Chicago Rehab Network
Department of Housing 2nd Quarter 2001 Analysis

We again commend the Department of Housing for providing an informative report that clearly presents the department's production information as well as highlights of new or improved programs. These reports represent a best practice that we hope will some day be duplicated in the Departments of Planning, Buildings and Zoning.

This past quarter the Illinois legislature, with an overwhelming bi-partisan majority, passed the Illinois Affordable Housing Tax Credit. The Tax Credit is a direct result of the partnership between the Department of Housing and Chicago Rehab Network, and represents the most significant commitment by the state to affordable housing in over a decade. We anticipate working with the city and state to develop guidelines to implement this program once it becomes law.

DEPARTMENT'S CORPORATE BUDGET

The city's corporate commitment to housing is declining. After a decade of increasing city corporate commitment to the Department of Housing, the current 2001 budget showed a significant decrease in actual dollars allocated to the department. Preliminary budget figures from the city Office of Budget and Management show an even larger decline for 2002.

CITY CORPORATE FUND EXPENDITURES FOR DEPT. OF HOUSING

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002*
DOH Corp. Expend. (in millions)	$6.8	$9.5	$11.3	$11.6	$11.9	$13.6	$17.1	$17.8	$17.3	$16.5
DOH as % of Corp. Budget	0.39%	0.52%	0.59%	0.58%	0.57%	0.63%	0.75%	0.74%	0.69%	0.64%
% Change of DOH Corp.	n/a	40.6%	18.3%	2.8%	2.9%	13.6%	26.4%	3.8%	-2.7%	-4.9%

* Based on preliminary budget figures.

We urge the City Council to look closely at this trend, especially in light of the growing awareness of our city's housing shortage and the loss of affordable neighborhoods due to gentrification.

CHICAGO LOW-INCOME HOUSING TRUST FUND

The Chicago Low-Income Housing Trust Fund (CLIHTF) has shown itself to be the city's most effective program for meeting the needs of Chicago's lowest income families. CLIHTF has successfully provided safe, decent and affordable housing to those families who do not benefit from other city housing programs. Unfortunately, the program has not seen a noticeable increase since the beginning of the current five-year plan, so very few new families are able to benefit.

Income Distribution for CLIHTF

	0-15%	16-30%	31-50%	51-60%	61-80%	TOTAL
Existing units	1185	824				2009
New units in 2001	7	3				10
TOTAL	1192	827	0	0	0	2019

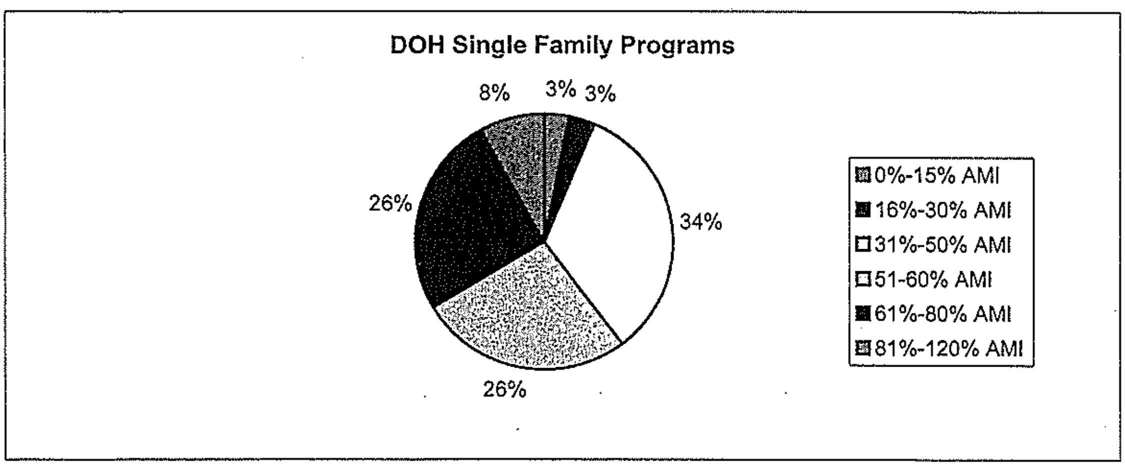
We strongly urge the city to consider expanding this program. The average annual cost to the city for a CLIHTF unit is $3076. If the $848,000 of city corporate funds scheduled to be deleted from the department's budget next year were restored, that would translate into 276 new CLIHTF units, a 14% increase in the program.

SINGLE-FAMILY PROGRAMS: PARTNERSHIP FOR AFFORDABLE NEIGHBORHOODS

Of significance this quarter is the city's new commitment to creating mixed-income housing in gentrifying neighborhoods through the new Purchase Price Assistance Program and through improvements to the New Homes for Chicago Program. In prior years, mixed-income has been seen almost exclusively as a tool to bring the middle-class into low-income areas of the city. With the real estate boom now going on ten years, longtime residents in traditionally affordable neighborhoods are finding the cost of housing out of reach. The city is coming to the realization that mixed-income must also mean preserving affordable housing in gentrifying areas. This is a growing problem that requires innovative policies to effectively reach those who need the most help.

The city's response has been to create the Chicago Partnership for Affordable Neighborhoods (CPAN) that encourages developers to set-aside affordable for-sale units on a voluntary basis. Through the Purchase Price Assistance Program, developers may set aside 20% of their new development for low and moderate-income buyers. Homebuyers in the program will receive financial assistance toward the purchase of their new home. The amount of assistance depends on the income of the buyer, but goes deeper that the previous New Homes subsidies.

1ST & 2ND QUARTER INCOME DISTRIBUTION OF DOH SINGLE FAMILY PROGRAMS



The city's current single-family programs primarily benefit moderate-income households, as the chart above shows. Ninety-four percent (94%) of the beneficiaries are families who earn more that 30% of the area median income, with 60% of the beneficiaries being families who earn above 50% of the area median, or $31,750 for a family of four.

The Chicago Partnership for Affordable Neighborhoods is a step in the right direction. However, we wonder whether this effort will translate into meaningful production numbers. The current quarterly report, for example, does not give production or budget details for the Purchase Price Assistance Program. We would like to know how much money the city has budgeted and how many units of mixed-income housing the city expects this partnership to produce.

The Chicago Rehab Network has reservations about the effectiveness of a mixed-income strategy that relies exclusively on a voluntary program and that does not complement single-family development with rental housing. For this reason, Chicago Rehab Network has advocated for a set-aside program that is more comprehensive than has been proposed thus far by the city. A real-world test for this new partnership is the booming Loop condominium market. In 2002, more than 4,800 downtown condo units are projected to become available, surpassing this year's expected 2,988 units by 62%, according to Appraisal Research Counselors, LTD. Few, if any of these units are currently priced at DOH's $155,000 set-aside level, and many are far above the modest range that might enable a voluntary price reduction.

The experience of other cities is that mixed-income developments in gentrifying areas will not happen on a strictly voluntary basis. Boston, MA, which is also experiencing a downtown development boom, requires developers in the central city to either set-aside 10% of the total development for affordable housing or make an equivalent contribution to a trust fund for affordable housing. Last year, Boston generated over $2 million in trust fund contributions during this program's first full year.

MULTIFAMILY RENTAL PRODUCTION: CHA REPLACEMENT HOUSING

The majority of Department of Housing multifamily production this year has been in public housing redevelopment areas. As we reported last quarter, CHA developments accounted for all of the housing that reached the poorest families. Only 61 out of 278 non-CHA units were affordable to families that earn below 30% of the area median income, or $31,750 for a family of four.

Income Distribution of 1st & 2nd Quarter 2001 DOH Units

	0-15%	16-30%	31-50%	51-60%	61-80%	MARKET RATE	TOTAL
Non-CHA	8	53	201	16			278
CHA	323			260	101	29	713
TOTAL	331 (33%)	53 (5%)	201 (20%)	276 (28%)	101 (10%)	29 (3%)	991

We examined the issue of development costs for CHA replacement housing in prior quarterly reports, and thus will not repeat the analysis here. However, fact remains that substantial DOH resources are going to CHA replacement housing at the same time DOH budget is being cut. **The 323 CHA units that target families earning under 30% of AMI are not new units, but merely replace existing units.** We have, according to the 1999 Rental Market Report, a shortage of 153,300 units for families earning below 30% of area median income. With only 61 new, non-CHA units created this year in that income range, we are failing to meet that challenge.

PRESERVING NEIGHBORHOODS:
ADVOCATING FOR A FAIR PROPERTY TAX POLICY

There is increasing awareness of the link between rising property taxes and the loss of affordable housing. As Commissioner Markowski stated in his letter to the committee, rising property values are resulting in tight rental markets and rents rising at several times the rate of inflation. A large part of the squeeze on both renters and homeowners is increased property taxes. People are demanding that government respond to this situation. Cook County recently enacted the Longtime Homeowners Property Assessment Exemption Ordinance that provides a limit on the increase that low-income longtime residents will face in the new property assessment cycle. Without relief, these longtime residents would be forced out of their neighborhoods.

Chicago Rehab Network recognizes that rising property taxes also displace longtime residents who are renters. For this reason, we have proposed a number of changes to both the county and state tax system:

Expanding the Class 9 Program. Cook County's Class 9 program has successfully encouraged the creation of new affordable rental housing by providing a substantial tax assessment reduction for multifamily projects that under go substantial rehab or new construction. The program is currently limited to "low-mod" census tracts, and the new census will change were this program can be used. We want to expand Class 9 to all census tracts so that it will encourage the production of mixed use housing wherever developers and municipalities agree that it should be built.

Providing a tax incentive to preserve Section 8 housing. The Chicago area is at risk of losing between 3,000 and 15,000 units of Section 8 housing, as private owners have the option of exiting the program. A reduced tax assessment rate is one of the proposed incentives to entice these owners to stay in the program.

Exempt non-profit owned low-income rental housing. Illinois already exempts many types of affordable housing from property taxes: public housing, senior citizens housing, and housing for disabled are just a few examples. Yet public housing is shrinking, and the private market is being asked to take on that burden. The private non-profits are the ones who will step up and tackle the housing needs that no one else wants. Relieving these charitable organizations from the additional burden of real estate taxes will translate into more affordable housing and increased social services for the residents.