



DEPARTMENT OF COMMUNITY DEVELOPMENT SERVICES

Grants Management Division

m e m o r a n d u m

TO: Elizabeth Tyler, AICP, City Planner/Director

FROM: John A. Schneider, Manager, Grants Management Division

DATE: August 24, 2007

SUBJECT: Urban League of Champaign County Development Corporation Lease Purchase Program - Affordability Period Modification Request

Description

The Urban League of Champaign County Development Corporation (ULCCDC) has submitted a request (letter dated August 8, 2007 attached) to the Urbana HOME Consortium to allow a reduction of the duration of the period of affordability for the Lease Purchase Program from 10 years to 5 years. The amount of financial assistance to each buyer would also need to be reduced from \$20,000 to \$14,999 in order for the Lease Purchase program to comply with the affordability requirements provided in the HOME Investment Partnership (HOME) Program regulations.

In order to reduce the affordability period and amount of assistance provided to each buyer, the Lease Purchase Agreements with the ULCCDC for Fiscal Year (FY) 2006-2007 and FY 2007-2008 would need to be amended.

Issues

The issue is whether the Urbana Community Development Commission should recommend moving forward with amendments to the Lease Purchase Agreements for FY 2006-2007 and 2007-2008 to reduce the affordability period and amount of assistance provided to each participant.

Background

At the August 9, 2004 meeting of the Urbana City Council Committee of the Whole, Council requested that staff explore the opportunity increase the affordability period of Urban League's Lease Purchase Program from five (5) to ten (10) years. City staff met with the Urban League to share Council's interest and to determine the feasibility of extending the affordability period. The ULCCDC was concerned that an increase in the affordability period from 5 to 10 years would affect the Urban League's ability to successfully market the program because potential clients may be hesitant to participate in a homebuyer program that has a financial penalty if they

need to move from the house during the 10 year affordability period. As a result of the discussions, the ULCCDC and the HOME Consortium evaluated the Lease Purchase Program and made adjustments to the FY 2005-2006 Lease Purchase program to provide for a ten-year affordability period and increase the amount of assistance to \$20,000 for each project to make the program more attractive to potential buyers.

Preservation of the affordability period of the units for as long as possible is desirable; however, it now appears that the extended affordability period is having a negative impact on the program. Prior to FY 2005-2006, the Lease Purchase program placed 41 families into homes having affordability periods of five years. Since the inception of the ten-year affordability period, only three (3) Lease Purchase Projects have been undertaken. These projects used funds allocated in FY 2005-2006 Annual Action Plan. HOME funds for the Lease Purchase Program in the amounts of \$80,000 and \$40,000 respectively, have been allocated in FY 2006-2007 and 2007-2008 Annual Action Plans.

ULCCDC staff has stated that it has been difficult to market the program because potential participants were not willing to be committed for the extended period of affordability. The ULCCDC estimates that, over the past three years, approximately 20 potential clients declined the opportunity to participate in the Lease Purchase program due to the length of the affordability period. ULCCDC staff believes that these homebuyers would eventually want to move to larger homes as their families grew. Many had decent jobs with the potential to earn more money and would likely use the program to acquire a starter home, and as their salaries increased, they could sell the starter home and upgrade. This would be more difficult to accomplish with the longer affordability period.

The Lease Purchase Program uses HOME Program funds allocated from Community Housing Development Organization (CHDO) fifteen percent (15%) reserve. The HOME program requires timely expenditure of funds and the Lease Purchase Program. At the Urbana HOME Consortium Technical Committee meeting on August 23, 2007, representatives from the City of Champaign and Champaign County indicated their support for reducing the Lease Purchase affordability period to five years.

Staff is requesting a recommendation from Community Development Commission regarding the ULCCDC request for a reduction of the Lease Purchase affordability period from 10 to 5 years.

Options

1. Recommend that staff move forward with amendments to the FY 2006-2007 and FY 2007-2008 Lease Purchase Agreements with Urban League of Champaign County Development Corporation to reduce program affordability period from ten to five years and reduce the amount of the assistance from \$20,000 per project to \$14,999 per project.
2. Do not recommend moving forward with the amendments to the Agreements.
3. Provide other recommendations regarding the Lease Purchase Program.

Fiscal Impacts

There would be no fiscal impact to the city budget. Funds for the Urban League of Champaign County Development Corporation Lease Purchase Program were allocated in the FY 2006-2007 and FY 2007-2008 Annual Action Plans and included in the City of Urbana budget.

Recommendations

Staff recommends reduction of the amount of assistance to a maximum of \$14,999 for each project and reduction of the period of affordability to five years for the lease Purchase Program.

Memorandum Prepared By:

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

Attachment: August 8, 2007 letter from Jean Algee, Urban League of Champaign County