



## DEPARTMENT OF COMMUNITY DEVELOPMENT SERVICES

*Grants Management Division*

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

**TO:** Laurel Lunt Prussing, Mayor

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

**DATE:** April 15, 2010

**SUBJECT: RESOLUTION EVIDENCING THE INTENTION OF THE CITY OF URBANA, CHAMPAIGN COUNTY, ILLINOIS, TO TRANSFER VOLUME CAP IN CONNECTION WITH PRIVATE ACTIVITY BOND ISSUES, SINGLE-FAMILY MORTGAGE REVENUE BONDS; AND RELATED MATTERS (Private Bond Cap Allocation – Assist Urbana, Series 2010)**

**RESOLUTION APPROVING PARTICIPATION IN ILLINOIS HOUSING DEVELOPMENT AUTHORITY FIRST-TIME HOMEBUYER SINGLE-FAMILY PROGRAM (MCC Program, Series 2010)**

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### **Description**

Included on the agenda of the April 19, 2010 Urbana City Council meeting are resolutions to allocate the City's Private Activity Bond Cap to the Assist Program and to the Illinois Housing Development Authority (IHDA) Mortgage Credit Certificate (MCC) Program.

### **Issues**

The issue whether the Urbana City Council should approve the Resolutions allocating the use of the City of Urbana's 2010 private activity bond cap to the Assist and MCC programs.

The City's private activity bond cap must be allocated or reserved before April 30, 2010. The options include reserving the bond cap for specific projects or participating in homebuyer assistance programs offered by Stern Brothers & Co. and IHDA. Any unused bond cap not ceded for any combination of these programs will automatically be recaptured by the State of Illinois for use by another municipality.

### **Background**

In accordance with the IRS Code, each municipality in Illinois is allowed to issue private activity bonds in the amount of \$90 per capita population for 2010. 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. The City of Urbana has a total of \$3,567,690 in 2010 Private Activity Bond Cap available that can be utilized for:

- 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

In recent years, Urbana has used its private activity bond allocation for homebuyer assistance programs. In order to qualify for the Assist and Illinois Housing Development Authority (IHDA) homebuyer assistance programs, participating households are required to meet income and purchase price limits. Each of these programs has standardized criteria in that those receiving assistance must meet income limits for the area, be first-time homebuyers unless purchasing in a targeted area, and the home must meet the prescribed purchase limits.

Currently, IHDA is continuing to offer its Mortgage Credit Certificate program but is not taking bond cap to be utilized for other mortgage loan programs. Until recently, the Assist program had been unable to issue a 2009 product, due to the bond market conditions. However, the new Assist program was issued March 2010 and has been made available to local lenders. Over time, the Assist program has been successful in Urbana, and as the market conditions continue to improve, it is expected that the program will regain momentum.

While the MCC program would be available citywide, the Internal Revenue Service (IRS) has designated program target areas (which may 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 within or outside of the target area. Households purchasing within the target areas need not be first-time homebuyers. Income and purchase price limits applicable to the 2010 program are as follows:

<u>Maximum Household Income Limits</u>		
Non-targeted areas	1-2 person household	\$69,400
	3 or more persons	\$79,810
Targeted area	1-2 person household	\$83,280
	3 or more persons	\$97,160
<u>Maximum Purchase Price Limits (Single-family home)</u>		
Non-targeted areas	Existing or new construction	\$258,690
Targeted area	Existing or new construction	\$316,170

### **1) Assist Program**

The Assist Urbana Program was first started under the name of *AccessUrbana* in 1995 and has subsequently assisted over 250 families with purchasing a home in Urbana. The 2008 Assist

Program leveraged \$1,429,522 million in home loans for 14 Urbana families, providing an average loan of \$102,109. Because the 2009 Assist Program has only recently been launched, there have been no recipients for 2009 to date. Historically, the Assist Program has provided 30-year fixed rate FHA/VA mortgage loans or conventional loans at competitive interest rates (6.17 – 6.5 percent last year) through participating local lenders. The program has also provided non-repayable, non-taxable grants for down payments and closing costs up to 4.25 percent of the home mortgage amount. The Assist Program has supported both FHA and VA lending programs and is marketed by the City and local lenders through direct mailers, seminars, and media advertising.

If the City decides to cede 2010 bond cap to the Assist Program, Stern Brothers & Co. would have three years to use it. In 2009, the City ceded one-half (50%) of its bond cap to the Assist Program.

## **2) IHDA Mortgage Credit Certificate Program**

In recent years, the City has also ceded a portion of its bond cap to IHDA for use in its First-Time Homebuyer Program (MRB) and the Mortgage Credit Certificate Program (MCC). In 2008, the MRB Program funded eight mortgages in Urbana totaling \$679,560 with an average loan of \$84,945. The MCC Program in 2008 assisted nine Urbana homebuyers for loans totaling \$789,840 with an average loan of \$87,760. However, in 2009 the City ceded half of its 2009 private activity bond allocation to IHDA for only the MCC Program as IHDA was concerned that bond market conditions would negatively affect the MRB program. In the past year, eleven Urbana homeowners received Mortgage Credit Certificates for loans totaling \$1,036,582.

The IHDA Mortgage Credit Certificate (MCC) program allows an eligible homebuyer to obtain a federal income tax credit on a portion of their mortgage interest paid each year for the life of the loan. If the City decides to participate, the MCC program would have funding available to first time homebuyers beginning around June 1, 2010.

## **Options**

The City must allocate or reserve its private activity bond authority for 2010 by April 30, 2010. The City can cede or reserve as much or as little of its private activity bond cap to one or all of the following activities:

- Reserve private activity bond cap for the purpose of furthering neighborhood initiatives
- Assist Urbana Program
- Mortgage Credit Certificate (MCC)

## **Fiscal Impacts**

Allocating the private activity bond cap to these programs requires minimal expenditures to produce flyers for marketing. For the homebuyer assistance programs, some Community Development staff time to organize and market the programs will be required.

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**

Staff researched the potential for bond cap to be utilized for eligible activities other than for single-family homeownership, including the possibility of ceding to an economic development authority or reserving for an industrial project. Because there are no potentially viable projects of these types currently in the City of Urbana, nor are surrounding areas currently seeking bond cap for such projects, staff is recommending Council approve the Resolutions allocating the City of Urbana 2010 private activity bond cap of \$1,783,845 to the Assist Urbana Program and \$1,783,845 to the IHDA Mortgage Credit Certificate (MCC) Program.

**Memorandum Prepared By:**

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**John A. Schneider**  
**Grants Management Division, Manager**

Attachments:

RESOLUTION EVIDENCING THE INTENTION OF THE CITY OF URBANA, CHAMPAIGN COUNTY, ILLINOIS, TO TRANSFER VOLUME CAP IN CONNECTION WITH PRIVATE ACTIVITY BOND ISSUES, SINGLE-FAMILY MORTGAGE REVENUE BONDS; AND RELATED MATTERS (Private Bond Cap Allocation – Assist Urbana, Series 2010)

RESOLUTION APPROVING PARTICIPATION IN ILLINOIS HOUSING DEVELOPMENT AUTHORITY FIRST-TIME HOMEBUYER SINGLE-FAMILY PROGRAM (MCC Program, Series 2010)

RESOLUTION NO.2010-04-012R

**RESOLUTION EVIDENCING THE INTENTION OF THE CITY OF URBANA, CHAMPAIGN COUNTY, ILLINOIS, TO TRANSFER VOLUME CAP IN CONNECTION WITH PRIVATE ACTIVITY BOND ISSUES, SINGLE-FAMILY MORTGAGE REVENUE BONDS; AND RELATED MATTERS**

**(Private Bond Cap Allocation - Assist Urbana, Series 2010)**

WHEREAS, the City of Urbana, Champaign County, Illinois (the "Municipality") is a municipality and a home rule unit of government under Section 6 of Article VII of the 1970 Constitution of the State of Illinois; and Whereas, Section 146 of the Internal Revenue Code of 1986, as amended (the "Code"), provides that the Municipality has volume cap equal to \$90 per resident of the Municipality in each calendar year, which volume cap may be allocated to certain tax-exempt private activity bonds; and

WHEREAS, the Illinois Private Activity Bond Allocation Act, 30 Illinois Compiled Statutes 2006, 345/1 et seq., as supplemented and amended (the "Act"), provides that a home rule unit of government may transfer its allocation of volume cap to any other home rule unit of government, the State of Illinois or any agency thereof or any non-home rule unit of government; and

WHEREAS, it is now deemed necessary and desirable by the Municipality to transfer a portion of its volume cap allocation for calendar year 2010 to the City of Aurora, Kane, DuPage, Will and Kendall Counties, Illinois (the "Issuer") to be applied toward the issuance of single family mortgage revenue bonds by the Issuer (the "Bonds") or for such other purpose permitted by this Resolution;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF URBANA, CHAMPAIGN COUNTY, ILLINOIS, AS FOLLOWS:

Section 1. That, pursuant to Section 146 of the Code and the Act, volume cap of the Municipality in the amount of \$1,783,845 for calendar year 2010 is hereby transferred to the Issuer, which shall issue the Bonds using such transfer of volume cap, without any further action required on the part of the Municipality, and the adoption of this Resolution shall be deemed to be

an allocation of such volume cap to the issuance of the Bonds or other private activity bonds.

Section 2. That the Municipality and the Issuer shall maintain a written record of this Resolution in their respective records during the term that the Bonds or any other such bonds to which such volume cap is allocated remain outstanding.

Section 3. That the Mayor, the City Clerk and all other 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 further the purposes and intent of this Resolution.

Section 4. That the provisions of this Resolution are hereby declared to be separable, and if any section, phrase or provision of this Resolution shall for any reason be declared to be invalid, such declaration shall not affect the remainder of the sections, phrases and provisions of this Resolution.

Section 5. That all resolutions, resolutions or orders, or parts thereof, in conflict herewith are, to the extent of such conflict, hereby superseded; and that this Resolution shall be in full force and effect upon its adoption and approval.

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

AYES:

NAYS:

ABSTAINS:

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

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

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Laurel Lunt Prussing, Mayor