans for ADUs.

Attachment A summarizes the different tools. It provides a description, a brief summary of key legal issues and administrative requirements, the estimated cost reduction to the property owner, and the fiscal impact to the City of Eugene.

Triple Bottom Line

Incentivizing ADUs addresses the City Triple Bottom vision.

- **Social equity** – ADUs can contribute to achieving or maintaining housing affordability, since there are no land costs and because they capitalize on existing infrastructure. They can provide renters an affordable-by-design housing option and an opportunity for seniors to age in place.
- **Environmental stewardship** – Increasing housing units on existing infrastructure reduces the community's need to expand outward, protecting farm and forest land and reducing Eugene's per-capita carbon footprint.
- **Economic prosperity** – ADUs can provide property owners with supplemental income. By capitalizing on existing infrastructure, ADUs increase Eugene's property tax base yet do not create new liabilities associated with expanding infrastructure systems. The incentives that waive City fees and charges would create unfunded liabilities.

PREVIOUS COUNCIL DIRECTION

[March 13, 2019, Work Session](#)

Staff updated council on the Housing Tools and Strategies work and planned next steps.

[January 21, 2020, Work Session](#)

Council approved changes to the Land Use code regarding ADUs.

COUNCIL OPTIONS

This work session is for informational purposes only.

ATTACHMENTS

A. Potential Financial Incentives for Accessory Dwelling Units

FOR MORE INFORMATION

Staff Contact: Anne Fifield
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Potential Financial Incentives for Accessory Dwelling Units

Description	Legal Issues	Administrative Requirements	Estimated Cost Reduction to Property Owner	Fiscal Impact to City of Eugene
A. Property Tax Exemption				
<p>Property taxes reflect the value of a property, and an improvement as significant as an ADU will affect a property's assessed value (AV) and increase property taxes. Exempting the increase in taxes associated with constructing an ADU would lower costs for property owners for the exemption period.</p> <p>An exemption program exists in Eugene for multi-unit properties (MUPTE); its purpose is to encourage the development of multi-unit housing in the downtown.</p>	<p>Oregon state law allows cities to create a program that allows a property tax exemption for new multi-unit housing, where the exemption can be for as long as 10 years. Its purpose is to promote private investment in transit-supportive multiple-unit housing in transit-oriented areas.</p> <p>The state law allows the local government to determine the minimum number of dwelling units that are eligible for the exemption.</p> <p>It is not clear that lowering the minimum number of units to 2 would meet the legislature's intent for this tax exemption.</p> <p>Application of the MUPTE to ADUs city-wide would certainly require city code amendments and may require statutory amendments as well.</p> <p>Affected taxing districts (whose combined rate of taxation equals at least 51% of the total rate of taxation levied on the property) would need to concur with the tax exemption program.</p>	<p>Eugene's MUPTE program requires a proposed development to meet a number of public benefit criteria to be eligible for an exemption:</p> <ul style="list-style-type: none"> Documentation showing energy efficiency; Financial feasibility analysis to show project need; A plan to show efforts to use local contractors; Project design; A \$2,400 application fee. <p>The application is reviewed by a panel of citizens who make a recommendation to City Council. City Council approves an application before an exemption is granted.</p> <p>Current program requires extensive staff time. Two applications in calendar year 2019 used over 500 hours of staff time. The application process takes about 3 months to complete.</p>	<p>About \$2,000 per year, over exemption period.</p> <p>Based on an assumed construction value of \$150,000.</p> <p>Actual assessed values of new ADUs vary widely. ADUs permitted since 2015 have seen property tax increases from \$320 to 2,200.</p>	<p>The City and other taxing districts would not generate property tax revenue during the exemption period. The avoided revenue to the City's General Fund would be about 40% of the total exemption.</p>

Description	Legal Issues	Administrative Requirements	Estimated Cost Reduction to Property Owner	Fiscal Impact to City of Eugene
B. Waive SDCs				
<p>System Development Charges are collected from development and redevelopment projects. SDCs are designed to recover a fair share of the costs to increase capacity of infrastructure to accommodate new growth.</p> <p>The City collects SDCs for wastewater (local and regional), stormwater, transportation and parks. In 2018, the City collected about \$7,500 in SDCs per ADU. In 2019, SDCs for ADUs declined in 2 ways:</p> <ul style="list-style-type: none"> MWMC reduced its SDC for ADUs by about \$200; The City waived Transportation SDCs for ADUs, up to a \$40,000 annual cap. <p>In 2019, SDCs for ADUs were about \$6,200.</p> <p>In addition to the City's SDCs, new development pays SDCs for water (collected by EWEB).</p> <p>The City of Eugene has an on-going program to waive SDCs for ADUs that meet criteria to be considered affordable housing. The exemptions can be used for rental housing targeted to households earning 60% of the area median income and 80% for owner-occupied units. The City waives SDCs for affordable units up to \$240,000 annual cap.</p>	<p>The City Council would have to pass an ordinance authorizing a program to waive SDCs for ADUs that do not meet affordability criteria.</p>	<p>Staff estimate that the administrative burden of implementing a waiver is low and could be incorporated into the existing fee collection in the permitting process.</p> <p>To receive the SDC waiver for qualifying affordable ADUs, the applicant submits a form prior to construction that documents request. Renter must meet income qualifications at initial move in.</p>	<p>About \$6,000.</p> <p>This figure includes estimated SDCs for</p> <ul style="list-style-type: none"> City wastewater Parks Stormwater Transportation Administrative fee <p>It does not include the cost of the MWMC wastewater SDC.</p>	<p>Waiving SDCs for ADUs would require a subsidy from some other source (such as the General Fund) or would create unfunded liabilities for future infrastructure projects. The impact to the SDC funds would depend on the number of ADUs constructed.</p> <p>If the City's SDCs for local wastewater, stormwater, transportation, and parks were waived, the total avoided revenue to the combined SDC funds per ADU would be about \$6,000.</p> <p>In 2019, the City waived 12 Transportation SDCs (reported by Public Works Engineering). If the City had waived all SDCs for those 12 units, it would have foregone about \$72,000.</p>

Description	Legal Issues	Administrative Requirements	Estimated Cost Reduction to Property Owner	Fiscal Impact to City of Eugene
C. Scale SDCs				
<p>ADUs typically have lower occupancy than single-family detached homes and they capitalize on existing infrastructure. The SDC structure could be modified to account for the smaller impact that small, infill development has on infrastructure systems.</p> <p>The City of Eugene and MWMC have already lowered SDCs for Transportation and Regional Wastewater. The City is considering a reduced Parks SDC for ADUs.</p> <p>EWEB changed its SDC policy in 2019, reducing the SDC for ADUs by about half.</p>	City Council would have to pass an ordinance to change the SDC structure	Staff estimate that the administrative burden of implementing a waiver is low and could be incorporated into the existing fee collection in the permitting process.	Unknown.	The avoided revenue would depend on how individual SDCs were scaled.
D. Waive building permit fees				
Building permit fees are up-front costs associated with almost any type of construction and are controlled by the City. The fees cover staff time required to review proposed projects and improvements.	Waiving fees can be done through an Administrative Order signed by the City Manager.	Staff estimate that the administrative burden of implementing a waiver is low and could be incorporated into the permitting process.	<p>About \$3,500.</p> <p>Building fees depend on the complexity of the project, and they vary across projects. This figure is a rough estimate based on ADUs permitted in 2018 and 2019.</p>	<p>Building Permit Services is 100% fee supported, meaning that the fee covers the staff time to do reviews and inspections. Waiving permit fees for ADUs would require a subsidy from some other source, such as increasing building permit fees for other building types, or rely on reserves.</p> <p>If the City waived permit fees for 12 units (the number of Transportation SDCs waived in 2019), it would forego about \$42,000 in revenue.</p>

Description	Legal Issues	Administrative Requirements	Estimated Cost Reduction to Property Owner	Fiscal Impact to City of Eugene
E. Waive land use application fees				
<p>Land use application fees are up-front costs required in some instances in order to prepare land for future development.</p> <p>ADU development rarely requires land use adjustment.</p> <p>Typically, only a building permit is needed for the construction of an ADU. However, on a rare occasion, a land use application is desired or needed. The most common, an adjustment review, is utilized when an applicant chooses to adjust certain land use standards for their project.</p>	<p>Waiving fees can be done through an Administrative Order signed by the City Manager.</p>	<p>Staff estimate that the administrative burden of implementing a waiver is low and could be incorporated into the permitting process.</p>	<p>About \$600, on those projects that require a land use application.</p> <p>The most common, an adjustment review, is utilized when an applicant chooses to adjust certain land use standards for their project. Each adjustment review application adds approximately \$600 in city fees to a project.</p>	<p>Waiving land use fees for ADUs would require a subsidy from some other source, such as increasing land use fees for other building types, or rely on reserves.</p> <p>Of the 12 ADUs that had the Transportation SDC waived in 2019, none had an associated land use application.</p>
F. Develop pre-approved building plans for ADUs				
<p>The City could offer a library of pre-approved building plans, which lowers costs for ADU developers:</p> <ul style="list-style-type: none"> They could avoid the cost of an architect; and Permit fees would decline, as the review time would be diminished. <p>Other communities have successfully implemented pre-approved building plans for ADUs which have resulted in an increase in ADUs constructed- Seattle, Washington; San Jose and Encinitas, California; and San Diego County, California. These plans have lowered the cost and complexity barrier for adding new housing types to each community. Providing pre-approved plans that offer a range of sizes and design</p>	<p>None.</p>	<p>Staff would work with architects to develop a library of plans and approve them.</p> <p>Permit review would still occur, based on circumstances that change from site to site, such as public works pieces like utility connections and erosion control and fire/life safety measures.</p> <p>The process of creating the plan sets will need to be thorough to address the community's needs. Each site has a different topography. Having plans for a variety of topographies, designs, sizes, and accessibility needs will result in a lot of upfront community engagement, design work, and plan review</p>	<p>Roughly \$6,000.</p> <p>Pre-approved plans would not eliminate design costs. A project will still require material selection and design specifics, as well as site-specific design issues.</p>	<p>City staff would have to devote time to manage a contract with a consultant to create the library of plans. Staff estimate that the contract would cost roughly \$50,000.</p>

Description	Legal Issues	Administrative Requirements	Estimated Cost Reduction to Property Owner	Fiscal Impact to City of Eugene
options allow homeowners to customize the ADU to the look and feel of their existing home.		to arrive at a library of plans suitable for Eugene.		