



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: December 8, 2011

SUBJECT: **A Resolution Extending the Build Urbana Tax Rebate Program for One Additional Year (December 1, 2012 – 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, 2011 to December 1, 2012. Since its inception in 2001, the Build Urbana Tax Rebate Program has successfully encouraged the construction of over 1,000 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, November 2008, and December 2010 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. Currently, Urbana has nine active subdivisions, including Beringer Commons, Cobble Creek, Landis Farm, Prairie Winds, Savannah Green, Somerset, South Ridge, Stone Creek, and Water's Edge.

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 duration of the Build Urbana Program. At the same time, the currently depressed state of the housing market indicates that incentives to promote new home construction and sales remain important. 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. Beyond that time, however, there are concerns regarding the ability to fund the rebates. Attached is a resolution extending the program through December 1, 2012 (Exhibit A)

Issues

As mentioned above, the tax rebate program rebates the property tax difference between the overall tax rates in the Cities of Urbana and Champaign to owners of newly constructed homes. Related to the City portion of the overall tax rate, the cities of Urbana and Champaign share the same tax rate. Therefore, the majority of the rebates paid to homeowners are funded by the Urbana School District, the Urbana Park District, and Cunningham Township. In the most recent discussions regarding the program, representatives of these three agencies are generally supportive of a one-year extension of the program, but some concerns about funding the program beyond a one-year extension have been expressed. Both the Board of the Urbana Park District and the Board of the Urbana School District will consider official support for the program on December 13, 2011.

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 are interested in exploring other approaches for promoting Urbana as an attractive place to live as an alternative to continued extension of the Build Urbana Tax Rebate Program. These other approaches could include a comprehensive marketing campaign to promote the benefits of living in Urbana. City staff will work with our partner taxing agencies, builders, and developers to develop strategies to promote the benefits of living in Urbana. Additionally, Build Urbana will benefit from new tourism marketing and promotion efforts by the City of Urbana, UBA, and other project partners.

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 total volume and its proportionate share of new single family housing starts in the area. In the 13 years prior to Build Urbana, there was an average of 30 new home starts in Urbana per year. In the 11 years under the Build Urbana program, there has been an average of over 93 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 five 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, 2008, 2010, and again to 2011)
- 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 UBA 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.

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 a 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, 29 units in 2010, and only 15 projected units in 2011. 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, the 2010 numbers were approximately the same as the average from the 13 years prior to Build Urbana, and it was not until 2011 that the new home starts dropped below the previous average. The total for all single-family and duplex units built under the Tax Rebate Program by the end of 2011 will be 1,022 units (Exhibit B).

Fiscal Impacts

The Summary of Results of the Property Tax Rebate Program CY 2001-2011 (Exhibit C) illustrates the financial impact of the Tax Rebate program for the calendar years 2001 through 2011. 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 (almost \$76 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.

While there have been substantial benefits, and representatives of the various partners have expressed support for a one-year extension of the program, there have been concerns about long-term funding availability for the program beyond a one-year extension.

Based on the above 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

Representatives of all the program partners have expressed an interest in extending the program for one additional year. Both the Board of the Urbana Park District and the Board of the Urbana School District will consider official support for the program on December 13, 2011.

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, including Beringer Commons, Cobble Creek, Landis Farm, Prairie Winds, Savannah Green, Somerset, South Ridge, Stone Creek, and Water's Edge. These subdivisions have 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.

Given the beneficial fiscal impacts, staff recommends that Council consider a one-year extension of the Tax Rebate Program. 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.

Finally, understanding the concerns of the program partners related to funding availability for the program beyond a one-year extension, City staff will engage our partners and the community to explore ways to promote home construction in the City of Urbana.

Prepared by:

Tom Carrino, Economic Development Manager

Attachments:

- Exhibit A: A Resolution Extending the Build Urbana Tax Rebate Program for One Additional Year (December 1, 2012 – Build Urbana)
- Exhibit B: City of Urbana Single and Two Family Housing Permits 1988-2011
- Exhibit C: Summary of Results of the Property Tax Rebate Program CY 2001-2011

Exhibit A

RESOLUTION NO. 2011-12-043R

**A RESOLUTION EXTENDING THE BUILD URBANA TAX REBATE PROGRAM FOR
ONE ADDITIONAL YEAR**

(TO DECEMBER 1, 2012 - Build Urbana)

WHEREAS, on March 5, 2001, the City Council of the City of Urbana adopted Resolution No. 2001-02-007R authorizing a single-family home construction incentive program as a means of promoting new single family home construction in the City; and

WHEREAS, on July 16, 2001, the City Council of the City of Urbana adopted Resolution No. 2001-07-022R extending the single-family home construction incentive program to owner occupied zero lot-line townhomes, condominiums, cooperatives, and duplexes; and

WHEREAS, on November 18, 2002, the City Council of the City of Urbana adopted Resolution No. 2002-10-028R extending the provisions of the single-family home construction incentive program to permits issued for a period from December 1, 2002, to December 1, 2004, on November 24, 2004, the City Council of the City of Urbana adopted Resolution No. 2004-11-023R extending the provisions of the single-family home construction incentive program to permits issued for a period from December 1, 2004, to December 1, 2006, on November 27, 2006, the City Council of the City of Urbana adopted Resolution No. 2006-11-028R extending the provisions of the single-family home construction incentive program to permits issued for a period from December 1, 2006, to December 1, 2008, on November 17, 2008, the City Council of the City of Urbana adopted Resolution No. 2008-11-023R extending the provisions of the single-family home construction incentive program to permits issued for a period from December 1, 2008, to December 1, 2010, and on December 6, 2010, the City Council of the City of Urbana adopted Resolution No. 2010-12-

030R extending the provisions of the single-family home construction incentive program to permits issued for a period from December 1, 2010, to December 1, 2011; and

WHEREAS, the single-family home construction incentive program involves the payment of the difference between the property taxes incurred by new homes in the City of Urbana and the taxes those homes would incur in the City of Champaign for five years, on behalf of property owners who build new homes within the City; and

WHEREAS, the program has been successful in promoting new home starts in Urbana and has contributed to an increase in new housing starts from a previous average of approximately 30 new single-family homes per year for the period from 1988 to 2001 to 176 new homes in 2002, 159 new homes in 2003, 161 new homes in 2004, 104 new homes in 2005, 114 new homes in 2006, 77 new homes in 2007, 51 new homes in 2008, 46 new homes in 2009, 29 homes in 2010, and 15 homes to-date in 2011; and

WHEREAS, analysis of the costs of the program compared with the benefits of increased tax assessments is positive; and

WHEREAS, extension of the Build Urbana home construction incentive program to continue for an additional year so that it is applicable to building permits issued between December 1, 2011, and December 1, 2012, will assist in the build-out of currently active subdivisions in Urbana; and

WHEREAS, support for the extension of the program has been communicated from various local developers and the Urbana School District; and

WHEREAS, the Urbana City Council, having duly considered all matters pertaining thereto, finds and determines that the proposed time extension of the single-family home construction incentive program is in the best interest of the City of Urbana.

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

Section 1. The City Council finds and determines that the facts contained in the above recitations are true.

Section 2. The Urbana City Council further resolves that the City of Urbana does hereby amend Resolution No. 2001-02-007R, as amended by Resolution No. 2001-07-022R, Resolution No. 2002-10-028R, Resolution No. 2004-11-023R, Resolution 2006-11-028R, Resolution 2008-11-023R, and Resolution 2010-12-030R to extend the provisions of that resolution to building permits issued between December 1, 2011, and December 1, 2012.

Section 3. All other provisions of Resolution No. 2001-02-007R, Resolution No. 2001-07-022R, Resolution No. 2002-10-028R, Resolution No. 2004-11-023R, and Resolution 2006-11-028R shall apply and shall otherwise remain in force.

PASSED by the City Council this ____ day of _____, 2011.

AYES:

NAYS:

ABSTAINS:

Phyllis D. Clark, City Clerk

APPROVED by the Mayor this _____ day of _____, 2011.

Laurel Lunt Prussing, Mayor

BUILD URBANA 2001-2011

CITY OF URBANA HOUSING PERMITS: SINGLE AND TWO- FAMILY 1988 to 2011

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		29
2011 (To Date)		15
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Total Under Build Urbana (10.5 Yrs.)		1022
Avg. Per Year Under Build Urbana		93
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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 - 2011 Projected									
					2011	2011	2011	2011	2011
		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	1022	\$ 202,000	\$ 206,444,000	\$ 63,704,667	\$ 2,750,640	\$ 607,615	\$ 120,083	\$ 824,466	\$ 4,302,804
Homes That Have Exited the Program	620	\$ 202,000	\$ 125,240,000	\$ 38,646,667	\$ 1,668,686	\$ 368,612	\$ 72,849	\$ 500,165	\$ 2,610,312
Homes Still Receiving the Rebate	402	\$ 202,000	\$ 81,204,000	\$ 25,058,000	\$ 1,081,954	\$ 239,003	\$ 47,234	\$ 324,301	\$ 1,692,492
Units Above previous Average	692	\$ 202,000	\$ 139,784,000	\$ 43,134,667	\$ 1,862,469	\$ 411,418	\$ 81,309	\$ 558,249	\$ 2,913,445
Current Annual Cost of Rebates					\$ 166,185	\$ 81,138	\$ 37,311	\$ -	\$ 284,634
Current Annual Net Gain All Units					\$ 2,584,455	\$ 526,477	\$ 82,772	\$ 824,466	\$ 4,018,170
Current Annual Net Gain Above Previous Average					\$ 1,696,284	\$ 330,281	\$ 43,997	\$ 558,249	\$ 2,628,811
Present Value Net Gain Next 5 Years					\$7,344,022	\$1,429,942	\$190,486	\$2,416,925	\$11,381,376
Present Value of Prop. Tax 45 Years After					\$41,345,111	\$8,940,767	\$1,674,854	\$12,608,275	\$64,569,007
Total Gain Next 50 Years					\$48,689,132	\$10,370,709	\$1,865,340	\$15,025,200	\$75,950,382
Tax Rate Urbana					4.3178	0.9538	0.1885	1.2942	6.7543
Tax Rate Champaign					3.6546	0.63	0.0396	1.2942	5.6184
Units Built Above Prev. Average Total	692	\$202,000	\$139,784,000	\$43,134,667	\$1,862,469	\$411,418	\$81,309	\$558,249	\$2,913,445
Annual Cost of Rebates					\$166,185	\$81,138	\$17,644	\$0	\$264,967
Agreement with Township							\$19,667	(\$19,667)	
Current Annual Payback on Units Above Prev. Avg.					10.2 to 1	4.07 to 1	4.7 to 1	27.38 to 1	10 to 1
Annual Net Gain Units Above Prev. Average					\$1,696,284	\$330,281	\$83,331	\$538,582	\$2,648,478