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Preliminary FY 2011 Budget Testimony

The Chicago Rehab Network, a non-profit coalition of community development corporations and housing advocates in the city of Chicago, has collaborated with the city for neighborhood development for 33 years. We present this testimony to bring forth the issue of affordable housing and its priority within the proposed 2011 City of Chicago budget.

Our City is challenged by another difficult fiscal outlook. Economically-sensitive revenue sources continue to be the source of the City's revenue loss. According to the FY 2011 preliminary budget, the City is projecting a **$654 million shortfall in its corporate revenue**. This deficit is $120 million more than the FY 2010 deficit and the highest yet. The Office of Management and Budget states that the Corporate Fund has lost $1.15 billion in economically-sensitive tax revenues since the peak in 2007. The Real Estate Transaction Tax, once a huge revenue source, has lost about $180 million since 2006 due to the effects of the housing crisis. (**See Fig. 1**)

At Chicago Rehab Network, we have long-maintained that housing is foundational for healthy and stable communities. Our belief hinges on two key principles: First, we believe that housing is a driving force in creating a vibrant economy; and second, a robust and sustainable housing market is one that must be fundamentally tied to affordability.

As a measure of affordability, a household would need to spend less than one-third of their income on housing; any more means that a household is cost-burdened. For the first time in the past decade, more than half of both renters and owners in Chicago are housing cost-burdened. CRN's analysis of Census data show that since 2000, during a period when renter-occupied units also decreased by ten percent, homeowners who spend $2,000 or more a month on housing increased nearly seven-fold without any corresponding increase in income. As a result, the share of homeowners who are cost-burdened increased from one in three to one in two in the last decade.

Investment in affordable housing makes economic sense. Construction and rehabilitation activities provide much-needed jobs and increase the demand for professional services. Expanding affordable housing options assures that Chicagoans have more to spend on other needs and allows residents a greater opportunity to participate in the local economy, in addition to bringing valuable transaction tax revenues to the City.

Furthermore, housing creation is an efficient use of public funds as it leverages public investments into a revenue-generating enterprise—like the Real Estate Transaction Tax.

We offer the following recommendations to help guide the City's budget priorities:

1. Federal housing programs designed to jumpstart the economy are still underway. **The success of these programs requires a fully operational and sufficiently funded Department of Community Development as the City's lead housing agency.** One of the highly anticipated initiatives is the Neighborhood Stabilization Program, a large-scale effort to bring foreclosed properties back to the market. We are at a critical juncture with this program. The city has received a total of $153 million in NSP1 and NSP2 funds and last week HUD announced an additional $16 million will be awarded to Chicago under NSP3.

2. The FY 2011 preliminary budget does not include any further draw downs from reserve funds from the city's privatization deals including the Skyway and we believe that it would be ill-advised to tap into those dwindling reserves. Budget Director Eugene Munin has stated publicly that tapping into Tax Increment Financing surplus funds—reportedly estimated to be $700 million—is a possibility. State law requires a formal declaration of TIF surplus, at which point the revenue must be redistributed to other taxing bodies that were originally entitled to the tax revenues, such as the Chicago Public Schools. The City of Chicago's share would be 20 percent of unallocated TIF revenues, or an estimated $140 million. (**See Fig. 2**)

   We understand that the City must consider all possible revenue sources at this time and we would support a temporary use of TIF surplus funds to help balance the budget. However, we would caution against its continued practice. The purpose of TIF is to provide funds for capital projects that would revitalize communities. Using the TIF to cover the city's operational deficit is a short term fix and unsustainable. **The City should ensure that Tax Increment Financing funds are used for economic development for communities with the greatest need.**

3. The fact that TIF funds are being considered as a revenue source for the City shows that it is an essential part of the City's finances and operations. As we have called for in the past, **TIF transactions and funds must be included in the City budget.**

4. Last year the City established a Property Tax Relief Fund using $35 million from proceeds generated by the Parking Meter Lease. The program, which ended on March 31, 2010, sought to provide grants of $25 to $200 for eligible households making less than $200,000 a year. We obtained records via FOIA which indicate that of the $35 million allocation for the Property Tax Relief Program, only $1,907,750, or 5 percent, has been drawn down. **We recommend that the balance of these funds—a total of $33,092,250—be reallocated towards those community-based organizations partnering with the city to provide essential services to Chicagoans.** Delegate agencies have experienced extremely high demand from community residents especially during this economic recession. We believe that these unallocated funds will help these community agencies to continue providing critical services for the neediest and prevent further deterioration of the community fabric.

5. It has been proposed that the Department of Zoning would be reorganized under the Department of Community Development as a cost-saving measure. **We would support a proposed reorganization of the Department of Community Development to include the Zoning Department as away to prioritize affordable housing in the City's planning, land use and development policies.** A favorable result of this consolidation is better coordination of all neighborhood development across all pertinent city

functions. In addition, Zoning has provided critical tools to leverage the creation of affordable housing in the private market through programs like the Downtown Density Bonus and Affordable Requirements Ordinance.

6. **The Affordable Housing Opportunities Fund should be reported as its own separate item similar to the reporting for Special Revenue Funds like the CTA Real Estate Transfer Tax Fund.** Revenue sources for the Affordable Housing Opportunities Fund, which includes fees from the Downtown Density Bonus, and its expenditures, should also be reported in the budget. Currently, fees from the Downtown Density Bonus are being reported under the Licenses and Permits subcategory under the Corporate Fund.

We welcome everyone to visit our website at www.chicagorehab.org to learn more about affordable housing. We appreciate the opportunity to present our testimony and look forward to working with the City throughout the budget process.

APPENDIX

Fig. 1. Real Estate Transaction Tax Growth

Real Estate Transaction Tax Growth

Year	Amount ($)	Corporate Fund ($)	% Corporate Revenues	% Change from prior year
1998	87,400,000	2,173,200,000	4.02%	
1999	89,500,000	2,234,100,000	4.01%	2.40%
2000	101,700,000	2,370,400,000	4.29%	13.63%
2001	108,000,000	2,423,000,000	4.46%	6.19%
2002	125,600,000	2,438,400,000	5.15%	16.30%
2003	145,400,000	2,598,600,000	5.60%	15.76%
2004	190,800,000	2,601,600,000	7.33%	31.22%
2005	236,300,000	2,839,700,000	8.32%	23.85%
2006	242,300,000	2,941,700,000	8.24%	2.54%
2007	205,766,000	3,116,700,000	6.60%	-15.08%
2008	119,462,000	3,139,600,000	3.81%	-41.94%
2009	61,911,000	3,037,734,000	2.00%	-48.17%
2010 Est. Year End	*65,600,000*	*3,182,668,000*	*2.06%*	*5.96%*
2011 Preliminary	*52,587,000*	*2,796,261,000*	*1.88%*	*-4.17%*

Fig.2 Property Taxing Bodies