



DEPARTMENT OF COMMUNITY DEVELOPMENT SERVICES

Grants Management Division

m e m o r a n d u m

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

FROM: John A. Schneider, Manager

DATE: March 20, 2009

SUBJECT: **RESOLUTION EVIDENCING THE INTENTION OF THE CITY OF URBANA, 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 2009)

RESOLUTION APPROVING PARTICIPATION IN ILLINOIS HOUSING DEVELOPMENT AUTHORITY FIRST-TIME HOMEBUYER SINGLE-FAMILY PROGRAMS (Private Activity Bond Cap Allocation - MCC Programs –Series 2009)

Description

Included on the agenda of the March 24, 2009 Urbana Community Development Commission are resolutions to allocate the City's Private Activity Bond Cap to the Assist Program and to the Illinois Housing Development Authority (IHDA) Mortgage Revenue Bond (MRB) and Mortgage Credit Certificate (MCC) Programs.

Issues

The issue is for the Community Development Commission to make a recommendation to the Urbana City Council regarding the use of the City of Urbana's 2009 private activity bond cap. The Urbana City Council must decide how to allocate the City's private activity bond cap before April 30, 2009.

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 ceded back to 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 2009. 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 \$3,553,560 in 2009 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 standard 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.

While the program would be available citywide, the Internal Revenue Service has designated program target areas (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 in or out of the target area. Households purchasing within the target areas need not be first-time homebuyers. Income and purchase price limits applicable to the 2009 program are as follows:

<u>Maximum Household Income Limits</u>		
Non-targeted areas	1-2 person household	\$66,300
	3 or more persons	\$76,245
Targeted area	1-2 person household	\$79,560
	3 or more persons	\$92,820
<u>Maximum Purchase Price Limits (Single-family home)</u>		
Non-targeted areas	Existing or new construction	\$237,030
Targeted area	Existing or new construction	\$289,700

1) Assist Program

The *AssistUrbana* 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. 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 downpayment 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.

In a recent letter to the City, David Rasch, Managing Director of the Assist Program for Stern Brothers & Co., requested that, although the recent market conditions had adversely affected the mortgage market, the City of Urbana consider continued support by ceding all or a portion of its bond allocation to the Assist Program. Mr. Rasch indicated that, “Over the past five years, Assist had funded 144 loans in Urbana totaling more than \$14.7 million. Since mid-2008, however, market disruptions have prevented the efficient marketing of tax-exempt housing bonds at interest rates that would offer homebuyers attractive mortgage financing options. We are developing several different bond structures intended to address these market inefficiencies and provide homebuyers with viable financing terms as markets begin to revert to more rational conditions.”

If the City decides to cede 2009 bond cap to the Assist Program, Stern Brothers & Co. would have three years to use it. In 2008, 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). These programs allowed the lenders to be more flexible in meeting the specific needs of first-time homebuyers. In 2008, the MRB Program funded eight mortgages in Urbana totaling \$679,560 with an average loan of \$84,945. However, due to the unpredictability of the bond market, IHDA has requested that the City consider ceding all or a portion of its 2009 private activity bond allocation to IHDA for only the MCC Program. The MCC Program in 2008 assisted nine Urbana homebuyers for loans totaling \$789,840 with an average loan of \$87,760.

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. In 2008, the City ceded one-half (50%) of its bond cap to IHDA programs to be divided equally between the MRB or MCC programs. If the City decides to participate, programs would have funding available beginning around June 1, 2009.

Options

The City must allocate or reserve its private activity bond authority for 2009 by April 30, 2009. 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
- AssistUrbana 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.

Under these programs, the City could realize an increase in property taxes from new Urbana homebuyers. 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

Grants Management Division staff recommends that the CDC forward the Resolutions to the Urbana City Council with a recommendation for allocation of the City of Urbana 2009 private activity bond cap in the following manner: \$1,776,780 to be utilized for the Assist Program; \$1,776,780 to be utilized for the IHDA Mortgage Credit Certificate (MCC) Program.

Memorandum Prepared By:

John A. Schneider
Grants Management Division, Manager

Attachments:

RESOLUTION EVIDENCING THE INTENTION OF THE CITY OF URBANA, 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 2009)

RESOLUTION APPROVING PARTICIPATION IN ILLINOIS HOUSING DEVELOPMENT AUTHORITY FIRST-TIME HOMEBUYER SINGLE-FAMILY PROGRAMS (MCC Program –Series 2009)

RESOLUTION NO. ____

RESOLUTION EVIDENCING THE INTENTION OF THE CITY OF URBANA, 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 2009)

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 2009 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 \$1,776,780 for calendar year 2009 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 _____, _____.

Laurel Lunt Prussing, Mayor