



DEPARTMENT OF COMMUNITY DEVELOPMENT SERVICES

Grants Management Division

m e m o r a n d u m

TO: Bruce K. Walden, Chief Administrative Officer

FROM: Elizabeth Tyler, AICP, City Planner/Director

DATE: April 8, 2004

SUBJECT: A RESOLUTION EVIDENCING THE INTENTION OF THE CITY OF URBANA, CHAMPAIGN COUNTY, ILLINOIS, TO RESERVE THE 2004 PRIVATE ACTIVITY BOND FOR THE PURPOSE OF FURTHERING NEIGHBORHOOD INITIATIVES

Description

Included on the April 12, 2004 agenda of the Urbana City Council Committee of the Whole is a Resolution Evidencing the Intention of the City of Urbana, Champaign County, Illinois to Reserve the 2004 Private Activity Bond Cap for the Purpose of Furthering Neighborhood Initiatives. For 2004, the City of Urbana may issue up to \$3,059,280 in private activity revenue bonds. This staff memorandum provides a recommendation to reserve the 2004 private activity bond cap for the purpose of furthering neighborhood initiatives.

Issues

The issue is to determine whether the City of Urbana should reserve the 2004 private activity bond cap or participate in the homebuyer assistance programs offered by Stern Brothers & Co. and/or the Illinois Housing Development Authority (IHDA). 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.

The City can reserve its bond cap at this time for unspecified redevelopment activities and identify the exact nature of the bond usage at a later date. Redevelopment activities might include but not be limited to Lakeside Terrace and related affordable housing projects.

Stern Brothers & Co. offer a first-time homebuyer assistance program called *AssistUrbana*, which provides 4.25% of the mortgage as grant for downpayment assistance and fixed rate mortgage.

The Illinois Housing Development Authority offers the following three (3) homebuyer assistance programs:

The *First-Time Homebuyer Program (MRB*)*, which offers 30-year fixed-rate, mortgages at below market interest rates. *(mortgage revenue bonds)

The *Mortgage Credit Certificate (MCC)* Program offers a tax credit that can assist homebuyers in qualifying for a mortgage by reducing one's federal income taxes.

The *Home Equity Loan Program (HELP)*, which provides 4.25% of the mortgage as grant for downpayment assistance and fixed rate mortgage

Background

Pursuant to the Internal Revenue Service code, each municipality is allowed to issue private activity revenue bonds up to \$80.00 per capita per year. (Last year, the amount was \$75.00 per capita.) Based upon on a population of 38,241, the City of Urbana may issue up to \$3,059,280 in private activity revenue bonds this year. (Last year the amount was \$2,729,625 and the population was 36,395.) 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 - Reserve the 2004 private activity bond cap for the purpose of furthering neighborhood initiatives.

Under federal law, state and local governments can issue a certain amount of tax-free bonds for projects that the federal government does not consider traditional governmental purposes. These bonds are called private activity bonds. Since they are historically used for private business development they are also known as industrial development bonds. Private organizations prefer these bonds over other borrowing mechanisms because the interest on the bonds is free from federal taxes, which allows the issuer to sell the bonds at a lower interest rate than taxable bonds. The City may choose to use its bonding authority (also called "bond cap") for a local purpose or cede the amount to the state or another entity for their use. Any bonding authority unallocated by the City as of May each year is recaptured by the State of Illinois. The State of Illinois also packages non-home rule bonding authority each year and makes it available for other projects.

While private activity bond authority allows the City to issue tax-exempt debt for certain projects, it does not create a source of funds for annual principal and interest payments ("debt service"). Funds for debt service expense must be identified as part of the project financing plan. Community Development staff have noted on several occasions the potential use of this year's \$3

million bond cap to help finance the redevelopment of Lakeside Terrace. Early financial analysis conducted by staff and Brinshore LLC noted the potential use of private activity bond cap to help address gaps in the financial packaging.

The City of Champaign pursued a similar arrangement for its private activity bond cap last year. This year, the City ceded this reserved bond cap to IHDA to help finance the redevelopment of Burch Village.

At this time, staff is recommending that the bond cap be reserved for neighborhood improvement activities, including but not limited to activities associated with the redevelopment of Lakeside Terrace.

Programs 2-5 (Homebuyer Assistance Programs)

In recent years, Urbana has used its private activity bond allocation for homebuyer assistance programs, rather than allow it to be recaptured by the state.

In order to qualify for the *AssistUrbana* and Illinois Housing Development Authority homebuyer assistance programs, 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 (which can be located using IHDA’s website at <http://www.ihda.org/census.htm>). 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 2004 program are as follows.

<u>Maximum Household Income Limits</u>		
Non-targeted areas	1-2 person household	\$62,900
	3 or more persons	\$72,335
Targeted area	1-2 person household	\$75,480
	3 or more persons	\$88,060

<u>Maximum Purchase Price Limits (single-family home)</u>		
Non-targeted areas	Existing properties	\$189,680
	New construction	\$189,680
Targeted area	Existing properties	\$231,830
	New construction	\$231,830

Program 2 - AssistUrbana

The AssistUrbana Program was first started under the name of *AccessUrbana* in 1995 and has subsequently assisted over 170 families to purchase a home in Urbana.

AssistUrbana currently provides 30-year fixed rate FHA/VA mortgage loans and conventional loans at 5.95 percent interest through Busey Bank, BankIllinois, BankOne, National City Bank, and Union Planters Bank. 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 City and bank personnel through direct mailers, seminars, and media advertising have marketed the program jointly.

The new program would be structured similarly to the 2003 program in that both downpayment grants and an interest rate for mortgage financing would be offered. The program would provide downpayment grants up to 4.25 percent of the home mortgage amounts. *AssistUrbana* supports both FHA and VA lending programs.

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 is the list of communities participating in the Assist program; including Urbana, Champaign, Rantoul, Peoria, Springfield, Decatur, Charleston, Danville, and Mattoon.

Last year the City ceded \$682,406 to the *AssistUrbana* Program. To date the program has assisted 16 homebuyers, leveraging \$1,311,085 in mortgage loans, with an average mortgage amount of \$81,942.81.

To participate in the *AssistUrbana* for 2003, the City would need to transfer all or a portion of its bond allocation to the Sterns Brothers & Co. If the City decides to participate in this program, loans would be available beginning around June 1.

David Rasch, with Stern Brothers & Co has indicated that due to the City's previous year's participation in the *AssistUrbana* program, it is very likely that they will be able to meet our local bank's demand for downpayment assistance, without ceding bond cap for 2004. However, Mr. Rasch noted that this might not be the case for 2005. This City will revisit the allocation of private activity bond cap in the March of 2005 and will be able to revisit the opportunity of cede bond cap to this program.

Program 3 - Illinois Housing Development Authority Homebuyer Assistance Programs

First-Time Homebuyer Program (MRB)

The program provides 30-year fixed-rate mortgages at below market interest rates.

Current rates are as follows:

5.40% - 0 Points

5.25% - 1 Point

5.10% - 2 Points

4.95% - 3 Points

The City did not cede any of its bond cap to the MRB program for 2003. Considering the limited utilization of the program in previous years, staff does not recommend ceding bond cap to this program for 2004.

Program 4 - Mortgage Credit Certificate (MCC)

This program offers a tax credit that can assist homebuyers in qualifying for a mortgage by reducing one’s federal income taxes.

The following is an example of tax savings associated with this project:

Assume a family earns \$40,000 annually with no other standard tax deductions. They buy their first home and borrow \$95,000 at an interest rate of 7.5 % while qualifying for a Mortgage Credit Certificate. The tax savings in the example are \$1,508. The homeowner may take this credit as long as they maintain the original mortgage and live in the house as their principal residence.

	<u>Taxes Without MCC</u>	<u>Taxes With MCC</u>
Income	\$40,000	\$40,000
Mortgage Deduction	7,095	5,321
Taxable Income	30,258	32,306
Taxes Due at 15%	4,936	5,202
MCC Credit	—	1,774
Taxes Due	\$4,936	3,428

The City has not had any experience with ceding bond cap to this program. However, the City of Champaign ceded bond cap to this program in past years and realized limited activity.

Staff sense that the Mortgage Credit Certificate, while providing the most financial benefit to homebuyers, requires a great deal more administration for first-time homebuyers. For instance, homebuyers must be sure to file the appropriate forms on their federal tax returns in order to realize benefits.

Considering the limited utilization of the program in previous years, staff does not recommend ceding bond cap to this program for 2004.

Program 5 - Home Equity Loan Program (HELP)

This program provides 4.25% of the mortgage as a grant for downpayment assistance and a fixed rate mortgage. *HELP* is very similar to the *AssistUrbana Program*. The differences seem to be the underwriting criteria for the programs. IHDA has indicated that their *HELP* underwriting requirements are a bit more involved than those for *AssistUrbana*.

Last year the IHDA *HELP* program provided a lower interest rate, which was attributed to the fact that they sell bonds throughout the course of the year. This year, the AssistUrbana program, also sells bonds throughout the course of the year and has created a better interest rate.

Last year the City ceded \$2,047,219 to the IHDA *HELP* program. To date the remaining balance is \$1,999,069. Only \$48,150 was utilized.

The following is a list of IHDA approved lenders that can participate in these programs: Bank of Rantoul, Bank One Mortgage Corporation, Bank Champaign, N.A., BankIllinois, Busey Bank, First-Federal Savings Bank of C-U, First Mid-Illinois Bank and Trust, First Midwest Mortgage Corporation, National City Bank, Rantoul First Bank, SB, RBC Mortgage Company, Union Planters Bank, N.A., United Financial Mortgage Corp., Wells Fargo Home Mortgage.

To participate in the IHDA homebuyer programs for 2004, 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.

Considering the limited utilization of the program in previous years, staff does not recommend ceding bond cap to this program for 2004.

Options

The options available to the City of Urbana are numerous. The City can cede as much or as little of their private activity bond cap to one or all of the following programs:

- *Reserve the 2004 private activity bond cap for the purpose of furthering neighborhood initiatives*
- *AssistUrbana*
- *First-Time Homebuyer Program (MRB)*
- *Mortgage Credit Certificate (MCC)*
- *Home Equity Loan Program (HELP)*

Fiscal Impacts

For the homebuyer assistance programs, 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. For homebuyer 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.

The fiscal impact of reserving the 2004 private activity bond cap for the purpose of furthering neighborhood initiatives, will likely be reflected in a reduction of the amount of CDBG and/or HOME funds that might be required to address gap financing for the redevelopment of Lakeside Terrace. This would result in a positive fiscal benefit to the City.

Recommendations

As described above, under Program 1, the Grants Management Division staff recommends reserving the 2004 private activity bond cap for the purpose of furthering neighborhood initiatives related to the redevelopment of Lakeside Terrace.

Memorandum Prepared By:

Bob Grewe, AICP
Grants Management Division, Manager

Attachments:

A RESOLUTION EVIDENCING THE INTENTION OF THE CITY OF URBANA,
CHAMPAIGN COUNTY, ILLINOIS, TO RESERVE THE 2004 PRIVATE ACTIVITY
BOND FOR THE PURPOSE OF FURTHERING NEIGHBORHOOD INITIATIVES

RESOLUTION NO. 2004-04-007R

A RESOLUTION
EVIDENCING THE INTENTION OF THE CITY OF URBANA,
CHAMPAIGN COUNTY, ILLINOIS, TO RESERVE THE 2004 PRIVATE ACTIVITY
BOND FOR THE PURPOSE OF FURTHERING NEIGHBORHOOD INITIATIVES

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, 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 Issuer has the power to issue its

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 reserves \$3,059,280 of its volume cap for calendar year 2004 for the issuance of the Bonds, which volume cap will be set-aside for future neighborhood initiatives consistent with the City of Champaign's Consolidated Plan and Comprehensive Plan.

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 further the purposes and intent of this resolution.

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

PASSED by the City Council this _____ day of _____,
2004.

AYES:

NAYS:

ABSTAINS:

Phyllis D. Clark, City Clerk

APPROVED by the Mayor this _____ day of _____, 2003.

Tod Satterthwaite, Mayor