



DEPARTMENT OF COMMUNITY DEVELOPMENT SERVICES

Economic Development Division

m e m o r a n d u m

TO: Laurel Lunt Prussing, Mayor

FROM: Elizabeth H. Tyler, FAICP, Director, Community Development Services

DATE: November 10, 2010

**SUBJECT: A DISCUSSION RELATED TO EXTENDING THE BUILD URBANA
TAX REBATE PROGRAM FOR ONE ADDITIONAL YEAR
(To December 1, 2011 – Build Urbana)**

Description

This memorandum provides information pertaining to a proposed one year extension of the City's Build Urbana Tax Rebate Program from its current expiration date of December 1, 2010 to December 1, 2011. Since its inception in 2001, the Build Urbana Tax Rebate Program has successfully encouraged the construction of over 1000 new single-family and duplex housing units in Urbana by providing incentives to builders, developers, and homeowners. Specifically, this program rebates the property tax difference between the overall tax rates in the Cities of Urbana and Champaign to owners of new homes for a total of five years, equalizing the tax rates on these structures during that period. The Single-Family Tax Rebate Program is an integral component of the Build Urbana program, which promotes development and real estate investment in the community through a partnership between the private development community, the Urbana Business Association, and the City of Urbana.

The Tax Rebate Program was approved by City Council in March of 2001 (by Resolution No. 2001-02-007R). The program was extended in November 2002, November 2004, November 2006, and again in November 2008 in order to continue the success of the program in promoting Urbana subdivisions.

The Tax Rebate Program has helped to encourage the creation of new subdivisions and the expansion of existing subdivisions in Urbana. Subdivisions included in the first year of adoption included Beringer Commons (note that a clause to the program for Beringer Commons specifies that their rebates fall under different requirements due to a previous legal agreement), Eagle Ridge, Fairway Estates, Landis Farms, Lincolnwood, South Ridge, Stone Creek, and Savannah Green. The Eastgate subdivision was added in 2002. In 2003 - 2004, additional subdivisions or phases were added at South Ridge, Sunny Estates, The Ridge, Beringer Commons, Savannah Green and Landis Farm. Also in 2004, the Prairie Winds mixed-use senior housing project began development of owner occupied single-family housing lots. In 2005 and 2006, additional phases of South Ridge along with the Water's Edge and Cobble Creek portions of Stone Creek

came on line. In 2007 the newest phase of Somerset Subdivision began offering lots for new home construction. And in 2009-2010, the latest phase of South Ridge came on line.

When the Build Urbana program was created in 2001, it was not intended to exist in perpetuity, but to act as a temporary measure to remove the disparity in tax rates as an impediment to new home sales and construction. As such, there have been questions as to the proper life span of the Build Urbana Program. At the same time, the current state of the housing market would indicate that incentives to promote new home construction and sales are even more important now than they have been in several years. In speaking with the taxing agencies that partner with the City on the tax rebate program there is consensus to extend the program for one additional year.

Issues

City staff regularly receive positive comments about the program from the development community and homeowners. In recent months, concern has been expressed about the pending conclusion of the program and several requests have been received advocating its extension.

Since initiation of the Tax Rebate Program, staff has provided regular updates to the Council as to the progress and effects of the program. City staff also periodically updates the Urbana School District, Urbana Park District, Cunningham Township, and other participating agencies. In the most recent discussions regarding the program, representatives of these three agencies are generally supportive of a one year extension of the program. The board of the Urbana School District will consider a resolution of support for the program on November 16, 2010, and the board of the Urbana Park District will consider a resolution of support for the program on December 14, 2010.

While there is tentative support from the affected taxing bodies for extending the tax rebate program for one additional year, the City and its partners have committed to exploring other methods of promoting Urbana as an attractive place to live. These other methods could include a comprehensive marketing campaign to celebrate the benefits of living in Urbana. City staff has committed to working with our partner taxing agencies, builders, and developers to develop strategies to promote the benefits of living in Urbana.

Background

The Tax Rebate Program was conceived when builders, developers (under the leadership of UBA, and the predecessor to the UBA, the UDBA), and the City decided to increase single-family home starts in Urbana. At the time, single-family home starts in the community were significantly lower than rates in surrounding communities and realtors viewed Urbana's higher tax rate to be the cause. Since the commencement of the Tax Rebate Program, Urbana has significantly increased the volume and its proportionate share of new single family housing starts. In the 13 years prior to Build Urbana, there was an average of 30 new home starts in Urbana per year. In the 10 years under the Build Urbana program, there has been an average of over 100 new home starts per year.

In March of 2001, the Tax Rebate Program was approved by City Council (by Resolution No. 2001-02-007R) with the following characteristics and guidelines:

- The program's goal is to increase new home construction in Urbana
- The program rebates the difference between the total property tax rate in Urbana and Champaign
- The program allows the property owner of a newly constructed single family home a tax rebate for up to 5 years (subsequently extended to cover duplexes, condominiums, cooperatives, and zero-lot line townhouses)
- The home must be owner-occupied
- The home must be within Urbana city limits
- The home's building permit must have been issued between March 1, 2001 and December 1, 2002 (subsequently extended to 2004, 2006, and again to 2008)
- The rebate is transferable to subsequent owners within the 5-year time frame

Under the Build Urbana program, a wide array of efforts promoting single family-housing opportunities in Urbana have occurred through the cooperation of the City with the Urbana Business Association and other groups. City staff developed a Tax Rebate Brochure, which provides information on program guidelines and Urbana subdivisions with available building sites and homes. Community organizations and businesses have also promoted the Tax Rebate Program, as a part of the outreach for Build Urbana, through realtor bus tours, 'Parade of Homes', cooperative forums, presentations, realtor breakfasts, interviews, press releases and advertising via the full spectrum of media.

In July 2001, the Tax Rebate Program was extended by the Council to include Zero Lot Line Townhouses, Condominiums, and Duplexes (by Resolution No. 2001-07-022R). Some clarification was added to the 2004 extension of the program to ensure that the program is applied only to new, owner-occupied homes with a ground lease component so that the program continues to support existing and planned subdivision and is not applied to non-subdivision projects with secondary rental goals. The program was extended in November 2002, November 2004, November 2006, and again in November 2008 in order to continue the success of the program in promoting Urbana subdivisions.

For the year 2001, Urbana's single-family home starts jumped to 87, three times the average of the previous eleven years – even though the program did not cover the full calendar year. In 2002, single-family home starts totaled 178, over six times the 1990 – 2000 average of 30 homes. In 2003, the single family total was 165, and in 2004, there were 161. In 2005 the number of single-family home starts began to drop off a bit to 104 units as result of the build-out of some subdivisions. Numbers increased slightly in 2006 to 114 units, but a slowing housing market yielded fewer home starts with 77 units in 2007, 51 new units in 2008, 46 units in 2009, and 30 projected units in 2010. It is important to note that even in an extremely slow housing market, the 2007, 2008, and 2009 numbers under Build Urbana are well above the pre-Build Urbana average of 30 units per year, and the 2010 numbers will be approximately the same as

the average from the 13 years prior to Build Urbana. The total for all single-family and duplex units built under the Tax Rebate Program by the end of 2010 will be 1005 units (Exhibit A).

Fiscal Impacts

The Summary of Results of the Property Tax Rebate Program CY 2001-2010 (Exhibit B) illustrates the financial impact of the Tax Rebate program for the calendar years 2001 through 2010. The net impact of the program (revenues minus cost of rebates) is substantial for each taxing district (totaling over \$2.6 million annually) and the long-term returns are even greater (over \$51 million in property taxes over 50 years). Substantial benefits are shown even when the average housing starts for years prior to program initiation are subtracted, on the assumption that this level of construction would have occurred without the program.

Based on this information, the Build Urbana Program has not only provided a positive return on investment related to the direct cost of rebates under the program, but it has also promoted new home construction that generates more overall revenue for the City than the costs associated with servicing those homes.

Recommendations

The Single Family Home Tax Rebate Program has had beneficial fiscal impacts on the City of Urbana and associated taxing districts. Additional housing opportunities have been provided for new residents and project potential has been created for housing developers. Currently, Urbana has nine active subdivisions with a number of available lots and homes that could benefit by the extension of the program. City services and utilities already exist at these locations so that no additional public investment is necessary to add these homes to the community. This is a positive benefit for the affected taxing districts who have capacity to provide services and will benefit fiscally from the added Equalized Assessed Value.

Representatives of all the program partners have expressed an interest in extending the program for one additional year, and the board of the Urbana School District will consider a resolution of support for the program on November 16, 2010, and the board of the Urbana Park District will consider a resolution of support for the program on December 14, 2010.

While the Build Urbana program is expected to sunset eventually, a decision to end the program at this time could negatively impact new home starts in a slow housing market. City staff will engage our program partners to explore ways beyond the tax rebate program to promote home construction in the City of Urbana.

Given the beneficial fiscal impacts and positive endorsements summarized above, staff recommends that Council consider a one year extension of the Tax Rebate Program at the December 13, 2010, Committee of the Whole Meeting. The extended program would apply only

to those permits for permanent, owner-occupied, single-family, duplex, zero lot line, and condominium housing with a ground lease component.

Prepared by:

Tom Carrino, Economic Development Manager

Attachments:

- Exhibit A: City of Urbana Single and Two Family Housing Permits 1988-2010
- Exhibit B: Summary of Results of the Property Tax Rebate Program CY 2001-2010

Exhibit A

BUILD URBANA 2001-2010

**CITY OF URBANA HOUSING PERMITS: SINGLE AND TWO- FAMILY
1988 to 2010**

1988		40
1989		18
1990		17
1991		22
1992		32
1993		28
1994		31
1995		21
1996		26
1997		27
1998		37
1999		39
2000		49
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	Begin Build Urbana	
2001		85 (82 under BU)
2002		178
2003		165
2004		161
2005		104
2006		114
2007		77
2008		51
2009		46
2010 (To Date)		27
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Total Under Build Urbana (9.5 Yrs.)		1005
Avg. Per Year Under Build Urbana		100.5
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Total Previous 13 Years		387
Avg. Per Year Previous 13 Years		30
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SUMMARY OF RESULTS OF PROP. TAX REBATE PROGRAM, CY2001 - 2010 Projected									
					2010	2010	2010	2010	2010
		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	1005								
Homes That Have Exited the Program	516								
Homes Still Receiving the Rebate	489	\$202,000	\$98,778,000	\$ 30,481,000	\$1,316,109	\$254,638	\$57,457	\$394,485	\$2,022,689
Current Annual Cost of Rebates					\$202,150	\$62,608	\$45,386	\$0	\$310,144
Current Annual Net Gain All Units					\$1,113,959	\$192,030	\$12,070	\$394,485	\$1,712,545
Present Value Net Gain Next 5 Years					\$4,822,858	\$831,391	\$52,259	\$1,707,914	\$7,414,421
Present Value of Prop. Tax 45 Years After					\$26,849,639	\$5,480,048	\$1,101,184	\$8,909,605	\$44,340,475
Total Gain Next 50 Years					\$33,672,497	\$6,311,439	\$1,153,443	\$10,617,519	\$51,754,897
Tax Rate Urbana					4.3178	0.8354	0.1885	1.2942	6.6359
Tax Rate Champaign					3.6546	0.63	0.0396	1.2942	5.6184
Units Built Above Prev. Average Total	705	\$202,000	\$142,410,000	\$43,945,000	\$1,897,457	\$367,117	\$82,836	\$568,736	\$2,916,146
Annual Cost of Rebates					\$202,150	\$62,608	\$19,374	\$0	\$284,132
Agreement with Township							\$26,012	(\$26,012)	
Current Annual Payback on Units Above Prev. Avg.					8.4 to 1	4.8 to 1	4.75 to 1	20.6 to 1	9.3 to 1
Annual Net Gain Units Above Prev. Average					\$1,695,307	\$304,509	\$89,474	\$542,724	\$2,632,014