PUBLIC-PRIVATE FINANCE INITIATIVE

Sponsored by the Chicago Rehab Network
and the City of Chicago
Department of Housing

Chicago area affordable housing gap in 1990: 117,200 units

Chicago area affordable housing gap in 1995: 130,000 units

Chicago area affordable housing gap in 1999: 153,300 units

Number of rental units lost in the Chicago Metro Region since 1990: 52,000

Fifty years ago, the Housing Act of 1949 made "a decent home and a suitable living environment for every American family" a national goal. The Act and its far-reaching effects was the subject of numerous conferences and discussions in 1999. Still, the Act's fundamental goal -- adequate housing for all -- has clearly not been accomplished. For millions of low and moderate income families housing remains far too expensive, severely substandard or simply nonexistent. The current expansive economy and air of general confidence, however, overshadow the housing inequity that impacts a growing segment of Americans. The absence of affordable housing undermines individuals and families and the communities they live in, restricting their ability to contribute to the nation's broader economic and social well being. Yet while there is lively national debate about the need for better health care and education, there is little discussion of the need for decent, affordable housing, even though those other goals cannot be realized without it. The national undertaking articulated by the 1949 Housing Act is as necessary today as it was fifty years ago.

Introduction

Number of households paying 50% or more of their income for rent in Chicago region (1995): 128,400

CRN initiated the Public Private Finance Initiative to develop new finance tools and identify new resources to address the chronic shortage of affordable housing. The City of Chicago Department of Housing (DOH) identified the lack of resources as a priority in its ***Housing Opportunities Into the New Century 1999-2003 Affordable Housing Plan.*** Following on a 20 year tradition of creating new resources, CRN worked in partnership with DOH to kick off the Public Private Finance Initiative in the summer of 1999.

The Initiative builds on an advocacy effort that began when CRN first commissioned the Nathalie Voorhees Center to document changes in Chicago's affordable housing stock in the early 1990s. Census data showed that the buying power of

Fair Market Rent for 2 bedroom apartment in 1999: $737

Income needed to afford 2 bedroom apartment: $29,480

Income at minimum wage (working full time, all year): $10,300

Number of hours needed to work per week at minimum wage to afford 2 bedroom apartment at the Fair Market Rent: 110

1970 difference between low income renters and affordable units: 300,000 unit surplus

1995 difference between low income renters and affordable units: 4,400,000 unit deficit

Chicago families had dropped over the previous decade, while rents had doubled. The news reinforced CRN's Affordable Housing and Community Jobs Campaign in 1993 and convinced the city to invest $750 million in affordable housing over the next five years. Just as important, the city agreed to target that investment toward income groups with the greatest need, and to make public quarterly reports on its progress toward its goals.

Over the next 5 years the city's Department of Housing outperformed its own goals in creating housing for families whose incomes fell between 80% and 120% of the area median income (AMI), and, even more impressive, for families whose incomes fell below 15% of the AMI. Yet every year it fell short of its goals for the families in between – particularly for those with incomes under 50% of the AMI. The income targets, production goals and public reporting allowed housing advocates to identify a gap in financing streams suitable for meeting the needs of the most vulnerable segment of the housing market – a segment whose growing need is re-documented by a host of studies every year.

The Public Private Finance Initiative brought together leaders from all sectors of Chicago's affordable housing community to address the unmet needs of the most easily ignored populations, people of very low income and people of color. It began with a brainstorming session to begin to

Events Conspire

August: 50 housing leaders join Public Private Finance Initiative for a brainstorming session

September: NLIHC releases Out of Reach, measuring gap between Fair Market Rents and real incomes of low income Americans

September: PPFI breaks into 5 working groups to take up proposals generated in August brainstorm

October: Cardinal Francis George releases *The Housing Crisis in Our Neighborhoods* identifying affordability as key

October: Governor Ryan commits $1 million dollars for homelessness prevention

November: 350 people join Organization of the Northeast (ONE) and elected officials in a march in support of affordable housing in Edgewater/Uptown

Rate at which rents increased in 1997: 3.1%

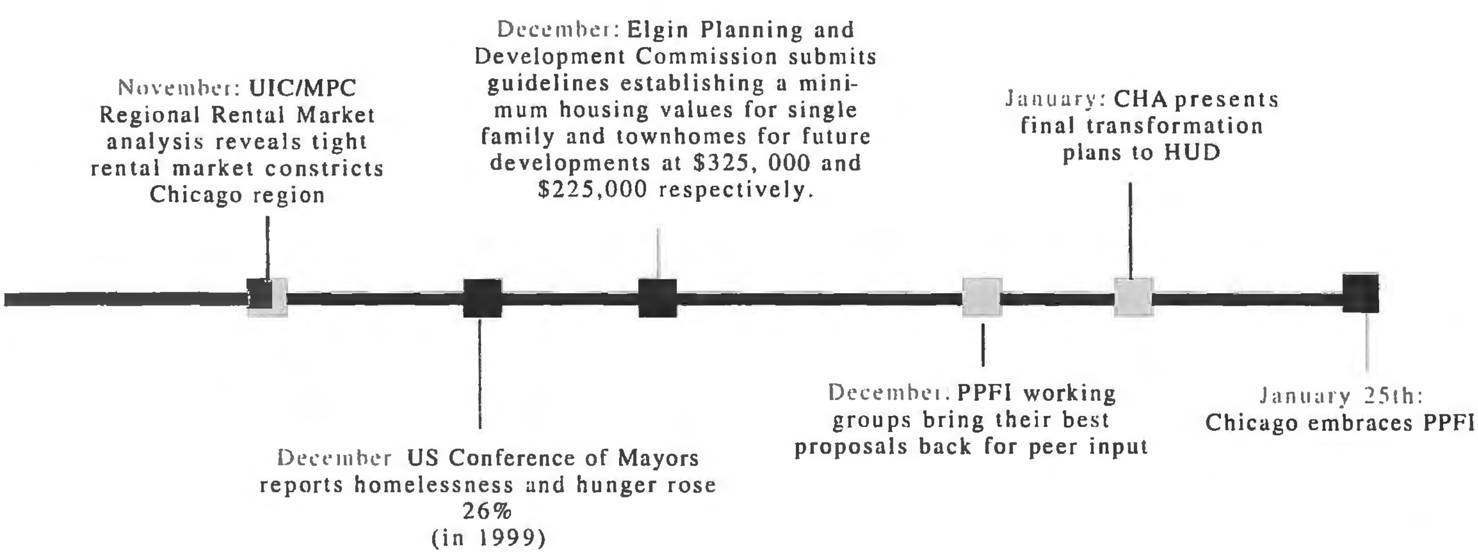
Rate at which Consumer Price Index increased in 1997: 1.6%

imagine new tools to turn the tide of affordable housing loss in Chicago. Julia Stasch, Mayor Daley's Chief of Staff, was there to encourage the group to follow the lead of Chicagoans who 15 years before had developed the Low Income Housing Tax Credit. "Seeds planted in fertile soil can grow," she told the group. "You are creating those seeds today. I am pledging to help fertilize the soil, and together we can make those seeds grow."

This document outlines the Initiative's best proposals. Fully implemented, the proposals would generate more than $650 million for affordable housing in the next five years. The proposals include principles to guide balanced development, a $50 million capital Fund, a donations tax credit and matching pool for housing, use of Illinois tobacco settlement funds to address substandard housing, and changes in property tax assessments and valuations of affordable housing. In the upcoming year, the Initiative will pursue these proposals through the Cook County Assessor's office, the state legislature, the office of the Governor and with private investors.

Sources include:

National Low Income Housing Coalition- *Out of Reach* (1999)
Center for Budget and Policy Priorities- *In Search of Shelter* (1998)
Department of Housing and Urban Development- *The Widening Gap* (1999)
Harvard University's Joint Center for Housing Studies-
The State of the Nation's Housing (1999)
UIC/MPC- *Chicago Regional Rental Market Analysis* (1999)



Balanced Development Principles

Members of the Public Private Finance Initiative assembled a set of principles to guide the investment of resources developed through the Initiative. These principles are grounded in the belief that balanced development will make healthier communities throughout the region. It is the role of government & private institutions to establish priorities, provide leadership and develop policies for the use of resources to support development consistent with these principles, beginning with housing for people with the greatest need.

The principles are:

- Racially, culturally & economically diverse people can thrive within the same community.
- All parts of the metropolitan area are appropriate for affordable housing and all areas are appropriate for market rate housing.
- All workers should have opportunity to live in close proximity to employment.
- Housing units and types should be heterogeneous so that different housing needs are met (ie. senior, family, purchase, rental).
- Subsidized and market rate housing in the same development are designed to be indistinguishable to the greatest extent possible.
- Long term residency & neighborhood stability should be supported.
- Opportunities for the community to come together should be created.

The principles should be used to create a common understanding of the need for balanced development in planning and resource decisions. The principles will be forwarded to the decision making bodies of local and state governments. They should be incorporated into the evaluation of applications for resources created through the Public-Private Finance Initiative. They should also be incorporated into the development process on publicly and privately owned land whenever possible, and in the development of larger planning documents such as Consolidated Plans for the Department of Housing and Urban Development. The Public Private Finance Initiative will pursue a public education campaign to recognize projects developed in accordance with these principles.

PUBLIC- PRIVATE FINANCE INITIATIVE

PROPOSED RESOURCES-Five Year Projections

PROPOSAL	NUMBER OF UNITS PER YEAR (EST.)[7]	DOLLARS CREATED PER YEAR (in millions)	FIVE YEAR TOTAL (in millions)
SMART Fund[1]	1,250	$50	$50
Illinois Partnership for housing A. Donations Tax Credit[2]	580	$26	$130
B. Matching Grant Pool[3]	800	$5	$25
Tobacco Funding for Housing and Health[4]	1,440	$30	$150
Property Tax Valuation Guide	PRESERVATION STRATEGY		
Increase in Federal LIHTC[5]	2,000	$50	$250
Increase in State Real Estate Transfer Tax[6]	1,050	$10	$50
STATEWIDE TOTAL	**7,120**	**$171**	**$655**

Unit Rationale

[1]Estimated equity investment of $40,000 per unit. The $50 million will leverage additional debt and subsidy investment and will recycle.

[2]Estimated development subsidy investment of $45,000 per unit based on multifamily loan unit rationale used by the City of Chicago Department of Housing (DOH).

[3]Estimated employer assisted housing grants of $5,000 per unit.

[4]Tobacco funding will create two resource pools: 1) a $20 million development subsidy pool with estimated development subsidy investment of $45,000 per unit, and 2) a $10 million rehab mitigation pool with estimated rehab costs of $10,000 based on DOH preservation unit costs rationale.

[5]Estimated equity investment of $25,000 per unit based on Low Income Housing Tax Credit unit rationale used by DOH.

[6]Estimated development subsidy investment of $9,500 per unit based on current IHDA Affordable Housing Trust Fund funding levels.

[7]Actual net unit creation may be lower because units will access multiple funding sources.

SMART Fund

Sustainable creation and preservation of affordable housing needs higher risk, longer term equity investment. Currently a large pool of long term equity investment does not exist in the Chicago area. Marketing the SMART Fund will create an opportunity to reach non-traditional investors who recognize the importance of affordable housing to the long term economic growth of the region.

A $50 million SMART Fund for capital investment in affordable housing and community development in the six county region will help fill the capital gap. It will help:

- Meet the investment needs of the six county Chicago region
- Invest in housing for households with incomes at or below 50% of area median income
- Be capitalized through a one time offering targeted at investors new to affordable housing and community development
- Blend market, below market and subsidy investments to create a source of lower cost, higher risk equity investment
- Serve as a fund of funds

Using a variety of mechanisms for risk mitigation, the Fund will be able to increase financial resources for:

- Small multifamily affordable rental projects
- Preservation of at-risk affordable housing including Section 8 and expiring Low Income Housing Tax Credit properties
- Low income borrowers

Potential uses for the development and preservation of affordable housing include:

- Pooling 4% tax credit deals in a single bond issue
- Bridge financing for non-profit property acquisitions
- Financing for early phase TIFs
- Equity investments in local CDFIs to qualify for federal match from the CDFI Fund
- Rate risk insurance for variable rate bonds
- Credit enhancement for home improvement loans to homeowners with poor credit

To assess the demand for these investment products, and the risk and return requirements of potential investors, a comprehensive business plan will be commissioned. A Planning Committee has been formed to guide this business plan. It will oversee the consultant selection and planning process, and receive the final report. The Committee will also ensure that there are opportunities for engagement in the development of the Fund by all interested stakeholders.

Illinois Partnership for Housing -HB1958

The Illinois Partnership for Housing proposal is an innovative combination of two financing mechanisms to leverage the resources of the private marketplace to meet the serious affordable housing shortage in many areas of the state. It has been introduced into the Illinois House of Representatives by Representative Arthur Turner as HB 1958. The proposal consists of two complementary programs:

Donations Tax Credit

Illinois corporations or individuals who make an eligible contribution of cash, real estate, securities or services to an affordable housing project would receive a tax credit against state taxes of fifty cents for every dollar donated. The housing must be for families earning 60% or less of the area median income ($38,280 for a family of four in the Chicago area in FY99; $33,600 in Springfield).

The proposed State Tax Credit is different from the federal Low Income Housing Tax Credit. The State Tax Credit is an annual credit that is used one time for a single project. It does not need to be syndicated and the full value of the credit is applied to the project. Because the credit is tied to a donation to the project, it is effective immediately, at the time the cash or non-cash donation is made. The Donor may then use the credit to off-set state taxes for up to ten years. The credit can also be transferred or sold by the Donor.

Programs similar to this have been successfully operated in other states for many years. The proposed Tax Credit is modeled after the highly successful tax credit program in Missouri.

The resources generated by the tax credit could be used for:

- Financing to reduce the cost of development,
- Rental assistance,
- Downpayment assistance, or
- Technical assistance and program support (limited to 10% of the project)

In the first year $13 million in tax credits would be made available for the following purposes:

- Development: $10 million
- Employer Assisted Housing: $2 million
- Technical assistance and program support: $1 million

The program would be administered by the Illinois Housing Development Authority (IHDA) and the City of Chicago Department of Housing (DOH).

Matching Grant Pool for Employer Assisted Housing (EAH)

The grant pool would match dollar for dollar corporate commitments to housing solutions for their employees. Addressing the jobs housing mismatch by creating more affordable housing opportunities near high employment areas would reduce employee turnover and traffic congestion while building a new constituency for affordable housing and balanced development.

The grant pool could be used for:

- Downpayment subsidies,
- Second mortgage pools,
- Rent subsidy, or
- Program administration and technical assistance including housing counseling.

The grant pool would consist of:

- EAH matching grants: $2 million
- Program administration and technical assistance: $500,000.

The pool would be managed by IHDA.

Tobacco Funding for Housing and Health

Housing is a public health issue. Research shows substandard housing has a severe negative health impact, particularly on children and senior citizens. It is linked to asthma, injuries, malnutrition, lead poisoning and homelessness. Yet 17.9% of rental units in the region and 27.7% of rental units in Chicago are substandard according to the Chicago Regional Rental Market Analysis.

In its 1998 report *Not Safe at Home*, the Boston Medical Center reported on the degree to which good health depends on a decent home. Nationally the study estimates that inadequate housing has the following impact:

- Children homeless each night, with increased risk of violence, psychological disturbances, infections, poor vaccination, poor school performance: 41,000-107,000
- Child deaths per year due to fires potentially attributable to electrical and heating problems in poor households: 187
- Approximate number of IQ points that will be lost to lead poisoning among children ages 1-5 in the United States: 2.5 million
- Hospitalizations per year for asthma among inner-city children ages 4-9 attributable to cockroach infestation: 17,849
- Children ages 0-3 years with low growth attributable to their families being on the waiting list for housing assistance: 21,392
- Children ages 6 months to 6 years with iron deficiency anemia attributable to their families not receiving housing assistance: 120,202

Illinois will receive $350 million per year for the next 25 years ($9.1 billion total) as a result of the settlement of the tobacco lawsuit brought on behalf of the State of Illinois against the tobacco industry. We recommend that the tobacco settlement should be used to create a Quality Housing Development Fund ($20 million per year), and a Mitigation Rehab Program to address lead and cockroach infestation ($10 million per year). The fund would issue grants or low interest loans to projects accepting a 10 year affordability agreement.

Legislative and administration leaders will be approached regarding the linkage of housing and health and asked for their support. Initial discussions with legislators have been positive. This proposal is perceived as a creative use of the tobacco settlement that has the possibility for widespread, long term positive impact.

Multifamily Property Tax Assessment

Tax Solutions

Property tax is the single largest operating expense for apartment buildings, and tax relief would be of significant benefit to the creation and preservation of affordable housing. In fact, the assessment theory and law already exist to allow subsidized housing to be taxed fairly, if assessing officials and property owners know how to use them. The Tax Solutions Working Group is producing a Resource Guide to assist in addressing the complex valuation issues associated with subsidized housing. In addition, Cook County Assessor Houlihan has proposed a number of amendments to the Cook County Classification Ordinance that we believe could have a positive impact on the production and preservation of affordable housing:

Property Tax Valuation

Assessors do not necessarily take into account some of the things that developers of affordable housing consider most important, such as the social intentions of a project sponsor to provide affordable housing. Rather they think in terms of what the law calls "fair cash value."

One determinant of cash value, for subsidized and non-subsidized apartments alike, is the property's profit making potential. But for subsidized housing, the factors that influence earning capacity can be complex. These factors include construction and rent subsidies, mortgage write downs and other provisions that can enhance value, but also many provisions that can reduce value – such as the added management expenses entailed in screening tenants by income and annual certification, restrictions on sale, limitations on the rate of return.

The Resource Guide will compile information about such factors for easy reference of assessors and property owners alike. It will include an inventory of subsidy programs and their associated restrictions that affect value, an inventory of subsidized buildings, and a detailed explanation of the legal and valuation issues assessors face, with suggestions for how to deal with them.

Proposed Changes to the Cook County Classification Ordinance

A **Reduction of the Multi-Family (Class 3) Assessment Level** would reduce the assessment level on apartment buildings containing more than six units. Currently this class of property is assessed at 33% of market value. A phased-in reduction of assessment levels (to 30% in the year 2001 and a further reduction to 26% in 2002) will spur development to ease the tight rental market and reduce the incentive for condominium conversion.

A **Reclassification of Store/Apartment Mixed-use Properties** would assess smaller commercial properties with apartments above at the residential level of 16% rather than the commercial or mixed-use level. This change is intended to encourage the retention of neighborhood commercial districts while at the same time relieving the burden on renters.

An **Expansion of Class 9**, which provides a 16% level of assessment for new or rehabbed multifamily properties that meet certain location and rent ceiling requirements. The current ordinance allows properties to apply for Class 9 status for three 10-year periods. The Assessor is recommending that the incentive class be renewable indefinitely beyond the current 30-year period.

Other Proposals in Brief

Increase the Federal Low Income Housing Tax Credit

Raising the Low Income Housing Tax Credit from $1.25 per capita to $1.75 per capita, and indexing the tax credit to inflation, would provide $6 million in additional annual tax credits for Illinois, which would result in an additional $45-$50 million in equity investments in Low Income Tax Credit developments serving households below 60% of the area median income.

The increase in tax credits is authorized by H.R. 175 which is pending before Congress and has 374 co-sponsors, including 17 from Illinois. While the bill is popular, it is competing with other popular tax credits for inclusion in any tax legislation that may be adopted in 2000 and it is critical to obtain active support from key members of the Illinois delegation.

The Public Private Finance Initiative will establish a working group to obtain the active support of members of the Illinois Congressional Delegation - particularly Representative Crane and Senator Fitzgerald - to make the increase in the Low Income Housing Tax Credit a legislative priority in the year 2000.

Increase the State Real Estate Transfer Tax

Currently, real estate transfers in Illinois are taxed at $.50/$500 of the real estate transfer price – the same level as when the tax was first implemented in 1968. The tax is split evenly between the Department of Natural Resources and the Illinois Affordable Housing Trust Fund, which uses it to fund acquisition and/or rehab of single and multi-family housing for households at 80% or less of area median income.

Increasing the tax from 50 cents to 75 cents would result in a 50% increase in revenue for the Trust Fund, or about $7-12 million annually. This would allow the Trust Fund to assist about 1,000 additional units each year.

A smart growth/open space link with the Department of Natural Resources could increase support. The Public Private Finance Initiative should explore the feasibility of this proposal with key state legislators and the Governor's office, and with the Department of Natural Resources while also exploring linkages between housing and smart growth, and developing materials to promote the increase.

County-State Incentives

Counties and State governments should develop programs to link affordable housing development for companies receiving incentives to locate or remain in the state or locality. This kind of program could either require such a linkage or offer additional tax incentives for affordable housing development.

Torrens Fund

In Cook County the Torrens Fund has a balance in excess of $3O million, approximately $14 million is currently uncommitted and should be used for the creation and preservation of affordable housing.

Property Tax Circuit Breaker

The State of Illinois circuit breaker provides cash grants to people to offset their property tax burden. The size of the grant is based on the household's income and property tax payments – a household may be reimbursed for any portion of their property taxes that exceed 3.5 percent of their annual household income, and it is available to renters, who can count 25% of their rent as property tax. However, to qualify for the circuit breaker and individual must be 65 years or older, or be totally disabled, with an income of $16,000 a year or less.

State legislators should eliminate the circuit breaker's age requirement and consider raising the income eligibility limit and the maximum allowable grant. It would make housing, both rented and owned, more affordable by putting cash directly into low income individuals' pockets.

IMPLEMENTATION AGENDA

The proposals put forward here from the Public Private Finance Initiative represent the work of thoughtful and committed individuals to construct meaningful solutions to our region's affordable housing shortage. These proposals expand on successful models and programs already underway. They offer a way for our communities, our leaders and each of us as individuals to make a difference in the lives of our neighbors who need housing assistance the most. Community development corporations have demonstrated how affordable housing supports individuals and families to provide a foundation for vibrant civic life. Making these proposals real will contribute to inclusive, healthy, sustainable communities throughout the metropolitan region. Join us in the following strategies to:

EDUCATE:

- Clarify the Role Affordable Housing has for:
  -Children and Public Health
  -Sensible Growth strategies
  -Education, Jobs and the Workforce
- Support faith-based efforts to open all communities to people of different backgrounds and incomes
- Facilitate community dialogue and forums among neighbors and colleagues to explore the importance of affordable housing and the Public-Private Finance Initiative

INVEST:

- Support organizations committed to housing people who need it most
- Invest in the SMART Fund and encourage others to do so

ADVOCATE:

- Work with appointed and elected state officials to:
  -Pass HB 1958 to create a donations tax credit and a matching grant pool
  -Establish the link between housing and health and fund housing development from the tobacco settlement
  -Utilize these financing proposals to support related housing initiatives such as the statewide It Takes A Home campaign
- Work with the leaders in the public and private sectors, such as Assessor James Houlihan, who have committed to the Public Private Finance Initiative
- Advocate for H.R. 175 to raise the federal Low Income Housing Tax Credit
- Incorporate this Initiative into all current discussions about the future of the region

Join us to realize the potential of these proposals. Call the Chicago Rehab Network at (312) 663-3936 for more information.