



DEPARTMENT OF COMMUNITY DEVELOPMENT SERVICES

Grants Management Division

m e m o r a n d u m

TO: Laurel Lunt Prussing, Mayor, City of Urbana

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

DATE: May 31, 2012

SUBJECT: **AN ORDINANCE APPROVING A SECOND AMENDMENT TO AN URBANA HOME CONSORTIUM COMMUNITY HOUSING DEVELOPMENT ORGANIZATION DEVELOPER AGREEMENT (Homestead Corporation of Champaign-Urbana CHDO Developer Affordable Homeownership Program FY 2009-2010)**

Description

Included on the agenda of the June 4, 2012 meeting of the Urbana City Council is an Ordinance Approving an Amendment to an Urbana HOME Consortium Community Housing Development Organization Developer Agreement (Homestead Corporation of Champaign-Urbana CHDO Developer Affordable Homeownership Program FY 2009-2010). The amendment will allow Homestead Corporation to complete a third house as part of its current Affordable Homeownership Program by providing construction financing and additional subsidy needed.

Background & Discussion

Homestead Corporation is currently under contract for the construction of two single-family, affordable housing units with a subsidy of \$110,020, for a per-unit subsidy of approximately \$55,010. One of the units already constructed under this contract is the house located at 1109 N Gregory in Urbana. This project required a total subsidy of \$64,278 to complete, which leaves only \$45,742 for the second unit to be constructed at 1304 Williamsburg, Champaign.

In order to maintain the Consortium's required commitments as part of the HOME Program by the June 30, 2012 deadline, the Urbana HOME Consortium has agreed to provide the additional subsidy needed to complete the 1304 Williamsburg project, as well as construction loan financing. This will assist the City by committing allocated funds, as well as reduce the total development cost of the unit by eliminating the need for private financing. Funds used for construction financing will be loaned to the developer and will be paid back to the City of Urbana at the time of sale, at an estimated amount of \$70,000 to \$80,000, depending on the amount of any other additional subsidies the homebuyer is able to secure through a private lender.

Homestead's Total Development Cost for the unit at 1304 Williamsburg will be \$150,000. This amount is based on the actual cost of construction at 1109 N Gregory, Urbana. In order to provide the total \$150,000 needed to fully finance the 1304 Williamsburg project, an additional \$104,258 is needed and will be drawn from the current unobligated CHDO funds available from FY 2011-2012 for eligible CHDO activities.

The attached amendment will increase the current contract in place from \$110,020 to \$214,278. This amount is the sum of the \$64,278 already drawn for the 1109 N Gregory project and the \$150,000 needed to fully finance the next project at 1304 Williamsburg. Approximately \$70,000-\$80,000 will be returned to the City as a revolving CHDO loan fund once the sale is completed at 1304 Williamsburg. The attached pro forma provides a breakdown of the costs associated with constructing the unit at 1109 N Gregory. A similar breakdown is expected for 1304 Williamsburg.

Due to the unresolved conflict of interest regarding the Champaign County Neighborhood Alliance for Habitat construction contract in the amount of \$140,000, it is imperative that the Consortium move forward with new contracts to meet the June 30, 2012 commitment deadline prescribed by the Department of Housing and Urban Development. The conflict of interest exception request submitted by staff is not expected to be resolved in time to meet this deadline. As such, staff and the HOME Technical Committee recommend moving forward with this new financing structure for the project at 1304 Williamsburg.

At the May 22, 2012 regular meeting of the Urbana Community Development Commission, the Commission voted unanimously to forward the Ordinance to City Council with a recommendation for approval.

Options

1. Approve the Ordinance Approving a Second Amendment to an Urbana HOME Consortium Community Housing Development Organization Developer Agreement.
2. Approve the Ordinance to the Urbana City Council with changes.
3. Do not approve the Ordinance.

Recommendation

Staff and Community Development Commission unanimously recommend approval of the Ordinance.

Memorandum Prepared By:


Jen Gonzalez, Grant Coordinator
Grants Management Division

Attachments:

- 1) An Ordinance Approving a Second Amendment to an Urbana HOME Consortium Community Housing Development Organization Developer Agreement (Homestead Corporation of Champaign-Urbana CHDO Developer Affordable Homeownership Program FY 2009-2010)
- 2) A Second Amendment to an Urbana HOME Consortium Community Housing Development Organization Developer Agreement (Homestead Corporation of Champaign-Urbana CHDO Developer Affordable Homeownership Program FY 2009-2010)
- 3) Pro Forma – Sources and Uses of Funds for 1109 N Gregory, Urbana
- 4) *Relevant minutes from the May 22, 2012 regular meeting of the Urbana Community Development Commission.*

ORDINANCE NO. _____

AN ORDINANCE APPROVING A SECOND AMENDMENT TO AN URBANA HOME CONSORTIUM
COMMUNITY HOUSING DEVELOPMENT ORGANIZATION DEVELOPER AGREEMENT

(Homestead Corporation of Champaign-Urbana CHDO Developer Affordable
Homeownership Program FY 2009-2010)

WHEREAS, on July 20, 2009, the Urbana City Council passed Ordinance No. 2009-07-088, an Ordinance Approving and Authorizing the Execution of an Urbana HOME Consortium Community Housing Development Organization Agreement (Homestead Corporation of Champaign-Urbana - Affordable Homeownership Program, FY 2009-2010); and

WHEREAS, the City Council of the City of Urbana, Illinois, has found and determined that execution of the attached second amendment to a Community Housing Development Organization agreement is desirable and necessary to carry out one of the corporate purposes of the City of Urbana, to wit: implementation of Strategies and Objectives to Address the Affordable Housing Needs of Low and Moderate Income Households described in the *City of Urbana and Urbana HOME Consortium Consolidated Plan for Program Years 2005-2009 and the City of Urbana HOME Consortium FY 2010-2014 Consolidated Plan*.

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

Section 1. That a second amendment to an Urbana HOME Consortium Community Housing Development Organization Developer Agreement (Homestead Corporation of Champaign-Urbana CHDO Developer Affordable Homeownership Program FY 2009-2010), in substantially the form of the copy of said Amendment attached hereto and hereby incorporated by reference, be and the same is hereby authorized and approved.

Section 2. That the Mayor of the City of Urbana, Illinois, be and the same is hereby authorized to execute and deliver and the City Clerk of the City of Urbana, Illinois, be and the same is authorized to attest to said

execution of said Amendment as so authorized and approved for and on behalf of the City of Urbana, Illinois.

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

AYES:

NAYS:

ABSTAINS:

Phyllis D. Clark, City Clerk

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

Laurel Lunt Prussing, Mayor

**A SECOND AMENDMENT TO AN URBANA HOME CONSORTIUM COMMUNITY HOUSING DEVELOPMENT ORGANIZATION DEVELOPER AGREEMENT
(Homestead Corporation of Champaign-Urbana CHDO Developer Affordable Homeownership Program FY 2009-2010)**

This Amendment is made this ____ day of _____, 2012, between the CITY OF URBANA, an Illinois Municipal Corporation, acting as lead entity for the Urbana HOME Consortium (hereinafter the “GRANTOR”), and Homestead Corporation of Champaign-Urbana, an Illinois Not-For-Profit Organization (hereinafter “DEVELOPER”).

WITNESSETH:

WHEREAS, the City of Urbana, the City of Champaign, and Champaign County have been jointly designated as a Participating Jurisdiction by the U.S. Department of Housing and Urban Development (hereinafter “HUD”) for purposes of receiving HOME Investment Partnerships (hereinafter “HOME”) Program funds in the name of the Urbana HOME Consortium under provision of Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990, as amended (42 U.S.C 12701 et seq.) (hereinafter the “National Affordable Housing Act”); and

WHEREAS, the Urbana HOME Consortium has received HOME Program funds from HUD for the period beginning July 1, 2009 and ending June 30, 2010 to increase affordable housing opportunities for low-income residents of Urbana, Champaign, and unincorporated Champaign County; and

WHEREAS, the GRANTOR, as the administrator of the Urbana HOME Consortium, has authority under the provisions of the HOME Program to amend the HOME Agreements; and

WHEREAS, on July 20, 2009 the Urbana City Council passed Ordinance No. 2009-07-088 approving and authorizing the execution of an Urbana HOME Consortium Community Housing Development Organization Agreement (Urbana HOME Consortium Community Housing Development Organization Developer Agreement Homestead Corporation of Champaign-Urbana – Affordable Homeownership Program FY 2009-2010); and

WHEREAS, the GRANTOR and the DEVELOPER desire to amend said Agreement to modify and clarify certain conditions,

NOW, THEREFORE, for and in consideration of the agreement and of the mutual covenants herein contained, the parties agree to the following changes to the Agreement:

- 1) The DEVELOPER and GRANTOR agree that ARTICLE I: HOME REQUIREMENTS, Section 1: Use of Funds, is changed as follows:

The GRANTOR agrees to provide the DEVELOPER an amount not to exceed **\$214,278.39** from its Federal Fiscal Year FY 2009-2010 and FY 2011-2012 HOME Community Housing Development Organization (CHDO) set-aside to be used for related development function and providing down payment assistance to low- to moderate-income households for the homeownership opportunities.

- 2) The DEVELOPER and GRANTOR agree that ARTICLE I: HOME REQUIREMENTS, Section 1: Use of Funds, subpart b.) is changed as follows:

The DEVELOPER shall provide the grantor with the budget and financial projection for the preliminary budget for the construction of each house as provided in "Attachment 3" or in a similar document format as approved by the GRANTOR

- 3) The DEVELOPER and GRANTOR agree that ARTICLE I: HOME REQUIREMENTS, Section 1: Use of Funds, subpart c.) is changed as follows:

The DEVELOPER shall own or purchase the real property for the Project in the following locations: 1109 N Gregory, Urbana, IL & 1304 Williamsburg, Champaign, IL.

- 4) The DEVELOPER and GRANTOR agree that Article I: HOME REQUIREMENTS, Section 1: Use of Funds, subpart f.) shall be added as follows:

The DEVELOPER shall return all CHDO proceeds resulting from the sale at the time of closing. CHDO proceeds are defined as profit resulting from the sale as a result of the initial HOME investment. The developer fee is not included in this definition.

- 5) The DEVELOPER and GRANTOR agree that ARTICLE I: HOME REQUIREMENTS, Section 3: HOME Project Requirements, is changed as follows:

The Grantor shall provide HOME funds not to exceed **\$214,278.39** in accordance with 24 CFR 92.205(b) for eligible costs as described in 24 CFR 92.206 and 92.207.

All other provisions of said Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have hereunto set their hands and seals, and have caused this instrument to be executed by their duly authorized officials and corporate seals affixed hereto, all on the day and year first above written.

CITY

DEVELOPER

By: _____
Laurel Lunt Prussing, Mayor

By: _____
Aaron Smith, Executive Director

Date: _____

Attest: _____
City Clerk

PRO FORMA -
 SOURCES AND USES OF FUNDS
 REVISED FINAL

HOMESTEAD'S AFFORDABLE
 HOMEOWNERSHIP PROGRAM
 1109 N Gregory St. Urbana – Connie M. Hugger

05/17/12

SOURCES OF FUNDS

HOME SALES

Bank Mortgage (30 year @ 3.75%) \$71,800

\$71,800

SUBSIDIES

PAID Account \$3,000

Homebuyer Contribution \$200

Illinois League (IHDA DPP) \$10,000

HOME Direct Homebuyer Assistance \$30,000

HOME CHDO Developer Subsidy \$34,278

\$77,478

TOTAL SOURCES OF FUNDS

\$149,278

USES OF FUNDS

ACQUISITION COSTS

Land \$0

\$0

PROFESSIONAL FEES

Architect \$3,352

Engineering and Survey \$2,067

Developer Fee \$10,000

Legal Fees \$665

Appraisal \$100

LAND DEVELOPMENT

Tree Removal \$2,358

Sanitary Sewer \$3,312

\$16,184

\$5,670

FINANCING

Construction Loan Fees \$875

Closing Costs for Seller \$149

CONSTRUCTION

Buildings \$120,600

Change Orders \$5,800

\$1,024

\$126,400

TOTAL USES OF FUNDS

\$149,278

Pro Forma Affordable Homeownership Program



UNAPPROVED
RELEVANT MINUTES OF THE
COMMUNITY DEVELOPMENT COMMISSION MEETING
Tuesday, May 22, 2012, City Council Chambers
400 South Vine Street, Urbana, IL 61801

Call to Order: Chairperson Cobb called the meeting to order at 7:05 p.m.

Roll Call: Connie Eldridge called the roll. A quorum was present.

Commission Members Present: Fred Cobb, Janice Bengtson, Chris Diana, Theresa Michelson, Dennis Vidoni

Commission Members Absent: George Francis, Jerry Moreland, Brad Roof, Anne Heinze Silvis

Others Present: Kelly Mierkowski, Jennifer Gonzalez, and Connie Eldridge, Community Development Services; Aaron P. Smith, Homestead Corporation; Sheila Dodd, Habitat for Humanity of Champaign County; Patti Clore, Ecological Construction Laboratory & Passive House Institute (PHIUS):

New Business: **A Second Amendment to an Urbana HOME Consortium Community Housing Development Organization (CHDO) Developer Agreement (Homestead Corporation of Champaign-Urbana CHDO Developer Affordable Homeownership Program FY 2009-2010)** – Jen Gonzalez distributed a copy of the proposed agreement, which will provide an additional subsidy for the project at 1304 Williamsburg, Champaign as well as construction loan financing. Because the Urbana HOME Consortium has no new projects, there was concern about the timely expenditure of HOME funds and keeping this program moving forward. This amendment will commit allocated funds and reduce the total development cost of Homestead's housing unit.

Ms. Gonzalez discussed Homestead's pro forma, which includes sources of funds, subsidies, and use of funds. Other topics were gap financing through the HOME Program, down payment assistance, and net sale proceeds. Busey Bank has helped many homebuyers find additional subsidies to purchase these homes. The amendment also includes the Urbana HOME Consortium providing a construction loan at 0 percent interest for Homestead to be repaid at the time of sale. The construction loan will serve as a revolving loan fund for future CHDO projects.

In response to Commissioner Vidoni, Aaron Smith, Executive Director of Homestead, noted the amendment addresses several different issues. One is the expense of construction financing, because certain costs cannot be reimbursed under the HOME Program. A few years ago Homestead constructed houses for \$140,000; now the total cost including fees is \$150,000. Although Homestead has rebid contractor expenses, the costs for labor, materials, shingles, and any petroleum product has increased since Homestead was originally awarded the funding.

Another issue is the preliminary appraisal values for the property to be constructed at 1304 Williamsburg in the Garden Hills area. The market value of the property would be much lower, thus requiring a higher development subsidy to cover the gap between the costs of building versus the sales price. Commissioner Vidoni asked how Homestead addressed this issue with their house

at 1109 North Gregory, Urbana. Mr. Smith replied that Homestead used its development fee, with the possibility of taking a loss to complete the house. Incidental costs, such as hiring a civil engineer for a newly required erosion control plan, have also increased.

Mr. Smith discussed Homestead's past construction financing. If the project takes longer than average to complete, this costs a lot in interest. Also, it is harder to get reimbursed for all costs connected to financing the project. There was discussion on lot acquisition, anticipated lower values, and neighborhoods where property values have fallen more than normal. Commissioner Michelson was concerned that Homestead would be constructing the most expensive house on the block. Mr. Smith noted that the cost of building a house has always been more than its sale price.

Ms. Gonzalez stated there are no other grants for developer subsidy unlike those for down payment assistance. In response to Commissioner Diana, Mr. Smith said the development fees have not gone up; rather the increases are due to higher construction costs. There was discussion on whether it was possible to construct a house for Homestead's sale price. Noting the homebuyers can only afford mortgages from \$70,000 - \$80,000, Mr. Smith did not believe it was possible. Commissioner Diana mentioned the impact of short sales and foreclosures in the property's neighborhood.

Commissioner Diana asked if the construction loan from the Urbana HOME Consortium would make the project more affordable. Mr. Smith replied the main benefit is that Homestead will not have to absorb costs for which it cannot be reimbursed, such as construction loan interest when a homebuyer is disqualified and Homestead has to secure another buyer. The Pro Forma has not reflected additional costs for which Homestead could not be reimbursed, such as real estate taxes.

There was further discussion on the value of donated lots, construction cost and sales price of Homestead's houses. Mr. Smith clarified that the HOME Direct Homebuyer Assistance makes the home affordable for the buyer; it does not cover Homestead's costs. In response to Commissioner Michelson, Ms. Gonzalez said the philosophical question is whether or not to help the neighborhoods that are hurting the most. Mr. Smith noted it is difficult to find lots, especially those that appraise at a higher value. Commissioner Michelson expressed her concern about the number of absentee landlords, code enforcement, property values, and questioned who would benefit from rising property values. Ms. Mierkowski stated the City uses CDBG funds to purchase lots in the CD Target Area. Commissioner Diana stated that only market value, not cost of construction, impacts assessed or appraised value in the neighborhoods. Ms. Gonzalez discussed pricing strategy.

Chairperson Cobb stated the key objective is to continue providing housing to low income persons. This project accomplishes that, regardless of ability to make money on the construction.

Commissioner Vidoni agreed and added another goal is to keep Homestead viable, since it is the only active CHDO at this time. While this is not an easy decision in terms of economics, it is important to consider the greater good. In response to Chairperson Cobb and Commissioner Diana, Ms. Gonzalez clarified the terms of the construction loan funds, which can be re-issued again. As part of the HOME Rule, HUD will allow the Urbana HOME Consortium to act as lender.

In response to Commissioner Bengtson, Mr. Smith stated the sales price is not the challenge; rather it is finding homebuyers who qualify for the loans. Some buyers develop credit issues or are disqualified upon verification of income. Also, not every potential buyer wants to purchase a home in the target areas. Homebuyers must live in the house as their primary residence. There is an affordability period from 5-15 years; if the homeowner is in violation, they have to repay the funds. Homestead has a good working relationship with Busey Bank, which determines if the homebuyer

receives a mortgage. Ms. Gonzalez mentioned the lack of homebuyer counseling in the Champaign-Urbana area.

Commissioner Michelson moved to recommend to City Council approval of a Second Amendment to an Urbana HOME Consortium Community Housing Development Organization (CHDO) Developer Agreement (Homestead Corporation of Champaign-Urbana CHDO Developer Affordable Homeownership Program FY 2009-2010). Commissioner Vidoni seconded the motion, and the motion carried unanimously.

Recorded by Connie Eldridge

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UNAPPROVED