



## 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:** October 9, 2008

**SUBJECT:** Urbana Community Development Corporation

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#### Summary

The Mayor and city staff have received a request for financial assistance from a not-for-profit community development corporation group called the Urbana Development Group. The mission statement of the group is, **"The Urbana Development Group is a not-for-profit agent of change whose purpose is to promote vibrant, economically diverse, and stable neighborhoods through the preservation and revitalization of our built environment and through controlled growth"**. The main function of this group will be to purchase properties, mainly in West Urbana and Historic East Urbana, with the intention of rehabilitating those properties and marketing them for sale as single family homes. Through these efforts, the Urbana Development Group hopes to promote neighborhood stabilization, historic preservation, home ownership, and reinvestment in the community, which is consistent with the City of Urbana 2005 Comprehensive Plan. The board of directors of the Urbana Development Group are primarily residents of West Urbana. Additional information on the Urbana Development Group and its purpose can be found in the attached by-laws (Exhibit A) and articles of incorporation (Exhibit B).

#### Background

Based on the 2005 Comprehensive Plan and interest from neighborhood groups, City staff investigated the concept of Neighborhood Conservation Districts as a tool to deal with neighborhood issues over the past few years. Findings and recommendations were presented to the Plan Commission and City Council in August 2006, at which time City staff was requested to follow up with specific research questions. Out of this public process seven specific strategies were identified for promoting neighborhood wellness. Findings and recommendations were presented to the Committee of the Whole in October 2006, and City staff were directed to move forward with six of the strategies(1).

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1 1. Lincoln Busey Design Guidelines, 2. HEUNA Rezoning, 3. Community Development Corporations, 4. Neighborhood Conservation Districts, 5. Using local resources for historic preservation, 6. Continue Neighborhood meetings

One of the strategies established in October 2006 was, “Make neighborhoods aware of how private, not-for-profit community development corporations can be formed to achieve neighborhood housing goals.” City staff followed up by organizing an introductory workshop on Community Development Corporations to facilitate their creation by one or more local groups. The report on that workshop was presented in a memorandum to City Council on December 7, 2006.

Community Development Corporations (CDCs) are private, not-for-profit organizations which work at the neighborhood level to foster economic revitalization and reduce blight. Their activities can be broad: job training, affordable housing, creation of community parks or gardens, and other efforts to improve the welfare of neighborhood residents. There are examples of CDCs which operate in neighborhoods near major universities, and focus on affordable housing and preserving historic homes from demolition. One local example is Renaissance Danville, which relies on Community Development Block Grant and private funding to rehabilitate structures.

## **Discussion**

In July 2007 the Urbana Development Group sent the Mayor a letter requesting \$125,000 in annual support from the City of Urbana for their operations(Exhibit C). With a focus on West Urbana, the funding sources available to assist this group are limited. This area is outside the City’s Community Development Target area and income levels in West Urbana are too high for the Urbana Development Group’s transactions to qualify for Community Development Block Grant funds. Additionally, this area is generally outside the City’s tax increment finance districts. A lack of discretionary funds in the general fund, and the inability to access special funds in this case has limited the ability of the City to assist the Urbana Development Group with direct funding.

Following discussions on the City’s limited options to provide a cash contribution, the Mayor responded to the Urbana Development Group asking them to work with City staff to explore methods of support that did not involve direct funding (Exhibit D). The Urbana Development Group then approached several local financial institutions regarding support for their organization. In these discussions, it was determined that the City could offer support without a direct initial investment by offering a loan guaranty.

A traditional bank loan would allow financing of up to 80% of the value of the property with a 20% “down payment”. In the case of the Urbana Development Group, several local banks are willing to finance 100% of the value of a property, if the City is willing to guaranty the 20% down payment portion of the loan. A guaranty simply means that if the borrower defaults or is unable to pay a loan the guarantor is then responsible for the amount they have guaranteed. As an example, if the Urbana Development Group were considering purchasing a \$200,000 property, the bank would loan the group the full \$200,000, if the City were willing to guaranty \$40,000 of the loan. The City has no direct initial investment, but is responsible for the \$40,000 if the Urbana Development Group defaults or is unable to pay their loan.

While this arrangement would allow the City to support the Urbana Development Group without an initial investment, there are still a number of details to be considered in creating a guaranty relationship. Some of these issues are described below.

1. *Is staff review of each transaction sufficient, or should City Council have the opportunity to review a potential purchase?*

Due to the timing and sensitivity of potential transactions, representatives of the Urbana development group would prefer that the overall program go before Council for approval with individual transactions administered by staff, similar to the administration of the TIF Redevelopment Incentive Program. The Urbana Development Group has agreed to periodic reporting (preferably annually). City Council involvement in the program could range from direct approval of every transaction to staff administration of the program with periodic Council review. Direction from City Council is needed to determine how this program should be administered.

2. *At what point can a financial institution access City funds related to a guaranty?*

In discussions with one bank willing to participate, the documents indicate that the bank can access the guaranty in the event of a default, which could be triggered by a single missed payment. In another scenario, if all payments were made as agreed, but the property were to sell for less than the amount financed, the City could potentially have to make up the difference. While there is no immediate funding necessary under this proposed program, Council should be aware of the potential financial obligation created by this guaranty.

3. *Should the Urbana Development Group or its members have a financial interest at stake as part of these transactions?*

The members of the Urbana Development Group are not able to offer the City or participating financial institutions a personal guaranty on the organization's activities. Additionally, under the proposed set-up the group as a whole would have little to no exposure on potential transactions. A participating bank and the City would carry the financial liability for the proposed projects.

4. *Would this type of assistance be available for any property?*

The City will largely rely on the Urbana Development Group and the participating financial institutions to determine the financial viability of each transaction. The assumption will be that the group will engage in transactions that have a reasonable chance of financial success.

In addition to financial viability, the City should avoid participating in transactions that involve properties that have pending activity before a City board, commission, or City Council, in order to prevent any potential conflict of interest.

While there are still questions to be answered and issues to be resolved, support for the Urbana Development Group could have a positive impact on the City of Urbana. Through investment in rehabilitating properties for single-family home ownership, Urbana Development Group hopes to promote neighborhood stabilization, historic preservation, home ownership, and reinvestment in neighboring properties in the community. The Urbana Development Group will be able to engage in positive activities and provide services that the City is unable to offer itself.

**Recommendation**

Representatives of the Urbana Development Group are interested in moving forward expeditiously. They have requested that staff draft a loan guaranty agreement for City Council consideration. The purpose of this memorandum is to gauge Council support for the proposed program and to receive direction as to the provisions of the agreement with the Urbana Development Group.

**Attachments:**

- Exhibit A: Urbana Development Group By-Laws
- Exhibit B: Urbana Development Group Articles of Incorporation
- Exhibit C: Urbana Development Group Letter
- Exhibit D: Mayor’s Response to the Urbana Development Group

Prepared by:

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CC:  
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