Future Directions of the Chicago Metropolitan Housing Development Corporation

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A Great Cities Institute Working Paper

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The Great Cities Institute

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About the Author

Thomas J. Lenz, Senior Associate at the University of Illinois at Chicago Great Cities Institute, teaches, consults and undertakes research in housing and community development. He has more than 18 years of experience in neighborhood revitalization including affordable housing development, community organizing, neighborhood planning, fundraising, and public-private finance.

Acknowledgement

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Introduction

Public housing in the United States is in the midst of unprecedented change. For decades, public housing authorities have operated large housing complexes for the poorest of the poor relying on huge federal subsidies. The current U. S. Secretary of Housing and Urban Development (HUD), Henry Cisneros, has promised to "end public housing as we know it by radically changing the way it is built, located, managed, occupied, and connected to the wider community."[1]

What this will mean for Chicago is just now becoming clear. Redevelopment activity has commenced at two of the largest and most notorious housing developments, Cabrini-Green and the Henry Homer Homes. Other public housing projects, such as Lakefront Properties and Clarence Darrow Homes, are in line for redevelopment. In many Chicago neighborhoods, community development corporations and private developers have begun to explore partnership opportunities with the Chicago Housing Authority (CHA).

Changes within the CHA have also been sweeping. Since the takeover of the agency by HUD in May of 1995, a new Executive Director has been hired, a new Executive Advisory Committee has been installed, and a new strategic plan and mission have been adopted. All of these changes have occurred within the last 10 months.

This report concerns a piece of unfinished CHA business. In addition to its huge land holdings, CHA controls a small affiliate corporation called the Chicago Metropolitan Housing Development Corporation (CMHDC). The CMHDC was established in 1982 as a vehicle for issuing bonds for federally-subsidized housing. The prior CHA Executive Director, Vincent Lane, saw a role for the entity in the redevelopment of public housing. While he was able to hire a staff for CMHDC, it never became an effective force for public housing development.

Despite CMHDC's spotty track record, the CHA's current Executive Director Joe Shuldiner and the other new directors of the corporation sensed that CMHDC had the potential to play an important role in housing and community development in Chicago. Lacking a clear sense of what CMHDC might actually do, the Board turned to the University of Illinois at Chicago's Great Cities Institute for advice.

This report is the result of those conversations. Specifically, it seeks to provide the CMHDC Board with an interim mission and set of operating strategies. With a better sense of its ultimate direction, the CMHDC Board should be able to recruit a staff leader, expand the Board, and develop programs and products to further its goals.

Study Design
To generate this report, the following activities were undertaken:

1. Individual and group meetings were held with CMHDC's Board of Directors: Joseph Shuldiner, Marina Carrott (Commissioner of the Chicago Housing Department) and Andrew Rodriguez (Director of CHA's Redevelopment Division).

2. CMHDC's Articles of Incorporation, other descriptive materials and its financial statements were reviewed.

3. Phone and in-person interviews were conducted with a number of key local housing leaders and with public housing practitioners and experts in a number of cities. In some cases, materials describing public housing affiliates and their development activities were obtained and reviewed. A list of people contacted for the study is attached as Appendix A.

Background and Current Status
CMHDC was created in 1982 pursuant to Section 11(b) of the U.S. Housing Act of 1937 to issue tax-exempt obligations for Section 8 housing developments on behalf of the Chicago Housing Authority. Under that legislation, CMHDC is considered an instrumentality of CHA. Between 1982 and 1984, CMHDC issued more than $121 million in tax-exempt bonds. The proceeds were used to develop over 2,200 units of federally-assisted housing.

The creation by public housing authorities of affiliate corporations to issue bonds for subsidized housing was fairly common in the late 1970s and early 1980s. But while CMHDC initial financing activities were quite narrow, its Articles of Incorporation were crafted to be sufficiently vague so as to allow other activities that support the provision of affordable housing. The Articles broadly define CMHDC's potential roles, permitting it to engage in or assist with the development, financing, operation, or implemention of low income housing projects. As such, CMHDC has a great deal of flexibility in its operations.

Following the issuance of the initial bonds in 1982, CMHDC sat dormant for a decade. With the refinancing of the bonds in 1992, CMHDC began to access an annual revenue stream from the proceeds. With the prospect of receiving a sizable annuity, the then-CHA Chairman, Vince Lane, reconstituted CMHDC with a broader mission.

Lane's vision for CMHDC was twofold. First CMHDC's revenue stream would be used to leverage private funding in support of Lane's Mixed-Income New Communities Strategy. In addition, Lane believed that, with the Gautreaux Consent Decree ending, CMHDC should serve as CHA's development arm. Therefore, CMHDC would play a critical role in financing and development of the mixed-income housing that would replace existing CHA units.
While CMHDC's role expanded, it had limited success in meeting the goals that Lane had outlined. In part, this was due to Lane's expansive vision for the organization and the complexity of the issues surrounding the redevelopment of public housing. With the change in CHA leadership, CMHDC again became inactive.

Governance
CMHDC was established with a board of three directors, all appointed by the CHA. The Articles

of Incorporation have since been amended to stipulate that the Board be expanded to 5 members. Currently, the board has the three members mentioned earlier. CMHDC is in the process of becoming a 501(c)(3) corporation as a means to gain added operational flexibility.

Financial Status

HUD has provided a number of the properties financed with CMHDC bonds a "financial adjustment factor" (FAF). This designation directs up to 50 percent of the refinancing proceeds to CMHDC. Projected FAF revenue ranges from $1.5 to 2.2 million annually from 1993 to 2005 for a total potential revenue of over $22 million[2]. A snapshot of CMHDC's financial position is noted below:

	12/31/94	**12/31/95**[3]
Currents Assets	$ 103,583	473,141
Land	389,621	389,621
Step-Up Homes	365,011	842,841
Long-Term Assets	3,005,073	$3,563,268
Total Assets	$3,863,288	$5,268,871
Current Liabilities	429,453	4,119
Long-Term Liabilities	3,303,929	$4,983,600
Total Liabilities	$3,733,382	$4,987,719
Fund Balance	$129,906	$281,151
Revenues	786,142	1,452,043
Expenses	656,236	1,300,798
Net Income	$129,906	$151,245

CMHDC has a strong financial position. Clearly, the most relevant CMHDC asset is the FAF funds that are reflected as a Long-Term Asset. In order to defer taxable income, the auditors have also reflected an offsetting liability to prevent enormous increases in the Fund Balance as FAF money comes in.

CMHDC is carrying a significant liability that is not reflected on the statements. In February 1995, CMHDC guaranteed a $1.7 million construction loan issued by LaSalle Bank to Orchard Park. The loan is secured by portions of the 1995 and 1996 FAF payments, which are sufficient to cover the liability.

Environmental Analysis

The following "SWOT" (Strengths/Weaknesses/Opportunities/Threats) analysis provides a snapshot of the position of CMHDC. Strengths and Weaknesses focus on the internal attributes of CMHDC, while Opportunities and Threats attempt to forecast the impact of external factors on the organization's operations. The SWOT analysis is summarized below.

Strengths

- Controls significant assets (cash and land)
- On-going income stream
- Board includes Department of Housing leadership
- Can access CHA resources
- Potential to sell bonds and access tax credits
- Operational flexibility; degree of autonomy from CHA bureaucracy
- Charter and articles of incorporation sufficiently broad to undertake most planned activities

Weaknesses

- Outstanding lien on assets from Orchard Park
- Potential constraints on realizing future FAF income
- Board lacks outside contacts and expertise needed to achieve mission
- Few relationships with development community
- No staff, potential difficulty in recruiting a skilled leader
- CHA leadership has minimal time to devote to this, versus more pressing matters
- Potential for overlapping responsibilities between CMHDC and CHA's Redevelopment Division.

CMHDC is operating with a number of key assets, both in terms of its financial position and its leadership. The full range of resources that CMHDC might access are listed in Appendix B. In addition, CMHDC has the operational and financial flexibility necessary to create and implement opportunities for CHA.

CMHDC's weaknesses are largely a result of its historically insular nature, particularly its lack of relationships with developers and community representatives. These weaknesses, however, can be overcome. A potentially serious weakness is whether the FAF funds are jeopardized due to elimination of Section 8 assistance or other Congressional action.

This would have critical repercussions for CMHDC's future operations given that the FAF funds are the most significant asset controlled by the organization.

Opportunities

- CHA Executive Director relationship with HUD
- CHA Executive Director has positive, "fresh start" image
- Board vacancies can be filled to address gaps in current expertise
- Good working relationships with City officials
- Flexible HUD resources and oversight (HOPE VI/other)
- Public awareness that public housing will/must change
- Private developers need resources of CHA/CMHDC and can bring significant experiences in affordable housing development into the process
- Smaller scale of some CHA developments makes their successful redevelopment more

likely

Threats

- Authority to undertake development activities is complicated by Gautreaux consent decree and Habitat receivership
- Poor external image for CHA
- CHA has yet to clearly communicate its redevelopment goals to the public
- Resistance to CHA housing and residents in many city and suburban neighborhoods
- CMHDC has limited credibility due to past failures
- Surplus of players at main redevelopment sites
- Lack of depth in developers at smaller sites
- Diminishing federal dollars
- HUD's future itself is uncertain
- Few existing mechanisms to partner public housing and private resources

The opportunities suggest that CMHDC can build upon its existing, strong relationships with HUD and the City to broaden its support among other constituencies that will be critical to CHA and CMHDC's success over the long-term.

Three threats are extremely important to note. The first is the complexity of the political situation surrounding CHA, and in particular the Gautreaux consent decree. Clearly, CMHDC and CHA will need a strategy for addressing this issue. Second, due to its expansive vision and minimal output in the past, CMHDC will have to address public skepticism over the agency's capacity. Finally, while CMHDC has a strong revenue stream, diminishing federal resources could prevent the organization from succeeding with its overall redevelopment strategy.

Proposed Mission

As the environmental analysis was completed, a draft mission statement for CMHDC was developed. Its purpose is to give the Board and outside audiences a clear sense of the agency's purpose. The statement, which has been reviewed by the Board, reads as follows:

> *The purpose of the Chicago Metropolitan Housing Development Corporation (CMHDC) is to further the mission of the Chicago Housing Authority (CHA) by initiating and facilitating the development of low-and moderate-income housing in viable communities.*

Several points should be made about the proposed mission:

- CMHDC's link to and support of CHA's mission are explicit. It will be seen as a development vehicle for CHA and not as another non-profit developer.
- As an "initiator and facilitator," CMHDC is positioned to play a variety of development roles, not just act as a traditional developer.
- Recognizing the importance of mixed-income communities, the statement commits CMHDC to more than the development of housing for low-income people.

- The phrase "in viable communities" is lifted from the CHA's own mission statement and reflects a commitment to broader neighborhood revitalization.

This mission statement is consistent with the existing language in CMHDC's legal documents. It is also broad enough to include the various development options described below.

Development Options

With an understanding of the environment in which CMHDC must operate and a draft mission statement, it is now possible to examine the different roles CMHDC could play to "initiate and facilitate the development of low and moderate income housing in viable communities." Essentially, we see three ways CMHDC could have an impact on the creation of affordable housing: As a financial intermediary, as a planning and development intermediary, and as a developer. Each of these options is examined below.

Financial Intermediary

Until the 1960s, affordable housing development was undertaken exclusively by public housing authorities who developed, managed and owned the buildings. Beginning with the first federal housing subsidy programs in the 1960s and continuing until the present, a parallel housing production system was created to enlist private developers in the provision of low-income rental housing.

Until very recently, public housing and privately-owned subsidized housing have been developed in complete isolation from each other. In Chicago, the CHA and its agent, the Habitat Company, have developed scattered-site public housing. The City's Department of Housing, in conjunction with local banks and the Illinois Housing Development Authority, has financed low- and moderate-income apartment buildings.

Given the historically different funding mechanisms and approaches of the CHA and private developers, this separation is understandable. However, with the federal government now actively encouraging public/private partnerships for public housing through programs like HOPE VI, the distinction between the two development approaches is fading.

Just as public housing authorities are seeking private expertise and capital, private developers are interested in accessing public housing resources. This suggests that one role CMHDC could play is that of a broker of public housing resources to a broad cross section of private sector affordable housing producers. In this way, CHA could purchase or lease hundreds of low-income housing units being created by private developers in and around Chicago.

At a time when federal resources are diminishing and private capital remains scarce, perhaps the most valuable tool that CMHDC can provide is its authority to issue bonds. Since CHA is its own municipal corporation, it is not constrained by the City's bonding volume cap. Should CMHDC choose to issue tax-exempt bonds, it could automatically qualify for a special allocation of Low-income Housing Tax Credits outside of those awarded to the City and the State. These credits are a critical financing tool for the development of low- and mixed-income housing, and are in short supply, thereby making CMHDC's capacity to issue bonds and access additional credits all the more valuable.

In addition to its ability to access below-market bond financing and tax credits, the Chicago Housing Authority also has a surplus of Section 8 rent subsidy certificates. These certificates can, in some cases, be made "project-based."[4] Both regular and project-based Section 8 certificates are of interest to developers because they enable the landlord to rent apartments to very low-income tenants and still obtain a "fair market rent."[5]

Acting as a financial intermediary, CMHDC could place CHA tenants with Section 8 certificates in apartments developed by non-profit and for-profit developers across the city. The developer would get the financial benefit described above; the CHA would be able to offer its residents the chance to live in mixed-income, privately managed buildings.

To augment its pool of Section 8 certificates, CMHDC could develop new mechanisms that accomplish the same feat. Long-term leases with operating subsidies could be negotiated whereby a developer would agree to rent a set number of a building's units to CHA tenants. Alternately, CMHDC could purchase individual units in a building as condominiums and rent them to public housing tenants. The goal would always be to use CHA resources to "capture" a share of new rental housing.

A major question regarding this strategy is how great the demand for such subsidies would be by private developers. After all, CHA has had Section 8 certificates for years and regularly fails to commit the entire pool of rent subsidies.

Two remedies for weak demand would be to create special incentives to encourage landlords to accept CHA tenants and rent contracts and/or to mandate that housing developed with City resources reserve a set percentage of units for CHA. The latter approach was used quite successfully with Section 8 housing developed in the 1970s and early 1980s. Under the Gautreaux Consent Decree, the Leadership Council screened and placed CHA tenants in up to 12 percent of a Section 8 building's apartments.

Given the controversy that is likely to accompany any attempt to require developers to use CHA Section 8 certificates, it may be more feasible to create incentives for developers to rent to CHA tenants. CMHDC could use some of its own capital resources like New York City did when it offered a "bounty" to landlords who would rent to previously homeless people. It could provide bond financing and tax credits to developers willing to incorporate CHA tenants in their building plans. Or the Department of Housing could adopt guidelines that give preferential treatment or more favorable terms to projects that incorporate a set percentage of CHA residents.

Should CMHDC pursue this option, it is highly recommended that they undertake market research to understand potential barriers to developer participation and how to address them. If even 10 percent of the units currently being produced with Department of Housing assistance could be tapped for CHA, another 150 to 200 families could move out of the high-rises.

Planning and Development Intermediary

A second option would be for CMHDC to operate as a planning and development intermediary for small to medium-sized CHA developments. This role, not unlike that played by the Habitat Company at Henry Homer and Cabrini-Green, involves creating an overall redevelopment scheme for a development and then overseeing its implementation.

CMHDC, through its own staff or consultants, could work with tenant leaders to shape the basic revitalization plan (i.e. which buildings to retain, which to demolish) and then develop an Request for Proposals (RFP) to elicit proposals from private and nonprofit developers. CMHDC could help the selected development team obtain needed waivers and access its financial resources. For example, CMHDC could provide the developers with bond financing, tax credits and Section 8 certificates. Finally, if needed, CMHDC could participate in ownership of the resulting development as a special limited partner.

The key difference between this and the next scenario is that CMHDC would not attempt to undertake directly the real estate development; only to shape and manage it.

Off-Site Developer

Finally, CMHDC could act as a developer of small to medium-sized buildings on behalf of CHA. For example, CMHDC could purchase properties away from CHA's existing developments and develop them using a mix of its own equity and public/private resources. CMHDC could conceivably undertake such development in partnership with a non-profit or private developer. But the main goal would be to initiate development outside the context of CHA's redevelopment sites.

Recommendations

All of the above options have benefits and liabilities and we found examples of public housing authorities and their affiliates that are pursuing them independently or together. To cite but two examples, the Louisville Housing Assistance Corporation (LHAC) was established by the Housing Authority of Louisville in 1980 to issue 11 (b) bonds. Since it refinanced the bonds in 1990, LHAC has used the FAF revenues to promote and subsidize home purchases by public housing tenants.

The San Antonio Housing Authority in Texas has created several affiliate corporations to reach its goals. The San Antonio Housing Development corporation, formed in 1977 presently owns five multi-family rental developments containing 844 units. It is currently partnering with the St. James Housing Trust to develop senior housing in the vicinity of the parish. The San Antonio Housing Finance Corporation is an affiliate that can issue tax-exempt bonds, and the San Antonio Housing Facility Corporation has developed apartment complexes using the Low Income Housing Tax Credit.

The boards of these affiliates typically include officials from the housing authority, church leaders, business people, prominent attorneys, directors of local housing partnerships, developers and community residents. Officials from both housing authorities were very positive on using affiliate corporations to reach their goals.

We recommend that CMHDC pursue the financial, planning and development intermediary functions outlined above. Several considerations led us to this decision. First, there is a clear need for an intermediary to broker CHA resources to private developers and no vehicle exists to do this. As a quasi-independent entity, CMHDC has the potential to be more flexible and entrepreneurial than CHA and more responsive to private developers and their needs.

Second, looking beyond the high-profile redevelopment efforts underway at Cabrini-Green and the Homer Homes, there is a real need for coordination of revitalization activities at the smaller, more-difficult-to develop CHA sites. Again, a small but talented staff with maximum flexibility could manage the planning and development functions at these sites and enlist private developers to build the real estate.

Finally, the third "developer" option requires a larger, technically-oriented staff and entails the most risk. In addition, there are already many good for-profit and nonprofit developers operating in those neighborhoods where CHA might like to place tenants. For these reasons it would seem advisable to defer undertaking direct development until CMHDC achieves visible success and credibility in its other roles and unless private developers are unable to bring good deals to the table.

Conclusion

One person we spoke with expressed extreme frustration with CMHDC's lack of progress in the past and questioned the need for the agency to exist in the future. Indeed, one could speak of a fourth option: The dissolution of CMHDC. While affiliate corporations may be becoming more popular, they are by no means common. Most public housing authorities continue to operate in a centralized fashion and CHA could conceivably do so as well.

The process of researching the issue convinced us otherwise. To partner effectively with the private sector requires a staff and operating style that is lean, flexible and entrepreneurial. It requires going beyond regulations and rule books to find common interests and common ground. While CHA may ultimately come to embody these attributes, in the short run the agency has a huge reinvention task ahead of it.

Finding the right leader for CMHDC is a formidable challenge. Developing the kind of financial "products" that can enlist private sector developers will require research and skillful program design. But we are convinced both can be done and that CMHDC can play an important role in creating a new type of public housing of which Chicago can be proud.

Appendix A
Study Interviews

Denise Altay
Vice President
National Equity Fund

Ted Cornwell
Special Counsel
San Antonio Housing Authority

Edwin Eisendrath
Secretary's Representative
U. S. Department of Housing and Urban
Development

Howard Gong
Principle
Devine and Gong

Irma Gorham
New York City Housing Authority

Julie Kredens
Public Information Officer
Housing Authority of Louisville

Rosanna Marquez, J.D.
Director of Programs
City of Chicago

George McGovern
Senior Underwriter
National Equity Fund

Jim Miller
New York City Housing Authority

Andrew Mooney
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Chicago Local Initiatives Support
Corporation

Deborah Moore
Executive Director
Chicago Metropolitan Housing

Development Corporation

Charles Orlebeke
Professor, Urban Planning and Policy

Ken Rice
The Enterprise Company

Jan Rubin
Consultant to Louisville Neighborhood Housing

Michael Schubert
Consultant
John D. and Catherine T. MacArthur Foundation

Laura Tilly
Davis, Miner, Barnhill & Galland

Orysia Stanchak
HOPE VI Project Director
Housing Research Foundation

Wavid Wray
Deputy Executive Director
Housing Authority of Louisville

Appendix B
Potential CMHDC Development Resources[6]

CMHDC cash (on-hand, anticipated)
CMHDC land

CMHDC-issued bonds
CMHDC-obtained tax credits

CHA Section 8 Certificates and Rent Vouchers
CHA Project-based Section 8 Certificates
CHA long term leases and operating subsidies

HUD Hope VI grants
HUD Modernization grants
FHA 221 (d) (4) Mortgage insurance

DoH tax credits
DoH financing
City of Chicago-owned land
City of Chicago infrastructure improvements
School Board/other governmental entity land

IHDA tax credits
IHDA financing

Local Initiatives Support Corporation grants, recoverable grants, and financing
National Equity Fund investment
Foundation grants

Federal Home Loan Bank Affordable Housing Program
Fannie Mae resources
Private bank financing

Tax Increment Financing

Notes

1. Source: HUD HOPE VI "Overview" Statement

2. Two additional projects are able to be refinanced and would likely result in additional FAF revenue of $2-3 million.

3. Unaudited

4. Pulic housing authorities have the ability to attach the federal subsidy to a particular apartment rather than the tenant who is occuping it. CHA has done this in the past to simulate the development of SRO housing.

5. Under the Section 8 program, the federal government subsidizes the difference between a tenant's share of the rent (currently 30 percent of their income) and the actual cost of operating the unit, including debt service.

6. Listed by relative ease of access (i.e. internally controlled resources are listed first).

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