



A Tradition of Stewardship
A Commitment to Service

Junior Accessory Dwelling Unit Loan Program
Guidelines

I. PROGRAM PURPOSE AND INTRODUCTION

Napa County's JADU Incentive Program seeks to encourage the production of affordable units in the unincorporated areas of Napa County by incentivizing the creation of Junior Accessory Dwelling units (JADUs) or the conversion of existing accessory structures to accessory dwelling units.

JADUs are authorized under state law and were implemented by the Napa County Board of Supervisors on May 3, 2017, through Ordinance 2017-007. A JADU is defined as a type of second dwelling unit that includes the conversion of a bedroom within an existing single-family residence. A JADU features a door leading into the interior of the primary dwelling unit as well as a door to the exterior; it must not have a full kitchen, and may share bathroom facilities with the principal dwelling unit. It is a more economical alternative to the traditional detached second dwelling unit in that JADUs enjoy the following cost-saving characteristics:

- JADUs are exempt from all utility connection fees from all agencies;
- JADUs are exempt from parking requirements required of detached second dwelling units;
- The required utility kitchen is less costly; it is limited to no greater than 120-volt electrical service and sink is limited to 1.5" drain;
- JADU bathroom facilities may be shared with main house.
- A JADU shall not be considered a new dwelling unit and no fire and life safety requirements may be applied to residences containing a junior accessory dwelling unit unless they apply uniformly to all single-family residences in the zone regardless of whether or not they contain a JADU.¹

II. DWELLING UNIT DEFINITIONS

Accessory Dwelling Unit (ADU): Also known as a second dwelling unit, this is a complete, independent living facility for one or more persons, including permanent provisions for living, sleeping, eating, cooking and sanitation on the same parcel on which the primary unit is situated.

Interior Second Dwelling Unit: Does not include expansion of floor area of the existing primary dwelling. It can include conversion of attached garages or other unconditioned space, like a patio room. Interior second units must have an independent full kitchen and a separate addressed exterior entrance.

Junior Accessory Dwelling Unit (JADU): Unit is similar to an Interior second dwelling unit involving conversion of existing floor area of the main dwelling, but the JADU cannot exceed 500 sq. ft. in

¹ Napa County Code of Ordinances Section 18.104.180(A)(9).

total floor area; must include conversion of an existing bedroom from the main dwelling; cannot include conversion of garage or other non-conditioned existing space; and must contain an interior access with the main dwelling unit.

III. PROGRAM DESCRIPTION

Intent of Program

The intent of the JADU Incentive Program is to create units in the unincorporated County area that are affordable to households whose income does not exceed 80 percent of Area Median Income. While the loan program is primarily focused on the creation of JADUs, funds may be loaned to convert existing secondary structures to accessory dwelling units when the cost of conversion is comparable to or less than creating a JADU and the unit is subject to all other income and rent restrictions outlined in these guidelines.

The maximum monthly rent charged shall be set at 1/12th of 30% of 60% of Area Median Income as provided by State law. Maximum rent includes the full amount paid by the tenant for utilities, parking fees and other charges.

See Attachment A for current income and affordable rent limits.

Program Summary

In consideration for an owner’s agreement to create a JADU and rent either the JADU or the remainder of the residence for at least 10 years to households whose income at the time of lease does not exceed 80 percent of the Area Median Income, with at least one member of the household employed in Napa County, the County of Napa will provide a Construction Compliance Loan up to \$40,000 plus the cost of building permits and fees. This amount is provided as compensation to the owner for the cost of creating the JADU, for compliance with the program, and as a further incentive for participation in the program. For each year in which the owner is compliant, 10% or up to \$4,000 of the compliance loan will be forgiven. At the conclusion of the 10 years, the building and permit fees shall also be forgiven. Should the owner fall out of compliance in any year, any remaining loan balance will become due in full including the cost of the building and permit fees.

The County of Napa has contracted with the City of Napa Housing Authority for construction management services to assist program participants (“Borrower”) with the creation of the JADU.

PROGRAM DETAILS	
Borrower Receives	Borrower Agrees
Construction Compliance Loan Not To Exceed \$40,000	Borrower will rent unit to a household with at least one member employed in Napa County and whose household income does not exceed 80% of the Area Median Income at the time of lease. Borrower agrees to restrict monthly rent as defined. Borrower will agree to participate in the
Permit Fees- Actual cost; \$5,000 estimated (to become part of Loan)	
Construction Management Assistance (no cost to Owner)	

Architectural Grant-If Required (no cost to Owner)	Napa Valley Community Housing Home Sharing Program to identify a qualified tenant.
Total Compliance Loan To Property Owner	\$40,000 construction maximum plus building and permit fees

IV. GENERAL ELIGIBILITY REQUIREMENTS

Borrower Eligibility

The Borrower must be the owner of record of the Property at the time of application. If there is more than one owner of the Property, all owners must agree to participate in the program. The Borrower must occupy either the JADU or the remainder of the residence located on the Property throughout the term of the agreement.

Credit History

A credit check will be done for each Loan applicant. A credit report will be obtained by County staff and reviewed to ensure that all information submitted on the application is accurate as compared to the credit report.

Property Eligibility

1. The Property must be located within the unincorporated limits of Napa County.
2. The Borrower must live on the Property.
3. At the time the Loan is made, there may be no other liens (other than mortgages secured by the property) or monetary judgements recorded against the Property.
4. The Property must be detached or attached single-family home that is owned in fee simple by the Borrower.

Title Report; Value of Security

The outstanding debt secured by the Property cannot exceed 100% of the after-construction value of the Property. The County will review a title report for the property. Using recent comparable sales figures, County staff will establish comparable values for similar homes. If information is not available, the County may request a formal appraisal.

Zoning Requirements

State law allows for second dwelling units, including JADUs, to be added to any residentially zoned property containing only one single family dwelling unit. In Napa County, second units and JADUs are also permitted in the Agricultural Watershed zoning district although not mandated by State Law. second dwelling units are permitted on legal lots of record in the following zones subject to meeting specified administrative design criteria:

- 1) AW (Agricultural Watershed Zone)

- 2) RC (Residential Country Zone)
- 3) RS (Residential Single Zone); and
- 4) PD (Planned Development Zone) only on lots containing a single-family dwelling.

V. RENTAL REQUIREMENTS

Agreement

The Borrower must enter into an agreement with the County of Napa, wherein the Borrower agrees to restrict the rent charged to the tenant to 60% of Area Median Income for a period of 10 years; and to lease the property to tenants whose household income is at or below 80% of the Area Median Income. The owner also agrees to participate in the Napa Valley Community Housing Home Share Program or other program assigned by Napa County to identify an eligible tenant and complete necessary leasing paperwork and to comply with annual compliance requirements.

Maximum Rents

Rent rates shall be issued by the County of Napa, based on the United States Housing and Urban Development's annual Median Family Income limits and the State of California's Housing and Community Development Department's data relating to the amount of rent that is affordable to a household at 60% of AMI. Rents may be adjusted annually only in compliance with the rates provided by the County. This includes any allowance for utilities.

Verification of Rent and Income

Napa Valley Community Housing shall provide the County with compliance documents prior to the commencement of each lease evidencing the tenant's income. Once a tenant's income has been verified no additional verifications are required.

Borrower shall provide Napa Valley Community Housing with annual compliance documents verifying the rate of rent charged by Borrower.

Borrower agrees to communicate with Napa Valley Community Housing as requested by the County.

Lease Requirements

- Template lease documents shall be provided by Napa Valley Community Housing.
- Rent must be paid on a monthly basis.
- Leases must clearly state that the amount of rent to be charged shall be set at an amount that is affordable to a household at 60% of AMI, including utilities allowance.

Tenant Screening and Compliance with Laws

Napa Valley Community Housing shall screen tenants and match tenants with Borrowers. Borrowers are required to choose from tenants preselected through this service. Tenants may not be related to the Borrower.

Rental of units are subject to all federal, state, and local fair housing laws and regulations.

VI. FINANCING

Terms

- The term of the Construction Compliance Loan shall not exceed 10 years.
- The total amount of the Construction Compliance Loan for construction shall not exceed \$40,000 plus building and permit fees.
- An amount equivalent to 10% of the construction loan for each year of compliance shall be forgiven from the loan balance. At the end of the Construction Compliance Loan term, the previously funded permitting fees are also forgiven. Upon any event taking the owner out of compliance, such as but not limited to renting the unit at a rate above the approved rate, or to a tenant whose household income does not meet the program requirements, the balance of the loan shall become due in full, and the previously funded permitting fees shall also become due in full. All funds will be due within 90 days.
- The County will record a Deed of Trust against the Property to secure the Construction Compliance Loan. The County will also record a Regulatory Agreement against the Property to evidence the affordability requirements of the program.

Use of Funds

The County will provide a loan in an amount up to \$40,000 to the Borrower to finance construction costs of the JADU. If the construction estimates received by the Borrower for the work indicate that the costs will exceed the amount of the Loan plus any additional funds provided by the Borrower, the Borrower may terminate the Loan documents prior to disbursement of any loan proceeds. County payments will be made directly to the Contractor upon submission and approval of invoices consistent with the Scope of Work.

Any unit created under the program must meet the County requirements for JADUs.

Luxury amenities or furnishings are ineligible for funding. Examples of ineligible items include TV sets, furniture and Jacuzzi/jet massage tubs.

Termination of Loan

The remaining loan balance and previously funded permitting fees will be immediately due and payable upon: (i) the sale of the property or change in title/ownership, (ii) Borrower's failure to occupy one of the units, (iii) Borrower's failure to rent to a tenant at the required income level and rent level; (iv) Borrower's breach of any other provisions of the Loan Documents that remains uncured; and (v) the unit remains vacant for more than 60 days. If the Borrower has difficulty identifying a tenant or needs to keep the unit vacant for repairs, the Director of Housing may authorize an additional 30 days of vacancy.

The remaining loan balance and previously funded permitting fees shall also be due and payable within 90 days if Borrower notifies County that Borrower has decided to no longer rent the unit as an affordable unit and participate in the program.

Insurance Requirements

Evidence of hazard insurance must be provided by the borrower that names County as loss payee. Evidence of flood insurance must be provided, if applicable.

Borrower shall keep the Improvements and personal property now existing or hereafter located on the Property insured against loss by fire, vandalism and malicious mischief by a policy of standard fire and extended all-risk insurance. The policy shall be written on a full replacement value basis and shall name Beneficiary as loss payee as its interest may appear. The full replacement value of the improvements to be insured shall be determined by the company issuing the policy at the time the policy is initially obtained. Not more frequently than once every two (2) years, either the County shall have the right to notify the other party that it elects to have the replacement value redetermined by the insurance company. Subject to the rights of any senior lienholder, the proceeds collected under any insurance policy may be applied by Beneficiary to any indebtedness secured hereby and in such order as Beneficiary may determine, or at the option of Beneficiary, the entire amount so collected or any part thereof may be released to Borrower; provided however, if Borrower is not in default under the Loan Documents, the proceeds shall be released to Borrower to repair or rebuild the Improvements provided that sufficient additional sources of financing to complete such repair or rebuilding are available to complete such work. Such application or release shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice.

Relocation Laws

The Borrower must agree to cooperate with the County to ensure compliance with State and federal relocation laws. The County's Housing Director shall provide an approval for the source and mechanism for funding temporary relocation benefits if required as determined on a case-by-case basis relative to the scope of work and the need for temporary relocation.

VII. LOAN APPLICATION AND ADMINISTRATIVE PROCEDURES

Loan Application

Property Owners interested in the Junior Accessory Dwelling Unit Loan program may request a formal application by contacting Nancy Johnson, Housing and Community Development Program Manager at nancy.johnson@countyofnapa.org or calling 707-253-4421.

The following documentation shall be submitted with the program application:

- Copy of the most recent mortgage statement(s) for all loans secured by the Property, and the remaining balance of all such loans

Upon submission of a complete application, County staff will review for program eligibility on a first come first serve basis. If a preliminary review indicates that the application does not meet the Program requirements, the County will provide a written explanation of the reasons for ineligibility. If funds are not available at the time of application, eligible applicants will be placed on a waiting list. A number of factors may be evaluated in reviewing applications including but not limited to credit history and amount of mortgage debt on the property

Upon receipt of all application documents and subsequent approval, County staff will refer the Borrower to the County's contracted Housing Rehabilitation Specialist.

Work Write-Up/Design Plan

The Housing Rehabilitation Specialist will conduct a property inspection which will be used to develop a schematic design, a work write up (also known as a scope of work) and cost estimates. The work write-up will include a cost estimate with a contingency of at least 10% for unanticipated items. The Property Owner must provide written acceptance of the work write-up before bids are solicited. The Housing Rehabilitation Specialist will assist the Borrower in soliciting bids from licensed contractors.

If the Housing Rehabilitation Specialist determines that design of the proposed JADU requires the services of an architect, the Borrower will enter into an agreement with an architect approved by the County for design purposes. The County will provide a grant of up to \$2,000 to cover the architect's costs. This grant does not need to be repaid. Provided that the design plans are approved by the County's Planning, Building, and Environmental Services Department, the County will disburse the grant proceeds directly to the architect upon County's receipt of bills or other documentation acceptable to the County from the Borrower indicating the amount due.

Scope of Work Write-Up

The Housing Rehabilitation Specialist will prepare the Scope of Work. Upon the Borrower's written acceptance of the Scope of Work, the Housing Rehabilitation Specialist will prepare bid and contract documents using the standard documents approved by the County.

Bid Process, Contractor Selection and Bid Award

The Housing Rehabilitation Specialist will develop a bid package that includes bidding instructions and deadline, a work write up, materials list, and any other necessary documents such as relocation requirements, hazardous mitigation instructions, bonding requirements, etc. The Housing Rehabilitation Specialist will also provide a form of Owner/Contractor Contract for use in setting out the owner's agreement with the Contractor.

The Housing Rehabilitation Specialist will facilitate a bid walk that will include a walkthrough of the Property, review of bid specifications, and an opportunity to address contractor questions about the project.

Following the bid walk, interested contractors will submit bids to the Housing Rehabilitation Specialist. Bids are considered eligible if they are accurate, complete and received by the deadline. Interested contractors must be certified by the Contractors State License Board.

A responsible bid is one in which the cost for the project is within 15% of the Housing Rehabilitation Specialist's estimate.

All bids shall include a contingency amount of 10%. Any unspent contingency will be used to reduce the loan amount.

The Housing Rehabilitation Specialist will make arrangements for the signing of contract documents. The Owner/Contractor contract will include a start and completion date and a clause that specifies that any extra work must be agreed to in writing and approved by County staff and Borrower.

Loan Documentation and Closing

Upon completion of the Bid process, County staff will arrange for a Loan closing. The following documents will be prepared for Loan closing:

- Owner/Contractor Contract;
- Truth in Lending Disclosure
- Loan Agreement
- Promissory Note
- Deed of Trust
- Regulatory Agreement for Rental Unit
- Request for Notice of Default
- Notice of Right to Cancel (3-day rescission option)
- Evidence of Insurance
- Commitment for issuances of a lender's title insurance policy for the benefit of the County
- Estimated settlement statement

Any funds the borrower will contribute towards construction or other costs must be deposited into escrow at loan closing. Funds will be transferred to the County for payment to the Contractor.

Upon expiration of the 3-day rescission period, , the Deed of Trust, Regulatory Agreement and Request for Notice of Default will be recorded against the Property, and the title company selected will issue a lender's policy of title insurance for the benefit of the County insuring the County's lien.

Pre-Construction Conference

Prior to commencing the construction, a pre-construction conference will be held with the Borrower, the selected contractor, any subcontractors and County staff. During the conference, a construction schedule will be developed, materials selections will be finalized, and the Owner/Contractor Contract will be reviewed by all parties.

Notice to Proceed

A Notice to Proceed will be signed and approved by the Borrower and the Contractor specifying the construction start and completion dates.

Disbursement Schedule

An agreed upon schedule of construction payments will be specified in the Owner/Contractor contract and will include a provision that 10% will be withheld from each payment. The retention amount will be withheld for 35 days after the "Notice of Completion" signed by the Borrower, has been recorded.

Change Orders

The Contractor may request change orders if the work must deviate from the original specifications due to unforeseen conditions, or changes requested by the Borrower. The County will inspect and approve all change orders and may allocate use of the contingency amount to cover payments. All change orders shall be signed by the Borrower, the Contractor and the Housing Rehabilitation Specialist.

Work Inspections

Site inspections will be performed for each payment request and change order, or at the request of the Borrower or Contractor. These inspections will be in addition to those conducted by the County's Building Division.

Job Close Out

The Contractor will initiate the job close-out by submitting a request for final payment. A final inspection will be performed by the County Building Inspector and the Housing Rehabilitation Specialist. The Contractor shall prepare and sign all lien waivers. If there are no deficiencies, the Notice of Completion will be signed by the Borrower and the final progress payment will be released. The 10% retention will be held for 35 days after recordation of the Notice of Completion, and will be released upon verification by County staff that no liens were recorded. For all JADU projects, substantial completion shall be defined as 100% completion with no outstanding deficiencies. Any remaining contingency funds will be used to reduce the loan balance.

Warranty

The Contractor shall be required to guarantee all labor and materials for one year from the date of the Notice of Completion. Warranties for products and work performance will be given to the Borrower.

Dispute Resolution

All claims or disputes between the Borrower and the Contractor arising out of or related to work performed pursuant to the Junior Accessory Dwelling Unit Program that cannot be resolved in cooperation with County staff may be referred to the California State Contractor's License Board and/or State Department of Consumer Affairs for mediation assistance prior to any civil action taken by either party.

VIII. Loan Files

The County will maintain a loan file that includes the items listed below. Unless otherwise indicated, the documents will be stored electronically.

- Financial Documents
 - Original Application
 - All loan eligibility verification documents
 - Copy of Bid and Contract, specifying amount of loan requested
 - Project Financial Itemization Statement showing funding sources for entire job
 - Loan Agreement (Original)
 - Promissory Note(Original)
 - Deed of Trust(Original)
 - Regulatory Agreement for Rental Unit(Original)
 - Request for Notice of Default(Original)
 - Notice of Right to Cancel (3-day rescission option)

- Construction File
 - Original Owner/Contract Agreement
 - Site Inspection Forms
 - Copy of Construction Documents including drawings, designs, Scope of Work, etc.
 - Copies of all payments made by County of Napa
 - Copy of Notice of Completion
 - Change Orders
 - Copy of Finalized Building Permit

IX. Loan Servicing

Refinancing

Borrowers may refinance outstanding senior mortgages. The County will review requests to subordinate its Deed of Trust on a case-by-case basis; provided however, the total outstanding debt secured by Property may not exceed 100% of the then-current estimated Property value.

Monitoring

County staff will monitor all Loans and agreements for compliance with Program Requirements. The County, upon no less than 24 hours' notice, shall be allowed to inspect the Units and to contact the Tenant to verify continued compliance with the Program.

Defaults and Remedies

If a Borrower violates any provision of the Loan documents or applicable Program regulations, the County will provide written notice of default to the Borrower, and the Borrower will have the period specified in the notice to cure the default, consistent with the requirements of the Loan documents. If the violation is not cured within the specified time period, the County, at its discretion, may seek remedies as specified in the Loan documents, including:

- Collection – County staff may be directed to initiate and pursue collection proceedings on delinquent Loans. The County may accelerate all amounts due under the Loan and demand immediate repayment. Staff may be directed to renegotiate Loan terms with the Borrower based on family hardship or drastic changes in circumstances that necessitate financial adjustments. If the Borrower is not able to meet the obligation associated with the newly-renegotiated payment terms and the Loan is not brought current, staff may be authorized to initiate foreclosure/trustee sale proceedings.
- Foreclosure/Trustee Sale – If a default is not cured, staff may pursue foreclosure/trustee sale of the Property in accordance with statutory requirements.
- County Cure of Default under Senior Liens - If a senior lien holder files a notice of default, staff may consider satisfying the senior lien to forestall a foreclosure action by the senior lien holder. This action shall only be initiated when it is determined to be in the County's best interest and upon the Housing Director's approval. In such cases, the amount expended by the County to cure the senior lien default will be added to the principal balance owed by Borrower to County, and the County may subsequently record a notice of default against the Property and pursue foreclosure. If staff determines it is in the County's best interest to let the senior lien holder's foreclosure proceed, staff shall determine whether the County should bid at the trustee's sale to protect the County's investment or let the trustee's sale proceed without County participation. Staff shall bid at the trustee's sale only upon the Housing Director's direction and approval of a pre-established amount.
- Short Sale – when the market value of the Property is less than the total indebtedness, the County may consider negotiating a short sale. This action involves the County's reduction of the Loan payoff amount, and may be conditioned upon other lien holders discounting their loans.
- Deed-in-Lieu of Foreclosure – Under appropriate circumstances, including an evaluation of the amount and applicable terms of other liens recorded against the Property, the County may in the County's sole discretion, agree to accept a deed in lieu of foreclosure.

- Discount Note Sale – The County may, in its discretion sell the Note to recover a portion of its investment.

Exhibit A

Income Limits for Eligible Tenant Households*

Household Size	Maximum Household Income
1	\$52,150
2	\$59,600
3	\$67,050
4	\$74,500
5	\$80,500

Affordable Rent Limits*

Unit Size	Maximum Affordable Rent**
Studio	\$978
1-Bedroom	\$1,118
2-Bedroom	\$1,257

*2018 rates, may be adjusted upon release of 2019 data

**Includes utilities, parking fees and other charges