

**DEPARTMENT OF COMMUNITY DEVELOPMENT SERVICES
ADMINISTRATION AND PLANNING DIVISION
MEMORANDUM**



TO: Bruce K. Walden, Chief Administrative Officer

FROM: Bob Grewe, Manager, Grants Management Division

DATE: December 7, 2001

RE: Affordable Housing Discussion

Brief Description of the Issue(s)

The City of Urbana has invested a considerable amount of time, energy and resources in pursuing affordable housing. The majority of these pursuits have been facilitated with CDBG and HOME funds. These efforts have been generally successful in providing affordable housing opportunities.

However, the Urbana community is facing new and changing dynamics that impact the production of affordable housing. As such, it is prudent to re-evaluate strategies and initiatives.

Identification of the Issue(s) and Any Approvals Required

Council approval of the use of CDBG and HOME funds, which support affordable housing programs, is scheduled for May 6, 2002.

The approval process consists of reviewing project applications, developing draft plans and obtaining consensus from City Council and the Urbana/Champaign/Champaign County HOME Consortium.

Background/Facts

Attached are strategies from the FY 2000-2004 Consolidated Plan concerning affordable housing. These strategies are the framework for using HOME and CDBG funds for affordable housing projects. To date this framework has facilitated the City's initiatives. Also attached is an Overview of Affordable Housing Initiatives that summarizes affordable housing programs most recently funded. It is noteworthy that the City assists a variety of affordable housing programs and assist a wide range of households.

Fiscal Impact

The City of Urbana realizes significant economic and social benefits from their affordable housing programs.

The City will likely receive the same amount of HOME funding (\$1,039,000) and \$14,000 less in

CDBG funding (\$539,000) for FY 2002. Effective and efficient use of these funds will result in greater benefit to the City of Urbana.

Recommendation

The following are broad based concepts, rather than specific recommendations. These are provided as starting point for further analysis and discussion.

Basically the recommendations are all related to planning. To date, affordable housing concerns and use of grant funds is an annual process. It is likely that greater value can be derived by planning on a multi-year basis and utilizing all affordable housing resources in a more strategic fashion.

The greatest value in addressing affordable housing can be realized by committing more time and effort with coordinating affordable housing initiatives and resources. The current approach is very opportunistic, rather than proactive. Staff and the HOME Consortium should facilitate greater coordination with housing providers. Value may also be realized by non-profit housing providers establishing a coordination mechanism/arrangement.

Land to support affordable housing will always be necessary. To date the staff has identified and purchased lots to support affordable housing. Staff efforts have been very “opportunistic” and driven by identifying willing sellers of vacate lots and properties to be demolished. This has improved certain neighborhoods, but the approach has been less than strategic. The City’s comprehensive planning effort might shed light on strategic initiatives to identify future land to support affordable housing. Further, City staff, at a minimum, should strive to create a ready inventory of lots to support affordable housing. Proving lots “on the fly” has resulted in unforeseen costs and delays due to infrastructure and related concerns that were not addressed at the front end.

Consideration should also be given to housing design to improve/enhance the production of affordable housing. We should be working with the Building Research Council and other architectural interest to find the best design for affordable housing. The design should be energy efficient and “fit” with the neighborhood. In order to serve the lower income populations, a new, less costly, more efficient home design could be identified. A lower priced home, coupled with subsidies, can create a much more affordable product.

Attached are copies of two draft evaluation formats that incorporate many of the best practice components that staff has assembled from case studies and workshops. Staff should work with affordable housing providers to incorporate these components into their production models.

Attachments:

Sections of the Consolidated Plan FY 2000-2004
Overview of Current Affordable Housing Initiatives
Draft Evaluation Forms

CONSOLIDATED PLAN FY 2000-2004 EXCERPTION STRATEGIES, GOALS AND OBJECTIVES

Strategies to Address Homelessness

- Strategy 1A: Maintain the existing system of emergency and transitional shelter through continued public funding of shelters and programs such as the City of Urbana Transitional Housing Program.
- Strategy 2A: Develop one or more private community trust funds to raise money to support ongoing operation of the core shelter system.
- Strategy 3A: Develop a centralized intake and assessment program to assist homeless persons in accessing available shelter space and to investigate non-shelter housing alternatives. Such a system could be operated through the AmeriCorps Program. The Council of Service Providers to the Homeless should be involved in designing this intake component.
- Strategy 4A: Encourage the development of a (residential) program to serve homeless teens with children.
- Strategy 5A: Develop rental assistance program(s) to provide permanent and permanent supportive housing opportunities for extremely low and very low-income persons.
- Strategy 6A: Collaborate with non-profit housing development organizations to develop multi-family rental housing affordable to extremely low- and very low-income households with children.
- Strategy 7A: Encourage expansion of transitional housing for women and children.
- Strategy 8A: Encourage development of emergency shelter services or transitional housing for homeless two-parent households with children.

Affordable Housing Strategies

- Strategy 1C: Promote new construction efforts providing affordable housing opportunities for low- and moderate-income households.
- Strategy 2C: Encourage the development of non-profit housing development organizations eligible for CHDO status.
- Strategy 3C: Expand tenant-based rent assistance programs through additional Section 8 assistance and through new programs such as Tenant-Based Rent Assistance (TBRA). Priority for such assistance shall be given to extremely low-income households.
- Strategy 4C: Financially support renovation of substandard privately owned rental units for occupancy by very low-income households.
- Strategy 5C: Promote renovation of single-family owner-occupied units for very low-income households.
- Strategy 6C: Promote expansion of homeownership among Urbana residents.
- Strategy 7C: Acquire and clear deteriorated housing and vacant lots for donation to non-profit home construction programs. Acquisition and clearance efforts will be focused on the King Park Neighborhood in accordance with the King Park Neighborhood Plan.

- Strategy 8C: The Urbana Human Relations Division will promote community awareness of the Urbana Human Rights Ordinance and will provide fair housing training for landlords and tenants. Education and training will focus on eliminating barriers to affordable housing including discrimination based on source of income.
- Strategy 9C: Encourage counseling and educational opportunities and resources, which teach homeownership maintenance skills.
- Strategy 10C: Encourage educational programs related to abatement of lead-based paint and support testing for lead poisoning.
- Strategy 11C: Support tenant advocacy and educational efforts by agencies such as the C-U Tenant Union.
- Strategy 12C: Support compatible siting of privately developed rental units through the Federal Low-Income Housing Tax Credit Program affordable to elderly households.
- Strategy 13C: Promote affordability of rental property receiving HOME funds from the City for moderate or substantial rehabilitation, the City may elect, on a case-by-case basis, to use HOME funds for rehabilitation. Refinancing of a project may occur only if specifically authorized in an Annual Action Plan approved by the Urbana City Council, and then, only if conditions of the refinancing are clearly stated in the Plan. To be eligible for refinancing a project must meet the following conditions.
- Refinancing cannot be the primary purpose of the HOME investment. Refinancing is only appropriate when HOME funds are loaned to rehabilitate the property for which refinancing is being requested and then only when necessary to permit or ensure continued affordability. To demonstrate that rehabilitation is the primary activity for which HOME funds have been expended in connection with the property, at least \$5,000 per unit average in HOME funds must have been provided for rehabilitation of the property.
 - The project sponsor requesting HOME funds for debt refinancing must demonstrate, and the City must confirm, that disinvestments in the property has not occurred, long-term needs of the project can be met through the refinancing, and servicing the targeted population over an extended affordability period is feasible.
 - Refinancing may be approved either to maintain current affordable units or to create additional affordable units.
 - Properties for which refinancing is approved may be located anywhere within the Urbana corporate limits.
 - Properties for which refinancing is approved are subject to an affordability period of at least 15 years starting on the date the refinancing is closed.
 - HOME funds cannot be used to refinance multiple-family loans made or insured by any other federal program, including but not limited to, the Community Development Block Grant Program.

Public Housing Strategies

- Strategy 1D: Promote substantial upgrading of the living environment for residents of Urbana public housing, particularly family units.
- Strategy 2D: Encourage the Housing Authority of Champaign County to increase the number of affordable housing units available to extremely low-income households. Seek additional means of subsidizing very low-income households with rental assistance.
- Strategy 3D: Encourage the Housing Authority of Champaign County to increase the earning potential of extremely low-income households.
- Strategy 4D: Strongly encourage the Housing Authority of Champaign County to rehabilitate existing units and develop new units, which would be accessible to families, which include persons with disabilities.
- Strategy 5D: If redevelopment of Lakeside Terrace and Dunbar Court is possible without a significant reduction in the total number of permanent, subsidized housing units affordable to the lowest income families with children in the community, the City of Urbana will work with the Housing Authority of Champaign County to develop a HOPE VI application for the redevelopment of Lakeside Terrace and Dunbar Court to create a mixture of public housing, rental or homeownership units and residents representing a mix of incomes. The City will assist in developing a plan which partners with the private sector to use private dollars to leverage HOPE VI or other Federal funds, to replace the demolished units with a combination of new on-site units, scattered-site units and Section 8 rent subsidies. Although Section 8 vouchers or certificates may be used to relocate households living at these complexes at the time of redevelopment, at least 80% of demolished units will be replaced with permanent, subsidized housing units that will be affordable to extremely low-income families with children, irrespective of their income.

OVERVIEW OF CURRENT AFFORDABLE HOUSING INITIATIVES

NEW HOUSING CONSTRUCTION

The Illinois Center for Citizen Involvement (ICFCI)

ICFCI has been a leader in the area of new construction of affordable housing.

Development Process:

ICFCI identifies an interested homebuyer and qualifies them for financing.

ICFCI constructs the house.

Grants funds provide a subsidy to create an affordable financial arrangement.

Local bank structures a mortgage loan for the homebuyer.

Use of grants funds include:

Purchase and preparation of lots that are donated by the City for use by this program.

Overhead and administration

Homebuyer subsidies (amount dependent on income level of homebuyer)

Example:	Less than 50% MFI	\$11,500
	51% to 70% MFI	\$9,000
	71% to 80% MFI	\$6,500
	(HomeBuild 3 provisions)	

Leverage/Match:

Over the course of their efforts, ICFCI has procured matching funds from the Illinois Housing Development Authority Trust Fund and Federal Home Loan Bank. Local banks have also assisted by providing mortgage loans to participants in the program.

Analysis:

Builds capacity for affordable housing production.

Creates new tax base.

Stabilizes/enhances neighborhoods.

Habitat for Humanity

Habitat has provided a significant number of affordable houses and only requested lots for their homes.

Development Process:

Habitat screen applicants to identify prospective homeowner.

Habitat builds the house.

Habitat provides financing for the homeowner.

Habitat provides mentoring/financial counseling services for the new homeowner to assist them in their transition.

Use of grant funds include:

Purchase and preparation of lots that are donated by the City for use by this program.

Leverage/Match:

Volunteer efforts

Sweat equity by homebuyer

Internal financing arrangements for homebuyer at a very low interest rate

Analysis:

Creates new tax base.

Stabilizes/enhances neighborhood.

Builds capacity for production of affordable housing.

Notes:

No direct homebuyer subsidy.

Provides for sustainable initiative through financing mechanisms (interest in homeowner loans returns to Habitat to support other projects).

Is utilizing innovative construction techniques for energy efficiency.

LEASE-PURCHASE PROGRAM

Urban League of Champaign County Development Corporation

The Urban League Development Corporation recently launched this program and it seems to be creating a deal of interest and opportunities.

Development Process:

Urban League identifies prospective homebuyer.

(*UL's credit counseling service provides a ready pool of candidates)

Homebuyer identifies a house they like and can afford.

UL purchases the house, with the use of grant subsidies.

Homebuyer rents the house for 3 years while saving funds for the down payment in an escrow account and is enrolled in credit counseling program.

Once down payment is available, homebuyer obtains a mortgage.

Use of grant funds include:

Subsidize the purchase price of the future homeowner's house.

Leverage/Match:

Urban League staff time related to providing credit counseling to help build down payment account and enhance credit rating of homebuyer.

Analysis:

Stabilizes/enhances neighborhood by creating homeownership.

Builds capacity for production of affordable housing.

Helps families with credit issues.

Note:

Program seems to be a nice compliment to Urban Leagues credit counseling program.

RENTAL REHABILITATION

Homestead Corporation

Homestead Corporation has expressed an interest in providing affordable rental housing for families, with a focus on accommodating larger families.

Development Process:

Homestead purchases a home (that may need limited improvements), with grant subsidy.

Homestead does minor rehabilitation to improve the home.

Homestead rents the units to Section 8 families.

Use of grant funds include:

Subsidize the purchase price of the rental house.

Leverage/Match:

Own funds.

Difference between actual sale price and market price (providing tax benefit to seller)

Contractor donated labor/materials (difference in actual and market rate/prices)

Analysis:

Stabilizes/enhances neighborhood as Homestead indicates they provide above average care and maintenance of their properties.

Builds capacity for production of affordable housing.

United Citizens and Neighbors (UCAN)

UCAN endeavored the rehabilitation of a small home and currently has the home on the market for resale.

Development Process:

UCAN purchased home.

UCAN rehabilitated home with grants funds and volunteer labor.

UCAN will sell the home to a family/individual that meets affordable income guidelines.

Use of grant funds include:

Subsidize the purchase price of the rental house and rehabilitation.

Leverage/Match:

City provided match.

Analysis:

Stabilizes/enhances neighborhood

Builds capacity for production of affordable housing.

ANNUAL TAX EXEMPT BOND CAP ALLOCATION

Each year the City receives an allocation of tax-exempt bond capacity to finance housing and/or economic development projects.

For the past seven years the City has used the bonding capacity to provide financial incentives for income eligible, first-time homebuyers. This is referred to the AssistUrbana Program.

The program offers qualified individuals and families 4.25 percent of the amount borrowed on a mortgage in the form of a non-repayable and non-taxable grant for down payment and closing costs. The program is available to individuals and families who meet income and home purchase price requirements and have not owned a home in three years

Last year the City was provided \$2,296,500. For 2002 the City will receive \$2,729,625 in tax-exempt bonding authority.

Since April 2001 the program has leverage 21 mortgage loans totaling over 1.5 million dollars.

The following is summary of previous year's accomplishments:

Year	# of loans	value of loans
96	36	\$1,900,000
97	32	\$1,800,000
98	13	\$801,000
99	32	\$2,100,000
00	13	\$1,000,000
01	21 (to date)	\$1,500,000

The deadline for deciding on how to use 2002 bonding authority is April 30, 2002.

Note: Urbana is the model for how-to promote the program.

SHELTERS AND TRANSITIONAL HOUSING

It seems the City of Urbana goes well beyond any community their size in Illinois, maybe nationwide, to support shelters and transitional housing facilities.

\$45,000 in CDBG funds supports the City of Urbana Transitional Housing Program. This provides for a project/case manager and maintenance, utilities, etc. for 5 units. The City owns 3 homes and 2 are donated by Carle Hospital.

The City also submits and manages the following grants to HUD"

Shelter Plus Care I
Shelter Plus Care II
Supportive Housing Program

DRAFT Evaluation Matrix				
Production of New Affordable Housing Units				
The values for production costs are based on most recent projects submitted.				
	Urban League	ICFCI	Homestead Inc.	Habitat for Humanity
Considerations:	Lease - Purchase	New Home Construction	Rental	Habitat Model
Total Production Costs (grant \$)	\$15,000/unit	\$20,250/unit (\$35,000w/land)	\$22,625/unit	\$15,000 for land
Overhead/soft Costs	low-medium	medium	low-medium	none
Number of units produced				
Purchase Price	\$55,000	\$82,500	NA	\$45,000
Monthly Payments				
New Tax revenues	No	Yes	No	Yes
Affordability Period	10 years	10 years	10 years	?
Meet CON PLAN Goals	Yes	Yes	Yes	Yes
Neighborhood Stabilization	Yes	Yes	Yes	Yes
Staff Time Required	low-medium	high	low-medium	low-medium
Beneficiaries	under 80%	under 80%	under 80%	under 80%
Target Area	Maybe	Yes	Maybe	Maybe
Completion Timeline	under 1 year	multi-year	under 1 year	under 1 year
*This is draft document.				
Staff intends to work with the HOME Consortium to develop other techniques and tools to measure production models.				
Non-profit housing organizations must also be involved in this evaluation process.				