Managing Deputy Commissioner Lawrence Grisham — June 26, 2015
City of Chicago Department of Planning and Development – Bureau of Housing
121 N. LaSalle St, 10th Floor
Chicago, IL 60602

Dear Deputy Commissioner Grisham:

This enhanced Affordable Requirements Ordinance (ARO) will harness market forces to create more housing affordable to our low- and moderate-income neighbors. The build requirements of the updated ordinance will help more new affordable units come into being, and the larger in-lieu fees will add to the increasingly important Affordable Housing Opportunity Fund. As you know, the basis of this refined ARO structure is the definition of ARO Zones across the city. While the ordinance itself does not define the criteria for the zones, it does provide for the Department of Planning and Development to define a zone methodology with stakeholder input. Conceptually, these zones have their roots in the policy orientation of "Bouncing Back", the current Five Year Housing Plan, which attempts to tailor policies to match local real estate markets in different parts of the city.

At the heart of the Department's proposal are two indicators: household income and individuals in poverty.[1] These data are combined to determine whether a tract is low/moderate-income or higher-income, which in turn shapes the developer's rights and responsibilities under the ordinance. The call for comments states that the three most recent data years will be used (in this case, 2013, 2012 and 2011 data) to determine the household income and poverty status of the tract for the purposes of zone definition. In tracts where there are year-to-year differences, the status determined in 2 out of the 3 years will be used. A good way of looking at this information can be in a matrix (figure 1).

Figure 1. Indicators Matrix

INCOME

POVERTY	**High-Income** (50% or more of households have <u>greater than</u> 60% Chicago Median income)	**Low-Income** (50% or more of households have <u>less than</u> 60% Chicago Median income)
High-Poverty (more than 25% poverty)	HIGH-INCOME / HIGH-POVERTY	LOW-INCOME / HIGH-POVERTY
Low-Poverty (less than 25% poverty)	HIGH-INCOME / LOW-POVERTY	LOW-INCOME / LOW-POVERTY

[1] These are stable pieces of information that will continue to be available through the American Community Survey schedules B19001 and S1701 for the foreseeable future.

Figure 1 demonstrates that, conceptually, there are 4 possible outcomes of combining poverty (high or low) with income (high or low): two that we would expect (low-income / high-poverty and high-income / low-poverty) and two that we would not expect (high-income / high-poverty and low-income / low-poverty). Map 1 provided for comment only reports the outcomes that we would expect. Nonetheless, through modeling the data ourselves in house for the purposes of these comments, we found that all four outcomes appear in Chicago. When we looked at the data, all but one low-income tracts were high-poverty, but not all high-poverty tracts were low-income.

Our analysis suggests that the poverty indicator may have an outsized effect on the division of tracts into low/mod and higher-income areas. Since the definition of Map 1 seems to form the basis of the other maps published for comment, it may be useful when establishing the permanent ARO zone methodology to consider whether the data need to be weighted or otherwise indexed to make sure household income is a significant determinate of zone status. A rebalancing might designate more higher-income (yellow) tracts delivering higher in-lieu fees. We would be happy to share the details of this analysis if that would be helpful.

Beyond technical details underlying the methodology for defining the ARO Zones, it is also important to remember that the monies generated from these ARO fees—whether $175,000 or $50,000 per unit—will all go into the Affordable Housing Opportunity Fund (AHOF) to support extremely low-income renters through the Chicago Low-Income Housing Trust Fund and to support DPD's low-cost loans to developers of affordable housing. Further, in communities where projects contribute less to the AHOF through a lower in-lieu fee ($50,000), housing will be built onsite. In communities where the developer has the option to build units up to 2 miles away—potentially in another community—more monies will be deposited into the AHOF ($175,000) to support new projects or the CLIHTF. These benefits can, but may not, accrue to the neighborhood with the triggering project.

There are a number of trade-offs on all sides in the execution of this complex ordinance. Nonetheless, it remains a creative and innovative approach to generating resources in a time of great need. Moving forward, it will be important to continue to build the local capacity—among developers, community development practitioners and elected officials—to understand and use the updated ARO to help create ample housing choice across Chicago.

Sincerely,

Kevin F. Jackson

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Executive Director
Chicago Rehab Network