



ADU PILOT PROGRAM

Policy Guidelines

1. Introduction

It is the goal of the City of Rochester to provide both housing variety and affordable living to residents. To help achieve these goals, the City has allocated Community Development Block Grant (CDBG) funds to assist property owners in Rochester with creating accessory dwelling units (ADU) on their properties.

The objective of this pilot program is to support the development of ADUs in Rochester through fee reimbursements of up to \$20,000 for applicable City fees and indirect costs incurred by the development of an ADU. The City of Rochester has allocated \$60,000 to this pilot program. All fee reimbursements are subject to funding availability and are reviewed at the discretion of Rochester Community Development Department.

A review of the performance of this pilot program will be conducted once all the program funding has been used and a potential extension of the program with additional funding will be considered.

2. Background

In September 2022, the Rochester City Council adopted the new Unified Development Code (UDC), which replaced the City's previous zoning ordinance. The UDC went into effect January 1, 2023. With the adoption of the UDC, ADUs are permitted outright in all residential and mixed-use zones as an accessory use.

This program is funded by the United States Department of Housing and Urban Development (HUD) through the Community Development Block Grant (CDBG) program. The funds are provided to the City of Rochester (grantee) and are appropriated by the Rochester City Council for program use.

3. Project Terms

Fee reimbursements will support eligible projects through the development accessory dwelling units built from January 1, 2023 and onward. ADUs constructed prior to January 1, 2023 are not eligible for reimbursements through this program. The ADU can be attached or detached to the existing structure(s) on the property. To be eligible for reimbursements in this program the ADU must be located within the City Limits or Near Term Urban Expansion areas per the City of Rochester's Growth Management Map.

All City fees directly related to the development of the ADU are eligible for reimbursement. Additionally, indirect costs related to the development of an ADU will be eligible for reimbursement. An example of an indirect cost would be the fees to restore a driveway or landscaping after the installation of a water service line to the ADU.

In no case shall fee reimbursements exceed the total cost of fees incurred by the project. Fee reimbursements are provided on a first come, first serve basis. The maximum fee reimbursement amount to be awarded is \$20,000 per unit. All fee reimbursements are subject to funding availability and at the discretion of the City.

Receipts for City fees and indirect costs along with a rationale for reimbursements of indirect costs must be provided to Community Development Staff in order to receive reimbursements.

4. Applicant and Property Eligibility Requirements

Applicant Eligibility

Either the property owner or the person(s) occupying the ADU after construction must meet the following applicant eligibility requirements:

- Gross Annual household income cannot exceed 80% of the Area Median Income (AMI) as determined by the US Department of Housing and Urban Development, Section 8 Program. Gross annual household income includes, but is not limited by, the following:
 - All income earned by head of household, spouse, and other family member's age 18 years or older who reside at the residence.
 - Any other income source (child support, alimony, food stamps, etc.)
 - Income from Social Security, Pensions, Annuities, general relief, unemployment, MFIP (Minnesota Families Investment Program).
 - Average net income for self-employed applicants being the average annual income from the previous two years, excluding depreciation, as reported in the tax return.
 - Income contributed or paid to the applicant on a regular basis by a person not living in the housing unit.
- Income not to be included in renters' gross household income tabulation includes:
 - Earned income of family members under 18 years of age.
 - Income of family members who are full-time students may or may not be counted as income, as is identified by HUD income determination requirements.
- There is no asset limit in this program, however income derived from assets will be considered towards the gross household income.

Property Eligibility

The following property eligibility requirements apply to the ADU Pilot Program:

- The ADU must meet the standards outlined in the City of Rochester's Unified Development Code and adopted building codes.
- No portion of a lot on which an accessory dwelling unit is located may be subdivided from or legally described differently than the lot containing the principal dwelling unit, and no portion of a structure containing an accessory dwelling unit may have ownership different from the ownership of the principal dwelling unit
- At a minimum, the ADU must have a bedroom, a kitchen, and a bathroom (studio or efficiency units are permitted). The ADU must also be on a permanent, frost-protected foundation. Recreational vehicles (RVs), storage containers, and mobile homes may not be used as an ADU.
- Designs and construction documents for the ADU must be prepared by a licensed architect in the State of Minnesota.
- Contractors completing work on the ADU must possess the requisite licenses, bonding, and insurance as required by Chapter 4 of the City of Rochester Code of Ordinances.
- A rental certificate with the City of Rochester will be required as necessary to meet Section 7-9 of the Rochester Code of Ordinances.

5. Fair Market Rents and Short-Term Rentals

The following fair market rents (FMR) and short-term rental requirements will apply to ADUs funded through this pilot program. Should the property owner elect to live in the ADU and rent the primary dwelling on the property, the same requirements listed below will apply to the primary dwelling.

Who Income Qualified?	Fair Market Rents	Short-Term Rentals
Owner Income Qualified	No FMR requirements	Short-Term Rentals are Permitted.
Renter Income Qualified	FMR are required for a period of 3 years.	Short-Term Rentals are not Permitted for a period of 3 years.

In the event that FMRs are required, the property owner will sign a covenant agreeing to maintain the rental unit at the fair market rents for the Rochester, MN HUD FMR Area for a period of 3 years. Rental rates will be verified on a yearly basis in the form of a Certificate of Rent Paid submitted by the property owner to Community Development Staff by February 28th of each subsequent year.

The fiscal year 2024 FMR are provided below. These are updated on a yearly basis and can be found on the US Department of Housing and Urban Development [here](#).

	Efficiency (Studio)	One-Bedroom	Two-Bedroom	Three-Bedroom	Four-Bedroom
Final FY 2024 FMR	\$814	\$927	\$1,148	\$1,618	\$1,948

In the event that the ADU is used as a short-term rental, the unit must be registered with the City of Rochester and meet the rental inspection requirements.

6. Application and Project Process

Applications for the ADU Pilot Program are available on the City’s website. Applicants may contact the Community Development Department if assistance is needed with completing the application. As part of the application, the applicant will submit copies of receipts paid associated with the project and rationale for any indirect costs incurred at which point the application will be reviewed by Community Development Staff. The application should be completed and submitted to the Community Development Department after:

- fees for which reimbursements are being requested have been paid in full;
- construction on the ADU is complete; and
- a Certificate of Occupancy has been issued by City Staff.

If approved, the applicant will be notified and a reimbursement check will be processed for the approved reimbursement amount. In no case shall reimbursements be approved and distributed until the requirements listed above are met.