



**DEPARTMENT OF COMMUNITY DEVELOPMENT SERVICES**

*Economic Development Division*

**m e m o r a n d u m**

**TO:** Bruce K. Walden, Chief Administrative Officer

**FROM:** Elizabeth H. Tyler, AICP, Director

**DATE:** November 22, 2006

**SUBJECT:** Resolution to Extend the Build Urbana Tax Rebate Program for an Additional Two Years (To December 1, 2008)

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**Description**

This supplemental memorandum provides additional information pertaining to a proposal to extend the City's Build Urbana Tax Rebate Program from its current expiration date of December 1, 2006 to December 1, 2008.

**Issues**

The additional data and analysis in this supplemental memorandum includes:

- A new Summary of Results Table with some new assumptions
- Home start data from Urbana, Champaign, and Savoy along with the average 30 year fixed-rate mortgage for September of each year from 1997-2006
- The number of home starts in Urbana and the average 30 year fixed-rate mortgage for September of each year from 1988-2006
- A per capita multiplier analysis showing the operating costs and revenues generated by each new home built in Urbana

**Background**

A resolution to extend the Build Urbana program to December 1, 2008, was discussed by the Committee of the Whole on November 13, 2006. At that meeting the Committee of the Whole voted unanimously to forward the resolution to the regular City Council meeting for action on November 27, 2006. At the Committee of the Whole meeting and at a meeting with staff on November 14, Mayor Prussing requested that additional data and analysis be provided related to the extension of Build Urbana. In addition, the Mayor requested the proposed Resolution be modified as shown on the attached revised Resolution.

Table 1 below has been amended to include additional payback information. The chart provided in the original memorandum showed a payback only on the gross number of new units under “Current Annual Payback”. The revised chart includes a payback figure on the net new units above what could have been expected without the Build Urbana program.

Staff also changed the methodology in determining the number of units that could have been expected without the Build Urbana program. The previous figure was determined by averaging the number of new single and two-family housing permits from 1988-2000, which came to 30 (rounded from 29.77). However, there was an upward trend from 1998-2000, which meant that the average of 30 might be artificially low due to few home starts from 1989-1991. The revised table takes a five year moving average over the 13 years prior to the Build Urbana program and projects an average annual growth of 8.2%. Based on this methodology, the new figure for number of home starts that could have been expected in the absence of Build Urbana since the program’s inception is 390 homes, or an average of 65 homes per year over six years.

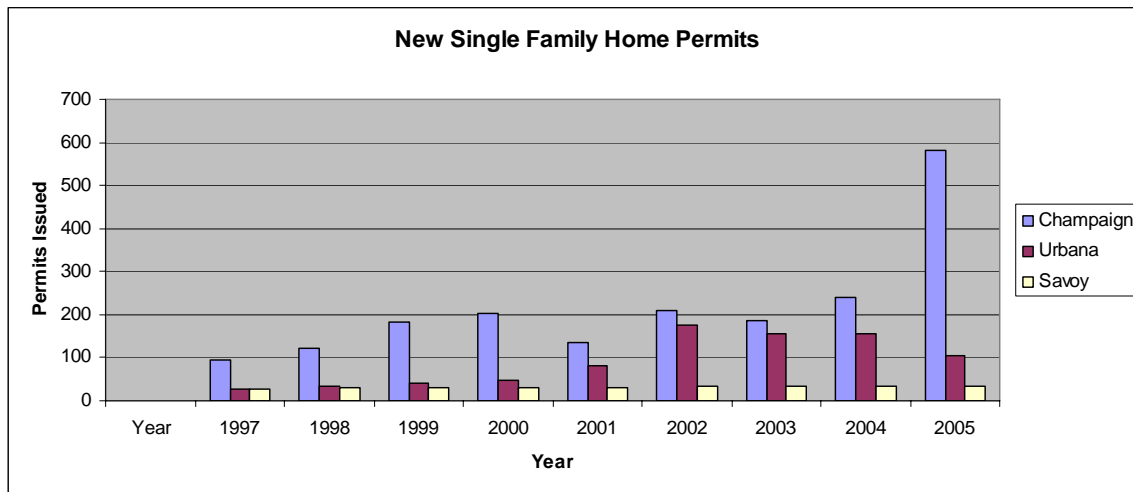
Also, the “Cost of Rebates” for each jurisdiction has been modified. The homes entering the program in 2001 will now be ending their five year participation, and the various taxing authorities will no longer be paying rebates for those homes, thereby reducing the 2006 cost of rebates.

**Table 1**

SUMMARY OF RESULTS OF PROP. TAX REBATE PROGRAM, CY2001 - 2006 YTD 11/6/06									
					2006	2006	2006	2006	2006
		Estimated			Prop. Tax	Prop. Tax	Prop. Tax	Prop. Tax	Prop. Tax
	# Homes	Ave. Cost	Total Value	EAV	School	Parks	Township	City	Total
Total Homes Built	790								
Homes Due to Exit the Program in 2006	82								
Homes Still Receiving the Rebate	708	\$135,000	\$95,580,000	\$31,600,000	\$1,414,353	\$235,831	\$62,821	\$414,592	\$2,127,596
Cost of Rebates					\$155,392	\$19,286	\$45,539	\$0	\$244,600
Current Annual Net Gain All Units					\$1,258,961	\$216,545	\$17,282	\$414,592	\$1,882,997
Present Value Net Gain Next 5 Years					\$5,450,642	\$937,526	\$74,823	\$1,794,966	\$8,152,390
Present Value of Prop. Tax 45 Years After					\$31,270,961	\$5,242,836	\$1,221,675	\$9,363,727	\$46,993,631
Total Gain Next 50 Years					\$36,721,604	\$6,180,362	\$1,296,498	\$11,158,693	\$55,146,021
Tax Rate Urbana					4.4758	0.7463	0.1988	1.312	6.8632
Tax Rate Champaign					3.9271	0.6782	0.038	1.312	5.9995
Units Built Above Prev. Average	400	\$135,000	\$54,000,000	\$16,000,000	\$716,128	\$119,408	\$31,808	\$209,920	\$1,077,264
Annual Cost of Rebates					\$155,392	\$19,286	\$45,539	\$0	\$220,216
Agreement with Township							\$34,321	(\$34,321)	
Current Annual Payback on Units Above Prev. Avg.					3.6 to 1	5.2 to 1	1.8 to 1	5.11 to 1	3.9 to 1
Annual Net Gain Units Above Prev. Average					\$560,736	\$100,122	\$20,590	\$175,599	\$857,048

Chart 1 and Table 2 below show the new residential units for Urbana, Champaign, and Savoy from 1997-2006, and the corresponding 30 year fixed-rate mortgage interest rates in September of the given year. These numbers show that while Urbana's new units increase dramatically in 2001, they remain steady in Champaign and Savoy for several years. Champaign does not see a dramatic increase until 2005, when interest rates begin to creep up. This data set shows that increases in Urbana and Champaign are due more to the availability of new subdivisions than to interest rates. It also shows that while interest rates were favorable in the entire metro area in 2001, Urbana, with the introduction of Build Urbana, was the only municipality to see a significant increase that year.

**Chart 1**



**Table 2**

Year	SFR Building Permits			30 Year FRM September of Each Year*
	Champaign	Urbana	Savoy	
1997	96	27	27	7.500
1998	122	35	30	6.750
1999	183	39	31	7.875
2000	204	49	30	8.000
2001	135	82	30	6.625
2002	211	176	33	6.125
2003	187	156	35	6.000
2004	241	155	35	5.625
2005	581	104	34	5.875
2006 (thru Sept.)	372	92		6.375

\*Source: Federal Home Loan Mortgage Corporation's (Freddie Mac) Weekly Primary Mortgage Market Survey (PMMS)

Table 3 below shows the number of new units per year in Urbana and the corresponding interest rate that year from 1988-2006. This data set shows that interest rates dropped into the 6's twice prior to 2001, both in 1993 and 1998. The number of new units stayed flat both those years. While there is a general correlation that lower interest rates lead to more new units, there is not enough of a relationship to completely discount the effect of Build Urbana. The biggest increases in both Urbana and Champaign can be attributed to new activity in residential subdivisions. It can be argued that subdivision developers are more likely to be active when interest rates are favorable, but most developers of new Urbana subdivisions will argue that Build Urbana was a big part of their choosing to do business in Urbana.

**Table 3**

<b>National Average Mortgage Rates and Number of Units Added</b>		
<b>Year</b>	<b>Number of Units</b>	<b>30 Year FRM September of Each Year*</b>
1988	40	10.500%
1989	18	10.000%
1990	17	10.125%
1991	22	9.000%
1992	32	8.000%
1993	28	6.875%
1994	31	8.750%
1995	21	7.750%
1996	26	8.250%
1997	27	7.500%
1998	37	6.750%
1999	39	7.875%
2000	49	8.000%
2001	85	6.625%
2002	178	6.125%
2003	165	6.000%
2004	161	5.625%
2005	104	5.875%
2006	105	6.375%

\*Source: Federal Home Loan Mortgage Corporation's (Freddie Mac) Weekly Primary Mortgage Market Survey (PMMS)

Table 4 is a simplified per capita cost and revenue analysis. This type of analysis will require some assumptions, but it is the easiest way to determine operating costs and revenues per home. Using the current budget, it is possible to estimate the expenses and revenue generated by each citizen of Urbana. Based on operating expenses and revenues, each citizen of Urbana generates \$696.16 of City expense and \$536.18 in revenue before property taxes. Census data indicates that the average single family home has a population multiplier of 2.6 (meaning 2.6 people occupy an average home). As such, the average home generates \$1,810.01 of City expense ( $\$696.16 \times 2.6$ ) and \$1,394.07 in revenue ( $\$536.18 \times 2.6$ ) before property taxes. In essence, the average net impact to the City per single-family home is -\$415.93 before property taxes. A single-family home must generate at least \$415.93 in property taxes for the City to “break even”. With an assessed value of \$135,000, our average under Build Urbana, a single-family home generates \$517.68 in tax revenues for the City of Urbana at the new rate of 1.2942. This results in a positive net impact to the City of \$101.75 per unit ( $\$517.68 - \$415.93$ ).

Again, this model requires that we make some assumptions. We must assume that new homes and their occupants will consume City services and generate revenues at the same rate as existing housing and residents. This model also does not take into account that the City will likely decrease the per unit cost of service delivery through economies of scale.

**Table 4**

<b>General Operating Funds Revenue</b>	
Revenue and Recurring Transactions without Property Tax Revenue	\$ 20,032,840.00
Population	37,362
Per Capita Revenue	\$ 536.18
Residents Per Single-Family Home	2.60
Revenue Per Single-Family Home	\$ 1,394.07
<b>General Fund Budget Expenses</b>	
City Council	\$ 45,050.00
Executive	\$ 1,187,660.00
Finance	\$ 1,229,150.00
City Clerk	\$ 192,410.00
Police	\$ 7,496,150.00
Fire Rescue	\$ 5,857,660.00
Public Works	\$ 5,856,950.00
Community Development	\$ 1,310,330.00
Recurring Transfers Out	\$ 1,298,060.00
Library Share of Property Tax	\$ 2,438,310.00
Subtotal Expenses	\$ 26,911,730.00
Amount Unspent/Under Budget	\$ (901,920.00)
Total operating expenses	\$ 26,009,810.00
Population	37,362
Per Capita Expense	\$ 696.16
Residents Per Single-Family Home	2.60
Expenses Per Single family Home	\$ 1,810.01
<b>Net Effect</b>	
Net Per Unit Before Taxes	\$ (415.93)
City's Tax Rate	1.2942
Assessed Value Average Home	\$ 135,000.00
City Taxes Per \$135,000 Assessed Home	\$ 517.68
Net Per Single-Family Home After Taxes	\$ 101.75

Finally, a slight change has been incorporated into the original resolution. As the return on investment changes depending on the assumptions made in the analysis, it was decided that it would be wise to remove any reference to a specific rate of return. The change reads:

**WHEREAS, analysis of the costs of the program compared with the benefits of increased tax assessments is positive ~~with an overall rate of return on investment of over seven times; and~~**

### **Conclusion**

Build Urbana has had a positive financial impact for all taxing jurisdictions participating in the program. While Urbana was experiencing an upward trend in new housing starts prior to the program's inception, Build Urbana has served to further increase the number of new homes above what could have been expected without the program.

Low interest rates over the life of the program have fostered an environment conducive to new home construction. However, interest rates alone do not account for the large increase of new home starts realized under Build Urbana. Increases in new home construction in both Urbana and Champaign over the last five to six years are more a function of activity in new residential subdivisions. The creation of the Build Urbana program in 2001 increased developer interest in Urbana and promoted the development of new residential subdivisions.

Finally, the simplified per capita cost and revenue analysis shows that the average new home built under Build Urbana has a positive net impact to the City's operating budget.

Prepared by:

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Tom Carrino, Economic Development Manager

Attachments: Revised Resolution

RESOLUTION NO. 2006-11-028R

**A RESOLUTION EXTENDING THE BUILD URBANA TAX REBATE PROGRAM FOR  
TWO ADDITIONAL YEARS**

**(TO DECEMBER 1, 2008 - Build Urbana)**

WHEREAS, on March 5, 2001, the City Council of the City of Urbana adopted Resolution No. 2001-02-007R authorizing a single-family home construction incentive program as a means of promoting new single family home construction in the City; and

WHEREAS, on July 16, 2001, the City Council of the City of Urbana adopted Resolution No. 2001-07-022R extending the single-family home construction incentive program to owner occupied zero lot-line townhomes, condominiums, cooperatives, and duplexes; and

WHEREAS, on November 18, 2002, the City Council of the City of Urbana adopted Resolution No. 2002-10-028R extending the provisions of the single-family home construction incentive program to permits issued for a period from December 1, 2002 to December 1, 2004; and

WHEREAS, on November 24, 2004, the City Council of the City of Urbana adopted Resolution No. 2004-11-023R extending the provisions of the single-family home construction incentive program to permits issued for a period from December 1, 2004 to December 1, 2006; and

WHEREAS, the single-family home construction incentive program involves the payment of the difference between the property taxes incurred by new homes in the City of Urbana and the taxes those homes would incur in the City of Champaign for five years, on behalf of property owners who build new homes within the City; and

WHEREAS, the program has been successful in promoting new home starts in Urbana and has contributed to an increase in new housing starts from a previous average of 29 new single-family homes per year for the period from



1988 to 2001 to 176 new homes in 2002, 159 new homes in 2003, 161 new homes in 2004, 104 new homes in 2005, and over 100 new homes in 2006; and

WHEREAS, analysis of the costs of the program compared with the benefits of increased tax assessments is positive ~~with an overall rate of return on investment of over seven times~~; and

WHEREAS, in order to promote home ownership rather than investment development with secondary rental objectives, it is desirable that the program extend its provisions only to those zero lot-line townhomes, condominiums, duplexes and cooperative housing units that are owner occupied and exclusively ground-lease domiciles; and

WHEREAS, extension of the Build Urbana home construction incentive program to continue for an additional two years so that it is applicable to building permits issued between December 1, 2006 and December 1, 2008 will assist in the build-out of currently active subdivisions in Urbana; and

WHEREAS, support for the extension of the program has been communicated from various local developers and the Urbana School District; and

WHEREAS, the Urbana City Council, having duly considered all matters pertaining thereto, finds and determines that the proposed time extension of the single-family home construction incentive program is in the best interest of the City of Urbana.

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

Section 1. The City Council finds and determines that the facts contained in the above recitations are true.

Section 2. The Urbana City Council hereby resolves that the City of Urbana does hereby amend Resolution No. 2001-02-007R, as amended by Resolution No. 2001-07-022R and Resolution No. 2002-10-028R, to extend the provisions of the Build Urbana tax rebate program only to those zero lot-line townhomes, condominiums, duplexes and cooperative housing units that are

owner occupied, exclusively ground-lease domiciles and to exclude rental or temporary residences.

Section 3. The Urbana City Council further resolves that the City of Urbana does hereby amend Resolution No. 2001-02-007R, as amended by Resolution No. 2001-07-022R, Resolution No. 2002-10-028R, and Resolution No. 2004-11-023R to extend the provisions of that resolution to building permits issued between December 1, 2006 and December 1, 2008.

Section 4. All other provisions of Resolution No. 2001-02-007R, Resolution No. 2001-07-022R, Resolution No. 2002-10-028R, and Resolution No. 2004-11-023R shall apply and shall otherwise remain in force.

PASSED by the City Council this \_\_\_\_ day of \_\_\_\_\_, 2006.

AYES:

NAYS:

ABSTAINS:

\_\_\_\_\_  
Phyllis D. Clark, City Clerk

APPROVED by the Mayor this \_\_\_\_\_ day of \_\_\_\_\_, 2006.

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Laurel Lunt Prussing, Mayor