



DEPARTMENT OF COMMUNITY DEVELOPMENT SERVICES

Grants Management Division

m e m o r a n d u m

TO: Community Development Commission

FROM: Sheila E Dodd, Manager, Grants Management Division

DATE: March 22, 2019

SUBJECT: **A RESOLUTION APPROVING THE TRANSFER OF VOLUME CAP IN CONNECTION WITH PRIVATE ACTIVITY BOND ISSUES, SINGLE-FAMILY MORTGAGE REVENUE BONDS, AND RELATED MATTERS (Private Bond Cap Allocation – Assist Programs, Series 2019)**

A RESOLUTION APPROVING THE TRANSFER OF VOLUME CAP IN CONNECTION WITH PRIVATE ACTIVITY BOND ISSUES, SINGLE-FAMILY MORTGAGE REVENUE BONDS, AND RELATED MATTERS (Private Bond Cap Allocation – IHDA, Series 2019)

Description

Included on the agenda of the March 26, 2019 meeting of the Urbana Community Development Commission meeting are resolutions to allocate the City's Private Activity Bond Cap to the Assist MCC Programs and the Illinois Housing Development Authority (IHDA).

Issues

The issue is for the Community Development Commission (CDC) to make a recommendation to the Urbana City Council regarding the use of the City of Urbana's 2019 private activity bond cap. The Urbana City Council must decide how to allocate the City's private activity bond cap before May 1, 2019. In the event the City does not allocate its 2019 private activity bond cap for specific projects or purposes as of May 1, 2019, the unallocated bond cap will be reserved to the Governor's Office on June 1, 2019 (the "Home Rule Pool").

The options for the City allocation of bond cap include reserving the bond cap for specific projects or participating in homebuyer assistance programs offered through the Illinois Assist MCC (Mortgage Credit Certificate) Program and/or reserving the bond cap for affordable housing initiatives through the Illinois Housing Development Authority (IHDA), or some coordination thereof. 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.

For 2019, Illinois home rule units are allocated \$105 per capita of private activity volume cap. Urbana's unified allocation for 2018 is \$4,408,845. This is based on a population of 41,989, which is an increase of 739 persons from the 2018 population of 41,250.

Background & Discussion

Private Activity Bonds issued by the City are special obligations and do not constitute a debt or indebtedness of the City and do not give rise to a charge against the general credit or taxing power of the City. In the event the City intended to issue private activity bonds or mortgage credit certificates the City must utilize private activity bond volume cap allocation equal to the amount of such bonds or certificates issued.

Private Activity Bonds

In accordance with the IRS Code, each municipality in Illinois is allowed to issue private activity bonds at \$105 per capita population for 2019. The State of Illinois each year recaptures any bond allocation unused by the City as of May 1 of that year. 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 \$4,408,845 in 2019 Private Activity Bond Cap available that can be utilized for:

- 1) Multi-family affordable housing projects
- 2) Nonprofit development projects (e.g. hospitals, YMCAs, etc)
- 3) Industrial development projects (e.g. manufacturing)
- 4) Below-market-rate financing for affordable housing
- 5) Mortgage credit certificates in support of homeownership, or
- 6) Below-market-rate financing for limited types of industrial developments

Illinois Assist Mortgage Credit Certificate (MCC) Program Bond Cap Request

The *AssistUrbana* Homeownership Program was first started under the name of *AccessUrbana* in 1995. Historically, the Assist Homeownership Program has been a program that offers individuals and families 30-year fixed rate FHA/VA/RD mortgage loans or conventional loans at competitive interest rates through participating local lenders. The cash assistance may be used to offset some or all of the home loan's down payment and closing costs. The City and local lenders have marketed the Assist Program on their websites, through direct mailers, seminars, and through media advertising.

Mortgage Credit Certificates (MCC's) are a federally authorized program created as an alternative to tax-exempt housing bonds to reduce effective interest costs for qualifying homebuyers. MCC's allow the homebuyer to qualify for a federal income tax credit equal to a percentage of the interest paid on their home loan each year. MCC holders still qualify for a regular deduction of the remaining interest paid on their home loan. In order to qualify for the Assist 2019 Program, participating households are required to meet income and purchase price limits. Homes that meet the program guidelines are new or existing, owner-occupied, single family homes, town homes and condominiums.

Income Limits and Purchase Price Limits applicable to the 2019 program are as follows:

	<u>Non-Targeted Areas:</u>		<u>Targeted Areas:</u>	
Income Limits:	<u>1 or 2 persons</u>	<u>3 or more</u>	<u>1 or 2 persons</u>	<u>3 or more</u>
	\$74,100	\$85,215	\$88,290	\$103,740
	<u>Non-Targeted Area:</u>		<u>Targeted Areas:</u>	
Purchase Price Limits	\$255,573		\$312,368	

David Rasch, Managing Director of the Assist MCC Program for Stern Brothers & Co. notified the City that the housing market this past year has been strong in Urbana and that their lender network is continuing to make first-time homebuyer loans throughout the City. In 2018, fourteen (14) loans were made to Urbana homebuyers totaling almost \$2.3 million. Based on how well this program is working in Urbana and the number of first time homebuyers that have taken advantage of this program, City staff recommends that half of the bond cap be ceded to the Assist 2019 Program.

Illinois Housing Development Authority Bond Cap Request

The Illinois Housing Development Authority is allowed to issue taxable and tax-exempt bonds for the purpose of developing, constructing, acquiring, improving properties or facilities for business entities locating, or expanding, within the State of Illinois. IHDA has invested in several projects in Champaign County including Crystal View, Highland Green, and Pinewood.

By ceding part of the City's bond cap to IHDA, the City may be able to access these funds for affordable housing projects such as the Lierman Ave project, and other important economic development/community development activities. Allowing IHDA to serve as Issuer removes any financial liability on the part of the City, and could provide a means of financing future community development/affordable housing projects in the community.

Options

The City must allocate or reserve its private activity bond authority for 2019 by May 1, 2019. 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 affordable housing initiatives
- Cede private activity bond cap to Assist & Mortgage Credit Certificate (MCC) 2019 Program
- Cede private activity bond cap to IHDA for affordable housing projects in the community

Fiscal & Programmatic Impacts

There will be no fiscal impact to the City Budget in ceding volume bond cap to IHDA, as any financial risk associated with issuing the bonds is removed from the City's responsibility, and the responsibility is assumed by the issuer. The City may also see benefits from eligible local projects in the future if they are supported with the bond financing provided through IHDA.

For the Assist 2019 Program, 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. Under the Assist 2019 program, the City could potentially realize an increase in property taxes from new Urbana homebuyers.

Recommendation

Staff recommends that the CDC forward the Resolutions to the Urbana City Council with a recommendation for allocation of the City of Urbana 2019 private activity bond cap in the following manner: Half (50%) of its allocation of \$4,408,845 in the amount of \$2,204,422 from the City of Urbana 2019 private activity bond cap to be utilized for the Assist 2019 Program and the other half (50%) in the amount of \$2,204,422 to IHDA to be utilized for possible neighborhood initiatives in the community, such as multi-family affordable housing developments.

Attachments:

- 1) A 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; and Related Matters (Private Bond Cap Allocation – IL Assist Program, Series 2019)
- 2) A Resolution Evidencing the Intention of the City of Urbana, Champaign County, Illinois, to Transfer Volume Cap in Connection with Private Activity Bond Issues, Multi-Family Mortgage Revenue Bonds; and Related Matters (Private Bond Cap Allocation – IHDA, Series 2019)
- 3) State of Illinois Guidelines and Procedures for the Allocation of Private Activity Bond Authority 2019
- 4) Map of 2018 Assist Originations in Urbana; promotional flyer for Assist Homeownership Program.