



DEPARTMENT OF COMMUNITY DEVELOPMENT SERVICES

Grants Management Division

m e m o r a n d u m

TO: Bruce Walden, Chief Administrative Office

FROM: Libby Tyler, AICP, City Planner/Director

DATE: March 20, 2002

SUBJECT: AN ORDINANCE AUTHORIZING THE EXECUTION AND DELIVERY OF AN INTERGOVERNMENTAL COOPERATION AGREEMENT AND CERTAIN DOCUMENTS IN CONNECTION THEREWITH; AND RELATED MATTERS

Description

Included on the March 26 agenda of the Urbana City Council, Committee of the Whole are two (2) individual homebuyer assistance programs. Issue one is an intergovernmental agreement regarding the implementation of a first-time homebuyer assistance program called *AssistUrbana*. If the proposed agreement were approved by City Council, the city would pool a portion of its 2002 private activity revenue bond authority with other Illinois communities to provide special financing arrangements for households desiring to purchase their first home in Urbana. Under this program, there would be a fixed mortgage rate and downpayment assistance to homebuyers.

Issue two is a resolution authorizing the city to cede a portion of its 2002 private activity revenue bond authority to the Illinois Housing Development Authority (IHDA) to provide special low-interest rate mortgage financing to households purchasing homes within the city through the "*Below Market Rate Program*."

Issues

The issue in these cases is whether the City of Urbana should participate in the homebuyer assistance programs proposed by Stern Brothers & Co. and the Illinois Housing Development Authority. Any unused bond authority not ceded for any combination of these programs will be ceded back to the State of Illinois for use by another municipality.

Background

Pursuant to the Internal Revenue Service code, each municipality is allowed to issue private activity revenue bonds up to \$75.00 per capita per year. Based upon the current population of 36,395, the City of Urbana may issue up to \$2,729,625 in private activity revenue bonds this year. The city may utilize its private activity bond authority for one of three activities:

- 1) below-market-rate financing for affordable housing
- 2) mortgage credit certificates in support of homeownership, or
- 3) below-market-rate financing for limited types of industrial developments

The State of Illinois each year recaptures any bond allocation unused by the city as of May 1. The city may elect to use its allocation, allow its allocation to be recaptured by the state, or voluntarily cede its allocation to the state or to any community. Revenue bond allocations can be transferred from one community to another.

Program 1 - AssistUrbana In recent years, Urbana has used its private activity bond allocation rather than allow it to be recaptured by the state. City Council has used its allocation to assist first-time homebuyers through provision of grants for downpayments and closing costs. The AssistUrbana Program was first started under the name of *AccessUrbana* in 1995 and has subsequently assisted over 130 families purchase homes in Urbana. As of January 2002, eighteen families moved into new homes equaling over \$1,258,936 million in home mortgages after the City of Urbana ceded over \$1,148,250 to the bond counsel.

AssistUrbana currently provides 30-year fixed rate FHA/VA mortgage loans at 7.70 percent interest and conventional loans at 7.295 percent interest through Busey Bank, BankIllinois, BankOne, National City Bank, Union Planters Bank and University of Illinois Credit Union. The program also provides non-repayable, non-taxable grants for downpayment and closing costs up to 4.25 percent of the home mortgage amount. The program has been marketed jointly by the city and bank personnel through direct mailers, seminars, and media advertising.

The bond counsel that helped create the Assist Program statewide for many Illinois communities has notified city staff that it intends to create a new Assist program in 2002, using 2002 bond allocations. Stern Brothers & Co. has provided staff the 2002 documents, which are nearly identical to the 2001 documents. The new program would be structured similarly to the 2001 program in that both below-market-rate loans and downpayment grants would be offered. The program would still provide downpayment grants up to 4.25 percent of the home mortgage amounts. However, the program interest rate will probably be lower than the 2001 interest rates. The 2002 program rate will be below market rate. The actual interest rate would be established on the date of the bond sale and would depend on market conditions at that time. Also similar to past years are the communities participating in the Assist program, including Urbana, Champaign, Rantoul, Peoria, Springfield, Decatur, Charleston, Danville, and Mattoon.

In order to qualify for the *AssistUrbana* Program, families will need to meet household income and purchase price limits. While the program would be available citywide, the Internal Revenue Service has designated program target areas (see attached map). Income and purchase price limits vary depending on whether the property purchased is located in or out of the target area. Households purchasing within the target areas need not be first-time homebuyers. Income and purchase price limits applicable to the 2002 program are as follows.

<u>Maximum Household Income Limits</u>		
Nontargeted areas	1-2 person household	\$62,600
	3 or more persons	\$71,990
Targeted area	1-2 person household	\$75,120
	3 or more persons	\$87,640

<u>Maximum Purchase Price Limits (single-family home)</u>		
Nontargeted areas	Existing properties	\$96,800
	New construction	\$183,960
Targeted area	Existing properties	\$118,310
	New construction	\$224,850

In previous years, the city has set-aside fifty percent of the bond funds for households earning at or below 80 percent of area median family income. The set-aside would apply during a six-month reservation period; during which time the city's contribution to the bond pool would be available only to Urbana residents.

A community other than Urbana would issue bonds for the 2002 program. To participate in the program, Urbana would transfer all or a portion of its bond allocation to the issuing community. If the city decides to participate in the program, the bond issue would likely occur in late April with loans becoming available in May.

Program 2 - Illinois Housing Development Authority *Below Market Rate Program (BMR)*

The Illinois Housing Development Authority (IHDA) has developed a financing program for first-time homebuyers that will provide 30-year mortgages fixed at 1.00 percent below the market rate. The homebuyer's rate is approximately 5.30-5.75 percent interest today. The market interest rate changes daily. The homebuyer is also eligible for \$1,000 in closing cost assistance for an additional 0.25 percent increase in the interest rate. All IHDA approved lenders are eligible to participate in the program. Homebuyers must meet the same income and purchase price guidelines as the *AssistUrbana* Program.

This program rewards families that have saved a down payment by offering a lower interest rate mortgage. This program saves the homebuyer considerable amounts of money over the life of the mortgage and helps them build equity in the homes at a faster rate. Homebuyers can purchase homes anywhere within the city, and the same target areas as the Assist Program apply.

The City of Urbana participated in a similar program during 2001 by ceding \$688,950 in bond cap allocation to IHDA. At that time, the interest rate was 30-years fixed rate at 1.00 point below the IHDA daily rate.

To participate in the program during 2002, the city would need to transfer all or a portion of its bond allocation to the IHDA. If the city decides to participate in this program, loans would be available beginning around June 1.

Options

Options other than those provided herein include the following:

- Accept staff recommendation or a variation the recommendation.
- Do nothing will the City's bond allocation and it will revert to the State.
- Convey the allocation to another jurisdiction that might desire additional bond allocation.
- Participate in the Illinois Housing Development Authority HELP Program that provides down payment assistance. (This is program is very similar to Assist and would provide for a nearly redundant program.)

Fiscal Impacts

Other than Community Development staff time to organize and market the programs, there would be no city financial outlay connected to the programs. Program administrative fees incurred by the bond counsels and by the city's bond consultants would be paid with bond proceeds. In all three programs, the city would have no liability for bond repayment since the city would not be the bond issuer and all mortgage repayments would be government-insured.

Recommendations

Staff recommends ceding 75 percent (\$2,047,218) of the city's bond cap allocation to the *AssistUrbana* Program.

Staff recommends ceding 25 percent (\$682,406) of the city's bond cap allocation to the Illinois Housing Development Authority's *Below Market Rate Program*.

Prepared By: _____
Bob Grewe, AICP, Manager
Grants Management Division

Attachments:

- (1) An Ordinance Authorizing the Execution and Delivery of an Intergovernmental Cooperation Agreement and Certain Documents in Connection Therewith: and Related Matters (AssistUrbana Program - AssistUrbana Series 2002)(with attached Intergovernmental Cooperation Agreement)
- (2) AssistUrbana Target Area Map
- (3) A Resolution Approving Participating in Illinois Housing Development Authority First-Time Homebuyer Single-Family Program (Below Market Rate Program - Series 2002).

ORDINANCE NO. 2002-03-028

AN ORDINANCE AUTHORIZING THE EXECUTION AND DELIVERY OF AN
INTERGOVERNMENTAL COOPERATION AGREEMENT AND CERTAIN DOCUMENTS IN
CONNECTION THEREWITH; AND RELATED MATTERS

(AssistUrbana, Series 2002)

WHEREAS, pursuant to Section 6(a) of Article VII of the 1970 Constitution of the State of Illinois, the City of Urbana, Champaign county, Illinois, is a municipality and a home rule unit of government duly organized and validly existing under the Constitution and the laws of the State of Illinois (the "*Municipality*"); and

WHEREAS, pursuant to the Constitution and the laws of the State of Illinois, and particularly Section 6(a) of Article VII of the 1970 Constitution of the State of Illinois, the Municipality is authorized to issue its revenue bonds in order to aid in providing an adequate supply of safe, decent and sanitary residential housing for low and moderate income persons and families within the Municipality, which such persons and families can afford, which constitutes a valid public purpose for the issuance of revenue bonds by the Municipality; and

WHEREAS, the Municipality has now determined that it is necessary, desirable and in the public interest to issue revenue bonds to provide an adequate supply of safe, decent and sanitary residential housing for low and moderate income persons and families within the Municipality, which such persons and families can afford; and

WHEREAS, pursuant to Section 10 of Article VII of the 1970 Constitution of the State of Illinois and the Intergovernmental Cooperation Act (5 *Illinois Compiled Statutes* 2000, 220/1 *et seq.*, as supplemented and amended), public agencies may exercise and enjoy with any other public agency in the State of Illinois any power, privilege or authority which may be exercised by such public agency individually, and, accordingly, it is now determined that

it is necessary, desirable and in the public interest for the Municipality to enter into an Intergovernmental Cooperation Agreement (the "*Cooperation Agreement*") dated as of April 1, 2002, by and among the Municipality and certain other municipalities named therein (the "*Municipalities*"), to provide for the joint issuance of such revenue bonds to aid in providing an adequate supply of residential housing in such Municipalities (the "*Program*"); and

WHEREAS, to provide for the Program, the City of Aurora, Kane, DuPage, Will and Kendall Counties, Illinois and the City of Springfield, Sangamon County, Illinois (the "*Issuers*") proposes to issue, sell and deliver its Collateralized Single Family Mortgage Revenue Bonds, Series 2002 in an aggregate principal amount not to exceed \$250,000,000 (the "*Bonds*") in one or more series to obtain funds to finance the acquisition of mortgage-backed securities (the "*GNMA Securities*") of the Government National Mortgage Association ("GNMA"), evidencing a guarantee by GNMA of timely payment, the acquisition of mortgage-backed securities (the "*FNMA Securities*") of the Federal National Mortgage Association ("FNMA"), evidencing a guarantee by FNMA of timely payment, and the acquisition of mortgage-backed securities (the "*FHLMC Securities*") of the Federal Home Loan Mortgage Corporation ("FHLMC"), evidencing a guarantee by FHLMC of timely payment, of monthly principal of and interest on certain qualified mortgage loans under the Program (the "*Mortgage Loans*"), on behalf of the Municipality and the other Municipalities all under and in accordance with the Constitution and laws of the State of Illinois; and

WHEREAS, the City Clerk of the Municipality has caused a notice of public hearing with respect to the plan of finance of the costs of the Program through the issuance of the Bonds to be published in *The News-Gazette*, a newspaper of general circulation in the Municipality, pursuant to Section 147(f) of the Internal Revenue code of 1986, as amended (the "*Code*"), on March 1, 2002, and an appropriately designated hearing officers of the

City of Aurora, Kane, DuPage, Will and Kendall Counties, Illinois, the City of Belleville, St. Clair County, Illinois, City of Champaign, Champaign County, Illinois, and the City of East Moline, Rock Island County, Illinois, have conducted said combined public hearing on March 18, 2001; and

WHEREAS, a form of the Cooperation Agreement has been presented to and is before this meeting;

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF URBANA, ILLINOIS, as follows:

Section 1. That it is the finding and declaration of the City Council of the Municipality that the issuance of the Bonds by the Issuers is advantageous to the Municipality, as set forth in the preamble to this authorizing ordinance, and therefore serves a valid public purpose; that this authorizing ordinance is adopted pursuant to the Constitution and the laws of the State of Illinois, Section 6(a) of Article VII of the 1970 Constitution, Section 10 of Article VII of the 1970 Constitution of the State of Illinois and the Intergovernmental Cooperation Act; and that, by the adoption of this authorizing ordinance, the City Council of the Municipality hereby approves the issuance of the Bonds for the purposes as provided in the preamble hereto, the text hereof and the notice of public hearing referred to in the preamble hereto, which notice is hereby incorporated herein by reference, and which public approval shall satisfy the provisions of Section 147(f) of the Code.

Section 2. That the form, terms and provisions of the proposed Cooperation Agreement be, and they are hereby, in all respects approved; provided, however, that, during the Reservation Period as defined in the Cooperation Agreement, 50 percent of the Program Allocation allocated to the City of Urbana shall be set aside for use in buying securities with mortgage loans made to persons in households earning at or below 80 percent of median family income for Champaign County, Illinois, as periodically determined by

the U.S. Department of Housing and Urban Development; that the Mayor of the Municipality be, and is hereby, authorized, empowered and directed to execute, and the City Clerk of the Municipality be, and is hereby, authorized, empowered and directed to attest and to affix the official seal of the Municipality to the Cooperation Agreement in the name and on behalf of the Municipality, and thereupon to cause the Cooperation Agreement to be delivered to the other Municipalities; that the Cooperation Agreement is to be in substantially the form presented to and before this meeting and hereby approved or with such changes therein as shall be approved by the officer of the municipality executing the Cooperation Agreement, his or her execution thereof to constitute conclusive evidence of his or her approval of any and all changes or revisions therein from the form of Cooperation Agreement before this meeting; that from and after the execution and delivery of the Cooperation Agreement, the officials, agents and employees of the Municipality are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with all things and to execute all such documents as may be necessary to carry out and comply with the provisions of the Cooperation Agreement as executed; and that the Cooperation Agreement shall constitute and is hereby made a part of this authorizing ordinance, and a copy of the Cooperation Agreement shall be placed in the official records of the Municipality, and shall be available for public inspection and the principal office of the Municipality.

Section 3. That the Mayor, the City Clerk and the proper officers, officials, agents and employees of the Municipality are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents and certificates as may be necessary to carry out and comply with the provisions of the cooperation Agreement and to further the purposes and

intent of this authorizing ordinance, including the preamble to this authorizing ordinance.

Section 4. That all acts of the officers, officials, agents and employees of the Municipality heretofore or hereafter taken, which are in conformity with the purposes and intent of this authorizing ordinance and in furtherance of the issuance and sale of the Bonds, and the same hereby are, in all respects, ratified, confirmed and approved, including without limitation the publication of the notice of public hearing.

Section 5. That the Municipality hereby transfers its 2002 unified volume cap in the amount of \$2,047,218.00 to the Issuer, together with all unified Volume Cap to be received by the municipality from the Office of the Governor in 2002 for the Bonds, if any, which is hereby allocated by the Municipality to the issuance of the Bonds; and that the Municipality, by adoption of this authorizing ordinance, hereby represents and certifies that such volume cap has not been allocated to any other bond issue or transferred to any other party.

Section 6. That after the Cooperation Agreement is executed by the Municipality, this authorizing ordinance shall be and remain irrevocable until the Bonds and the interest thereon shall have been fully paid, cancelled and discharged.

Section 7. That the provisions of this authorizing ordinance are hereby declared to be separable, and if any section, phrase or provision of this authorizing ordinance shall for any reason be declared to be invalid, such declaration shall not affect the validity of the remainder of the sections, phrases and provisions of this authorizing ordinance.

Section 8. That all ordinances, resolutions and orders, or parts thereof, in conflict with the provisions of this authorizing ordinance are, to the extent of such conflict, hereby superseded; and that this authorizing

ordinance shall be in full force and effect upon its adoption and approval as provided by law.

PASSED by the City Council this _____ day of _____,
2002.

AYES:

NAYS:

ABSTAINS:

Phyllis D. Clark, City Clerk

APPROVED by the Mayor this _____ day of _____, 2002.

Tod Satterthwaite, Mayor

RESOLUTION NO. _____

RESOLUTION APPROVING PARTICIPATION IN
ILLINOIS HOUSING DEVELOPMENT AUTHORITY FIRST-TIME
HOME BUYER SINGLE-FAMILY PROGRAM

(Below Market Rate Program, Series 2002

WHEREAS, there exists within the borders of the City of Urbana, Illinois (the "Municipality"), a recognized need for decent, safe, sanitary and well-constructed and maintained housing which persons of moderate income can afford; and

WHEREAS, the Municipality is a home rule unit of local government pursuant to Article VII of the Illinois Constitution of 1970 and, as such a home rule unit, the Municipality receives an annual allocation of private activity bond volume cap ("Volume Cap") pursuant to Section 146 of the Internal Revenue Code of 1986, as amended from time to time (the "Code"); and

WHEREAS, Section 143 of the Code (Section 143") authorizes home rule units to issue mortgage revenue bonds ("Revenue Bonds") using Volume Cap, the proceeds of which are to be used to purchase qualified mortgage loans, as defined in Section 143 ("Mortgage Loans") made to homebuyers satisfying the requirements of Section 143 ("Homebuyers"); and

WHEREAS, the Municipality is considering establishing and implementing a mortgage revenue bond program (the "MRB Program") to purchase Mortgage Loans from Homebuyers living within the Municipality, using \$682,406 of its Volume Cap for the year 2002 ("Year 2002 Volume Cap"); and

WHEREAS, the Illinois Housing Development Authority ("IHDA") has offered to create and administer the "Below Market Rate Program"; the Municipality would cede to IHDA a portion of its Year 2002 Volume Cap, and for a period of one (1) year from the commencement date of the "Below Market Rate Program", IHDA would issue Revenue Bonds and use the proceeds to purchase only Mortgage Loans made to Homebuyers living in the Municipality.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF URBANA, ILLINOIS, as follows:

SECTION 1. The Municipality makes the findings and determinations set forth in the preamble. The terms defined in the preamble are adopted for the purposes of this Resolution.

SECTION 2. The Municipality approves and authorizes its participation in the "Below Market Rate Program" and cedes to IHDA \$682,406 of its Year 2002 Volume Cap for purposes of establishing and administering the "Below Market Rate Program".

SECTION 3. The Municipality authorizes and empowers the proper officials, agents and employees of the Municipality to do all acts and things and to execute all documents and instruments as may be necessary to participate in the "Below Market Rate Program" and to carry out and comply with the provisions and intent of this Resolution or to effectuate its purpose.

SECTION 4. This Resolution shall take effect immediately upon its adoption.

PASSED by the City Council this _____ day of _____, 2002.

AYES:

NAYS:

ABSTAINS:

Phyllis D. Clark, City Clerk

APPROVED by the Mayor this _____ day of _____, 2002.

Tod Satterthwaite, Mayor