

## Chicago Rehab Network Valuing Affordability

*Analysis of Department of Housing's 1<sup>st</sup> Quarter 2002 Report*

### Millennial Housing Commission

On May 30<sup>th</sup>, the bipartisan Millennial Housing Commission presented its long-awaited report to Congress, establishing the important role of housing in the nation's economy and confirming that

*"Secondly, there is simply not enough affordable housing. The inadequacy of supply increases dramatically as one moves down the ladder of family earnings. The challenge is most acute for rental housing in high-cost areas, and the most egregious problem is for the very poor."*

The Commission's 124-page report also present an extensive list of recommendations to reform federal housing programs including:

- Provide capital subsidies for the production of units for occupancy by extremely low-income households
- Support preservation with a broad system of tools, beginning with exit tax relief
- Reform HOME and the LIHTC programs, and increase funding for HOME
- End chronic homelessness

Mayor Richard M. Daley took a strong leadership position in testifying in support of an increase of federal support for rental housing production at the Commission's meeting in Chicago on April 30<sup>th</sup>, 2001 and through his involvement with the U.S. Conference of Mayors. Last month, the Conference endorsed the proposal to create a National Housing Trust Fund to create and preserve housing for extremely low-income households. The members of the Chicago Rehab Network feel that the creation of a National Housing Trust Fund would be in the best interest of the citizens throughout the Chicago region, and have expressed our support to Illinois' Congressional delegation. **As a historic leader in housing advocacy efforts, the City of Chicago should also put its support behind this proposal with a formal endorsement by the Mayor and City Council.**

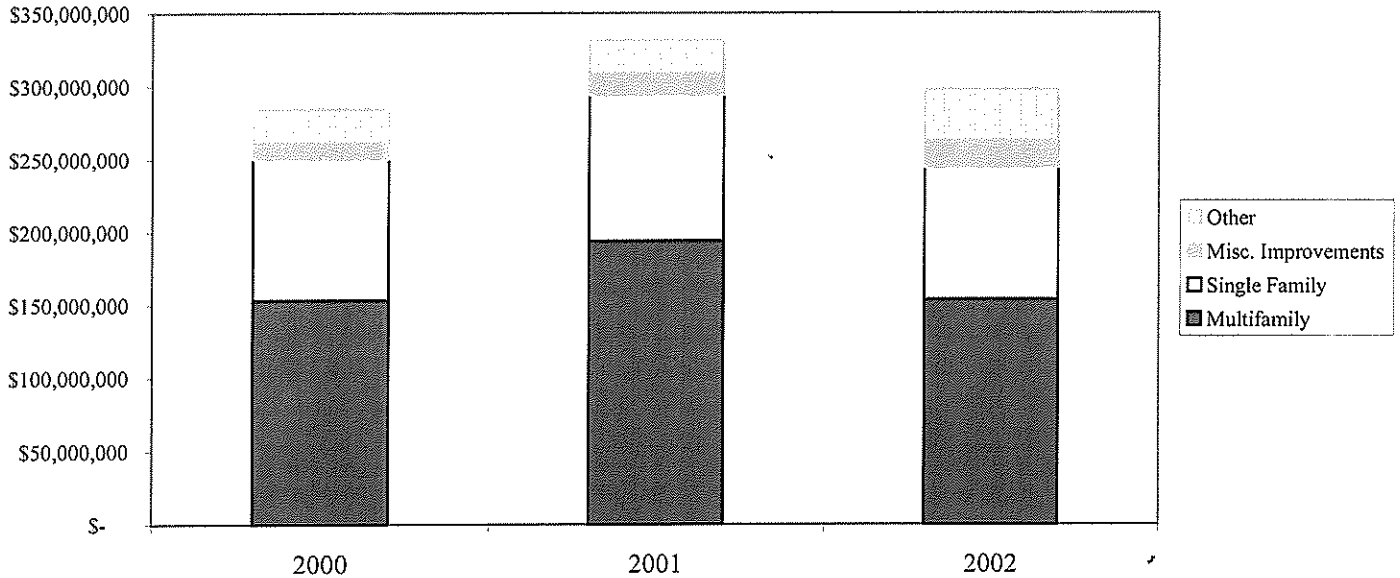
### 2002 Estimates of Production

For the past several years, Chicago Rehab Network has analyzed Department of Housing's *Estimates of Production*, which are presented annually in the first quarter report. While some of the line items in this estimate can be tracked in City's *Budget* and *Final Action Plan* documents which were previously available, this estimate provides a comprehensive picture of the City's housing priorities in the coming year.



After posting a healthy increase in 2001, funding of housing programs dropped by \$33.7 million or 10% in 2002<sup>1</sup>. In particular, new funding for multifamily programs fell \$40 million or 21%.

**DOH Budgeted Funds by Category (2000-2002)**



The largest portion of the decrease in multifamily funding came as a \$24.5 million decrease in multifamily mortgage revenue bonds. This decrease stands in stark comparison to the 40% overall increase in the City's tax-exempt bonding authority, which was raised by Congress in 2000 and took full effect this year. Chicago Rehab Network and other housing advocates successfully worked in tandem with the City to petition Congress for an increase in this resource (and Low Income Housing Tax Credits), based on the assumption that the City would earmark increased resources to build and preserve more homes.

The City Council recently approved a measure to reallocate \$100 million in bonding authority (volume cap) to the Metropolitan Pier and Exposition Authority for the expansion of McCormick Place instead of allocating it to affordable housing programs. At the Finance Committee meeting on the matter, Chief Financial Officer Walter Knorr stated that ample bonding authority was available for housing and that "any housing request will be taken care of." **Given the great need for affordable rental housing in Chicago, CRN urges the City to consider the how recent actions impact tax-exempt bond funding of affordable housing, and to take all necessary actions to maximize usage of this resource for housing from now forward.** The Chicago Housing Authority has identified the City's bonds as a primary capital source for its Plan for Transformation, which further necessitates a change in the current allocation policy. In addition to increasing future bond funding of rental housing, CRN recommends that the City actively support training and technical assistance aimed to increase use of this resource by non-profit developers.

<sup>1</sup> Although a group of four non-production programs was not included in the 2002 Estimates of Production, CRN assumes that these programs are being funded similar to past years' estimates, as indicated in the Final Action Plan submitted to HUD. To make an accurate comparison to past years, CRN added projected spending for these programs (Delegate Agencies, CHDO, Relocation & Non-Profit Capacity Building) to the 'Other' category for 2002.



An important component of maximizing equity resources like bonds and tax credits in providing sufficient gap financing sources like HOME & loans loans, tax increment financing and the important Affordable Rents for Chicago (ARC) program. ARC has been level-funded with federal HOME dollars at \$2 million for several years, and is producing fewer units as construction costs have risen. Although it is a model program for reducing the debt burden on affordable housing, this year ARC will only support 66 of 1,135 multifamily units. **Given the realities of increasing costs and the City's goal to focus resources to support housing needs for households under 30% of median income, the City should investigate additional funding sources for ARC to increase the number of units it serves.**

### **Strategies for Appreciating Neighborhoods**

On May 29<sup>th</sup>, Mayor Daley introduced an ordinance to provide plan review, permit and inspection fee waivers to developers who set-aside affordable for-sale units in new market developments under the Chicago Partnership for Affordable Neighborhoods program (CPAN). This is the latest improvement in this voluntary program to create some affordability in gentrifying neighborhoods with developer-friendly incentives. In 2002, the Department estimates that this program will create 200 new units affordable to families earning from \$46,000 to \$90,500 a year. The City's aim of fostering equity in neighborhoods where high-end development is displacing residents is on target, but the gradual approach of the CPAN program is an insufficient response to this problem.

A more effective and equitable model would require a set-aside of affordable units in all large developments throughout the city. As part of its reform process, the Mayor's Zoning Reform Commission has identified affordable housing as a key issue and is considering how the City could promote housing that is affordable for current residents. The Commission has shown support for a planned density bonus for providing affordable housing in new high rises. **CRN believes that a density bonus program could play an important role in the creation of new units if it is structured properly.** CRN recommends:

- The density bonus should be combined with a requirement to set-aside affordable units in large developments. A 'carrot and stick' approach is far more likely to create units than a voluntary program which remains dependent on the will of developers to participate.
- The set-aside and density bonus should apply to all large housing developments, whether low-rise, mid-rise or high-rise.
- Affordable units should be targeted to households below 50% of the area median income, who have the greatest housing needs.

### **Affordable Housing Tax Credit**

Unless a donor also chooses to donate their credits back to the housing project, CRN recommends that the Department claim only the value of initial project donations in its production report, rather than the value of donations and credits combined. This would be a more accurate measurement of actual private sector investment in housing.

