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City of Chicago Housing Programs: An Analysis 1994 & 1995 Programs and Expenditures

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LOYOLA UNIVERSITY CHICAGO

CITY OF CHICAGO HOUSING PROGRAMS:
AN ANALYSIS OF 1994 & 1995 PROGRAMS AND EXPENDITURES

A THESIS SUBMITTED TO
THE FACULTY OF THE GRADUATE SCHOOL
IN CANDIDACY FOR THE DEGREE OF
MASTER OF ARTS

DEPARTMENT OF SOCIOLOGY AND ANTHROPOLOGY

BY

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CHICAGO, ILLINOIS

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The data which underlies this thesis was gathered while I was a research assistant with the Chicago Rehab Network (CRN), a coalition of 37 non-profit housing development organizations in the city. I owe a special debt of gratitude to the wonderful people who staffed CRN and sat on its board during my year's stay. I especially wish to thank David Hunt, CRN's Executive Director at the time, for his insights and humor, and Yittayih Zelalem for his warm assistance. Many thanks also to Judy Beisser, Elce Redmond, Ana Bedard, Aqhati Gibson, Joyce Probst, Ravi Ricker, Tony Austin, Shanna Eller, Rachel Johnston, Melinda Daniels, Herveniah Mitchell, Ava Watson, and Kristen Ostberg. Thanks also to Pat Wright at the Nathalie P. Voorhees Center for Neighborhood and Community Improvement.

A grant from the Policy Research Action Group (PRAG), which is leading a vital effort to link community organizations with academics, allowed me to work at CRN. I owe special thanks to Dr. Phil Nyden, the visionary behind PRAG, who also happens to be my thesis director. Thanks, in addition, to Dr. Kirsten Gronbjerg, who also sat on my thesis committee. Dr. Gronbjerg thoroughly reviewed the manuscript at a time when she was especially overwhelmed with other obligations and offered many suggestions which significantly improved my work.

Academic researchers too rarely find that their efforts are rewarded with changes in the real world. Thanks to CRN and PRAG I saw my research debated in Chicago's City Council chambers and in the media. I thank them for the opportunity.

PREFACE

I gathered most of the data presented in this thesis as part of a collaborative research project funded by the Policy Research Action Group (PRAG). PRAG links academic researchers with community organizations. In this case, I worked with the Chicago Rehab Network (CRN), a coalition of 37 non-profit housing development organizations in Chicago.

My research project with CRN grew out of the coalition's historical efforts to improve the environment for non-profit low-income housing development in the city. In 1993, CRN led an organizing campaign to press for passage of the Chicago Affordable Housing and Jobs Ordinance. The campaign garnered signatory support from over 260 community groups, churches, and other institutions in Chicago. In December 1993, Mayor Richard M. Daley agreed, after extensive negotiations with CRN, to increase spending for affordable housing in the city by \$250 million over the successive five years. The additional funding was to be administered by the city's Department of Housing (DOH) under the direction of Commissioner Marina Carrott. In addition, an ordinance passed by City Council required DOH to formally report to the council each quarter regarding the department's activities and expenditures. Prior to the passage of this ordinance, no formal reporting procedure was in place.

As a result, DOH produced reports for each quarter in 1994 and continued the

process in 1995. Commissioner Carrott formally presented these reports and provided oral testimony before the City Council Committee on Housing and Real Estate. At each of these hearings, the Chicago Rehab Network and its supporters testified to the committee regarding their concerns with the progress of the department's affordable housing efforts. As a research assistant for CRN, I produced written reports for the whole of 1994 and for the first two quarters of 1995 which highlighted the network's concerns. Most of the data presented in this thesis grows from these reports. All of the data that I use here is based entirely on numbers provided by the Department of Housing in their own quarterly reports. These are available to the general public from DOH, which is located at 318 S. Michigan Avenue in Chicago. The department's current phone number is (312) 747-9000. Of course, the department did not present their numbers in the way that I analyze them here. Using DOH's numbers, I developed the data in new ways, seeking to understand how well the department was meeting the housing needs of Chicagoans.

In generating this thesis, I have thoroughly reviewed the data available in the DOH reports, refusing to accept the opinions of CRN at face value. Though the results of my analysis tend to parallel CRN concerns, I am confident in my findings because I have rigorously examined the data available and actively sought to disprove the hypotheses that I developed while working with CRN.

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CHAPTER 1

INTRODUCTION

My opportunity to explore in detail the expenditures and administration of city housing programs is rare. The City of Chicago Department of Housing only began in 1994 to produce reports which provided the details necessary for this analysis. The department agreed to produce these reports after a coalition of activist housing organizations led by the Chicago Rehab Network (CRN) organized to demand additional city funding for low-income housing. In agreeing to provide an additional \$250 million over five years for such purposes, Mayor Richard M. Daley also conceded to CRN's demand that the Department of Housing produce highly detailed quarterly reports on its activities.

Hence, analyzing DOH expenditures and programs in the detail presented here was not possible before 1994. CRN's victory provides an important opportunity for academics and housing activists. Pat Wright of the Nathalie P. Voorhees Center for Neighborhood and Community Improvement at the University of Illinois at Chicago crunched some numbers from the DOH quarterly reports, seeking a final count of the units the department subsidized in 1994. She did not analyze other aspects of the report, however. Besides this helpful but limited research and my own work, no analysis of the DOH quarterly reports has been conducted. The existing sociological literature has not dealt in detail

with the role of local government in coordinating affordable housing programs, partly because the information has not been available.

Sociology has also tended to overlook local handling of affordable housing for a variety of other reasons. First, while federal involvement in housing production began in the 1930s, local governments only became active in the 1960s, when federal money for housing was offered to local entities. Moreover, as Lenz and Shaw (1993, p. 131) note, states and municipalities only began spending their own funds on affordable housing in the 1980s. Indeed, according to Shaw and Lenz, the City of Chicago and the State of Illinois did not begin spending local money for such purposes until the late 1980s. Until very recently, then, local government acted entirely as “pass-through” bureaucrats. In this thesis, I present data that suggests that even “pass through” responsibilities are significant; when local government controls the distribution of federal money, its administrative capacity and political interest significantly affects the actual housing assistance produced. The fact that city and state funding for affordable housing is so recent, at any rate, may have encouraged scholars to disregard the important role that local government plays.

Moreover, much of urban sociology in the United States has tended to consider housing needs to be the result of straightforward supply and demand in a self-regulating housing market (Gilderbloom and Appelbaum 1988). In this model, institutional actors such as city governments are considered peripherally important for understanding the operations of local housing markets. Negotiations between individual landlords and tenants, or individual home buyers and sellers, drive a market that - if unfettered by regulation - is appropriately balanced to meet the housing needs of all consumers. Local

governmental policies such as taxation, bond issues, zoning ordinances, and capital improvement expenditures may affect how the market operates, but these affects are peripheral to understanding the basic workings of the market. Housing problems such as deterioration in certain neighborhoods are, as such, viewed by this model as necessary to the overall healthy functioning of the system. This approach to urban housing markets grew out of the seminal work of the Chicago School, which dominated sociology in the 1920s and 1930s (Kurtz 1984; Park 1925).

The dominance of this approach to urban housing markets in sociology and economics continues, though recent sociological analyses have seriously challenged the classical model's underlying assumptions. Scholars such as Manuel Castells have applied Marxist conceptions to urban issues (Castells 1983). Other Marxists, such as Bratt, Hartman, and Meyerson (1986), have focused explicitly upon the housing market. Neo-Weberian authors have also attacked the classical model (Gilderbloom and Appelbaum 1988). These writers agree that profit-motivated actors make investment decisions which significantly determine the shape and trajectory of local housing markets. Housing problems, they argue, are not the necessary result of a generally beneficent market, but are forced upon the lower classes by monied actors seeking profit. As Achtenburg and Marcuse (1986, p. 4) write:

Why is the housing problem so bad, and why is it getting worse? There are many contributing factors, but the principal reason is that housing in our society is produced, financed, owned, operated, and sold in ways designed to serve the interests of private capital. Housing - a necessity of life - is treated not as a social good but as a source of private profit, as a commodity. . . .

For these writers, people with power determine what will happen in urban housing

markets, though they may be required to sacrifice at times in negotiation with grass-roots organizing efforts (Castells 1983). Numerous authors have detailed the important role of various powerful actors in determining the course of development in neighborhoods (Medoff and Sklar 1994; Gilderbloom and Appelbaum 1988; Downs 1981). Lending institutions, insurance companies, real estate groups, and professional developers, among others, make investment decisions which shape housing markets. I provide more detail regarding the importance of these actors when I discuss investment cycles in Chapter 2. As Gerald Suttles (1990) writes, the city is “man-made” (and woman-made), rather than being shaped by blind, impersonal forces like “the housing market.”

Much of the sociological work which challenges the classical model also emphasizes the importance of government in making decisions which significantly affect the housing market. In general, these studies argue that the state tends to make decisions which support the interests of capital, but also emphasize that government may become the site for challenges to capitalist interests. Massey and Denton (1993), for example, provide historical detail which implicates the federal government and its local counterparts in institutionalized efforts to build and maintain the residential segregation of African-Americans in this country. Nyden and Wiewel (1991) charge the various levels of government with decision-making which helps to generate a process of “uneven development,” in which downtown corporate interests benefit at the expense of working class neighborhoods. Both of these authors, though, also discuss the success of grass-roots efforts to change the housing policies of government. Indeed, as Shearer (1989) describes, progressive coalitions gained political control of several city governments in the

1980s. Neighborhood-based housing and economic development programs, as a result, were implemented in varying degrees in Boston, Cleveland, San Antonio, Seattle, Portland, and Chicago. Many of the most important reforms were later retracted, though, so that most sympathetic scholars agree that city governments have generally failed to overcome the power of corporate interests in defining local development policy.

In many cases, in fact, city governments have created policy in alliance with corporate interests and in opposition to lower income people and their representatives. “Downtown” interests, as a result, have generally overshadowed “neighborhood” interests in city policy. This occurred partly because, as Derek Shearer (1989, p. 289) writes:

Most of the mayors, corporate leaders, newspaper editors, and other elites in . . . cities suffer from a common syndrome - the “edifice complex,” which equates progress with the construction of high-rise office towers, sports stadiums, convention centers, and cultural megaplaces, but ignores the basic needs of most city residents.

Mayoral affection for large downtown projects is not a new phenomenon. Richard J. Daley, the current mayor’s infamous father, proposed several major downtown projects in the late 1960s and 1970s, some of which failed (Suttles 1990, pp. 12-13). The current Mayor Daley’s recent economic development proposals have included a lakefront casino complex, an expansion of the McCormick Place convention center, gambling riverboats, a major third airport, the renovation of Soldier Field, and a trolley line for the northern downtown shopping district. Daley and his staff also supported the creation of a Tax Increment Financing district in the South Loop, which will pump \$104 million into the area in the form of infrastructure improvements. As property values in the area increase, the additional money that flows into city coffers will be skimmed off to repay bonds

enabling the current development. The policy, then, will succeed only if higher income residents and upscale businesses increasingly dominate the area. The mayor and his supporters claim that their proposals will create jobs. But, as David Harvey (1985, p. 216) writes, “The argument that the only way to preserve jobs for an increasingly impoverished under class is to create consumer palaces for the rich with public subsidy has at some point to wear thin.”

Grimshaw (1992, pp. 206-24) argues that the old democratic machine in Chicago is weakened enough to cause Mayor Daley to maintain at least an image of commitment to “neighborhood” policies. The coalition which elected Daley to office includes a liberal whites and Hispanics who demand that neighborhood issues be addressed by the city. According to Grimshaw, however, Daley’s public persona masks a conservative political agenda. When Daley first came to office, he chose a multi-cultural staff to head his various departments. For the Department of Housing, he chose Michael Schubert, widely known in liberal circles for his work with the non-profit Neighborhood Housing Services. Grimshaw argues, though, that Daley maintained control over the departments, assuring that his liberal commissioners either did his bidding or were pushed out of power (pp. 214-15). Schubert, in fact, left the Department of Housing and was replaced by Marina Carrott, whose background lies in commercial banking, soon after Grimshaw’s book was written. Ms. Carrott served as commissioner of the department during 1994 and 1995, when the spending analyzed in this thesis occurred.

In this thesis, I argue that the City of Chicago Department of Housing is producing affordable housing in a manner which fails to benefit those Chicagoans most in need of

assistance as well as it might. In so arguing, I accept an underlying assumption that the housing policies of local governments may have a significant impact on housing markets.

This argument is supported by recent studies of federally funded social programs. Rich (1993), for example, examined how the City of Chicago spent its federal Community Development Block Grant (CDBG) funds from 1975 to 1990. He concluded that:

It was the distinctive and very different mayoral administrations that set the context within which the city's CDBG program was implemented; legislative and administrative changes at the federal level had very little impact, if any, on the content and scope of the city's community development program (Rich 1993, p. 215)

Rich provides numerous and fascinating details regarding the manner in which CDBG dollars were spent by the various city administrations. The type and location of the social services produced was determined not by federal guidelines but by local political and fiscal climates. Indeed, according to Rich, Jane Byrne's administration actively resisted HUD attempts to force the city to meet federal targeting objectives, channelling the money instead to the mayor's pet projects (p. 218). Mayor Harold Washington sought to distribute CDBG money in a manner commensurate with HUD goals, but his job was made difficult by a newly powerful City Council which encouraged political compromise and by a Reagan administration unconcerned with rallying behind the mayor (p. 218).

Williams (1980) studied the CDBG program in the first few years of its existence. He argues that federal guidelines for social programs in general were extremely strict in the 1960s, since local and state governments were often viewed as part of the problem (p. 1). Under the Nixon administration, though, federal oversight was weakened and increased flexibility was provided to local governments. The CDBG program was a

flagship of the “New Federalist” approach to social welfare spending. Williams found that, as a result of the CDBG program, local government agencies had “gained a notable amount of power in the area of housing and community development. . .” (p. 112). The CDBG program remains a mainstay of federal funding for housing (see Chapter 3). Indeed, the current Republican Congress plans to delegate even more federal power over social service programs to state and city governments.

My findings show that the current Daley administration, as represented at DOH, is clearly making programmatic choices that are affecting who gets housing assistance and what sort of housing they get. In implementing its housing programs, the department is also helping to shape the development trajectories of various city neighborhoods. DOH has the power to create certain types of housing for certain types of people in Chicago. When this power is coordinated with the programs of other city departments, such as the Department of Planning and Development and the Department of Buildings, the effect on low-income neighborhoods can be very significant. In contrast to the classic ecological approach, this thesis presents evidence which implies that the decisions of powerful individuals - not blind economic forces - determine the shape of housing markets.

Chapter 2 provides an overview of the housing needs of Chicago’s citizens. I have included this chapter to ensure that my discussion of housing policy is based on an understanding of the real-life problems that local housing policy should be designed to address.

Policy may be designed to address the current needs of citizens, but it must be implemented in a political process with a history and a current focus. The history and

current status of federal housing programs is vital to understanding the City of Chicago's housing policy. Indeed, in 1995, 80 percent of all subsidy money available to DOH came from the federal government. In Chapter 3, I discuss the history of federal housing programs, setting DOH's various funding programs in context.

In Chapter 4, I overview the City of Chicago Department of Housing itself, including details about the department's overall expenditures in 1994 and 1995. In this chapter, I also describe and analyze the department's major programs.

Chapter 5 presents my analysis of the department's 1994 and 1995 public, quarterly reports to City Council. In total, the analysis shows that DOH is failing to allocate its resources in a way that would maximize, using existing funds, the creation of housing affordable to the people most in need in the city.

In Chapter 6, I present my conclusions in summary form.

CHAPTER 2

HOUSING PROBLEMS IN CHICAGO

My analysis of City of Chicago Department of Housing (DOH) programs rightly begins with a careful look at the housing needs of the city's citizens. By pulling together data others have developed, I intend in this chapter to draw a picture of the housing problems that Chicagoans face living in the city today. Equipped with this picture, I'll be better able to analyze the DOH policy which emerges from the department's quarterly reports.

I intend to focus upon the housing problems faced by low-income Chicagoans. This focus does not deny that in some ways, people at higher income levels have "housing problems," such as those associated with rising costs. Property tax increases, the rising costs of real estate insurance, and the costs of maintenance all are legitimate concerns of higher income Chicagoans. I focus, though, upon lower income people because the most burdensome problems fall squarely upon their shoulders. Indeed, to some extent, the rising costs faced by higher income people in the city are passed on to lower income individuals. Landlords whose costs increase tend to raise the rents to compensate. Indeed, rental costs in Chicago have soared recently, partly due to the higher tax and cost burdens faced by landlords.

Also, middle-income people benefitted in recent years from a relatively stable market for single family homes in Chicago. This trend, contrary to the much more volatile market pattern in urban areas on the country's coasts during the 1980s, meant that home prices remained attractively low for middle-income Chicagoans. The median home value in Chicago in 1990 was \$78,700, slightly less than the national median of \$79,100 (Holeb 1993, p. 51).

In recent years, young professional middle-class people, most of whom are white, have led a wave of investment in neighborhoods near the central business district of several major cities (Hutchison 1992; Squires 1989; Palen and London 1984). These young individuals and families are often drawn to high-paying jobs in downtown service and knowledge industries. They also tend to be attracted to the inner-city by low housing prices, short commutes to work, an aesthetic taste that values older architecture, and massive downtown development projects.

Middle-class interest in urban neighborhoods is important to cities like Chicago, whose tax base and political strength have been eroded as many relatively affluent people have moved to the economically vibrant suburbs. Holding and attracting middle-income people to the city, as a result, is often viewed as a key aspect of any urban planning agenda (T. Wright 1995). This agenda has significantly affected the housing policy of many U.S. city governments, and Chicago is no exception.

I concur that holding and attracting middle-income people to Chicago is a valid and important enterprise. But, unlike some policy makers, I cannot accept this agenda as the centerpiece of effective housing development efforts. Policy rightly begins with the

most pressing needs of local citizenry. Middle-income housing needs pale in comparison with the alarming needs of lower income people in the city. As this chapter will detail, low-income people face significant - and very basic - housing problems that require immediate attention. Effective housing policy would place these problems at the center of its agenda, so that the city would pursue its interest in holding and attracting middle-income people through a policy that first assured that low-income people's urgent housing needs were addressed.

The Regional Economy

Any discussion of housing problems in Chicago must properly occur within the context of the broad economic and social trends which have affected the city in recent years. Housing problems often find their roots in these broader trends. In Chicago, for example, changes in the regional and national economy have helped to concentrate low-income people in isolated ghetto neighborhoods far away from good-paying jobs. The consequences for the city's housing problems have been severe. In this section, then, I will provide a brief overview of these economic changes and their effects on city neighborhoods.

For decades, Chicagoans relied heavily upon the city's manufacturing companies to provide jobs at relatively high wages. In recent years, however, these jobs have increasingly left the city for either the suburbs, other parts of the country, or overseas locations. The City of Chicago lost 411,000 factory jobs between 1947 and 1982, a decline of 59 percent, while factory jobs in the suburbs increased by 131 percent over the

same period (Squires, Bennett, McCourt and Nyden 1987, p. 27). While increases in suburban manufacturing did occur, many companies left the region entirely or diversified into the growing service sector. The metropolitan region as a whole experienced a net loss of 150,000 manufacturing jobs from 1979 to 1988, but a net increase of 200,000 jobs in retail, finance, insurance, and real estate (Wiewel 1990, p. 28).

Working and lower-class communities in Chicago and the older suburbs have been disproportionately affected by these changes. Between 1963 and 1977, for example, the available factory jobs in predominantly African-American neighborhoods on the West and South Sides of Chicago declined by over 45 percent (Squires, Bennett, McCourt and Nyden 1987, p. 30). Such losses in factory jobs, moreover, caused serious ripple effects in the rest of the local economies of these neighborhoods. Businesses which provided supplies to the larger companies, and those that relied on steady workers' wages, were severely hurt by the loss in factory jobs.

As the region's economy crumbled in many inner-city neighborhoods and boomed in many suburban areas, population shifts followed suit. The city's white population dropped nearly 20 percent in the 1980s, while the black population dropped nearly 10 percent. Hispanic and Asian immigrants streamed into the city, offsetting losses in the older populations. The Hispanic population alone increased 29 percent.

At the same time, the population of the suburbs has increased dramatically. The region's political balance has been altered as a result, with suburban whites often dominating state politics from government seats that are not accountable to the city's poorer minority residents.

Certain portions of the city, though, were less affected by the economic changes than others. The central business district witnessed modest job growth, due largely to new office construction (Ludgin 1986). By far, though, the majority of the region's job growth over the last two decades has occurred in the newer suburbs, especially those west and northwest of the city. Lower income Chicagoans, once able to find good-paying jobs near their homes, now find themselves isolated far from the available positions. The jobs that are increasingly available for low-skill individuals, moreover, tend to pay poorly and offer minimal, if any, benefits (Wintermute and Hicklin 1991, p. 157).

The Underclass

Many urban minority neighborhoods have been seriously affected as relatively high paying jobs and middle-class residents have left the city (Wilson 1987). Low-income people remain, increasingly concentrated in neighborhoods rife with violence and heavy drug use. The poverty rate in Chicago's South Side neighborhood of Oakland, for example, climbed from 42.7 percent in 1969 to 65.6 percent in 1979 and finally to 72.3 percent in 1989 (Holeb 1993, p. 81). In fourteen of Chicago's minority neighborhoods, the median household income in 1990 was less than \$15,000 (Chicago Rehab Network 1993, p. 9). Very low-income families find themselves increasingly concentrated in neighborhoods which offer few respectable job opportunities and surrounded by the social pathologies that are associated with poverty.

Poverty is also concentrated as a result of racial segregation perpetuated in part by institutional practices which restrict opportunities for African-Americans and, to a lesser

extent, other minorities. According to Massey and Denton (1993, p. 64), the average African-American in Chicago in 1980 lived in a community that was 82.8 percent black. This concentration, they argue, is not the result of personal choice, but of racial prejudice expressed mainly in lending, real estate, and zoning policies which intentionally restrict blacks from moving to areas protected by whites. When economic downturns occur, Massey and Denton contend, poverty increases most drastically in the neighborhoods where it is most highly concentrated - predominantly African-American urban areas hemmed in by racial prejudice. This may help explain why 47 percent of all black children in Chicago live in poverty (Holeb 1993, p. 79).

Housing Problems in Low-income Neighborhoods

High Costs

Whatever the causes, many low-income minority people in Chicago face severe housing problems. Most basic among these problems is cost. Housing in Chicago generally costs more than most very low-income residents can afford without excessive burdens on other basic needs, such as food and child care supplies. Rental costs, moreover, soared over the course of the 1980s. The median contract rent in Chicago doubled from 1980 to 1990, from \$188 to \$377, an increase which far outpaced increases in the Consumer Price Index over the decade (Holeb 1993, p. 54).

As costs rose, the meager incomes of very low-income people were severely strained. The federal government bases many of its housing assistance programs on the premise that people should not pay more than 30 percent of their income on rent. In

1990, 35 percent of Chicago renters paid more than 35 percent of their monthly income on rent; in six lower income communities, more than half of all tenants paid over 35 percent (P. Wright 1993, p. 14).

Demolition

Lower quality, low-cost units in Chicago, moreover, are being demolished in extraordinary numbers. The city lost 10 percent of its housing units from 1970 to 1980 and another 10 percent from 1980 to 1990 (Holeb 1993, p. 65). According to the Lakefront SRO corporation, more than 70 percent of the city's single-room occupancy apartment buildings were either demolished or converted to other uses from the early 1970s to the early 1990s (Lakefront SRO 1993). Losses in housing were concentrated in lower income African-American neighborhoods and suburbs. Indeed, some inner-city white neighborhoods, including Lincoln Park and the Near North Side, experienced net increases in housing units during the 1980s. In sixteen Chicago communities, mainly low-income African-American neighborhoods, however, at least a quarter of the property now lies vacant (Chicago Rehab Network 1993, p. 13).

Nevertheless, demolition rates in the city appear to be increasing during the 1990s. 11.2 percent of the city's total housing stock was vacant in 1990, awaiting the wrecking ball (Chicago Rehab Network 1993, p. 69). Indeed, the number of demolitions conducted by the City of Chicago has grown drastically over the course of the nineties. In 1989, according to the spring 1995 newsletter of the Chicago Alliance for Neighborhood Safety (CANS), the city demolished 231 buildings, spending a total of \$1.8 million to do so. In

1994, by comparison, the city knocked down 1153 buildings at a cost of \$10 million. The 1995 budget, according to CANS, was \$15 million, a 33 percent increase over last year alone.

Deterioration

Many of the lower-cost units which are not vacant in the city, especially in poorer minority neighborhoods, are seriously deteriorated. In 1993, in the South Side neighborhood of New City alone, 855 buildings had cases pending in the city's Housing Court for violations of the local building code (Chicago Rehab Network 1993, p. 67). In contrast, only four cases were pending in the relatively affluent Edison Park neighborhood. In part, the city housing stock is deteriorating because it is old. The mean age of all occupied housing structures in Chicago in 1990 was 66 years (Holeb 1993, p. 64). However, the failure of local lending institutions to provide credit for building renovations and purchases in low-income neighborhoods is also to blame. (Woodstock Institute 1994).

The Negative Development Cycle - Disinvestment and Gentrification

Low-income Chicagoans are also negatively affected by the way that real estate development tends to proceed in urban areas. This process tends to be cyclical, moving from periods of "disinvestment" through periods of heavy investment known as "gentrification," and back again to "disinvestment" (Snow 1995; Achtenburg and Marcuse 1986; Downs 1981). Lower income people do not benefit from either disinvestment or gentrification. During periods of disinvestment (Medoff and Sklar 1994), real estate

developers refuse to invest and withdraw resources from their existing investments in the neighborhood. Often, these investors are busy seeking profits in new, growing markets (Achtenburg and Marcuse 1986). Meanwhile, a self-fulfilling prophecy takes hold in the once stable area as banks refuse credit and people of means begin to flee rising crime rates and lower rates of appreciation. Insurance companies pull out and city services dwindle. Institutions begin to crumble from a lack of resources and from the instability of the population. Arsons skyrocket. Buildings crumble from neglect and are eventually demolished. The local infrastructure of sewers, viaducts, streets and sidewalks begins to sag and crack. Often, this process is associated with racial “tipping,” as African-Americans move in and eventually re-segregate the area, the agents of disinvestment begin their withdrawal.

Disinvestment in various Chicago neighborhoods has been well-documented in several studies, mostly by local community-based organizations, focusing upon various aspects of the process. The Woodstock Institute (1994) has gathered important data which shows that lending institutions distribute credit in highly inequitable ways. Indeed, according to the Chicago Rehab Network (1993, p. 35), lending institutions invested \$240.9 million in affluent Lincoln Park and only \$2.9 million in the heavily low-income neighborhood of East Garfield Park. The Neighborhood Capital Budget Group (NCBG) concluded that nearly 50 percent of all recent city spending on infrastructure supported either “mega-projects” like the Central Area Circulator and the Harold Washington Library, or downtown improvement projects - at the expense of city neighborhoods (Neighborhood Capital Budget Group 1995). Illinois Public Action found that the

nation's two largest automobile and homeowner's insurance providers, Allstate and State Farm, disproportionately concentrated their agents and policies in white areas of Chicago (Illinois Public Action 1993).

Eventually, disinvestment so overwhelms a neighborhood that it "bottoms out" as a slum. Large amounts of vacant land and property provide the neighborhood with a ghost town feel. Only low-income people remain, because they can't afford to live in other areas, because they choose to be close to friends and family, or because they are involved with the local underground economy. These people are surrounded by crime, drug abuse, and a deteriorated physical environment, with few housing choices that would be acceptable the majority of the city's population.

At this point, the area may become interesting again to investors, who are lured by low purchase prices and dreams of high profits (Snow 1995, p. 8). Gradually, initial investments encourage other developers and a pattern of increasing investment takes hold. Banks begin offering credit again, most importantly to the developers swooping down on the neighborhood from the outside. A self-fulfilling prophecy of confidence within the market generates increasing investment and dreams of hefty profits become a reality. The neighborhood "gentrifies." People of lower incomes, many of whom survived the period of disinvestment, are forced to move as rents and taxes rise above their ability to pay. Often, gentrification is associated with racial change, as a heavily minority neighborhood resegregates with whites.

Marxist scholars Marcuse and Achtenburg (1986, p. 6) conceive of cycles in the American real estate market as not limited to the particular development patterns of

individual neighborhoods. After World War II, they argue, central cities had exhausted their capacity to generate increasing profits for real estate developers and lenders, who found opportunities more attractive in the suburbs. Once inner-city markets had deteriorated to a point where purchasing property there became cheap and consumers were again attracted to these locations, speculators purchased the properties. Capitalism encourages this sort of cyclical pattern of deterioration and investment, Achtenburg and Marcuse contend, because profit-seeking compels investors to continually seek the highest possible returns.

CHAPTER 3

A HISTORY OF HOUSING POLICY IN AMERICA

City of Chicago housing policy is largely shaped by policy decisions made at the federal level and implemented by the United States Department of Housing and Urban Development (HUD). In 1995, about 80 percent of the city Department of Housing's budget for housing creation came directly from the federal government. While the city has significant power to distribute federal funding in accordance with its perception of local needs, federal allocations and policy limit and direct city programs in extremely important ways. HUD guidelines regulate the sorts of projects that may be funded using federal dollars. When the HUD budget is cut, moreover, local government housing programs are significantly affected. A history of federal housing policy, as a result, provides vital context for understanding how city programs operate today.

Federal housing policy in America began in the midst of the Great Depression. The dilapidation of inner city neighborhoods concerned reformers from the late nineteenth century, but their impact was limited by the reach and resources available to the federal government at the time. Indeed, in 1902, Theodore Roosevelt suggested that his administration finance the purchase of slum housing, but his suggestion was so incongruous with the federal mandate at the time that his proposal was never implemented

(Sternlieb and Listokin 1986, p. 30). Faced with the economic collapse of the Great Depression, though, private economic interests were desperate enough to allow and even demand federal intervention.

Real estate investment crumbled with the rest of the nation's economy as the Depression took hold. Housing starts, for example, fell from 937,000 in 1925 to 100,000 in 1933 (Mitchell 1985, p. 42). Foreclosures and bank failures, in addition, combined to shatter the country's home financing structures. At one point, in 1931, nearly 1000 home mortgages were being foreclosed every day (Sternlieb and Listokin 1986, p. 32). Millions of people, moreover, were out of work due, clearly, to no fault of their own. In the early 1930's, in response, the federal government aggressively intervened. Emergency financing programs, loan programs, and efforts to stabilize the mortgage market were implemented. Public housing was also first funded during this period (Meehan 1985). In 1934, President Roosevelt created the Federal Housing Administration (FHA), which provided government insurance of home mortgages. This program successfully encouraged private housing construction at a time when few homes were being built and changed the typical loan structure for home purchases from short-term balloon payments to long-term, amortized payment schedules (Hays 1995, p. 85).

As a result, the number of people who could afford a home in America drastically increased. The group which Friedman (1968) refers to as "the submerged middle class" benefitted enormously from FHA programs. The ability to purchase homes expanded the range of possible neighborhoods in which these families could live. These people also benefitted from tax breaks written into law since the inception of income tax in America in

1913. Mortgage interest and local property taxes can be directly deducted from taxable income, a benefit that is especially important to those with higher incomes (Hays 1995, p. 87).

Most minority families at the time were, of course, not able to access FHA-insured loans because their income did not meet even the lowered threshold created by the change in loan structures. Moreover, the FHA baldly discriminated against those minorities who might have qualified. Following the lead of long-established industry guidelines, the FHA systematically refused mortgages to most minority areas through a process known as “redlining.” The FHA determined whether or not to provide a loan based on a rating process which rejected older, inner city neighborhoods containing minorities as undesirable. African-American areas received the lowest rating, which was coded red. New, homogenous, white neighborhoods received the highest marks, a set of criteria which helped to create America’s suburbs. Discrimination embedded in federal loan criteria was congruent with the FHA’s support for racially restrictive covenants. Homeowner coalitions and suburban governments refused admittance to minorities by establishing covenants which legally restricted them. Until 1950, two years after covenants were deemed indefensible by the U.S. Supreme Court, the FHA officially supported their use (Massey and Denton 1993, p. 54).

After World War II, returning veterans and fear of a return to pre-war economic conditions precipitated continued federal housing support. Government subsidies funneled through the Veteran’s Administration provided low-interest loans to war veterans, who became homeowners in droves. The suburbs blossomed as optimistic young families,

armed with VA and FHA-insured loans, settled away from inner cities along superhighways also constructed with government funds. Housing prices soared with the burgeoning demand for new homes. Indeed, the median value of all dwelling units in 1950 was two and a half times the 1940 value (Mitchell 1985, p. 9). In the midst of this booming real estate market, the Housing Act of 1949 called for “a decent home and a suitable living environment for every American family.”

While federal policy supported massive housing creation in the suburbs, it tended to destroy housing in central cities. Slum clearance became increasingly central to government housing efforts in the older urban areas. The basic economic machine of central cities was believed to be well functioning; cities were merely in need of a cosmetic clean-up that would tidy up the low-income, usually minority neighborhoods. The Housing Act of 1949, the one that called for decent homes for every American, thus authorized one billion dollars in loans and one-half billion dollars in grants to help cities to demolish the housing in poor areas (Sternlieb and Listokin 1986, p. 42). Later called Urban Renewal, the program succeeded in facilitating a clean up of sorts. As of 1967, Urban Renewal had demolished about 400,000 housing units. Unfortunately, the program only created 10,760 new units for those displaced (Weiss 1985, p. 254). Public housing was often built where the old neighborhoods once stood. In the late 1940s, Congress authorized the creation of 800,000 public housing units, although this number was not actually reached until the 1970s (Orlebeke 1993, p. 106). Politicians and neighborhood activists fought vigorously over the placement of public housing units, a struggle that helped to assure that low-income African-Americans would be isolated in concentrated

pockets of poverty in years to come.

In the 1940s and 1950s, middle and moderate-income whites mostly benefitted from government programs. In the 1960s, federal programs began to focus more aggressively on the housing needs of low-income minority people. The Civil Rights Movement, a wave of optimism in government, urban riots, and a number of influential books helped to generate the activism that underlay much federal housing policy of the 1960's. The activism took myriad directions. Policy makers during the decade, for example, increasingly recognized the power of racial prejudice in constricting the choices of African American home buyers and shaping the segregated contours of the nation's real estate markets. The Civil Rights Act of 1968, developed in response to this recognition, explicitly prohibited racial discrimination in the housing market (Massey and Denton 1993, p. 59). New subsidy programs were also created which provided low-interest loans to rental housing developers. These programs targeted those households who earned incomes just above those of public housing tenants. In part to administer the new programs, President Lyndon Johnson created the Department of Housing and Urban Development (HUD) in 1965.

Data on the nation's housing stock in the 1960s worried many experts. The upcoming decade promised a drastically increased housing demand as the Baby Boomer generation married and had kids. Moreover, the 1960 census revealed that one out of six housing units in the country were either deteriorated or heading in that direction (Orlebeke 1993, p. 107). The President's Committee on Urban Housing, moreover, estimated that 7.8 million households were paying more than 25 percent of their income

for housing (Orlebeke 1993, p. 107). Burdensome costs, the committee worried, destabilized families and limited their choices of neighborhoods to areas with high levels of social pathology.

In response to these alarming numbers, Congress adopted the Housing Act of 1968. The act set a goal calling for the creation of six million new subsidized housing units in ten years. It also created two new subsidy programs. Section 235 provided low-interest, FHA-insured loans to low-income home purchasers. The loans could be amortized over a period of forty years. Section 236 provided the same sort of loans to multi-family apartment developers (Sternleib and Listokin 1986, p. 45). These new programs generated an enormous amount of subsidized housing production in subsequent years. Indeed, from 1970 to 1973, the nation produced 1,676,000 units of subsidized housing, more than had been created in total since federal housing assistance had begun (Orlebeke 1993, p. 108). At HUD's inception, subsidized housing represented only a very small portion of the nation's annual housing production; only in 1966 did subsidized housing starts equal over five percent of all starts in the country. By 1970, thanks to drastically increased federal funding for housing, the figure had jumped to nearly 30 percent (Orlebeke 1993, p. 108). The housing industry in general was booming as well. Total housing starts in the country exceeded two million each year from 1971 to 1973 (Mitchell 1985, p. 12).

Cost concerns and frustration over the state of the country's public housing stock, however, eventually caused President Nixon to call for a reevaluation of his administration's housing policy. HUD, after a review of its current programs in 1973,

implemented a moratorium on new spending until the role of federal housing support could be further evaluated and reformed (Mitchell 1985, p. 13). Public housing was roundly criticized during the subsequent policy debate for its high costs, dilapidation, and failure to save large numbers of families from long-term poverty. The high rises that were public housing's most visible contribution to the urban landscape, moreover, clearly contributed to the segregation of African Americans. Finally, as the political power balance shifted away from central cities to the suburbs, support for HUD programs decreased. Nixon's moratorium congealed these various concerns. Before it was over, the federal government had stepped away from programs which sought to strengthen the supply of affordable urban housing. A switch to demand-side programs began. Section 8 was born.

At its inception in 1974, Section 8 provided direct rental assistance in basically two different ways. In some cases, the federal government guaranteed to a developer of low-income housing that it would provide annual rental subsidies that would make up the difference between the rents the developer could get on the open market and the rents that low-income tenants could afford to pay. In other cases, HUD provided certificates to low-income tenants which guaranteed federal assistance to any landlord who rented an apartment to the certificate holder. Using the certificates, tenants could theoretically shop the open market, thus breaking the barriers of economic and racial segregation. Section 8 tenants paid 25 to 30 percent of their income for rent (the number changed over time) and HUD made up the difference. Until Ronald Reagan came to office, most federal support was provided to developers of new, low-income units, rather than directly to tenants

(Sternlieb and Listokin 1986, p. 48). Since Reagan took office, by contrast, almost all Section 8 funds have been distributed directly to tenants in the form of certificates. While the Stewart B. McKinney Homeless Assistance Act of 1987 created some Section 8 financing which is distributed directly to developers of SRO housing, most “project-based” Section 8 programs remain obsolete.

The Community Development Block Grant (CDBG) program was also created by Congress in 1974. This program sought to increase the capacity of cities to use federal funds in a flexible manner to address problems particular to their area. Spending on housing was not required by the grant guidelines, but cities tended to spend many of the CDBG dollars for this purpose (Orlebeke 1993, p. 109).

President Reagan severely cut federal assistance for housing during his tenure. HUD’s total budget authority decreased 57 percent from 1980 to 1987, falling from seven percent of the federal budget in 1978 to about one percent in 1987 (Schwartz, Ferlauto, and Hoffman 1988, p. 47). Supply-side programs supporting the creation of affordable housing were virtually wiped out. Rental assistance became the flagship of the Reagan housing policy agenda. The President’s Commission on Housing in 1982 stated, “The primary national need is not for massive production of new apartments for the poor, but for income supplements that will enable low-income families to live in available decent housing at a cost they can afford” (President’s Commission on Housing 1982, xxii, as quoted in Orlebeke 1993, p. 110).

As part of its tax reform effort in 1986, however, Congress created a new program called the Low Income Housing Tax Credit. The tax credit program promised high

returns to investors if they supported the creation of housing affordable to lower income people. The federal government distributes its total tax credit budget to the states on the basis of total population. The states can then use the credits to attract money from corporate investors. Housing benefitting from tax credits must remain affordable to low-income renters for at least 15 years (for more information, see Low Income Housing Tax Credits, in Chapter 3).

The subsidies provided through the tax credit are rarely enough to provide rents affordable to low-income people. As a result, developers seeking to provide low rents must seek other subsidy money to supplement their loan package. During the 1980s, when tax credits became practically the only means of federal support for affordable housing creation, developers realized they needed new local funding sources. As a result, states and cities began spending their own money, usually for the first time ever, to support housing (Lenz and Shaw 1993, p. 131). A flood of new programs sprang up at the local level. In Illinois, for example, a number of programs employed intricacies of the local tax codes to support affordable housing development. Tax delinquent properties became eligible for purchase by low-income housing developers, thanks to an effort led by the Chicago Rehab Network, a coalition of local non-profit housing development organizations. The Cook County Assessor's office began a program which offered to halve the property taxes due on newly rehabbed, low-income housing for eight years. The City of Chicago implemented a program designed to encourage new home construction on city-owned vacant lots. The State of Illinois used real estate tax funds to fund a low-income housing assistance program. Compared to other states and municipalities, Illinois

and the City of Chicago were slow to implement these programs, and local funding for housing is still relatively low. But at least the programs helped to offset the drastic reductions in federal housing spending that occurred during the 1980s.

Private lending institutions also implemented programs during the 1980's that helped to fill the gap left by federal withdrawal. The Community Reinvestment Act, passed in 1977 in response to a grass-roots effort of community organizations around the country, forced lenders to provide credit to low-income neighborhoods within their service area. Federal regulators review every bank's lending patterns to assure that they meet the requirements of the law. If a bank receives an unsatisfactory grade, any pending application to open a new branch or purchase another bank may be disapproved. The legislation has allowed community organizations across the country to negotiate substantial commitments from banks to provide credit for low-income neighborhoods.

In Chicago, a coalition of three dozen community groups called the Chicago Reinvestment Alliance negotiated the creation of the Neighborhood Lending Program, which provides low-interest loans through three of the city's major banks for local housing and economic development projects. First National Bank, Northern Trust, and Harris Bank pledged nearly \$200 million through the program. LaSalle National Bank, another major lender, later created a similar neighborhood lending program.

As federal programs for housing creation dwindled, non-profit housing development organizations paradoxically emerged as a powerful force in local subsidized housing markets (Vidal 1992, p. 6). Many of these organizations locate their roots in activist community organization efforts of the 1960s and 1970s. They seek ownership of

land and property in poor and working-class neighborhoods, hoping that through their organization the local community will have control over its own resources instead of being subject to the profit-making decisions of outside investors. Most of these development organizations are overseen by boards of community residents. During the 1970s, when many of Chicago's CDCs were born, federal funding directly supported their efforts. The severe budget cuts of the 1980s forced these groups to develop innovative relationships with banks and local government. Non-profit loan packages since this time have often drawn on five or six financing sources, creating enormous administrative difficulty for these organizations. Still, the number of housing units created by non-profit CDCs in Chicago increased drastically during the 1980s and early 1990s (Lenz 1993, p. 21). Compared to the need in many low-income areas, though, the impact of CDCs was relatively minor. The number of units under development by CDCs on the west side in 1992 equaled less than one percent of the units lost in those neighborhoods during the 1980s (Nathalie P. Voorhees Center for Neighborhood and Community Improvement 1992, p. 23).

Nevertheless, Chicago currently boasts one of the strongest infrastructures of housing CDCs in the country. The Chicago Rehab Network (CRN), a coalition mostly consisting of CDCs, supports 37 member organizations. CRN provides technical assistance, financing help through a loan pool, and a training program for non-profit developers and managers.

The Local Initiatives Support Corporation (LISC) also provides valuable support for local CDCs. LISC administers the John D. and Catherine T. MacArthur Foundation's

Fund for Community Development, which provides operating funds for CDCs. LISC also helps CDCs with money supplied by the Ford Foundation, corporations, and banks.

The Property Management Resource Center (PMRC) offers management training for CDCs and other developers of affordable housing. Since management is often difficult for understaffed and sometimes inexperienced CDCs, the PMRC programs have become an important resource. A national survey of CDCs highlighted PMRC for providing CDCs with training and support not available in other cities (Bratt, Keyes, Schwartz, and Vidal 1994, p. 45).

Some for-profit developers have located a profitable niche in affordable housing production. These companies access government and bank subsidies through the same process used by non-profit groups. Some for-profit developers have created non-profit subsidiaries or have partnered with non-profits to produce affordable housing. These groups often compete for limited resources with the community-based non-profits discussed above.

The National Affordable Housing Act (NAHA) of 1990 created a number of new programs for the creation of low-income housing and thus improved the climate for both non-profit and for-profit development organizations. The act's centerpiece is the HOME Investment Partnerships program. This program provides flexible funds to states and cities for housing efforts. The money does contain some spending restrictions. For example, 15 percent of the money must be allocated to non-profit Community Housing Development Organizations. These groups must be officially approved by HUD before HOME money may come their way.

NAHA also created a number of programs designed to encourage home ownership. The HOPE I program helps public housing tenants purchase their projects. HOPE II assists tenants of private housing to purchase their buildings, and HOPE III helps low-income people to buy government-owned, single-family homes (Orlebeke 1993, p. 122).

NAHA also created a number of innovative programs to provide housing for people with special needs such as those with AIDS, the disabled, the homeless, and the elderly. Finally, the act continued funding for rental assistance programs like Section 8.

Funding for these programs has been uncertain since the Republican Party assumed control of Congress in November 1994. Some early rumors even threatened the total dissolution of HUD. Federal funding for local housing efforts, at any rate, is likely to decrease in coming years if Congress is able to press ahead, as expected, with its legislative agenda.

CHAPTER 4

THE CITY OF CHICAGO DEPARTMENT OF HOUSING

States and municipalities first began to operate affordable housing programs in the 1960s, as federal funds became available to local efforts (Lenz and Shaw 1993, p. 131). When federal assistance dwindled in the 1980s, cities and states began to spend their own funds on affordable housing production for the first time. The State of Illinois and the City of Chicago were especially slow to commit their own funds. Not until the late 1980s were both spending their own, non-federal funds on this issue (Lenz and Shaw 1993, p. 131).

The City of Chicago Department of Housing was created in the early 1980s. By 1994, when I began my data collection, the department was involved in a wide variety of efforts, mostly aimed at providing funds for affordable housing production. In its quarterly reports, DOH split its programs into two categories: (1) "Housing creation" programs, and (2) "Housing preservation" programs. Housing creation programs refer generally to those programs which provide money directly to individuals and organizations who provide affordable housing. DOH takes credit for "creating" units of housing in the city whenever it provides funding for those housing units through any of the programs in this category. Housing preservation programs refer to those which help to preserve

affordable housing already existing in Chicago. For example, one “preservation” program provides funds for minor repairs to the homes of senior citizens and handicapped individuals. In total, the Department of Housing was allocated \$101,899,750 in 1994 and \$140,381,707 in 1995 to distribute through their “housing creation” programs, according to the DOH quarterly reports I analyzed. “Housing preservation programs received \$17,371,510 in 1994 and \$13,274,400 in 1995. The data discussed in this thesis is derived solely from those programs defined by DOH as “creation” programs. About 75 percent of the 1994 money for “housing creation” programs came from federal outlays. In 1995, about 80 percent of the allocation came from federal sources.

In 1994, DOH categorized ten of its programs as “housing creation” programs. In 1995, thirteen programs were considered under this category. More funds were available in the latter year and the department created new programs, in part to spend the additional dollars. In both years, three programs dominated the housing creation efforts of the department. These three programs, the Low Income Housing Trust Fund, the Low Income Housing Tax Credit, and the Multifamily Rehab and New Construction program, were responsible for creating the bulk of the units funded by DOH. Indeed, these three programs accounted for 99.9 percent of all the units created by DOH in 1994 which were affordable to people earning under \$15,000 annually and 93 percent of all money spent in that year for housing creation. In addition, the department provided more detailed data regarding these three programs in their quarterly reports than on any of the other programs. Most of the data analyzed for this thesis, as a result, focuses on these three programs. The nature of these programs is described in detail below.

Low Income Housing Trust Fund (LIHTC)

This program was created in 1989 as a result of negotiations with the developers of a middle-income housing development project on the western edge of the Loop called Presidential Towers. The city issued tax-exempt bonds which helped fund the creation of Presidential Towers. In exchange, its developers agreed to finance the creation of a fund to benefit low-income renters in Chicago. The Low Income Housing Trust Fund resulted, though today it is funded primarily with the city's own corporate dollars.

The Trust Fund provides direct rental subsidies to developers who offer low-income housing in the city. The fund is managed by a 15-member board appointed by the mayor. In 1994 and 1995, \$4 million was available for rental assistance each year through the fund. In addition, in 1994, the city designated \$1.4 million in federal HOME funds for rental assistance. This latter program, called Affordable Rents for Chicago (ARC), was discontinued in 1995.

In 1994, about 57 percent of all of the units created for people earning under \$15,000 (30 percent of the median family income in metropolitan Chicago) were created through the Low Income Housing Trust Fund. The Trust Fund provides one-year commitments to subsidize the rents in particular buildings. Short-term commitments to low-income housing are easily abandoned, meaning that tenants and property owners benefitting from the program can never be sure that the money will still be around in a few months. This problem may make the program especially impotent for maintaining low-income rents in neighborhoods that are gentrifying. As rents increase in such an area, the

costs to the Trust Fund also increase. Board members may choose, under such circumstances, to drop funding for the project. Moreover, since funding is only awarded when landlords apply, tenants are vulnerable to owner's who decide that market rents would suit them better and those who decide to sell in a hot market.

Low Income Housing Tax Credits

As part of its tax reform effort in 1986, Congress created the Low Income Housing Tax Credit (Guggenheim 1992). The tax credit program promised high returns to investors if they supported the creation of housing affordable to lower income people. The federal government distributes its total tax credit budget to the states on the basis of total population. Certain governmental agencies within each state are designated to distribute the credits. In Illinois, the Illinois Housing Development Authority (IHDA) and the City of Chicago Department of Housing serve in this capacity. Within Chicago, developers apply to DOH if they're interested in this source of financing. If their application is successful, the developers then assume control of the credits. Usually, developers can't use the credits directly. They need money immediately to purchase and renovate a building. So, they sell the credits to corporations who can benefit from the tax break the credit offers them. In Chicago, the sale is usually handled by a syndicator like the Chicago Equity Fund (CEF). CEF pools money from corporate investors, buys the tax credits from developers of affordable housing, then distributes the credits back to their investors. In exchange for the credits, developers receive equity funds from the corporations through CEF.

Corporations which purchase tax credits in this way receive direct write-downs on the amount of federal income tax they owe. So, if Mega-Big Corporation purchases \$100,000 in tax credits in 1994 and owes \$200,000 in federal income tax for the same year, they will only need to pay \$100,000. Corporations must spread their use of tax credits out equally over a ten year period. That is, if Mega-Big purchases \$1 million in tax credits, they will cut \$100,000 off their federal tax due every year for the next ten years.

When developers sell tax credits to corporations through syndicators like CEF, they generally receive about 50 cents for every dollar of tax credit they sell. So, if the People's Voice Housing Corporation sells \$100,000 in tax credits, they will generally receive \$50,000 in equity funds. This money is generally paid out over five years. Corporations and syndicators justify the price by pointing out that they are paying out the money in five years while the tax credits accrue to them over a ten year period.

When they purchase tax credits, corporations gain not only a direct tax write-down. They also gain an equity position in the housing project itself. The money they pay is used as equity which enables the developer to secure other loans. In legal terms, the corporations become limited partners in the project. Legally, then, corporate tax credit investors have some ownership control over what happens to the housing project over time. Tax credit legislation requires that housing using credits as financing must remain affordable to low-income renters for at least 15 years (Schwartz, Ferlauto, and Hoffman 1988, p. 150). Once this period is up, corporations may be tempted to exercise their ownership rights, especially when the property is located in a gentrifying neighborhood. The tax credit program has existed only since 1986, nine years ago as of the writing of this

thesis. Once the fifteen year period expires on the first tax credit projects, we will see whether corporations choose to exercise this option.

In 1994, the City of Chicago had \$16 million in tax credits to distribute for project financing. In 1995, \$17.4 million was allocated for this purpose.

Multifamily Rehab and New Construction program

Through this program, developers of affordable housing in the city receive low-interest loans to help them to either rehabilitate existing multi-unit housing or to construct new multi-unit buildings. Funding for the program comes primarily through direct federal subsidies. In particular, the 1995 program is funded through a combination of federal HOME funds, federal Community Development Block Grant funds, federal Section 108 Multifamily Program funding, a city-financed match of federal HOME funds, and a federal earmark for HIV/AIDS housing. In 1994, a total of \$38,062,250 was allocated through the Multifamily Rehab and New Construction program. In 1995, the dollars available to the program increased to \$51,016,707. No other program was allocated even half this amount in 1995. Forty-one percent of all the units DOH claimed to have created in 1994 were created through this program and a similar pattern was developing in 1995. In many ways, then, this program is the department's flagship.

Generally, developers who receive funding through the Multifamily Rehab and New Construction program use the loan as a second mortgage to supplement their purchase and rehabilitation or construction costs. Interest rates provided on these loans by DOH in most cases run between zero percent and three percent. Monthly payments

also tend to be low, with a balloon payment scheduled for the end of the loan term.

Amortization schedules vary from loan to loan. Some loans are scheduled to be forgiven at the end of the loan schedule, as long as the loan recipient continues to provide housing for the intended purpose (e.g., housing for the homeless).

Developers generally use Multifamily Rehab and New Construction loans in combination with several other funding sources, since no single funding source is capable of covering construction and operation costs while maintaining the very low rents poor people require. Even with multiple funding sources, developers generally cannot provide rents affordable to people earning extremely low incomes without also accessing direct rental subsidies. Usually, this means that developers of low-income housing must obtain Section 8 funds. In 1994, 93 percent of all the units created by non-profits were affordable to people earning under \$15,000 annually. Amazingly, a full 97 percent of all these very low-income units were created using Section 8 money. The remaining three percent used the city's Affordable Rents for Chicago program, which was discontinued in 1995, to keep rents low. Much of the Section 8 money accessed for these projects was project-based. This is surprising, since project-based Section 8 funding has been drastically reduced in the last 15 years, as I noted in Chapter 2. The Stewart B. McKinney Homeless Assistance Act of 1987 created project-based Section 8 funds for SRO housing. Some non-profits accessed McKinney money in 1994 to create affordable housing for single individuals who might otherwise be homeless. Other developers got hold of Section 8 money by purchasing HUD-owned properties which have provided low-income housing for many years.

The reality that developers must access Section 8 funds in order to provide very low-income rents severely limits the types of projects which can be produced. McKinney funds support the creation of SRO housing, but no equivalent funds exist to support family housing. Developers may on occasion purchase HUD-owned properties which offer project-based subsidies, but in so doing they are rarely adding to the market of low-income housing, since HUD-owned properties often are housing low-income tenants before they are sold. Finally, developers may access Section 8 funds by renting only to tenants who hold Section 8 certificates, but these people generally are not in need of housing. Their certificates provide them significant leverage in obtaining a quality unit on the open market.

Multifamily Rehab and New Construction loans are rarely combined with funds from the Low Income Housing Trust Fund, the city's rental subsidy program. Combining these funds would seemingly end the reliance of local developers on Section 8 financing. Since Trust Fund subsidies are only guaranteed for one year, however, banks and other lending agencies will not build a loan package based upon this sort of assistance. If they did, and the project was refused Trust Fund money the following year, the loan would likely go into default.

Spending On "Housing Creation" in 1994 and 1995

Table 1 provides a list of all DOH "housing creation" programs in 1994, including the total amount of funds allocated for each program, the total amount actually spent, and the total number of units funded, according to DOH reports. This general information is

important background information for analyzing the department's spending patterns. 1995 expenditures are described in Table 2.

TABLE 1
1994 HOUSING CREATION PROGRAMS,
WITH ALLOCATIONS, EXPENDITURES, AND UNITS FUNDED

Program	1994 Allocation	1994 Expenditures	Units Funded
Affordable Housing Bond Initiative	\$6,000,000	\$0*	0
Low Income Housing Trust Fund	\$5,600,000	\$5,271,719	1529
CDBG Float Loans	\$20,000,000	\$0	0
Housing Revenue Bonds	\$10,000,000	\$0	0
City Fee Waivers	\$700,000	\$550,695	18
Tax Increment Financing	\$2,000,000	\$1,808,000	96
Multifamily Rehab & New Construction	\$38,062,250	\$50,387,376	1742
Single Family Rehab	\$850,000	\$321,543	10
New Homes for Chicago	\$2,687,500	\$1,686,000	92
Low Income Housing Tax Credits	\$16,000,000	\$19,101,559	789
TOTALS	\$101,899,750	\$79,127,288	4276

* \$2,000,000 of the \$6,000,000 originally allocated for the Affordable Housing Bond Initiative was spent in the Multifamily Rehab and New Construction program.

Source: City of Chicago Department of Housing, Fourth Quarter 1994 Report. January 17, 1995.

TABLE 2
1995 HOUSING CREATION PROGRAMS,
WITH ALLOCATIONS, EXPENDITURES, AND UNITS FUNDED
THROUGH JULY 31, 1995

Program	1995 Allocation	1995 Expenditures	Units Funded
Affordable Housing Bond Initiative	\$6,000,000	\$11,725,632	229
Low Income Housing Trust Fund	\$4,000,000	\$4,000,019	1472
CDBG Float Loans	\$20,000,000	\$3,060,000	102
Housing Revenue Bonds	\$10,000,000	\$0	0
City Fee Waivers	\$700,000	\$236,708	6
Tax Increment Financing	\$2,000,000	\$0	0
Multifamily Rehab & New Construction	\$51,016,707	\$21,713,660	770
Housing Opportunities for Persons with AIDS	N/A	385,000	34
Mortgage Credit Certificate Program	\$25,000,000	\$6,883,120	84
CAPP Financing	\$350,000	\$103,216	4
Single Family Rehab	\$1,165,000	\$77,300	2
Homebuyer's Assistance	\$250,000	\$10,422	7
New Homes for Chicago	\$2,500,000	\$720,000	36
Low Income Housing Tax Credits	\$17,400,000	\$18,695,031	981
TOTALS	\$140,381,707	\$67,610,108	3727

Source: City of Chicago Department of Housing, Second Quarter 1995 Report. July 24, 1995.

Housing Policy Conducted by Other Government Entities

Other government entities operate programs which directly affect the housing stock available to low-income Chicagoans. The Chicago Housing Authority (CHA), for example, handles all programs associated with public housing in the city. All public housing projects and Section 8 rental certificate programs, for example, fall under the purview of the CHA. The CHA is not directly controlled by City of Chicago. The housing authority is directly responsible to the U.S. Department of Housing and Urban Development (HUD), not to City Hall.

Certain city departments which are directly responsible to Mayor Daley also control portions of the housing policy affecting city residents. Indeed, most city departments affect the city's housing stock in one important way or another. Those which exert perhaps the most direct influence are discussed below.

The Department of Planning and Development (DPD) handles land use planning for the city. These decisions have broad implications for Chicago's housing stock. DPD, for instance, is empowered to create Redevelopment Zones in areas of the city deemed "blighted." Within these zones, the department may use eminent domain powers to take control of property and then sell it to developers whose plans are commensurate with the city's planning agenda in the area.

The Department of Buildings controls the demolition of properties and handles inspections of city buildings allegedly in violation of the city's building code. The Department of Buildings also administered the Chicago Abandoned Property Program (CAPP), discussed later in this thesis, before the program was transferred to DOH.

The General Services Department handles the administration of the city-owned real estate in Chicago. The amount of land owned by the city is considerable, especially in low-income neighborhoods struggling through periods of sustained disinvestment. The Chicago Tribune claims, for example, that 70 percent of the land in the south side community of Woodlawn is vacant and half of the vacant land is owned by the city (Longworth 1994, p. 7). In Woodlawn, the city is selling several lots to developers of upper-income housing. When the city makes decisions to sell its property, the results affect Chicago neighborhoods for years to come.

Finally, the Department of Law handles the legal questions which often accompany the distribution of city funds or property. When DOH provides a low-interest loan to a developer through its Multifamily Rehab and New Construction program, for example, the Department of Law must approve the transaction. In addition, Department of Law attorneys prosecute cases brought before the city's Housing Court. These cases involve violations of the city's building code. The extensive case load includes, as a result, many of Chicago's most dilapidated properties. Buildings in low-income, minority neighborhoods are, not surprisingly, over-represented. Housing court judges may, under appropriate circumstances, order the property's owner fined or even jailed, and may order the building demolished.

CHAPTER 5

ANALYSIS OF DOH EXPENDITURES AND PROGRAMS

In this section, I will analyze the City of Chicago Department of Housing's 1994 and 1995 expenditures and programs. 1995 data is complete only through July 31, 1995, though some programs had already spent all of money they were allocated in 1995 by this date. All analyses, tables, and figures are based entirely upon data provided by the department itself in public, quarterly reports to the City Council Committee on Housing and Real Estate. My argument is, I think, strengthened by the fact that I am analyzing DOH's programs and expenditures based on the department's own numbers.

Reporting and Administrative Problems

Overcounting

In all of its 1994 reports, DOH double-counted and sometimes triple-counted the units that it claimed to create. When the same project received financing from more than one DOH subsidy program, these units are counted twice and sometimes three times. The department's final 1994 report overcounts the units that it created by at least 791 units as a result. The actual number may be higher, since my analysis was limited to only those programs for which DOH provided the necessary detail in their quarterly reports.

Conservatively speaking, then, at least 18 percent of the 4,276 units DOH claimed to create in 1994 were not created at all (see Table 3).

Such overcounting is important, since it implies that more affordable housing is being created annually in the city than is actually occurring. Planning based on these

TABLE 3
NUMBER OF UNITS DOH CLAIMED TO CREATE,
VARIOUS PROPERTIES FUNDED BY THE DEPARTMENT, 1994

Address	# Units Receiving Multifamily Rehab Funds	# Units Receiving Tax Credits	# Units Receiving Trust Fund Money	Total Units In Project	Total Units DOH Counted
6034 S. Prairie	33	33	0	33	66
5012 N. Winthrop	160	160	0	160	320
334 N. Menard	57	57	0	57	114
6100 S. Wabash	24	24	0	24	48
1900 S. Harding	48	48	14	48	110
5000 W. Monroe	15	0	4	15	19
4655 S. Lake Park	116	116	0	116	332
542 N. Pine	166	166	0	166	332
6 N. Hamlin	276	0	70	276	346
1131 S. Sacramento	11	0	3	11	14
2345 E. 67th	96	96	0	96	192
TOTALS	1002	700	91	1002	1793

Source: City of Chicago Department of Housing, various 1994 and 1995 quarterly reports.

numbers would be wrong-headed from the beginning. Slippery counting procedures may make the department appear to be producing larger numbers of affordable housing units, but they hardly help us to help low-income people, even though DOH may not be intentionally devious. The department may have overcounted its units simply because it is easier in a large bureaucracy to compartmentalize reporting procedures. Complex tracking systems are required to generate an "unduplicated" count, though computers make developing such systems more possible. Lipsky (1980) points out, moreover, that social service providers may try to increase the number of clients they serve for a variety of reasons, including maximizing funding levels. In arguing that the department's overcounting procedures were wrong, I would not wish to undercut their federal funding. Perhaps overcounting needs to be addressed nationwide, to assure that no single local government is disadvantaged. The count as conducted in 1994, at any rate, is misleading to policy analysts and the general public.

After various alderman on the City Council Committee on Housing and Real Estate confronted Commissioner Carrott with their concerns about the double- and triple-counting detailed in my research for the Chicago Rehab Network, the commissioner agreed to discontinue this practice. In presenting the 1995 reports, as a result, the department has clarified their figures. The 1995 reports include an "unduplicated" count of the number of units benefitting from DOH programs. The commissioner made no promise, however, to alter the total count in other public documents; hence, a duplicated count may (or may not) be used in marketing materials and in reports to HUD.

Counting Shelter Beds

Department of Housing programs, on occasion, benefit organizations which provide shelter beds to Chicago's homeless population. The department, for example, provides loans which help fund the rehabilitation of certain properties to be used as shelters. Through the Low-Income Housing Trust Fund, DOH sometimes provides rental assistance to shelter developers, thus helping to defray the costs of housing the homeless. When the department reported this assistance in 1994 and 1995, it counted each shelter bed created as a "unit created." That is, the department took credit for creating a unit of affordable housing in the city whenever its funding assured that a shelter bed would be available to homeless Chicagoans. For example, in the first quarter of 1995, the department provided rental assistance through the Low Income Housing Trust Fund to a shelter located at 108 N. Sangomon. The rental assistance helped to subsidize 25 shelter beds. Subsequently, in its quarterly report, DOH counted the shelter beds it subsidized as "units created." In total, during the years 1994 and 1995, the department counted 120 shelter beds subsidized through its programs as "units created."

DOH assistance for shelter beds is an appropriate use of department resources. The homeless population in Chicago, according to a brochure produced by the non-profit housing development group Lakefront SRO, is as high as 50,000, though the city estimates the number to be much smaller. Keeping a legitimate count of the number of units of affordable housing created in the city annually is also important, however. Helping to subsidize a shelter bed does not constitute creating affordable housing. While the department deserves credit for helping shelter providers, it should count the number of

beds it helps fund separately from the number of housing units it creates.

Considering that the department's overall count was skewed by including shelter beds and by double- and triple-counting units that received funds from more than one financing program, DOH's final 1994 total of "units created" is significantly higher than the number actually produced. Pat Wright of the Nathalie P. Voorhees Center at the University of Illinois at Chicago attempted in a 1995 unpublished study to count the unduplicated total number of housing units produced by DOH in 1994. She concluded that the department actually supported the creation of 3,613 units of affordable housing. I counted an unduplicated total of 3,388 units supported, not including shelter beds. By contrast, DOH claims in its final 1994 report to have created 4,276 units.

Slow Loan Processing Time

Low-interest loans at the Department of Housing are provided to developers of affordable housing through the Multifamily Rehab and New Construction program, as discussed earlier (see Multifamily Rehab and New Construction program, in Chapter 3). My analysis of those loans which closed during 1994 and 1995 reveals that, on average, the department required nearly one year to process the typical application. As Table 4 indicates, DOH typically requires over eleven months from the date they receive an application to close the deal. The table lists all projects being processed in 1994 for which the necessary information was available in DOH reports. Hence, program applicants can expect to close on their DOH loan nearly one year from the time they submit their application. After closing, applicants must still wait to actually receive their money from

the department. DOH does not maintain data on the length of this final waiting period.

The excessive length of the loan processing process at DOH holds up deals that otherwise would be providing housing for low-income Chicagoans much more quickly. Because the deals remain in the pipeline, developers are often unable to pursue other projects. Hence, while the creation of low-income housing in Chicago is desperately needed, the capacity of developers to produce units is slowed by administrative sluggishness within DOH.

Possible Favoritism In Loan Process

Some evidence exists that certain developers may enjoy a degree of favoritism when their loans are processed. Such favoritism is difficult to prove conclusively, but the data in Table 5 suggests that one developer - Senior Lifestyles, Inc. - may receive preferential treatment. Senior Lifestyles is owned by the Klutznick family, which the Chicago Tribune calls "politically prominent" (Kass 1995, p. 6). The average loan submitted by the Klutznicks was processed in five months (see Table 5). As we saw above, the average loan processed during 1994 took over eleven months to process, including the Klutznick loans. If we compute the average processing time for all loans in process in 1994 *excluding* Klutznick loans, we find that DOH averaged nearly 13 months to process all non-Klutznick loans. That is, loans to Senior Lifestyles, Inc. averaged five months to process. All other loans processed during 1994 averaged nearly 13 months.

All three of the Klutznick loans were used to create senior citizen housing with studios ranging in rent from \$416 to \$535 and one-bedrooms ranging from \$446 to \$535.

TABLE 4

**PROCESSING TIME, FROM APPLICATION TO CLOSING -
MULTIFAMILY REHAB LOANS IN PROCESS DURING 1994**

Project Address	Application Date	City Council Approval	Closing Date	Total # Months In Process
334 N. Menard	9/29/93	4/13/94	8/12/94	10
6100 S. Wabash	8/1/93	5/4/94	9/29/94	14
1900 S. Harding	10/13/93	5/4/94	9/21/94	11
6037 W. Grand	1/11/94	5/4/94	7/6/94	6
5000 W. Monroe	11/1/93	5/18/94	8/5/94	9
4848 N. Winthrop	3/23/93	6/6/94	12/21/94	21
8954 S. Commercial	4/11/93	10/7/93	5/10/94	13
3417 W. Lexington	4/1/93	9/15/93	6/27/94	15
4655 S. Lake Park	2/10/94	7/13/94	9/1/94	7
5846 S. King Drive	10/93	7/13/94	2/8/95	15
3244 W. 59th	4/24/94	8/3/94	9/2/94	4
303 W. Barry	4/6/94	9/14/94	10/31/94	7
1152 W. Christiana	6/20/92	8/4/93	9/19/94	27
542 N. Pine	10/20/93	10/5/94	12/13/94	14
6750 N. Green	6/1/94	10/5/94	2/27/95	9
7722 N. Marshfield	9/1/94	10/10/94	12/31/94	4
2345 E. 67th	10/7/94	12/21/94	3/8/95	5
AVERAGE				11.2

Source: City of Chicago Department of Housing, various 1994 and 1995 quarterly reports.

TABLE 5
 PROCESSING TIME -
 1994 LOANS TO SENIOR LIFESTYLES, INC.

Project Address	# Months from Application to Closing
6037 W. Grand	6
3244 W. 59th	4
2345 E. 67th	5
AVERAGE	5

Source: City of Chicago Department of Housing, various 1994 and 1995 quarterly reports.

The apparent favoritism granted to the Klutnicks is especially troubling given the historical use of senior citizen housing as a gentrification strategy. Community organizations who desire the racial and economic gentrification of their neighborhood sometimes pursue developers who provide senior citizen housing. Seniors often need housing that is similar in size and cost to low-income minority individuals; so, in attracting these developments to their neighborhood, some community organizations cut the supply of housing to the low-income minorities that they wish to exclude. Of course, low-cost housing for senior citizens is an important niche in the city's housing market, and the creation of senior housing does not necessarily imply gentrification or maliciousness in any way. Since the Klutnicks appear to receive favorable treatment at DOH, though, and because the rents that they charge fall within a relatively high range, the concerns described above are valid until new information is made available.

Difficulty Spending Allocations for New Programs

The department failed to spend any or much of the money allocated to certain of its programs in 1994. This trend continued into 1995. For example, DOH failed to spend over \$36 million in new program funds that were allocated for affordable housing by the City Council in 1994. Four new programs at the department were allocated a total of \$36,850,000 for affordable housing in the 1994 budget. DOH spent only \$321,543 of this money within the programs for which the money was originally intended (see Table 6).

It should be noted that \$2 million of the \$6 million originally allocated for the Affordable Housing Bond Initiative program was transferred to the Multifamily Rehab and New Construction program and spent there. Even considering this transfer of funds, however, the department only spent a small percentage of the funds it was allocated for these programs.

The department's difficulty in spending money allocated for these programs may reflect a variety of problems. Commissioner Carrott, in the narrative section of the

TABLE 6

VARIOUS DOH PROGRAMS -
1994 ALLOCATION, EXPENDITURES

Program	1994 Allocation	1994 Expenditures
Affordable Housing Bond Initiative	\$6,000,000	\$0
CDBG Float Loans	\$20,000,000	\$0
Housing Revenue Bonds	\$10,000,000	\$0
Single Family Rehab	\$850,000	\$321,543

Source: City of Chicago Department of Housing, Fourth Quarter 1994 Report. Jan 17, '95.

department's fourth quarter report in 1994, explains that money for the Affordable Housing Bond Initiative program was not available to DOH because the Illinois Housing Development Authority (IHDA) "remained unresponsive to DOH attempts to employ \$2,000,000 of our funds for the purpose of writing down the rate of interest on \$6,000,000 of proceeds from an IHDA affordable housing bond." Analyzing the legitimacy of this claim is beyond the scope this study of DOH quarterly reports. Certainly problems such as the one Commissioner Carrott describes may legitimately stall the department's ability to spend funds originally allocated by City Council. Commissioner Carrott does not mention similar problems with other programs, however. The department's difficulty in spending money in other programs may reflect other problems. The Chicago Rehab Network (CRN), a coalition of 37 non-profit housing development organizations in the city, claims that DOH fails to adequately market new programs to the low-income housing development community or to provide effective technical assistance regarding the use of these funds. Developers swamped by the difficulties of purchasing, renovating, and managing properties with resources that are often severely stretched cannot be expected to pursue new funding sources which they know little about. Funding sources for low-income housing change with a regularity that rattles the minds of developers. As Maureen Hellwig, director of the economic development program at a Chicago community organization, complains in a CRN newsletter, "Just when not-for-profit developers get the hang of it, when they figure out how to crank out a significant number of housing units, the resource they have mastered runs out or is eliminated by Congress" (Hellwig 1994, p. 10). Since funding sources

change at the federal level change so regularly, new programs at the city level which are not aggressively marketed can be expected to be poorly accessed until developers have time to learn how to use them.

Through the second quarter of 1995, DOH had failed to spend any money at all through both the Housing Revenue Bonds program and the Tax Increment Financing program. Moreover, the department, halfway through the year, had spent only 4 percent of the money originally allocated for the Homebuyer's Assistance program, only 7 percent of the money allocated for Single Family Rehab, and only 15 percent of the money available through the CDBG Float Loans program.

Problems With Where the Money Goes

Inequitable Subsidies Across Income Groups

As mentioned previously, the Multifamily Rehab and New Construction program is DOH's flagship, responsible for forty-one percent of all units the department claims to have created in 1994. This program receives more than double the total allocation provided to any other DOH program. Perhaps not surprisingly, as a result, DOH provided more detail about the projects funded through this program than through any other in 1994. My analysis of DOH subsidies provided through the Multifamily Rehab and New Construction program revealed striking inequities across the income groups served.

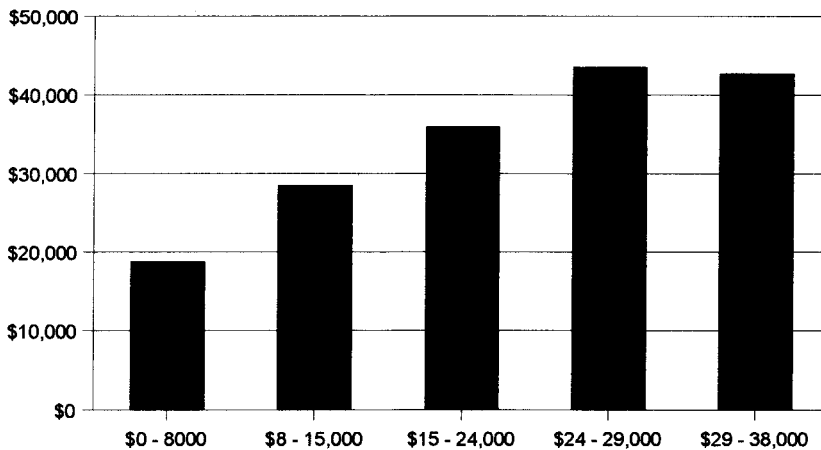
More precisely, the size of DOH subsidies provided per unit through this program in 1994 increases as the income of the people served increases. Indeed, the size of the subsidies provided per unit when the highest-income people benefitted were well more

than double the size of the per unit subsidy when the poorest people benefitted (see Table 7).

When DOH reports information about a Multifamily Rehab loan that the department funded, it discloses the number of units created, the rents of each of those units and the incomes of the people who can afford those rents. The department uses an equation based on the widely accepted concept that households can afford approximately one-third of their monthly income for rent. In many cases, rents vary within a single project. As a result, a variety of income groups are often served by one building. Regardless of the number of income groups served, DOH provides only one loan per project. So, in developing Table 7, I faced a problem. How should a single subsidy be divided among the various income groups benefitting from it? I chose a logical course of action. I divided the total loan by the number of units created, to produce a “per unit subsidy.” Then, I doled out the per unit subsidy to each income group by multiplying it by the number of units that benefitted each group. For example, if the per unit subsidy provided by the department were \$1000 on a 20-unit building and the loan created 10 units affordable to people earning under \$8000 and another 10 units affordable to people earning from \$8000 to \$15,000, then I deduce that the department spent \$10,000 on people earning under \$8000 and another \$10,000 to help people earning between \$8000 and \$15,000.

Because government subsidies are relatively low, non-profit housing development organizations committed to providing affordable housing to the poorest of Chicago’s citizens have a hard time both succeeding in their mission and covering their debt

TABLE 7
AVERAGE PER UNIT SUBSIDY, BY INCOME LEVEL -
MULTIFAMILY REHAB AND NEW CONSTRUCTION LOANS



Source: City of Chicago Department of Housing, various 1994 and 1995 quarterly reports.

(Cordova 1991, p. 37). If the department is providing larger per unit loans to higher income projects, the work of non-profits is made even more difficult.

The analysis described above does not consider unit size in determining the amount of subsidy provided. This fact may cause my results to be misleading. Small units like studio apartments cost less to develop than larger units. If most of the units created for lower income people were studios, then the subsidy differences my analysis reveals may result from the lower cost of creating smaller units, not a bias against lower income people. In fact, though, only 51 percent of the units affordable to people earning under \$8000 annually created through the Multifamily Rehab and New Construction program in

1994 were studios. The rest were a mix of one, two, and three bedroom units. Moreover, over 45 percent of the units affordable to households earning more than \$24,000 annually were studios. A difference in the unit sizes created for various income groups does not appear to account for the differences in subsidies I described above.

Subsidizing Rents Already Provided By the Open Market

In some cases, DOH provides subsidies to developers who create housing with rents equal to or above the rents available on the private, open market in the same neighborhood. As Table 8 shows, rents charged in 1994 at DOH-subsidized projects were equal or higher to typical, private market rents in their community area. The private market rent ranges were gathered by the Chicago Sun-Times in December 1994.

TABLE 8

RENTS PROVIDED IN SELECTED 1994 DOH-SUBSIDIZED PROJECTS, COMPARED TO OPEN MARKET RENTS

Project address	Community name	Rents in project	Rents on the open market in community*
2345 E. 67th	Woodlawn	1 BR - \$446-535	1 BR - \$310-410
1443 W. Farwell	Rogers Park	1 BR - \$525-650 2 BR - \$650	1 BR - \$425-575 2 BR - \$635-825
7728 N. Marshfield	Rogers Park	Studio - \$375 1 BR - \$425-475	Studio - \$375-450 1 BR - \$425-575

* Open market rent ranges were gathered by the Chicago Sun-Times in December 1994.

Source: City of Chicago Department of Housing, various 1994 and 1995 quarterly reports.

Government subsidies are intended to provide housing to those people that the

open, unsubsidized market is failing to reach. DOH, in subsidizing the projects in Table 8, appears to be spending money on projects that do not need it. Other developers are providing the same rents in those neighborhoods without government assistance. My data raises the question, "Who is really benefitting from these projects?"

Of course, the units receiving DOH subsidies in 1994 are freshly rehabilitated and in many cases offer attractive amenities that may not be offered in apartments on the open market. The costs of creating high quality units may justify rents that are higher than most rents in the neighborhood. I do not intend to suggest that DOH is purposefully lining the pockets of developers. I do suggest that the department is choosing to allocate its funds to projects with relatively high rents. As a result, developers in some neighborhoods may be able to provide units of a higher quality than is generally available on the market, but they also fail to provide housing for those most in need in the local neighborhood. My argument throughout this paper has been that the department's subsidies, when so allocated, are misplaced.

Part of the reason that DOH is subsidizing rents already available on the private market in Chicago is that federal guidelines establish a strange method of determining who qualifies as "low-income." This allows DOH to suggest that it is serving low-income people when, in fact, it is not. Guidelines established at the U.S. Department of Housing and Urban Development define "low-income" people as those households who are earning less than a certain percentage of their area's median household income. The problem is that, for Chicago, the "area" is defined as including several relatively wealthy suburban counties. As a result, the median income employed is quite high. This method of

calculation allows DOH to provide housing subsidies to people at relatively high income levels and yet claim that “low-income” people are being served. Many of the department’s programs, for example, are designed to benefit people earning up to 80 percent of the “area median income.” Using the calculation strategy described above, DOH may provide subsidies through these programs to benefit families of four earning nearly \$40,000. Indeed, because of the way the percentages are figured, some city subsidies benefit families earning up to \$62,000 annually.

The rents that are created in DOH projects may be quite high, as a result. According to the department’s final 1994 report, 38 percent of all “housing creation” money benefitted people earning over thirty percent of the “area median income,” about \$15,000 (in 1994 dollars) for a family of four. Nelson (1994) studied housing needs nationally and determined that new subsidized housing is not needed by lower income groups earning more than 30 percent of “area median income.” If Nelson’s data applies in Chicago, then nearly \$4 out of every \$10 spent on affordable housing in the city goes to people who are not in great need. My data comparing DOH-subsidized rents to rents already available on the open market, though clearly inconclusive, also suggests that DOH spending is misplaced.

Moreover, of those units DOH supported in 1994 which were affordable to people earning under thirty percent of the area median income, fifty-four percent were created through the Low Income Housing Trust Fund. The rents created through this program are guaranteed for one year only. Funding cuts and developer fancy may quickly annihilate the gains made by the program and the low-income people who benefit from it.

Focus On Smaller Units

Federal regulation earlier this decade required that all municipalities receiving federal housing assistance file a five-year plan for creating affordable housing called the Comprehensive Housing Afford ability Strategy (CHAS). In the 1993 CHAS, writers for the City of Chicago stated, “The Community Profile indicates that families are particularly disadvantaged in their search for affordable housing. The city will encourage the provision of a balance of adequate units for large as well as small households in rehabilitating multi-family buildings.” The CHAS writers may have been encouraged to pledge their assistance to families because the number of larger unit apartments in the city decreased dramatically during the 1980s. Four bedroom rental units declined by 16.9 percent during that decade (T. Wright 1995, p. 175).

Despite the city’s intentions, 65 percent of the units created by DOH through the Multifamily Rehab and New Construction program in 1994 were either shelter beds, SRO units, studios, or one-bedrooms. Indeed, 55 percent of the units created contained no bedroom at all (see Figure 1).

This focus on smaller units also exists in other programs. Data on the Low Income Housing Trust Fund (LIHTF) and the Low Income Housing Tax Credit program for 1995 is analyzed in Figures 2 and 3, respectively, revealing a pattern similar to that exposed in the Multifamily Rehab and New Construction program. This data for 1995 is appropriately analyzed, since both the LIHTF program and the tax credit program had essentially spent all of their allocated money for the year by July 31, 1995, when I stopped

gathering data for this thesis. No other unit of housing will be created through either of these programs for the remainder of the year.

In part, the tendency of the department to create small unit sizes is accounted for by the fact that buildings with smaller units tend to contain more units. So when DOH provides money to support the rehabilitation of a studio building, it tends to create more units than when it supports the rehabilitation of a building with larger units. On the other hand, DOH is clearly supporting many more households who need studio or one-bedroom apartments than families who need larger units. This heavy emphasis raises questions about whether this strategy fits with the housing needs of Chicagoans. The city's CHAS did not agree. Homeless advocates such as the Chicago Coalition for the Homeless and Lakefront SRO argue that "single-room occupancy" housing is desperately needed to help homeless individuals move from the street into the mainstream and to house people who might otherwise be homeless. Since 1975, about 20,000 SRO units have been lost in the city (T. Wright 1995, p. 162). Clearly, money to support the creation of affordable studio units is an important effort wholly appropriate for DOH spending. Such a heavy emphasis on smaller units, however, is probably not desirable, given drastic losses in larger units in recent years and the increasing levels of poverty being experienced by low-income families with large numbers of children. As Holeb points out, 47 percent of all African-American children in the city are poor (Holeb 1993, p. 79).

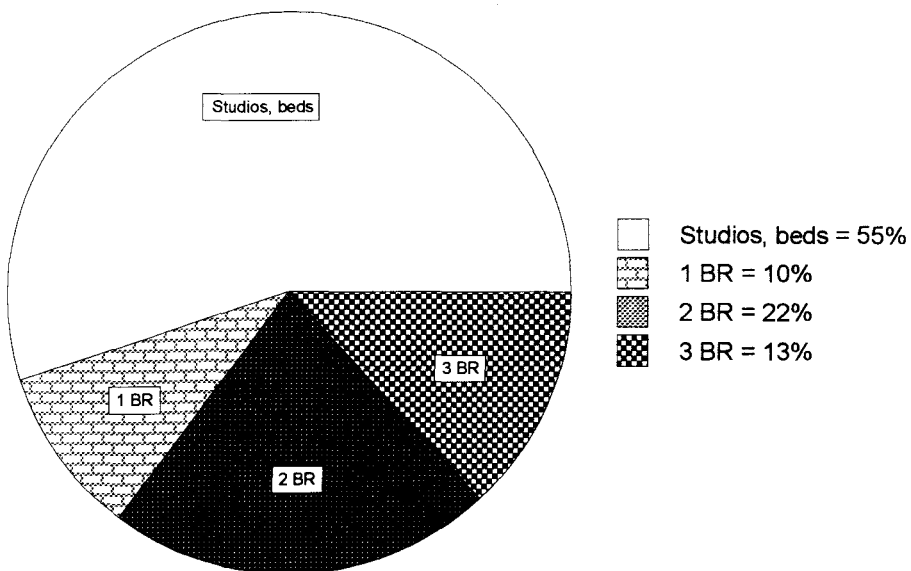


Fig 1. Unit sizes created in projects funded by the Multifamily Rehab and New Construction program, 1994.

Source: City of Chicago Department of Housing, various 1994 quarterly reports.

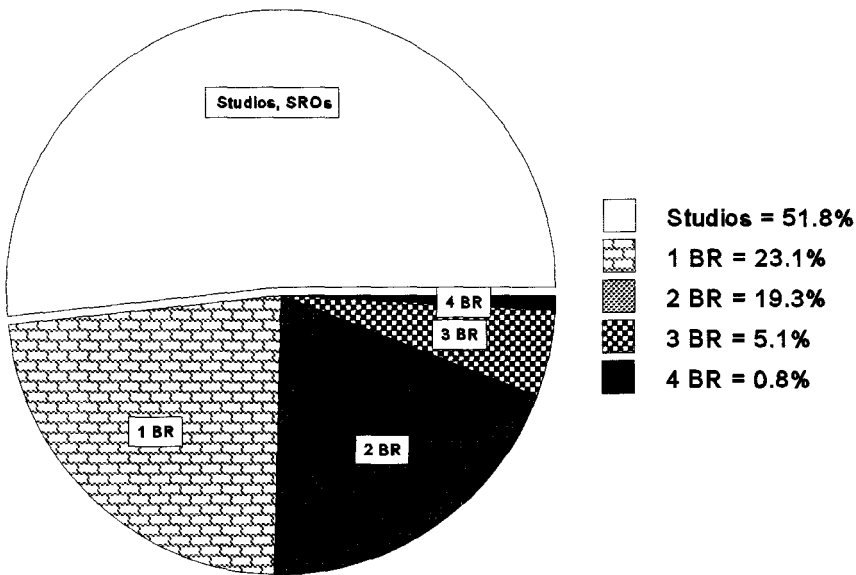


Fig. 2. Unit sizes created in projects funded by the Low Income Housing Trust Fund, 1995.

Source: City of Chicago Department of Housing, First and Second Quarter 1995 Reports.

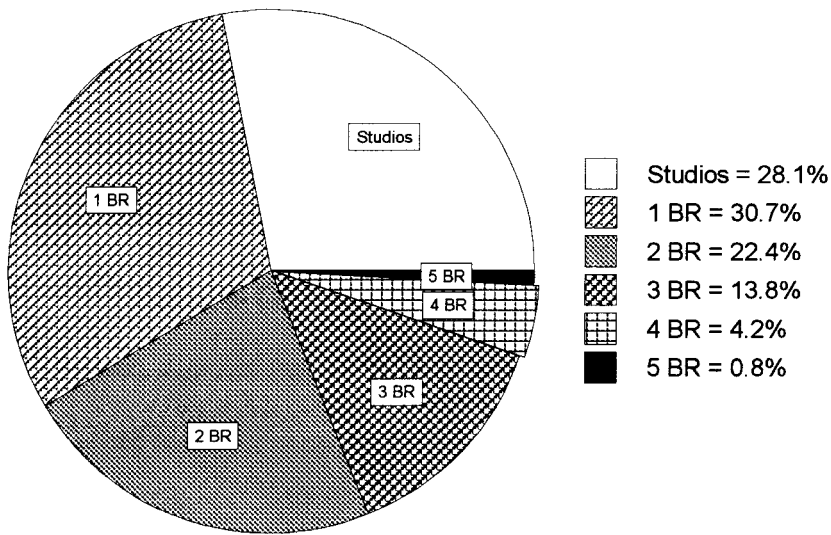


Fig. 3. Unit sizes created in projects funded by the Low Income Housing Tax Credit, 1995.

Source: City of Chicago Department of Housing, First and Second Quarter 1995 Reports.

Inequities in Funds Provided to For-profits Compared to Non-profits

In 1994, twenty-two low-interest loans provided by DOH through the Multifamily Rehab and New Construction program were approved by City Council. Ten of these loans were awarded to non-profit organizations. The other twelve were given to for-profit developers. As Table 9 indicates, DOH provided for-profit developers with loans that were, on average, twice as large as the loans provided to non-profit groups.

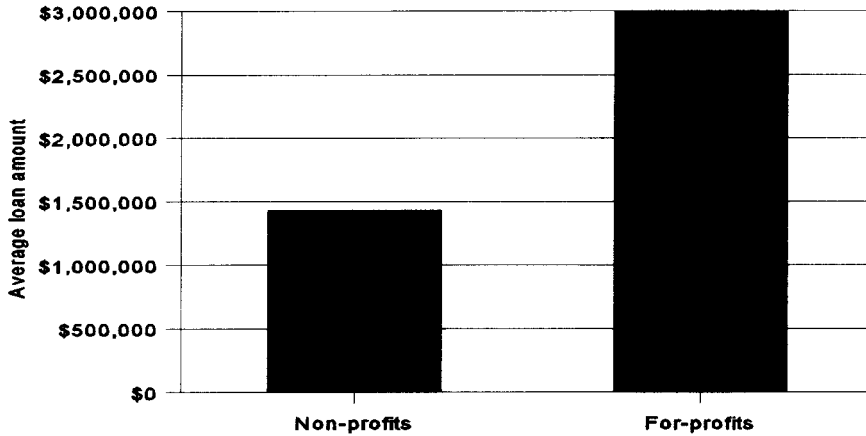
At the public hearing before the City Council Committee on Housing and Real Estate at which the Department of Housing presented its final 1994 report, Commissioner Carrott argued that the discrepancy described in Table 9 occurs because non-profits access more of the DOH money available through other programs. The total subsidies provided to non-profits and for-profits, the Commissioner implicitly claimed, are similar. The data in Table 10, however, disputes her claim. The table shows that the average total subsidy provided to for-profit loan recipients was more than double that awarded to non-profit groups.

One might reasonably ask if for-profits were involved in larger projects than non-profits, so that their average loan is legitimately higher. Even when considered on a “per unit” basis, however, the loans DOH gave to for-profits were much larger than those provided to non-profits (see Table 11).

Other apparent inequities exist in the loans provided to for-profit and non-profit development groups. A disparity exists, for example, in the size of the developer’s fee that was allowed by DOH. A developer’s fee is built into the overall project budget as a standard rule of practice. It is awarded to the organization, company, or other entity

TABLE 9

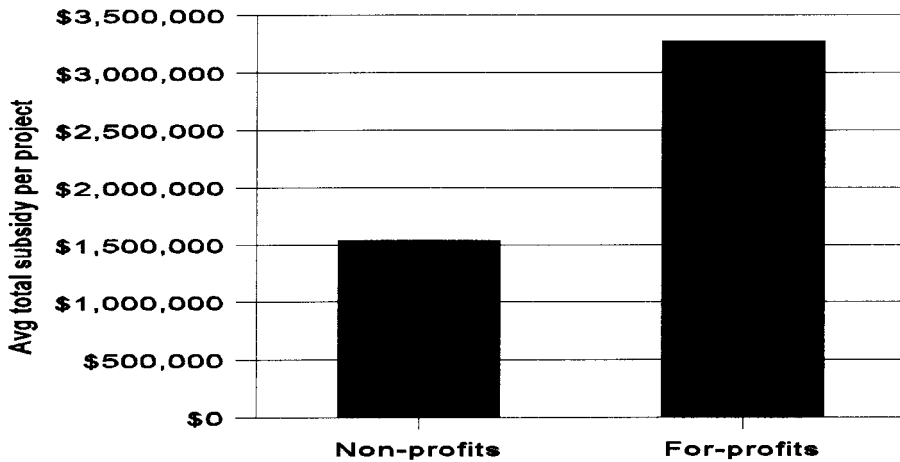
AVERAGE DOH LOAN AMOUNT PER MULTIFAMILY REHAB PROJECT, 1994 -
COMPARISON OF LOANS TO NON-PROFITS, FOR-PROFITS



Source: City of Chicago Department of Housing, various 1994 quarterly reports.

TABLE 10

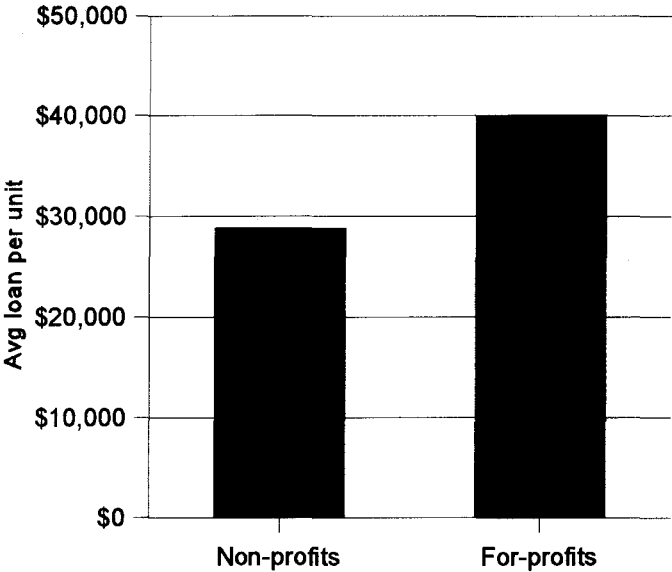
AVERAGE TOTAL DOH SUBSIDY PROVIDED TO MULTIFAMILY REHAB AND
NEW CONSTRUCTION LOAN RECIPIENTS
COMPARISON OF NON-PROFITS TO FOR-PROFITS



Source: City of Chicago Department of Housing, various 1994 quarterly reports.

TABLE 11

AVERAGE MULTIFAMILY REHAB LOAN PER UNIT, 1994 -
COMPARISON OF NON-PROFITS, FOR-PROFITS



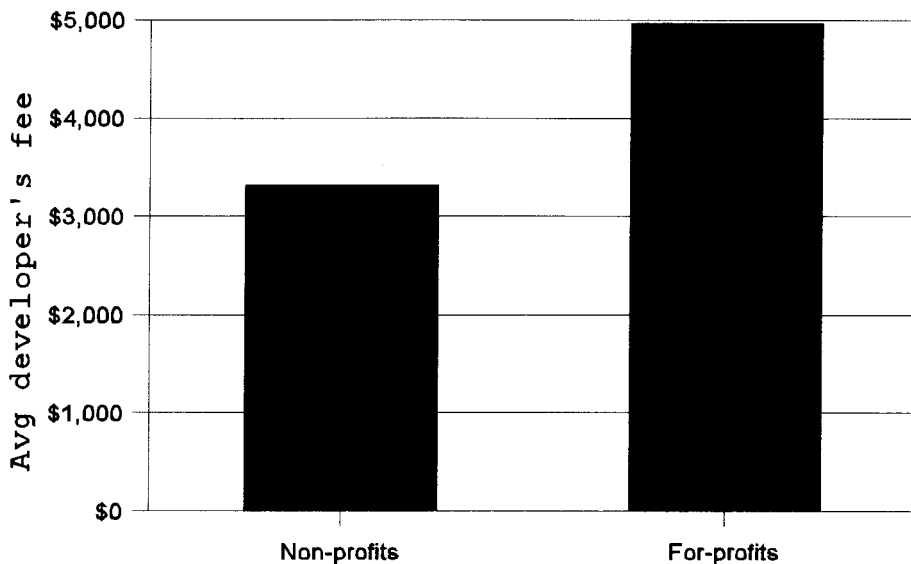
Source: City of Chicago Department of Housing, various 1994 quarterly reports.

responsible for overseeing the project from start to finish. This fee helps the developer to overcome his or her purchase and rehabilitation costs, since it may be applied directly to the bottom line. For 1994 DOH loans, for-profit groups took a per unit developer's fee that was, on average, 50 percent higher than the fee charged by non-profits (see Table 12).

I was also able to compare, using data available in the DOH reports, the total project costs of for-profit and non-profit projects. Total project costs include all of the costs of acquisition, construction (or rehabilitation), soft costs such as legal expenses, and the developer's fee. The total project costs per unit were nearly 50 percent higher at for-profit projects, compared to non-profit projects (see Table 13).

TABLE 12

AVERAGE DEVELOPER'S FEE, PER UNIT CREATED,
1994 MULTIFAMILY REHAB AND NEW CONSTRUCTION LOANS -
COMPARISON OF NON-PROFIT, FOR-PROFIT LOAN RECIPIENTS



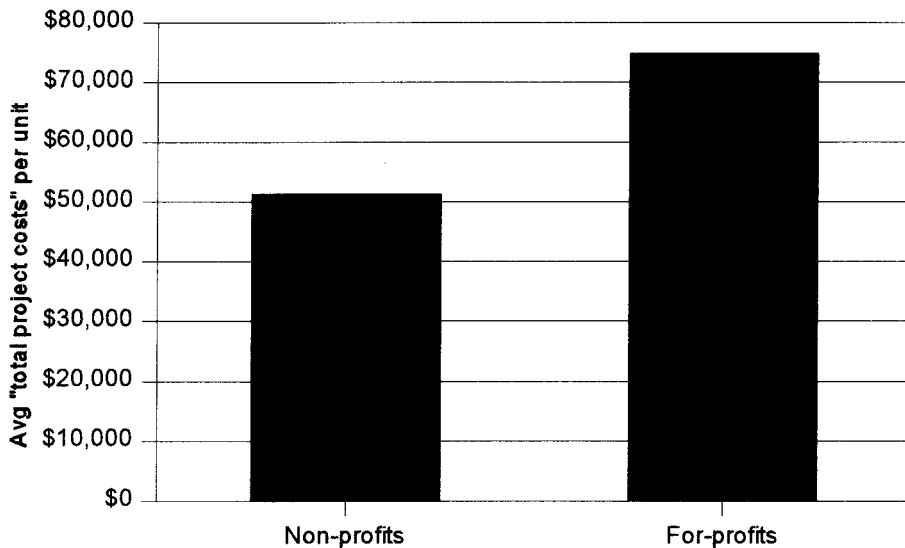
Source: City of Chicago Department of Housing, various 1994 quarterly reports.

We might expect “total project costs” at non-profit projects to be lower than the costs of for-profit projects, if non-profits were creating units that cost less to create. For example, if non-profits were rehabilitating buildings filled with studios and for-profits were rehabbing a lot of three-bedroom units, we might expect their per unit project costs to vary accordingly. Smaller unit size should translate to a lower total per unit project cost, especially since many studio buildings are large apartment buildings which create a beneficial economy of scale for the developer.

Indeed, 49 percent of the units created through the Multifamily Rehab and New

TABLE 13

**AVERAGE "TOTAL PROJECT COSTS" PER UNIT CREATED,
1994 MULTIFAMILY REHAB AND NEW CONSTRUCTION LOANS -
COMPARISON OF NON-PROFIT, FOR-PROFIT LOAN RECIPIENTS**



Source: City of Chicago Department of Housing, various 1994 quarterly reports.

Construction program in 1994 by non-profits were either studios or shelter beds. The 15 percent of these units which were shelter beds were created in projects which averaged per unit "total project costs" of only \$31,825.

On the other hand, a full 60 percent of the units created by for-profit developers were studio units. Only 31 percent of the units created by for-profits contained two or more bedrooms, compared with 40 percent of the non-profit units.

For-profit project costs, moreover, were higher than non-profit costs even when unit sizes are held constant. The studios rehabilitated by non-profits were generated in projects which averaged \$44,496 in "total project costs" per unit. All of these units were

created in projects which contained mostly studio units. For-profit studios, by comparison, were renovated in projects which averaged \$67,153 in per unit "total project costs." The for-profit figure excludes one project which contains studios, because most of the units in the building are two- or three-bedroom units.

Despite the various disparities outlined above, non-profit groups tended to provide housing to people at much lower income levels than for-profit developers. In fact, a full ninety percent of the units created by non-profit developers in 1994 through the Multifamily Rehab and New Construction program were affordable to people earning less than \$8000 annually, while only seven percent of the units created by for-profit developers benefitted people at these lowest income levels (see Table 14). By the way, when we consider households earning under \$15,000 a year, the results are similar. Fully 93 percent of the units created by non-profits helped people in this larger income range, while only 18 percent of for-profit units benefitted these households.

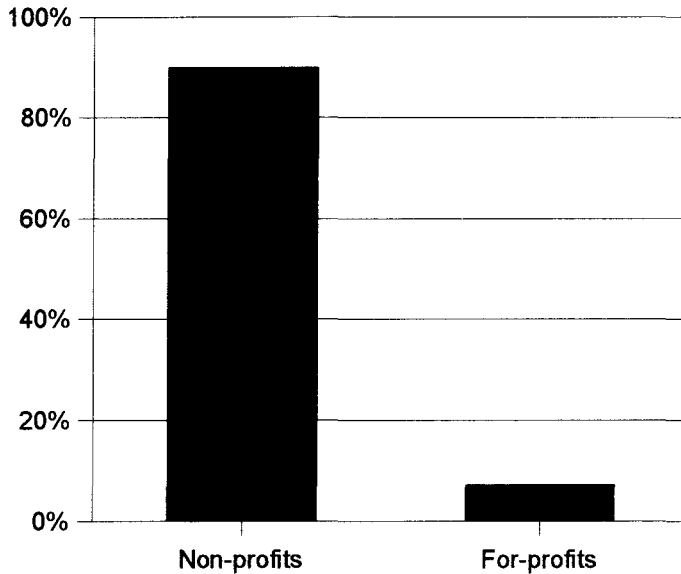
Funding Demolition, Not Rehabilitation: The CAPP Program

The Chicago Abandoned Property Program (CAPP) is not considered a "housing creation" program. However, the program is administered by the Department of Housing and data regarding the program is provided in the department's report for the first quarter of 1995. Therefore, I include an analysis of this program, based entirely upon the data provided in the report.

CAPP was designed to get structurally sound, vacant properties into the hands of developers who will renovate them. The program accepts properties only if they are

TABLE 14

MULTIFAMILY REHAB AND NEW CONSTRUCTION PROJECTS, 1994
 PERCENT OF UNITS AFFORDABLE TO HOUSEHOLDS
 EARNING UNDER \$8000 ANNUALLY,
 NON-PROFIT V.S. FOR-PROFIT PROJECTS



Source: City of Chicago Department of Housing, various 1994 quarterly reports.

structurally sound enough to be rehabbed. Since the inception of the program three years ago, only 10 buildings have been renovated (as of March 31, 1995). In contrast, 54 buildings, or 43 percent of all the properties transferred by the program, have either been demolished or are headed towards demolition (see Figure 4). The Department of Housing is not fully to blame for these results. The City of Chicago Department of Buildings administered the program until November 1993, half the time the program has existed.

In general, moreover, these properties are not being demolished to make way for new affordable housing projects or other new uses that might be beneficial to the city.

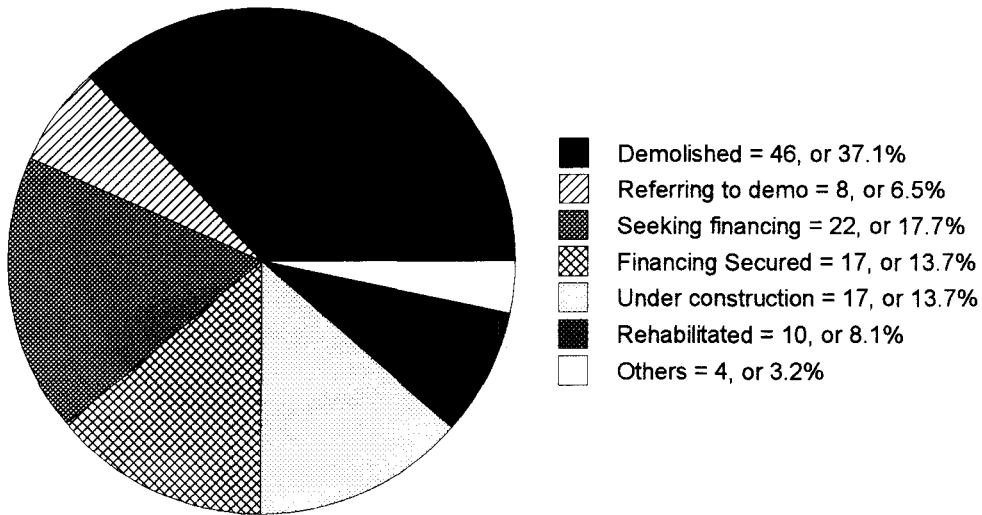


Fig. 4. Current state of CAPP properties transferred since program inception (1992), as of March 31, 1995.

Source: City of Chicago Department of Housing, First Quarter 1995 Report. April 26, 1995.

After demolition, two-thirds of the CAPP properties are simply added to the rolls of city-owned property. The largest portion of the remainder become parking lots (see Figure 5).

This policy is congruent with the drastic increase in city-funded demolitions in the 1990s. As mentioned in Chapter 2, the Chicago Alliance for Neighborhood Safety points out that city allocations for demolition increased from \$1.8 million in 1989 to \$15 million in 1995.

The city's policy of supporting the demolition of abandoned property facilitates the negative housing development cycle I outlined in Chapter 2. Demolishing property, rather than encouraging its rehabilitation, exacerbates the disinvestment process in low-income

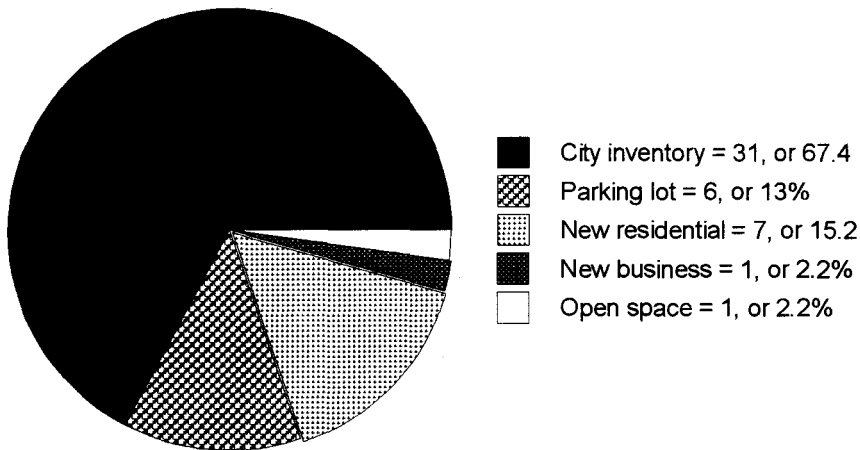


Fig. 5. Current state of all demolished CAPP properties, as of March 31, 1995.

Source: City of Chicago Department of Housing, First Quarter 1995 Report. April 26, 1995.

neighborhoods. Fewer buildings are available for rehabilitation and land prices continue to drop, until investors are encouraged to reinvest in hopes of reaping heavy profits. In the meantime, low-income people in the city have less affordable housing available to them and the landscape of the neighborhood comes to look more and more like a ghost town.

Adding the resulting vacant land to the inventory of city-owned land translates to significant city control of the future development course of neighborhoods in which many buildings have been demolished. In Woodlawn, for example, the city currently owns so much land (35 percent of all land in the community, according to the *Chicago Tribune*) that its development decisions will play a vital role in determining the future of the neighborhood (Longworth 1994, p. 7). While an analysis of the city's efforts in Woodlawn is beyond the scope of this thesis, some activists in the area argue that the city

is encouraging gentrification by selling their land to developers of upper-income housing (Allen 1995, p. 5).

My data does not take account of the size of the buildings demolished. It is possible that most of the demolished properties contained very small numbers of units while those rehabilitate contained very large numbers of units, thus equalizing the effect of the city's policy somewhat. I have no data to determine whether or not this was the case. At any rate, my data makes clear that the CAPP program is being used in many cases to demolish buildings originally intended for rehabilitation. Adding vacant land to the city's inventory does not provide the housing so desperately needed by Chicago's low-income population.

CHAPTER 6

CONCLUSIONS

Chapter 5 presents a significant amount of data which I believe reveals some serious problems with the way that the City of Chicago Department of Housing is currently managing its programs and allocating its resources. As a result of these problems, Chicagoans with desperate housing needs are not being served as well as they might.

Administrative problems such as slow loan processing procedures and failure to spend allocated resources, for example, mean that less units of affordable housing are produced in the city than might be. Developers could do more deals if the Department of Housing processed the papers more quickly. And more deals could be done as well, of course, if all of the money the city allocates for affordable housing production were actually spent. In 1994 and the first half of 1995, the department was failing in these regards.

In 1994, the department was employing slippery counting procedures in tallying the total number of units created with DOH support. Administrative difficulties and a desire to look good to funders may encourage overcounting; at any rate, these procedures hinder our ability to understand just how much local government is doing to help resolve

the pressing housing problems of Chicagoans. The department is to be commended for foregoing this procedure in 1995. DOH continues, however, to count shelter beds as “units created.” Shelter beds provide a short-term solution for homeless people. They do not provide a long term solution to the housing problems of low-income people. Creating shelter beds is not equivalent to creating units of long-term, affordable housing.

I also presented evidence which suggests that political favoritism influenced the way in which DOH administers its loan process. The applications of one developer, Senior Lifestyles, Inc., were processed in an average of five months, while all other loans averaged about thirteen months. All of the Senior Lifestyles, Inc. projects benefitted senior citizens and provided rents which were high relative to other funded projects. If it’s true that favoritism accounts for the disparity in loan processing times, DOH is clearly prioritizing projects based on the wrong reasons.

In addition, I showed that the Department of Housing is focusing its production efforts on small units of housing, despite a desperate need for larger units in Chicago. Studios provide an important avenue for single, low-income individuals to avoid homelessness. The drastic reduction in the city’s SRO buildings in recent years demands that significant resources be allocated to the production of building with studio units. However, the need for units containing three or more units is also desperate. DOH’s overwhelming focus on smaller units assures that the department will have a large number of units to report whenever HUD visits town and quiets SRO advocates, but fails to adequately address the need for family-sized housing.

The city is also allocating its money in ways which benefit upper-income projects

at the expense of lower-income people. I presented data in Chapter 5 which showed that the size of DOH loan subsidies increases as the income of the people served increases. This disparity, I argue, cannot be blamed on differences in the size of the units created for people at each income level. That is, poorer people did not get less subsidy because their units were smaller, and therefore cheaper. Only 51 percent of the Multifamily Rehab units affordable to people in the lowest income category - those earning under \$8000 annually - were studios. The rest were a mix of one, two, and three bedroom units. By comparison, over 45 percent of the units affordable to households earning more than \$24,000 annually were studios.

Developers of housing for low-income Chicagoans struggle to both cover their debt and provide rents at levels which very poor people can afford. When DOH allocates their resources in a manner which further hinders the ability of developers to provide housing to low-income Chicagoans, the situation only becomes more desperate.

The department also sometimes funds projects which provide rents that are already available on the unsubsidized market in the same neighborhood. These projects appear to subsidize developers, not affordable housing. Of course, the newly subsidized units are freshly rehabilitated and in many cases offer attractive amenities that may not be offered in apartments on the open market. The costs of creating high quality units may justify rents that are higher than most rents in the neighborhood. I do not intend to suggest that DOH is purposefully lining the pockets of developers. I do suggest that the department is choosing to allocate its funds to projects with relatively high rents. As a result, developers in some neighborhoods may be able to provide units of a higher quality than is generally

available on the market, but they also fail to provide housing for those most in need in the local neighborhood. My argument throughout the paper was that the department's subsidies, when so allocated, are misplaced.

I also showed in Chapter 5 that the Department of Housing appears to provide much more generous loans to for-profit developers than to non-profit organizations, even on a per unit basis. I showed, moreover, that this disparity cannot be attributed to differences in the size of the units created. While 49 percent of the units created through the Multifamily Rehab and New Construction program in 1994 by non-profits were either studios or shelter beds, a full 60 percent of the units created by for-profit developers were studio units. Only 31 percent of the units created by for-profits contained two or more bedrooms, compared with 40 percent of the non-profit units. For-profit project costs, moreover, were higher than non-profit costs, even when we compare units of the same size.

Since non-profits almost always provide housing affordable to the lowest income Chicagoans and for-profits almost always create more expensive housing, poor people are directly affected by the disparity in DOH allocations.

Finally, a DOH program designed to encourage the rehabilitation of vacant buildings is often used to demolish property instead. The Chicago Abandoned Property Program (CAPP) has demolished four and a half times as many buildings as it has rehabbed since the program's inception. This policy is congruent with the drastic increase in demolitions conducted by the city in the 1990s. Such an approach merely facilitates the negative development cycle outlined in Chapter 2, a cyclical process of disinvestment and

gentrification which pads many wealthy pockets at the expense of the poor.

In addition, I describe potential problems with the types of programs that DOH is employing to create affordable housing. In Chapter 4, I outlined my concerns regarding the department's three major programs - the Low Income Housing Trust Fund, the Low Income Housing Tax Credit, and the Multifamily Rehab and New Construction program. Together, these three programs accounted for 99.9 percent of all the units created by DOH in 1994 which were affordable to people earning under \$15,000 annually and 93 percent of all spending for "housing creation" programs in that year..

The Low Income Housing Trust Fund provided about 57 percent of all units created for people earning in the lowest income categories. The Trust Fund provides rent subsidies to privately managed projects for a period of one year. While property owners may apply for funding again in the next year, they are not required to do so. The Trust Fund, moreover, is not bound to renew the funding of previous beneficiaries. Hence, the housing produced through this program, while important, is highly vulnerable and cannot be seen as effectively counteracting the negative development cycle that I discussed in Chapter 2. When neighborhoods gentrify, rent prices increase. The Trust Fund board may drop particular projects as they become "too expensive" to subsidize. Even if the Trust Fund continues to subsidize low-income housing in gentrified neighborhoods, developers may choose not to apply for the subsidy at any time, opting instead to collect high rents from the upper-income tenants now living in the neighborhood.

The Multifamily Rehab and New Construction program provides low-interest loans to developers of affordable housing. As I detailed in Chapter 4, though, the loans are not

generous enough to allow developers to both cover their debt and provide very low rents without accessing direct rental subsidies, usually Section 8. In 1994, 93 percent of all the units created by non-profits were affordable to people earning under \$15,000 annually. Incredibly, a full 97 percent of all these very low-income units were created using Section 8 money. The forced reliance of very low-income housing developers on Section 8 funds limits the types of projects which can be produced in important ways (see Chapter 3 for details).

Multifamily Rehab and New Construction money is rarely combined with Low Income Housing Trust Fund rental subsidies, though such a combination would end developer's reliance on Section 8 funds. Because Trust Fund money is only guaranteed for one year, a loan package based upon the long-term use of these funds would be highly risky. Banks and other lenders do not take such risks.

The Low Income Housing Tax Credit, as I discussed in Chapter 4, provides highly lucrative benefits to investors, who pay fifty cents to get a dollar written off of their taxes due, and also earn ownership interest in low-income properties. Properties funded through the program, moreover, are only guaranteed to remain affordable for fifteen years. Once this period has expired, investors of properties in gentrified areas may use their ownership interest to press for a sale. Since, at the writing of this thesis, the program has only existed for nine years, we cannot be sure whether investors will act in this way, but such behavior may occur if significant profits can be realized.

Moreover, like Multifamily Rehab and New Construction projects, Tax Credit deals fail on their own to provide enough capital to allow developers to both cover their

debt and provide very low rents. Developers are hamstrung as a result in ways very similar to those I described in relation to the Multifamily Rehab and New Construction program.

The problems I have detailed in this thesis show, I believe, that DOH is failing to allocate its resources in a way that would maximize, using existing funds, the creation of housing affordable to the people most in need in the city. In a variety of ways, DOH is choosing to administer and to distribute its resources in a manner which limits the impact on low-income neighborhoods. I suspect that, as Rich (1993) argues, local politics are a significant factor in determining how the city's housing programs are operated and what types of housing are produced. Mayor Daley's political base, while precariously including many Hispanics and lakefront liberals, is anchored in the conservative, white, middle-class sections of the city. Grimshaw (1992, p. 206-24) correctly points out, I believe, that the old Democratic machine is weakened enough, thanks mostly to Harold Washington's elections and tenure, that Daley must maintain at least a public image of concern for "reform" politics. As Washington's legacy fades and Daley continues to consolidate his political power, though, the mayor will be more able to reveal the more conservative social agenda inherent in his base constituency and his political roots. As Grimshaw (p. 206-24) points out, a self-destructing African-American political community makes the mayor's job easier.

Indeed, in the early autumn of 1995, Daley and his City Council supporters scrapped the relationship that the city had begun to develop with the Chicago Rehab Network after CRN's successful campaign in 1993 to increase city funding for affordable

housing. CRN was preparing its major aldermanic allies, including Ambrosio Medrano (the Hispanic chair of the Committee on Housing and Real Estate) and Arenda Troutman, a South Side African-American alderman, to introduce three ordinances in support of low-income community development. On the day the ordinances were to be introduced, pro-Daley aldermen successfully pressured Medrano and Troutman to drop their support for CRN's proposals. Later, the two aldermen introduced a new housing agenda for the city, as represented in a Daley-sponsored proposal which called for new DOH spending in support of housing for the middle-class. The Daley proposal was later passed by City Council, completing a dramatic reversal of the administration's earlier commitment to increase DOH spending for low-income people. The new programs created by this proposal will provide \$75 million to families earning between \$25,000 and nearly \$72,000 annually (Kass 1995, p. 1). In specially targetted neighborhoods, significant DOH subsidies will be offered to purchasers of single-family homes priced as high as \$191,000 (Kass 1995, p. 1).

The new programs seek to attract middle-class people into the city, especially into low-income neighborhoods. In so doing, city administrators argue that they are effectively accomplishing the widely supported goal of creating stable, mixed-income communities. The programs, however, do not provide significant safeguards to prevent the displacement of low-income people likely to result if the programs are successful in attracting the middle-class. As such, the DOH policies may facilitate, rather than hinder, the negative development cycle that I discussed in Chapter 2. The city is not spending its resources to improve low-income communities directly, a development method which both benefits the

current residents and improves the likelihood that wealthier people will move in. Rather, it is spending limited funds on middle-class people who are not in great need, arguing that development will not occur in low-income neighborhoods unless wealthier people can be attracted to them by generous subsidies. Mayor Daley's core political constituency is likely to appreciate this development policy, but the programs will likely assure that low-income communities in Chicago will continue to either deteriorate or gentrify.

The data presented in this thesis, moreover, shows that even before the new programs were introduced, the city was pursuing policies which did not benefit low-income people as much as they might have. In the various ways I outlined earlier in this conclusion, my results may have provided forewarning of the city's lack of commitment to a low-income housing agenda.

Clearly, local government plays a significant role in affordable housing production in the City of Chicago. While federal policies and expenditures continue to play a predominate role in state and city efforts to address housing problems, the importance of local government's power as the administrator and distributor of federal funds cannot be denied. Indeed, if the current Congress succeeds in passing its legislative agenda, local governments will have increased power over the remaining federal funds. As Williams (1980) found, local governmental control over outcomes is likely to increase as federal money arrives with decreased restrictions. Since Congress is also likely to cut federal spending on housing, cities and states will become even more important to affordable housing creation. As occurred in the 1980s, housing developers and activists are likely to press for creative, local financing mechanisms that may require the administrative and

political support of city government.

My analysis reveals significant concerns with the current spending and administrative patterns of the Department of Housing. These concerns must be addressed in cooperation with local developers of low-income housing in Chicago if the increased power of city government in the near future is to translate into benefits for those Chicagoans most in need of housing assistance.

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VITA

The author, Michael Leachman, was born on January 31, 1966 at Perrin Air Force Base, near Sherman, Texas. His father, a retired colonel in the United States Air Force, currently works as an executive for Cummins Southeastern Power, Inc. in Tampa, Florida. His mother is director of the National Perinatal Association, a non-profit public health organization also based in Tampa. His younger brother, Craig, lives in Atlanta, Georgia, where he works as an international licensing representative for Turner Publishing, Inc.

Mr. Leachman obtained a Bachelor of Arts degree from the University of Notre Dame in 1988. He worked for five years with community organizations in Chicago prior to returning to graduate school. His work, mainly with the North River Commission and the Edgewater Community Council, focused upon housing and community development issues.

In each of his three years enrolled as a Ph.D. candidate in the Department of Sociology and Anthropology at Loyola University Chicago, Mr. Leachman has been awarded a full-tuition research assistantship award from the Policy Research Action Group (PRAG). Through these awards, he has conducted research for the Chicago Rehab Network, a coalition of non-profit low-income housing developers in the city, and People's Housing, a non-profit development organization. He is currently working in the

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Mr. Leachman also serves as chairperson of State Representative Carol Ronen's Legislative Advisory Committee on Narcotics Nuisance Abatement. The committee develops legislative proposals aimed at housing and drug-related issues.

THESIS APPROVAL SHEET

The thesis "City of Chicago Housing Programs: An Analysis of 1994 & 1995 Programs and Expenditures" submitted by Michael D. Leachman has been read and approved by the following committee:

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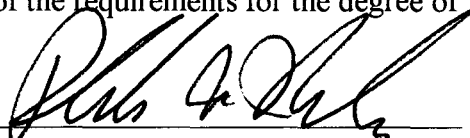
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The final copies have been examined by the director of the thesis and the signature which appears below verifies the fact that any necessary changes have been incorporated and that the thesis is now given final approval by the committee with reference to content and form.

The thesis is, therefore, accepted in partial fulfillment of the requirements for the degree of Master of Arts.

Nov. 30, 1995

Date



Director's Signature