

Chicago Rehab Network
Department of Housing Quarterly Analysis
2nd Quarter 2002

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 who's work involves community development, land affairs, and housing to follow DOH's leadership.

In this quarter's report, we begin with a review of emerging housing problems noted by Census 2000 and continue to discuss the city's homeownership policy, dedication of revenue for affordable housing and the National Housing Trust Fund. Given the level of need right now and the current fiscal crisis, there are concrete ideas raised in this report that the city can do to deal with the housing crisis.

Growing Pains: Census 2000 Exposes Housing Problems in Chicago and the Region

The release of detailed data from Census 2000 confirms the troubles many Chicagoans have as they look for stable, affordable housing. Revitalizing neighborhoods around the Loop have seen an influx of upper-income households and housing development leading to many existing residents being displaced from their homes. In a related trend, overcrowding is on the rise in many outer-ring communities that are home to Chicago's increasing Hispanic population. Some of the most prominent problems documented over the last ten years include:

- **Gentrification In West Town** – Just northwest of the loop in West Town, the white population increased by 10,328 persons while there was a net loss of 13,395 Hispanics. The number of upper income households in the community earning more than \$75,000 (about twice the city median) quadrupled.
- **Exclusive Development in the Near South Side** – After thousands of new housing units are built using city tax-increment financing, the number of upper income households increased 3462%. Citywide, the total number of upper income households increased 60%.
- **Overcrowding in the Bungalow Belt** – As gentrification pushes Hispanic families away from downtown, several traditionally white 'bungalow belt' communities are seeing large increases in both total population and overcrowding rates. Overcrowding rates in Brighton Park, Gage Park, Belmont Cragin, Irving Park, Portage Park, Albany Park have doubled or even tripled in the last ten years, as the housing stock strains to accommodate growth ranging from 8,000 to 21,000 additional residents.
- **Median Income Inequity**– Although city housing programs use HUD's regional median family income figure (currently \$75,400 for a family of four), Chicago's median *family* income was just \$42,724. The end result this policy is that millions of dollars in housing spending are targeted far above the income levels of many Chicagoans.

While the city runs many affordable housing programs aimed at solving these problems, there is clear need to bring additional policies and resources to bear on this issue. In particular, Chicago Rehab Network (CRN) advocates for adoption of an inclusionary zoning policy to require a set-aside of affordable units in new market rate housing developments.

According to the Census, 52,042 new units of currently occupied housing stock were built in the last ten years, many of which are home to upper income Chicagoans. As the chart at right details, people living in new housing are substantially wealthier than their counterparts in older housing. Part of this relationship lies in the fact that personal wealth is a driving factor of housing market activity, but at the same time achieving balanced development is also an important goal. As a step towards equity, thousands of affordable units could have been produced in this time span if an inclusionary zoning policy had been in place.

**Who's at Home?
Income by age of housing**

Decade Housing Was Built	Average Household Income
1990s	\$86,987
1980s	\$61,849
1970s	\$51,773
1960s	\$48,864
1950s	\$49,009
1940s	\$46,388
Pre 1940s	\$55,238

Homeownership Policy

The first, and perhaps strongest outcome emerging from the Department of Housing's last five-year plan was to expand affordable homeownership opportunities, a policy decision which continues to influence city priorities¹. In this quarter's analysis, CRN will explain how the Department has addressed this goal and discuss the ramifications of this policy decision on Chicago's ability to solve its housing crisis.

Homeownership has many perceived economic advantages over renting including community stability, asset appreciation, and the enormous federal tax entitlement for mortgage deductions. Owning a home makes economic sense for households with sufficient income to cover the increased costs and risk of owning rather than renting. Federal subsidies, city programs and low-interest private financing have all contributed to increasing homeownership rates in Chicago. But, even considering those benefits, the reality is that the majority of Chicagoans rent due to economic circumstances or individual lifestyle choices.

Chicago is a city of renters, and the rental market is where the most acute housing problems exist and where the need for city intervention is greatest. The hidden effect of the City of Chicago's policy to further subsidize homeownership activities is the diversion of needed resources from aiding those in greatest need of housing assistance.

As detailed on page 10 of the Department's report appendix, with the exception of Foreclose Prevention program², **90% of the city's homeownership program activity is serving households earning more than 50% of the area median income, about \$38,000 a year.** According to income figures from the 2000 Census, these programs are excluding the 45.5% of Chicago's households who earn less than \$35,000 a year. **A housing policy whose programs exclude half of the city's households because their income isn't high enough is questionable strategy for city neighborhoods.**

¹ Housing Opportunities Into the Next Century, Affordable Housing Plan 1999-2003, City of Chicago Department of Housing, pp 10-11.

² Foreclosure prevention is an effective means to stabilize emergency housing problems for low-income homeowners. At a small expense to the city (averaging \$323 per household served) this program provides an important safety net.

Household income (AMI=\$75,400)	0-15% AMI \$0 to \$11k	16-30% AMI \$11k to \$23k	31-50% AMI \$23k to \$38k	51-60% AMI \$38k to \$45k	61-80% AMI \$45k to \$60k	81-120% AMI \$60k to \$90k
DOH Homeownership Units, January-June 2002 (excluding Foreclosure Prevention program)	0 (0%)	6 (1.4%)	35 (8.2%)	59 (13.8%)	136 (31.9%)	191 (44.7%)

As with rental programs, resources committed to the homeownership policy come from a variety of sources including \$2.5 M in corporate funds for New Homes for Chicago, transfers of city-owned land and property, federal HOME funds and issuance of housing bonds. By far the largest program by dollars reported is City Mortgage, which uses bond volume cap provides low-interest financing to predominantly middle-income households. This program stands in direct competition with the private market's increasing attempts to provide affordable financial services to this population.

CRN would like to highlight several alternatives to the city's current homeownership policy, which could help recast scarce resources towards meeting current housing needs:

1. **Cooperatives.** To foster long-term solutions addressing the forces of gentrification, the city should create substantial financial incentives for the creation of limited equity cooperatives. Limited equity cooperatives offer many of the benefits of homeownership while ensuring that the housing will remain affordable.
2. **The city should enact an inclusionary zoning policy** to require developers to set-aside affordable units in new developments, substantial rehabilitations and condo conversions. As was noted above, this policy could increase affordable homeownership production by requiring that market rate developers (rather than just the city) create opportunities.
3. **Use more bonding authority for rental housing.** In addition to some duplication of private financing products, the City Mortgage program has failed to meet DOH's production goals for several years in a row, and merits reconsideration as a priority use of \$60M of bond volume cap. Given the lack of new rental housing starts in the city, bond volume cap should be prioritized for rental housing production.

Lastly, while CRN supports the city's efforts to include affordable units in market rate developments, we question the accuracy of this reporting. The Department counts the value of developer write-downs in the CPAN program (\$2.9M in the first half of 2002) towards its commitment goals. This dollar amount however, does not reflect actual contributions or investment, but rather a developer's voluntary decision to lower the sale prices of some units. CRN requests that these figures not be counted towards DOH investment.

The principal purpose of the Department's report is to provide the Housing and Real Estate Committee and the public with clear information about the city's financial commitment to affordable housing and the number and nature of units produced. **We recommend the report include the value of city resources committed to private, mixed-income developments such as land, fee waivers and subsidized financing, including units created only with DPD tax-increment financing which are not currently reported.**

Dedicated City Funding for Housing

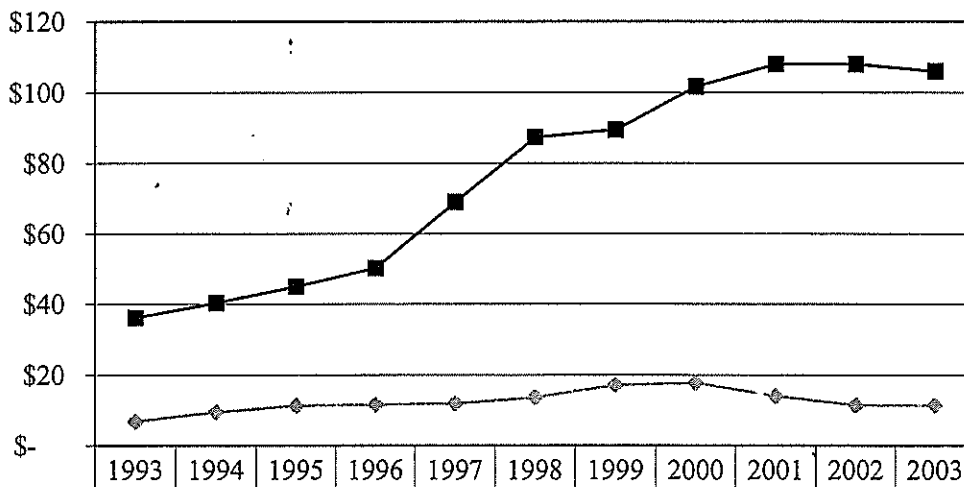
As noted in this quarter's report, the Chicago Low-Income Housing Trust Fund recently hosted Mary Brooks of the Housing Trust Fund project. While Ms. Brooks applauded the Trust Fund's excellent track record of providing rental assistance for Chicago's poorest residents, her presentation also included findings from a national review of state, county and municipal Trust Funds.

One important recommendation of the study is that trust funds are most successful when a dedicated revenue source is earmarked for their benefit. The most common dedicated revenue source used across the country is the real estate transfer tax, which is generated through housing market activity. One example of this is the State of Illinois, which commits 50% of the revenue from its transfer tax to the Illinois Affordable Housing Trust Fund.

Chicago currently funds its Trust Fund rental subsidy program on an annual basis with an appropriation of corporate dollars. This appropriation was raised slightly from \$6 to \$6.5M in 2002. The City of Los Angeles recently establish a Housing Trust Fund with an annual \$100M commitment, which came from several revenue sources including revenues from a street furniture advertising contract.

Establishing a dedicated revenue source in Chicago could also ensure that City funding for affordable housing keeps pace. The following chart illustrates how over the last ten years, a tripling in revenues from the Real Property Transfer Tax (one potential dedicated revenue source) has filled city coffers while corporate fund commitments to affordable housing have not kept pace.

Corporate Fund Expenditures for Housing vs. Revenues from Real Property Transfer Tax³



◆ DOH Corporate Fund Expenses (\$ millions)	6.8	9.5	11.3	11.6	11.9	13.6	17.1	17.8	14.0	11.4	11.4
■ Real Property Transfer Tax Revenue (\$ millions)	36.2	40.4	45.0	50.2	69.1	87.4	89.5	101.7	108.0	108.0	106.0

³ Actual figures for 1993-2001 are from historical City of Chicago Budgets. Both the 2002 year-end estimates and the 2003 projections come from *2003 Preliminary Budget Estimates*, City of Chicago Office of Budget and Management, 2002.

National Housing Trust Fund

As noted in the report, federal legislation to provide matching dollars for local housing trust funds was recently approved by the U.S. House Financial Services Committee. The measure was put forth as a substitute for amendments to create a full National Housing Trust Fund, which may be introduced to the full House. A growing list of supporters of the National Housing Trust Fund have stepped forward recently, including the U.S. Conference of Mayors, cities like Milwaukee, Madison and Minneapolis and the editors of the New York Times. CRN recommends that the City of Chicago put its full support behind this measure to increase federal resources for affordable housing. In particular, CRN once again requests that Chairman Ray Suarez, and the Committee on Housing and Real Estate support a resolution calling upon Congress to create a National Housing Trust Fund.

September 5, 2002

ACTION ALERT

The National Housing Trust Fund likely to be debated on Floor of US House of Representatives NEXT WEEK!

As early as Wednesday, September 11, we expect H.R. 3995, the Housing Affordability for America Act of 2002 to come to the Floor of the United States House of Representatives. The National Housing Trust Fund will be introduced by Representative Bernie Sanders (I-VT) as an amendment to H.R. 3995. If passed, this legislation will create a trust fund that will support the production and preservation of rental housing for the lowest income families.

NOW IS THE TIME TO CALL YOUR REPRESENTATIVE AND URGE HIM OR HER TO VOTE FOR THE SANDERS AMENDMENT TO H.R. 3995!

Please forward this Action Alert to your networks, partners, and affiliates.

NHTF supporters are asked to take the following actions:

1. **Determine** if your Representative is or is not a **co-sponsor of HR 2349**, the National Housing Trust Fund Act, by opening the attachment below or, visit the following website: <http://thomas.loc.gov/cgi-bin/bdquery/z?d107:HR02349:@@@P>
2. **CALL 1- 866-864-NHTF** and ask to be transferred to your Representative's office.
3. If your Representative is **NOT** a co-sponsor of HR 2349, ask to speak to your Representative's housing staff person and:
 - Explain the housing problems in your community and the need for new federal resources.
 - Explain the National Housing Trust Fund proposal will provide new federal resources.
 - **Report** that the National Housing Trust Fund will be introduced as an amendment to H.R. 3995 by Representative Bernie Sanders on the House floor as early as **Wednesday, September 10**.
 - **Urge** your Representative to **vote to support the Sanders amendment** to HR 3995 to establish a National Housing Trust Fund.

OR

4. If your Representative is a co-sponsor of HR 2349, ask to speak to your Representative's housing staff person and:
 - Thank him or her for your Representative's support of the National Housing Trust Fund.
 - **Report** that the National Housing Trust Fund will be introduced as an amendment to H.R. 3995 by Representative Bernie Sanders on the House floor as early as **Wednesday, September 10**.
 - **Urge** your Representative to **vote to support the Sanders amendment** to HR 3995 to establish a National Housing Trust Fund.