



Chicago Rehab Network Testimony for the 2009-2013 Five Year Plan for Affordable Housing February 2, 2009

Introduction

The proposed 2009-2013 Affordable Housing Plan, *Accepting the Challenge*, comes during a time of crisis and opportunity in the City of Chicago. The Plan's introduction begins with the focus of remaking Chicago as a global city and ends with the challenge of meeting the housing opportunities for those who have historically made our city of broad shoulders.

At the onset of our remarks we want to recognize the effort put forth by Ms. Ellen Sahli for *Accepting the Challenge* as well as executing her duties as the Commissioner of Housing. While Ms. Sahli's term as Commissioner may have been short, it certainly is not without distinction. Smart and professional, we appreciate her roots in our community and her support for the homeless and those suffering from the lack of affordability. We welcome, too, Ms. Chris Raguso as acting commissioner of the Department of Community Development.

We will continue our thirty year commitment of providing assistance and elevating the affordable housing role in all of our communities. We will continue to collaborate and maintain a critical voice on behalf of our mission driven network. Development without displacement takes on increased significance, not less, in these recessionary times. Count on us to be proactive—that is why we have been so vocal with the Illinois delegation for greater attention and support to affordable housing in all federal plans, from NSP, to TARP and currently with the just passed House Economic Stimulus plan. The Stimulus' plan for only two percent toward housing is simply not proportionate to community recovery needs. This is a time of great uncertainty - the understatement of the New Year - but what is certain is the unwavering commitment and value based asset Chicago has in its non-profit community. We encourage greater support to these anchors of community. The capacity is there and has so much to do with an inclusionary city.

Let me also recognize Chairman Suarez leadership of this committee and his efforts for affordability - thank you and to all of the aldermen who work to champion the foundation of any poor family's well being as with anyone else for that matter - a safe decent place to call home.

During the last five years, we have witnessed unprecedented growth in the housing market, particularly in homeownership. Home prices skyrocketed and thousands of rental units were converted to condominiums as demand for new and upscale for-sale housing grew. The last five year plan relied heavily on market-oriented resources: the Downtown Density Bonus, for instance, was expected to bring a substantial amount of revenue from fees generated from downtown development; the expansion of the Affordable Requirements Ordinance was expected to create an estimated 1,000 affordable units each year; and the widespread application of the mixed-income model for housing development hinged on the notion that market-rate housing is necessary to keep affordable housing developments viable.

While the City of Chicago reaped financial benefits from higher property tax revenue and economic growth through the housing sector, we also saw the highest housing cost burden

rates in recent memory among renters and homeowners alike and stagnant incomes amid increasing housing prices.

But just as quickly as the housing sector peaked, it fell sharply—it turns out that the growth in homeownership was built on the magic of the marketplace—a magic based on the disappearance of government regulation, oversight, and intervention. The euphoria during the housing boom hid the incredible cost of a free market that was allowed to rule without consequence. We saw staggering rates of foreclosures not only among single family owners, but on 2-6 unit buildings. Many condominium conversion projects stopped. Sitting vacant and unfinished, these empty shells create a “lose-lose” situation for affordable housing and the communities that have already been affected by declining stock of rental housing.

In the new Plan, we welcome the inclusion of guiding principles outlined by the Department and hope that these set of principles will lead to a new day of valuing affordability. We have stated that the loss of affordability in Chicago has been in the making for a long time. CRN’s Affordable Housing Fact Sheet shows over a six fold increase in households paying \$2,000 or more in monthly housing costs since 2000, while the citywide median household income has decreased during the same timeframe. As this recession grows deeper, we can foresee an even greater disparity between incomes and housing costs.

The winds of change are strong and as the Mayor stated during the press conference announcing this new plan, these times of economic recession are precisely the time when people expect government to step up. We also firmly believe that the people expect its elected and appointed leaders will ensure a democratic and open public process for all plans towards community recovery. To that end, we highlight a particular concern about the current plan’s involvement with the broader community. There are now multiple initiatives underway: a departmental reorganization; the new plan, *Accepting the Challenge*; and the Neighborhood Stabilization Program, a new, essentially privatized endeavor using public funds.

Our concern is we were asked not to share this plan; we were later explicitly told the plan would not be shared publicly until it was passed by the council. Such an approach causes us to wonder what plan is under consideration now—the draft we were asked not to share or one with revisions that we have not yet seen. Public disclosure of government is the bedrock of democracy - as is dissent. Dissent, it bears underscoring, has been the seed to the growth of many of the city's fruitful housing programs now recognized as success. The recent events in Illinois with our first impeachment of a governor show all too well the importance of disclosure, of transparency.

Transparency requires history. In honor of this five year planning process, in the face of a new reorganization of the lead department, a brief moment of history is warranted. Let me first thank our present Mayor Daley for his support then and now. In the early 1990's over 280 organizations across the city joined in the Affordable housing and Community Jobs Campaign and organized and finally won the first plan and the reporting process on performance that we here today honor. To all of them - including Alderman Toni Preckwinkle – thank you. In 1998 the plan was renewed under the leadership of Commissioner Julie Stasch with the most thorough and direct collaboration with community and CRN. In fact, the plan was jointly presented for review to the aldermen prior to its passage. The third plan under Jack Markowski’s leadership was built on this second plan.

A plan is only as good as it is implemented and its ability to respond to the field and grow new practices. We have seen past plans implemented in ways that have brought in new resources and new policies. The spirit and core principles of transparency and government accountability of the previous five year plans through the dialogue that is the quarterly reporting process are embodied in this new plan's guiding principles. The challenge will be not to play one principle off another. We agree with the Mayor that there is no greater time for rental housing than now.

We note the creation of the new Department of Community Development with interest. We know greater transparency within Zoning and Land Use and Buildings will only heighten the type of effective planning and community confidence necessary to strengthen citizen's participation and opportunity for an Affordable Chicago. Additionally, the new Neighborhood Stabilization Program is a critical initiative that hopes to return many housing units to re-use. NSP activities should be included in the quarterly reports in order to track its progress and impacts. We look forward to the quarterly reports with the added reporting of the new Departments activities.

Finally, the hallmark of community development is the ability to overcome difficult market forces through creative and multilayered financing in order to create affordable communities. Chicago's capable and experienced network of community development corporations remain dedicated to creating stable and healthy neighborhoods, guided by their missions and the communities they serve and employing a place-based development framework. We firmly believe that as the city moves forward and begins to lift from this recession, CDCs are more than willing to take up the challenge of building housing for Chicago's neediest populations.

The 2009-2013 Five Year Plan

Multifamily Housing

According to the Department, the new Five Year Plan budgets a modest increase in resource allocation. The City is expected to commit \$1.1 billion to assist 31,000 multifamily units, a 6% increase in commitments and 13% increase in units from the previous plan. The actual expenditures for multifamily in the previous five years will exceed \$1.3 billion, thus a 28% decrease will be budgeted against what was spent in the previous plan. We want to underscore to this Committee and policy leaders how the changing economy may seriously impact this rental housing goal. For example the multifamily loans are also projected to decrease in the next plan which resonates with the lowering of HOME and CDBG. In these trying economic times, the availability of rental housing that is affordable to the wages and real earnings of Chicagoans will be critical to house many families affected by job loss and foreclosures.

It is important to note that a vast majority of affordable rental units are located in federally-assisted housing. In areas in the South and West side of Chicago, these developments have provided affordable options for many Chicagoans. The City of Chicago must make every effort to ensure these units are preserved especially as the possibility of a 2016 Olympic Games in Chicago becomes closer to reality. (See Affordable Rental Housing and Olympic Venues map)

Rental subsidies under the Chicago Low Income Housing Trust Fund program have provided affordable units throughout Chicago's communities. We anticipate a substantial

increase in commitments for the Trust Fund to reflect the addition of the Illinois Rental Housing Support program which was signed into law in 2005. For the 2009 fiscal year, the City has budgeted \$10.7 million in State Rental Housing Support grants in addition to the \$9.6 million in Corporate Funds allocated to the Low Income Housing Trust Fund program. We look forward to the expansion of Trust Fund subsidies to new units and recommend that Trust Fund dollars are prioritized to owners of multifamily buildings at risk of foreclosure.

The Low Income Housing Tax Credit program has been significantly affected by the downturn in the housing market. The main federal program for the creation of affordable rental housing, the Tax Credit program relies on private investors for capital. With the volatility and lowered confidence in the housing market, the availability of funds is uncertain.

City Land and Tax Increment Financing for Multifamily housing are viable sources of funds that come from the City. In this new Plan, the City more than triples its TIF commitments from the last plan—from \$30 million in the last plan to \$100 million in the new plan. TIF monies, generated through the capture of property tax increments in TIF districts grew as a significant city resource in the last five years totaling \$92 million through the third quarter of 2008. A close review of this funding source will be needed to recalibrate the amount of TIF resources that can be relied upon due to the changed economic climate.

Preservation and rehab are important goals that also prove to be sustainable and cost effective. For instance, from 2004 through the third quarter of 2008, there were 69 multifamily projects approved by the Department, 25 of which were rehab projects. The average total development cost for new construction was \$23.7 million with an average cost-per-unit of \$237,000. For rehab projects, the average total development cost was \$19.8 million, with an average cost-per-unit of \$169,000. We also anticipate that multifamily resources will receive greater focus in the new plan with the addition of dollars from the Neighborhood Stabilization Program grants.

We are concerned that there has been little mention of the City's effort to ensure the completion of the Chicago Housing Authority's Plan for Transformation, the largest recipient of affordable housing resources. With a completion date already extended to 2015 and the economic downturn significantly slowing the delivery and sale of units in these new mixed-income communities, the uncertainties concerning the Plan for Transformation continue to impact many Chicago communities. There should be a review of vacancies and to the extent feasible, a rethinking of the strategy that assumes higher income units would finance development of lower income units.

Recently, the CHA approved a new Property Investment Initiative which will acquire foreclosed housing with three or more bedrooms as part of its Scattered Site housing program to help alleviate both the foreclosure crisis and the high demand for larger public housing units. The Initiative authorizes the use of \$16,637,750 to acquire foreclosed and for-sale properties by The Habitat Company. While existing funding for this initiative will acquire only 50 properties, a strategy that employs the preservation of existing housing for the neediest families is encouraging. We ask the Department and this committee to implement a process to review successes and challenges of such a program that also includes an assessment of community impact.

Single Family

The Plan states a continued effort to promote and support homeownership through its existing programs. The City will commit \$777.4 million to create or preserve 8,000 homeownership units. We recommend that the Department use the Single Family resources to aid the Neighborhood Stabilization Program to recover foreclosed for sale properties. We caution against the belief that the leveling of inflated home prices is sufficient in alleviating housing cost burden as household incomes are already showing a decline.

Additionally, we cannot recommend that 30% of single family resources in the 2009-2013 Plan to serve households making 101+% (more than \$75,400 for a family of four) as it is nearly double the household income of average Chicagoans (\$45,505) and nearly three quarters of all Chicago households make less than \$75,000 annually.

For the new Plan, we also ask the Department to re-evaluate its reporting protocol for the City Mortgage and Tax smart programs. City Mortgage provides down payment and closing assistance to qualified buyers and access to competitive financing at private banking institutions. Tax Smart program provides assistance in the form of a federal income credit equal to 20 percent of the interest paid on the mortgage. However, both programs report the *value of the mortgage* for each assisted unit rather than the actual subsidy to the homebuyer making the reported commitment dollars much higher than the actual subsidy. We hope that these changes are incorporated as part of the new reporting process.

The Next Five Years

The new Five Year Plan will be implemented during some critical years. In nine months, Chicago will learn whether or not it will become the host of the 2016 Olympics Games. This month, the Neighborhood Stabilization Program will be implemented and there is every indication that there will be subsequent phases in this program from the Federal government towards recovering communities affected by foreclosures. Additionally, the economic stimulus passed by the House as well as the potential for additional TARP revenue will place an enormous amount of resources and opportunities for our communities. These types of economic development opportunities must have an economic component for the lives of everyday Chicagoans. With these prospects, we will hopefully begin to rise from the current economic recession.

CRN's recommendations as we move forward to implement the new Five Year plan includes policies that will continue to make rental housing a priority and a better quality of life for all Chicagoans.

1. Conduct an immediate evaluation of rental housing within the footprint of the proposed Olympic sites. These units should be treated as at-risk housing and prioritized for preservation.
2. The prospect of the Olympic Games in Chicago will add substantial revenue to the city such as hotel taxes and airport fees. A portion of these revenues should be designated towards the Chicago Low-Income Housing Trust Fund.
3. Utilize place-based development frameworks which uncover neighborhood housing needs through community development corporations, community groups, and other local leaders with consideration of existing needs and assets in a community.

4. Plans to create and dispose of city assets must include impact studies on affordable housing and the community.
5. The Department should convene a task force designed to review the revenue capacity of market-based strategies intended to increase affordable housing resources and develop contingency plans when such strategies are underperforming.
6. We applaud the Plan's declaration to target resources to create housing for those who need it the most. The Department must prioritize development and/or preservation of properties targeting 30% or less of the area median income.
7. We strongly encourage the Departments of Zoning and Land Use and the Department of Buildings to follow suit with the Department of Housing's leadership in instituting a reporting process for their activities. A tradition of transparency and accountability among these Departments will only serve to enhance the quality and the process of providing affordable housing for all Chicagoans.
8. The City should develop strategies to preserve any assisted multifamily buildings at risk of foreclosing.