Chicago Rehab Network
Department of Housing Quarterly Analysis
4th Quarter 2002

The Chicago Rehab Network appreciates the opportunity to provide this testimony to Chairman Ray Suarez and the Committee on Housing and Real Estate. This forum remains one of Chicago's best examples of government transparency and reporting, and Commissioner Jack Markowski and his staff deserve recognition for their contributions. Interagency collaboration has been a stated goal of the city and for good reason: it can reduce costs and delays. We encourage other city Departments whose work impacts community development, land affairs, and housing to follow DOH's leadership in providing regular updates on their activities to the public.

2002: an overview (source: DOH)

	Resource % of '02 goal	*Units % of '02 goal*
Multi-family	117%	106%
Single-family:		88%
Reported	58%	
*Public funds only**	50%	
Improvements	91%	98%

* excludes Chicago Partnership for Affordable Neighborhoods

Units Created By Income*							
	0-15% AMI	*16-30% AMI*	*31-50% AMI*	*51-60% AMI*	*61-80% AMI*	*81-120% AMI*	*Total Units*
Multi-Family	2570	1258	1268	462	169	58	5786
Single-Family	0	22	427	342	434	440	1822
Improvements	219	764	883	109	136	119	2342

* includes Low Income Housing Trust Fund rental assistance, homebuyer assistance, and CHA redevelopment.

Overview

Overall, we congratulate the Department of Housing on successfully completing another year—and particularly on a especially active quarter which saw several large deals close. However, we worry that current proposals in Washington to change the federal tax code and budget could severely undermine efforts to provide affordable housing for Chicagoans. In particular, changes to the Low Income Housing Tax Credit, public housing, and Section 8 programs threaten the viability of several key resources used to create and support affordable housing in Chicago. We hope that the city can take a lead role in both safeguarding these crucial programs and in creating new resources at a time when both Chicago and Chicagoans need the assistance that only our government can offer. In particular, we call on City Council to pass resolutions in support of the National Housing Trust Fund and the Low Income Housing Tax Credit.

These new resources are necessary to address the continuing crisis in affordable housing for Chicagoans. In 1999, there were 221,201 renter households in Chicago with incomes below $20,000 (roughly 30% of AMI). These renters were competing for 172,124 units with affordable rents — creating a shortfall of 49,077 units. The 3,828 rental units that DOH supported last year for renters making less than 30% of AMI address less than 7.8% of this crisis and assist just 1.7% of the renter households in this most needy of income brackets. Excluding rental assistance, DOH has funded the creation or preservation of 1,789 rental units for extremely low-income families last year—addressing just 3.6% of the shortfall in units needed for these families.

The large gap illustrated below points to the need for identification of new resources and disciplined targeting of existing resources.

Overview of Program Effectiveness:

2002: What Worked	2002: What Didn't
Illinois Affordable Housing Tax Credit. DOH successfully allocated all of this new resource, leveraging funds to create 760 units of affordable housing.	*HomeStart*. This $20 million pot of money went completely untouched all year.
Heat Receivership. This unique public-private partnership uses private funds to assist some of the neediest Chicagoans, and is remarkably cost effective (500 households for $344,000). This model could be used to address other needs.	*Empowerment Zone programs*. Chicago has yet to effectively use the federal funds and tax incentives available in Empowerment Zones to create affordable housing.
Property Stabilization Fund. Oftentimes, some seed money to stabilize rental properties is all that's needed. And it's often needed, as evidenced by the high demand for this program—it served over 300% of the projected demand.	*City Mortgage*. Commercial lenders now offer record low interest rates and broader underwriting criteria, undercutting the rationale for this program and leaving over $30 million in the bank.
City Land Single Family. One of the city's most important affordable housing resources is city owned land. We're glad to see that city land write-downs created twice the projected number of units, although 230 units a small percentage of what could be created if all city-owned land was devoted to affordable housing production.	*Bungalow Rehab Tax Credit*. This unnecessarily complicated program took all year to get off the ground, and may not be widely used.
Multi-Family Mortgage Revenue Bonds. The multi-family bond program has been successful at utilizing its allocated bond volume cap to create affordable housing. Yet the program receives only 28.6% of the city's total volume cap.	

Effective resource utilization

We commend DOH on fully committing its allocation of 9% Low Income Housing Tax Credits, as it has done in prior years. The LIHTC is one of the most powerful tools available for creating affordable housing, and it is imperative that these funds are allocated in a timely manner. It is unfortunate that DOH continues to operate without an objective ranking system, similar to the Qualified Allocation Plan used by the Illinois

Housing Development Authority and other major cities, for allocating Tax Credit equity. Such a ranking system would provide additional certainty and fairness to developers competing for tax credits.

The city has successfully used 4% tax credits and its municipal private activity bonding capacity to create many units of affordable rental housing. However, we believe that the city has not been aggressive enough in utilizing this potentially vast resource. More could be done. For instance, DOH could bundle smaller projects to create the economies of scale necessary to utilize bonds.

The commissioner has noted our suggestion to shift bond volume cap from single-family mortgages to multi-family mortgages in light of declining demand for City Mortgage. Similarly, the lack of takers for the volume cap allocated to HomeStart – a program which developers are participating in without using city money – indicates that a reallocation of its volume cap to multifamily rental development would begin to address the growing shortage.

The $20 million in bond volume allocated to HomeStart could rehabilitate and preserve 220 Section 8 units (at $90,000 per apartment) or build 90 units of senior housing (at $225,000 per apartment). Add in last year's $30 million in unused City Mortgage bond volume and the potential rises to 550 rehabilitated units or 225 new units—almost doubling the city's commitment to affordable rental production bonds without costing an additional cent.

The Harold Washington Unity Cooperative project is truly worthy of the spotlight given to it in this quarter's report, especially since it shows how creative cooperation between diverse groups can result in creative approaches to preserve affordable housing for the long term. The project will provide units for large families earning less than half the median income, and will help gradually lead tenants to homeownership. Limited equity cooperatives are an excellent way to help families who may not quite be ready for conventional homeownership to build housing equity and to create permanently affordable housing by keeping land costs down, a boon in gentrifying areas. As a result, co-ops are most likely to be built by nonprofits.

Interestingly, two CHA redevelopments – Lake Park Crescent and St. Edmund's Meadows – profiled in this quarter's report have market-rate units renting within the "affordable" 50-80% AMI range. This is a good strategy for mixing public housing tenants in with working- and middle-class neighbors, instead of perpetuating the very-rich/very-poor demographic schism emerging at some other public housing redevelopment sites.

This fact also debunks one key claim made against a citywide set-aside: that market-rate developments in low-income neighborhoods would be "stopped" by passing such an ordinance. Indeed, such an ordinance would merely require developers to charge prevailing market rents for these neighborhoods. At the same time, the developers would benefit from the same incentives offered to developers elsewhere in the city.

New initiatives

DOH has appropriately been cooperating with other city agencies on the Families First Initiative, a program which will help some of Chicago's neediest families cope with difficult situations through targeted assistance. The primacy of housing assistance in this initiative demonstrates what we have always said: that housing is truly foundational. However, some further details about this program's funding would be appreciated, to ensure that it both has the opportunity and capacity to grow as necessary. If successful, this program could serve as a model for inter-agency collaboration.

We appreciate DOH's concern for troubled buildings, as evidenced by the new $1 million Troubled Buildings Initiative. However, we are concerned that the new initiative's relationship with existing programs for troubled buildings—Preserving Communities Together, CIC/CDFI, and others—has not been more clearly articulated. A more comprehensive overhaul of DOH's attempts to save troubled buildings could improve these programs' efficacy and efficiency; only 12% of funds allocated to CIC/CDFI in 2002 were used, a poor showing considering the depth of the problem.

Clarity in reporting

Overall, refinements to the quarterly report format over time have increased its accessibility and clarity. However, there are still ways in which the report could offer a clearer picture of how Chicagoans' tax dollars are being used to support affordable housing activities.

First, financial resources raised through resource challenges – principally from private sources – should be accounted for separately, not listed as resources that DOH brings to the table. Rehabilitation money from private sources, donations of land or goodwill (write-downs), and other funds not part of DOH's budget should not be allowed to offset resources committed by the city. Instead, such resources should supplement DOH's funds. These private resources should be itemized and listed separately from DOH resources – as is now helpfully done with resources raised through tax increment financing and the Illinois Affordable Housing Tax Credit. The accounting of units created through the Chicago Partnership for Affordable Neighborhoods is also exemplary, providing many previously unreported details about this exciting and important program. Providing this level of detail for all resource-challenge resources will help Chicagoans better understand how their tax dollars are working, especially as complex programs like the Illinois Affordable Housing Tax Credit grow in importance.

Second, we remain confused about project financial details, particularly for mixed-income developments. Itemization of project costs is ineffective if 90% or more of the project costs are allocated to a single line item, namely "construction." At mixed-income developments, the costs of site preparation and infrastructure work should not fall exclusively on the affordable component; market-rate units must truly pay their own way.