



DEPARTMENT OF COMMUNITY DEVELOPMENT SERVICES

Grants Management Division

m e m o r a n d u m

TO: Bruce Walden, Chief Administration Officer

FROM: Elizabeth Tyler, AICP, City Planner/Director

DATE: April 14, 2005

SUBJECT: AN ORDINANCE AUTHORIZING THE EXECUTION AND DELIVERY OF AN INTERGOVERNMENTAL COOPERATION AGREEMENT AND CERTAIN DOCUMENTS IN CONNECTION THEREWITH; AND RELATED MATTERS (2005 Private Activity Bond Cap Allocation)

Description

Included on the April 18, 2005 agenda of the Urbana City Council regular meeting is the 2005 Private Activity Bond Cap and AN ORDINANCE AUTHORIZING THE EXECUTION AND DELIVERY OF AN INTERGOVERNMENTAL COOPERATION AGREEMENT AND CERTAIN DOCUMENTS IN CONNECTION THEREWITH; AND RELATED MATTERS (2005 Private Activity Bond Cap Allocation). Staff provided City Council a related memorandum for the April 11, 2005 meeting of the Urbana City Council Committee of the Whole. This memorandum is nearly identical to that one, with the exception of the reference to the Ordinance.

In order to allocate private activity bond cap to the *AssistUrbana* Program, this Ordinance must be approved by the Urbana City Council before May 1, 2005.

Issues

The issue is to determine the best use of the City of Urbana's 2005 private activity bond cap. The options include reserving the bond cap for a specific project such as the Lakeside Terrace Redevelopment Project or participate in the homebuyer assistance programs offered by Stern Brothers & Co. and the Illinois Housing Development Authority (IHDA). Any unused bond cap 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 \$80.00 per capita per year. Based upon on the most recent U.S. Census population estimate of 38,725, the City of Urbana may issue up to \$3,098,000 in private

activity revenue bonds this year. (Last year the amount was \$3,059,280 and the population was 38,241.) 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.

Program 1 - Reserve the 2005 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.

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.

Last year the City of Urbana reserved its 2004 bond cap to develop a financing resource for the Lakeside Terrace Redevelopment Project.

At this time, staff is not recommending that any portion of the 2005 bond cap be reserved for neighborhood improvement activities, including the redevelopment of Lakeside Terrace. Since the final project financing is not yet complete, staff submits that another year of bond cap should not be allocated to this project. It is likely that the project financing for Lakeside Terrace will be completed in the spring of 2006. By that time, next year’s bond allocation could be ceded toward this redevelopment project.

Programs 2 through 5 (Homebuyer Assistance Programs)

In recent years, Urbana has used its private activity bond allocation for homebuyer assistance programs.

In order to qualify for the *AssistUrbana* and Illinois Housing Development Authority (IHDA) homebuyer assistance programs, participating households will need to meet 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 2005 program are as follows.

<u>Maximum Household Income Limits</u>		
Non-targeted areas	1-2 person household	\$63,300
	3 or more persons	\$72,795
Targeted area	1-2 person household	\$75,960
	3 or more persons	\$88,620

<u>Maximum Purchase Price Limits (single-family home)</u>		
Non-targeted areas	Existing properties	\$204,430
	New construction	\$204,430
Targeted area	Existing properties	\$249,860
	New construction	\$249,860

A significant change to the IHDA programs is that communities can cede a portion of their bond cap to IHDA be able to utilize both the First-Time Homebuyer Program (*MRB*) and the Home Equity Loan Program (*HELP*). This allows the lenders to be more flexible in meeting the specific needs of first-time homebuyers. Lenders could help buyers with downpayment assistance or with obtaining a lower interest rate. Also noteworthy is that IHDA has implemented web-based tools to help lenders with processing loans. These enhancements could lead to increased utilization of the IHDA programs.

Program 2 - AssistUrbana

The *AssistUrbana* Program was first started under the name of *AccessUrbana* in 1995 and has subsequently assisted nearly 200 families with purchasing a home in Urbana.

AssistUrbana currently provides 30-year fixed rate FHA/VA mortgage loans or 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 local lenders market the program through direct mailers, seminars, and media advertising.

The new program would be structured similarly to previous years' programs in that both downpayment grants and 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 interest rate would reflect changes in market conditions since the program bonds are sold in intervals throughout the year. 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 did not cede any portion of their bond cap to the *AssistUrbana* Program. However, in consideration of the City's previous participation in the program, in 2004 the program assisted 18 homebuyers, leveraging \$1,521,563 in mortgage loans, with an average mortgage amount of \$84,531.

Historically, the *AssistUrbana* program has been the most utilized of the homebuyer programs.

To participate in the *AssistUrbana* for 2005, 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 since the City of Urbana did not participate in 2004, it is not likely that they will be able to meet our local bank's demand for downpayment assistance, without ceding bond cap for 2005.

Staff recommends ceding \$2,323,500 (75%) to the *AssistUrbana* 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:

5.80% - 0 Points

5.65% - 1 Point

5.50% - 2 Points

5.35% - 3 Points

The City did not cede any of its bond cap to the *MRB* program for 2004. Considering the limited utilization of the program in previous years, staff recommends ceding a portion of the bond cap to this program for 2005.

Program 4 - Home Equity Loan Program (*HELP*)

The Home Equity Loan Program (*HELP*) 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 City did not cede any bond cap to the IHDA *HELP* program.

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., Main Street Bank, 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 2005, the City would need to transfer all or a portion of its bond allocation to 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 recommends ceding \$774,500 (25%) of its bond cap to IHDA's combination of the First Time Homebuyer Program (*MRB*) and Home Equity Loan Program (*HELP*).

Program 5 - 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.

Staff submits 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.

A related consideration is that most first time homebuyers have a greater need to receive downpayment assistance or a lower interest rate in order to purchase a home.

Considering the limited utilization of the program in previous years, staff does not recommend ceding bond cap to this program for 2005.

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 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.

The City would realize an increase in property taxes from new Urbana homebuyers. 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.

Recommendation

Grants Management Division staff recommend ceding \$2,323,500 (75%) of the 2005 private activity bond cap to the *AssistUrbana* homebuyer assistance program and approval of AN ORDINANCE AUTHORIZING THE EXECUTION AND DELIVERY OF AN

INTERGOVERNMENTAL COOPERATION AGREEMENT AND CERTAIN DOCUMENTS
IN CONNECTION THEREWITH; AND RELATED MATTERS. (2005 Private Activity Bond
Cap Allocation)

Memorandum Prepared By:

Bob Grewe, AICP
Grants Management Division, Manager

Attachments:

AN ORDINANCE AUTHORIZING THE EXECUTION AND DELIVERY OF AN
INTERGOVERNMENTAL COOPERATION AGREEMENT AND CERTAIN DOCUMENTS
IN CONNECTION THEREWITH; AND RELATED MATTERS (2005 Private Activity Bond
Cap Allocation)

Ordinance No. 2005-04-060

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

(2005 Private Activity Bond Cap Allocation)

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 2002, 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, 2005, by and among the Municipality and certain other units of local government named therein (the "*Units*"), to provide for the joint issuance of such revenue bonds to aid in providing an adequate supply of residential housing in such Units (the "*Program*"); and

WHEREAS, to provide for the Program, the City of Aurora, Kane, DuPage, Will and Kendall Counties, Illinois (the "*Issuer*"), proposes to issue, sell and deliver their Collateralized Single Family Mortgage Revenue Bonds, Series 2005-A in an aggregate principal amount not to exceed \$300,000,000 (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 Units all under and in accordance with the Constitution and the laws of the State of Illinois; and

WHEREAS, a notice of combined public hearing with respect to the plan of finance of the costs of the Program through the issuance of the Bonds has been 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 18, 2005, and appropriately designated hearing officers of the City of Aurora, Kane, DuPage, Will and Kendall Counties, Illinois, the City of Champaign, Champaign County, Illinois, the City of East Moline, Rock Island County, Illinois, and the City of Collinsville, Madison and St. Clair Counties, Illinois, have conducted said combined public hearing on April 8, 2005; 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, Champaign County, 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 Issuer 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, and more particularly Section 6(a) of Article VII of the 1970 Constitution of the State of Illinois, 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 the conduct of the combined public hearing referred to in the preamble hereto, 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; 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 Units; 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 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 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 at 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, be, 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 2005 unified volume cap in the amount of \$2,323,500 to the Issuer, together with all unified Volume Cap to be received by the Municipality from the Office of the Governor in 2005 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 irrepealable 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 _____, 2005.

AYES:

NAYS:

ABSTAINS:

Phyllis D. Clark, City Clerk

APPROVED by the Mayor this _____ day of _____, 2005.

Tod Satterthwaite, Mayor