53 West Jackson Blvd, Ste. 739
Chicago, Illinois
Phone: 312-663-3936
Fax: 312-663-3562

Analysis of the City of Chicago Department of Housing and Economic Development FY 2012 Budget
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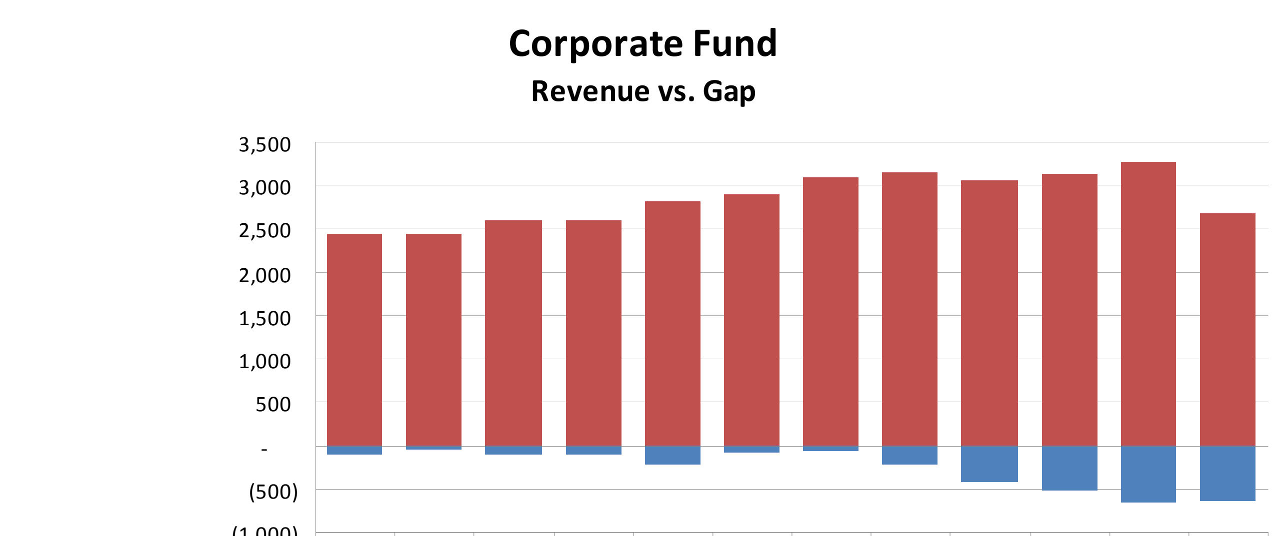
The Chicago Rehab Network is a non-profit coalition of community development corporations and housing advocates in the City of Chicago and has, for over three decades, collaborated with the city for neighborhood development and worked to preserve and create affordable housing opportunities for Chicago's residents. We bring forth this analysis within the context of community development and affordable housing and their priority within the FY 2012 Budget for the City of Chicago.

The City has operated on a deficit that has grown significantly in recent years. The economic recession of 2008 only further exacerbated the fiscal problems of the City (*see Fig. 1*) and the ongoing foreclosure crisis continues to wreak havoc in many Chicago communities, threatening decades of community building efforts in many areas and leaving behind blocks of vacant buildings and neighborhood blight.

Fig.1. Corporate Fund - Revenue vs. Gap History



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Corporate Fund Revenue	2,423	2,439	2,584	2,582	2,797	2,884	3,090	3,135	3,036	3,130	3,271	2,662
Corporate Fund Gap	-115.3	-58.3	-116.1	-115.5	-220.4	-94.1	-64.5	-217.7	-420	-519.7	-654.7	-635.7

The recession's impacts on Chicago households are also evident as indicated by increasing housing stress. Over the last decade, our research shows that Chicagoans have become increasingly burdened by housing costs, and even traditionally stable and working-class communities are showing signs of growing housing stress:

- Overall, nearly 55 percent of renters citywide spend more than a third of their income on housing. This is an increase of 10 percent from 2000.
- The share of homeowners who are cost-burdened increased to 1 in 2 households from1 in 3 a decade ago.

At Chicago Rehab Network, we have long-maintained that housing is foundational for healthy and stable communities. Housing is a driving force in creating a vibrant economy and affordability is key in order to create a robust and sustainable housing market. By definition, affordability means that a household spends less than one-third of their income on housing; any more means that a household is cost-burdened.

For Chicago's residents and our workforce, the ability to locate and sustain housing that is affordable relative to their incomes is the first foundation for stability in employment and healthy communities. Growing and retaining Chicago's job base is crucial for the economic health of the City and its neighborhoods. The development and preservation of affordable housing not only gives workers and employers' access to affordable housing, but it also provides the economic engine that supports the vitality of the region and its ongoing economic recovery. (*See Addendum – Local Impact of Affordable Housing*)

Resources for Housing and Economic Development

The FY 2012 budget allocates $20.3 million from the Corporate Fund towards the Department of Housing and Economic Development (DHED), a decrease of about 27 percent from the 2011 appropriation. DHED relies heavily on grants for its resources. For FY 2012, it is anticipated that DHED will receive $29.8 million in CDBG, down 9 percent from the previous year. Additionally, one-time stimulus grants under the American Recovery and Reinvestment Act, including Neighborhood Stabilization grants, will soon end which would significantly reduce available resources for housing.

The City of Chicago's Department of Housing and Economic Development plays a central role in the City's ongoing economic recovery. Federal stimulus grants like the Neighborhood Stabilization Program, which itself funneled more than $160 million in grants to the City, are primarily under the purview of DHED. **The success of these programs requires a fully functional, operational and sufficiently funded Department as the City's lead housing and economic development agency.**

We should also note that the Department of Housing and Economic Development is the second reorganization of several city departments since 2008. The first of which saw the merger of the Departments of Housing, Planning, Mayor's Office of Workforce

Development, and some aspects of Zoning into the Department of Community Development. In FY 2011, the rest of the Department of Zoning – Land Use Planning and Department of Community Development was merged into the current Department of Housing and Economic Development. (*See attachment – DHED Merger Chart*)

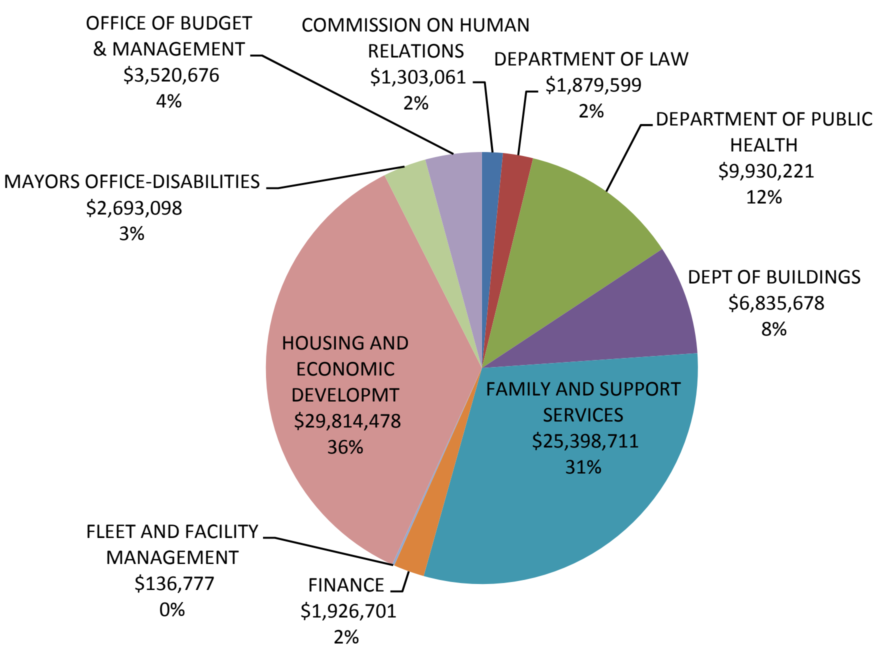
The Department has received a significant reduction in appropriations despite an increase in responsibilities with the assumption of new, additional departments, while also carrying the crucial task of creating housing and jobs for the City. Maintaining its funding is critical for the success of the City's economic recovery efforts.

Fig. 2. Department of Housing and Economic Development Funding History

	2009 as DCD Appropriation ($, in millions)	2010 as DCD Appropriation ($, in millions)	2011 Appropriation ($, in millions)	2012 Appropriation ($, in millions)	*Change 2011 - 2012 (%)*
Corporate Fund	36.8	31.3	27.9	20.3	*(27.2)*
Housing Revenue Fund*	-	-	3.9	7.5	*92.3*
TIF Administration**	-	-	2.1	3.5	*66.7*
CDBG	36.3	34.3	32.9	29.8	*(9.4)*
HOME	29.0	32.2	30.8	28.5	*(6.5)*
Other Grants	275.0	265.2	276.6	254.3	*(8.1)*

** Housing Revenue Fund accounting began in FY 2012*
*** TIF Administration Fund accounting began in FY 2011*

Fig. 3. CDBG by Department



CDBG by Department

DHED is estimated to receive 36% of the City's total CDBG allocation in FY 2012 which is approximately $83 million.

This is below last year's share in which DHED received 39% of the total CDBG allocation.

New Initiatives Introduced in FY 2012

The Emanuel Administration's FY 2012 Budget includes several changes that would impact housing and development activities.

Creation of Housing Revenue Fund

Beginning this budget year, a new Housing Revenue Fund (*see page 569 Budget Recommendations*) will be included in the City budget. The new fund will be the source of funds for citywide delegate agencies and provide additional resources for the Department of Housing and Economic Development. It will draw its revenues from participation fees on mortgage bond revenue programs and penalties on developers failing to comply with local hiring regulations. For FY 2012, an estimated $7.5 million is allocated for this purpose.

We support the creation of the Housing Revenue Fund. However we would appreciate clarification on the status of Affordable Housing Opportunities Fund. The Affordable Housing Opportunities Fund was established to receive revenues from in-lieu of fees collected from Downtown Density Bonus and the Affordable Requirements Ordinance. These dollars are then used to fund the Chicago Low-Income Housing Trust Fund as well as other low-income housing programs. We have long advocated for a separate line-item for the Affordable Housing Opportunities Fund and to be accounted for as a Special Revenue Fund like the CTA Real Estate Transfer Tax Fund. In this Budget, we do not see a separate line-item for AHOF or status of the revenues from the Downtown Density Bonus and Affordable Requirements Ordinance.

TIF Reform

The Office of Management and Budget has established a new policy beginning on FY 2012 to declare a small percentage of uncommitted TIF dollars as surplus every year, which is consistent with State Law and aligned with recommendations from the TIF Task Force. We commend OMB for establishing a clear program budget for TIF. Last year, the previous Administration declared a TIF surplus on about two dozen TIF districts generating about $140 million in surplus, $28 million of which went to the City's coffers after disbursement to other taxing bodies.

For FY 2012, the City will declare about $60 million in TIF surplus which would give the city $12 million. It is unclear which districts will be affected as it is not listed in the public budget documents.

The practice of declaring TIF surpluses annually, while allowed by State TIF laws, is uncommon mainly because, as explained by the TIF Task Force in its report,

> *"…active districts have a variety of potential projects in various stages of the proposal and approval process…declaring and distributing a surplus is a relatively uncommon event."*

Declaring a surplus annually will provide much-needed revenue to the City's operating budget. The fund balance for the top ten highest TIF Districts alone amount to over $266 million at the end of 2010 which translates to about $53 million in revenue for the City of Chicago (See Fig. 4). However, we have some concerns about this new policy.

- **It is unclear what the criteria are for determining which TIF districts would be selected for surplus and how much of its uncommitted balance would be declared as surplus.** The City should publicly disclose the criteria used as well as the proposed TIF districts that would be impacted by this new policy as part of the annual City Budget process to allow for public review. The City must ensure that this policy is does not disproportionately impact communities.

- In agreement with recommendations from the TIF Reform Task Force, greater effort should be made to use TIF towards the creation and preservation of affordable housing. The recently passed **Vacant Building TIF Purchase and Rehabilitation** is an opportunity to do so. While it does not explicitly mandate a TIF allocation for affordable housing, funding for this critical program should be included in the City's Budget, either as part of the TIF Administration Fund or under the Capital Improvement Budget.

The purpose of TIF is to provide funds for capital projects that would revitalize communities. We understand that the City must consider all possible revenue sources at this time but 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.**

Fig. 4. Top Ten TIF Districts with Highest Fund Balances (as of Jan-11)

TIF Name	Year	Amount ($ Dollars)	End Date
Near South	2011	$ 42,581,300	12/31/2014
Central West	2011	$ 37,976,200	12/31/2024
Near West	2011	$ 28,286,700	12/31/2013
47th/King Drive	2011	$ 24,592,200	12/31/2026
Near North	2011	$ 24,338,100	07/30/2020
Kinzie Industrial Corridor	2011	$ 23,854,400	06/10/2021
North Branch (North)	2011	$ 21,832,700	12/31/2021
LaSalle Central	2011	$ 21,763,000	12/31/2030
Chicago/Central Park	2011	$ 21,690,700	12/31/2026
River West	2011	$ 19,334,200	12/31/2025

Accounting for Resources from Private Sources

Grants towards housing and community development do not include recent resources that will impact the Department of Housing and Economic Development's affordable housing activities. These include the **$100 million** in allocated from the State of Illinois Hardest Hit Fund to create a Mortgage Resolution Fund and the **$20 million** from private sources to establish the Micro Market Recovery Program.

The City has largely used resources from outside of the City's corporate funds towards programs that address the impacts of the economic recession. These private resources are substantial as well as crucial and should be accounted for as part of measuring the Department of Housing and Economic Development's annual benchmarks and progress toward preserving and creating affordable housing.

Oversight and Accountability for Quasi-Governmental Agencies

As we have recommended in the past, an in-depth review of the Chicago Housing Authority's finances should be conducted in order to provide a complete picture of its revenue sources, expenses, and budget priorities. Because the CHA is the largest single recipient of affordable housing resources from the City it is imperative that this agency is included in the City's budgeting process. We do recognize that the Committee on Housing and Real Estate established an important step for such accountability by having the Chicago Housing Authority present to the Committee this summer.

Along the same vein, Mercy Portfolio Services, the agency charged with administering the Neighborhood Stabilization Programs should also be included in the budget process. As an agent acting on behalf of the Department of Housing and Economic Development, MPS receives millions in NSP funding and is working to advance the city foreclosure stabilization programs and therefore should be part of the City's accountability and budgeting measures.

Performance Metrics

The Emanuel Administration established a new performance metrics system that will serve not only as a way to determine benchmarks and progress for each city department's goals, but will also play a central role in the decision-making process for each department's programmatic and budgetary needs every year.

This new initiative aligns with an earlier statement made by Budget Director Alex Holt who stated that there will not be any automatic increases to department budgets and that every department must justify their expenses as they establish their 2012 spending plans[1]. Performance metrics would become an important budgeting tool for the City.

The Department of Housing and Economic Development already has a process for performance metrics in the way of the Five Year Affordable Housing Plan and Quarterly Progress Reports which reports to the Committee on Housing and Real Estate.

The first Five-Year Plan committed $750 million to create and preserve 18,000 units of affordable housing. Since then, the City has reported on its progress on its production and

[1] Budget Director Alex Holt's response to a posting in chicagobudget.org: http://citybudget2012.ideascale.com/a/dtd/34667-15048

goals set forth in the Five Year Housing Plan every quarter. In 2009, the City of Chicago unveiled the fourth Five Year Housing Plan for the City of Chicago, *Accepting the Challenge*, committing over $2.1 billion to create or preserve over 50,000 units of affordable housing through 2013.

The Five-Year Plan quarterly reporting process has expanded and grown more successful with each Plan and should serve as a model for establishing performance metrics for every City department. In fact over the years, the clarity about housing programs through this this reporting has enabled the Department to generate new resources and policies that strengthen the City's response to community development in local neighborhoods.

Conclusion

The Small Business Initiative and Diversity Credit Program announced this week by the Emmanuel Administration ought to reinforce DHED housing programs and represent a local job generating focus that compliments comprehensive community development. There exits good examples of this approach through nonprofit community development corporations and other community organizations operating in the city today. The Council and administration have been evolving the city's response to the housing crisis in important ways over the past several months. We submit the above analysis to strengthen community development in the City.

Local Impact in the City of Chicago and Metro Area

Last year, City of Chicago Department of Housing and Economic Development reports assisting 890 units in newly constructed affordable housing developments. Using the National Association of Home Builders' model on measuring local economic impacts (*The Local Impact of Home Building in a Typical Metro Area Income, Jobs, and Taxes, June 2009)*, construction activity last year for these units in new developments generated **$70 million in local income**, **$7 million in taxes and revenue**, and supported **1,086 jobs in the metro area**.

The ongoing, annual impacts resulting from occupants participating in local commerce **are $20 million in local income**, **$3.5 million in taxes and revenue**, and **285 local jobs**. Local impacts include direct and indirect impacts for residents and local jurisdictions within the metro area.

Units Created in Newly Constructed Multifamily Housing, 2010
890

Total One-Year Impact for Chicago Metro Area		
Local Income	**Taxes and Revenue**	**Local Jobs**
$ 70,310,000	$ 7,360,300	1,086

Ongoing, Annual Impact for Chicago Metro Area		
Local Income	**Taxes and Revenue**	**Local Jobs**
$ 20,470,000	$ 3,515,500	285

DHED Merger History