



OFFICE OF INSPECTOR GENERAL
City of Chicago



REPORT OF THE OFFICE OF INSPECTOR GENERAL:

***DEPARTMENT OF PLANNING AND DEVELOPMENT
AFFORDABLE REQUIREMENTS ORDINANCE
ADMINISTRATION AUDIT***

MARCH 2017

866-IG-TIPLINE (866-448-4754)
www.chicagoinspectorgeneral.org



Joseph M. Ferguson
Inspector General

OFFICE OF INSPECTOR GENERAL *City of Chicago*

740 N. Sedgwick Street, Suite 200
Chicago, Illinois 60654
Telephone: (773) 478-7799
Fax: (773) 478-3949

March 27, 2017

To the Mayor, Members of the City Council, City Clerk, City Treasurer, and residents of the City of Chicago:

The City of Chicago Office of Inspector General (OIG) has completed an audit of the Department of Planning and Development's (DPD) administration of the Affordable Requirements Ordinance (ARO). The ARO requires certain private market residential developers to designate a percentage of units on site as affordable and/or pay an in-lieu fee to the City. The Ordinance requires the City, in turn, to use these fees to advance affordable housing development in Chicago. The three objectives of the audit were to determine the geographic outcomes of ARO-created and -financed affordable units, to assess the City's historical use of ARO in-lieu fees, and to evaluate the role of the Chicago Community Land Trust (CCLT) with respect to ARO-created, for-sale affordable units.

Based on the audit findings, OIG concluded that, historically, the City neither appropriately accounted for all ARO and Density Bonus fees nor utilized best practices in the administration and investment of these fees. This negatively impacted both the quantity and quality of ARO program outcomes and, ultimately, the options available to prospective tenants and homebuyers seeking affordable housing in Chicago. Additionally, OIG determined that CCLT has never been sufficiently funded to achieve its mission of acquiring land for the creation of affordable housing units.

OIG recognizes that some, but not all, of our findings have already been addressed by DPD during the course of our audit and as part of the 2015 ARO amendments. Specifically, the City formalized the Affordable Housing Fund in 2015 to prevent misuse of ARO fees going forward. However, this report puts forth other important recommendations related to the City's strategy for the investment of ARO fees and the role of CCLT, which the City should consider as it continues to work toward removing barriers to housing choice and creating meaningful access to affordable housing across Chicago.

DPD agreed to take corrective actions to strengthen the City's ability to invest in affordable housing in a way that takes opportunity areas into consideration. Unfortunately, it appears the City will not replenish a \$4.5 million shortfall in the Affordable Housing Fund because the Office of Budget and Management questions DPD's accounting records. Furthermore, rather

than provide CCLT with the resources necessary to allow it to fully function as a community land trust, DPD proposes to remove “land trust” from CCLT’s name.

We thank DPD management and staff for their full cooperation during this audit.

Respectfully,

A handwritten signature in blue ink, appearing to read 'J. Ferguson', is centered on the page.

Joseph M. Ferguson
Inspector General
City of Chicago

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Acronyms

AFFH	Affirmatively Furthering Fair Housing
AHF	Affordable Housing Fund
AHOF	Affordable Housing Opportunity Fund
AMI	Area Median Income
ARO	Affordable Requirements Ordinance
CCLT	Chicago Community Land Trust
CHA	Chicago Housing Authority
DPD	Department of Planning and Development
HUD	U.S. Department of Housing and Urban Development
IHDA	Illinois Housing Development Authority
LIHTF	Chicago Low-Income Housing Trust Fund
MAUI	Multi-Year Affordability through Upfront Investment
MCC	Municipal Code of Chicago
OIG	Office of Inspector General
TIF	Tax Increment Financing

I. EXECUTIVE SUMMARY

The Office of Inspector General (OIG) conducted an audit of the Department of Planning and Development's (DPD) administration of Municipal Code of Chicago (MCC) § 2-45-110, the Affordable Requirements Ordinance (ARO). The ARO requires certain private market residential developers¹ to designate a percentage of units on site as affordable and/or pay an in-lieu fee to the City. The Ordinance requires the City, in turn, to use these fees to advance affordable housing development in Chicago. Until 2015, the City referred to the in-lieu ARO fees, collectively with Density Bonus fees,² as the Affordable Housing Opportunity Fund (AHOF).

The principal objectives of the audit were to determine if the City achieved equitable geographic distribution of ARO-created and ARO-financed affordable housing units in accordance with its goals for the program and also used all ARO fees for the creation of affordable housing as required by the Ordinance. OIG further sought to determine if the City optimized its use of the Chicago Community Land Trust (CCLT) with regard to ARO-created, for-sale affordable units.

OIG found that, contrary to affordable housing best practices, the two programs that distributed ARO and Density Bonus monies—DPD's Multifamily Finance program and the Chicago Low-Income Housing Trust Fund's (LIHTF) Multi-Year Affordability through Upfront Investment (MAUI) program—lacked an evidence-based strategy to define high and low opportunity areas for affordable housing development and incentivize such development accordingly.³ This deficiency may have impeded affordable housing development in high opportunity areas and limited housing choice. OIG also found that DPD did not appropriately account for \$4.5 million in ARO and Density Bonus fees. Finally, OIG found that, in its ten-year history, CCLT has never fully operated as a community land trust as contemplated by its establishing ordinance, and administrative changes under consideration will further diminish its ability to function as such a trust.

Based on these findings, OIG concluded that the City neither appropriately allocated all ARO and Density Bonus fees nor aligned itself with best practices as to the administration and investment of these fees. This negatively impacted both the quantity and quality of ARO program outcomes and, ultimately, the options available to prospective tenants and homebuyers seeking affordable housing in Chicago. OIG recommends that DPD develop defined goals related to the geographic distribution of affordable housing. As part of this process, the Department should formally identify the city's high opportunity areas for affordable housing

¹ See <http://www.cityofchicago.org/dam/city/depts/dcd/general/housing/AROfactsheetwebversion.pdf> for more information about which private-market residential developers are subject to the ARO.

² The City's Density Bonus program "is available to central area real estate developers. The bonus offers additional square footage for residential development projects in downtown zoning districts in exchange for affordable housing on-site or a financial contribution to the City's Affordable Housing Opportunity Fund." City of Chicago, DPD, "Downtown Affordable Housing Zoning Bonus," accessed December 19, 2016, https://www.cityofchicago.org/city/en/depts/dcd/supp_info/downtown_affordablehousingzoningbonus.html.

³ Affordable housing experts use the terms "low opportunity areas" and "high opportunity areas" to distinguish housing markets based on socioeconomic indicators, including average income, job access, and transportation access, among others. While these terms are widely used, jurisdictions may reference different metrics to define them.

development and consider amending the selection criteria in its Multifamily Finance and MAUI applications to award points for development in these areas. We further recommend that DPD ensure the restoration of the \$4.5 million in ARO and Density Bonus fees to the Affordable Housing Fund for use in the creation of affordable housing, in accordance with the MCC. Lastly, OIG recommends that the City either allocate the resources necessary to allow CCLT truly to function as a community land trust or consider integrating CCLT's existing functions into DPD operations.

In response to our audit findings and recommendations, DPD agreed to take a number of corrective actions, including amending the selection criteria for the Multifamily Finance and MAUI programs to strengthen the City's ability to invest in affordable housing in a way that takes opportunity areas into consideration. DPD also acknowledged the accounting inconsistencies related to ARO and Density Bonus fees and agreed to work with OBM to restore \$4.5 million to the Affordable Housing Fund. However, after receiving a draft of our report and upon further review by OBM of accounting provided by DPD, OBM stated that DPD's records were not supported by the City's primary accounting system. OBM also stated that payments in excess of \$4.5 million were made from the Corporate Fund to support affordable housing projects, concluding that these payments compensated for the discrepancies identified. Finally, with regard to CCLT, DPD agreed that a lack of capital has precluded the organization from utilizing ground leases to advance affordable housing in accordance with other land trust models. In lieu of working with City Council and OBM to secure the financial resources necessary for CCLT to utilize ground leases, DPD stated that CCLT will continue in its current operations as a nonprofit, removing "land trust" from its name, in order to leverage the expertise of the CCLT Board.

The specific recommendations related to each finding, and DPD's response, are described in the "Audit Findings and Recommendations" section of this report.

II. BACKGROUND

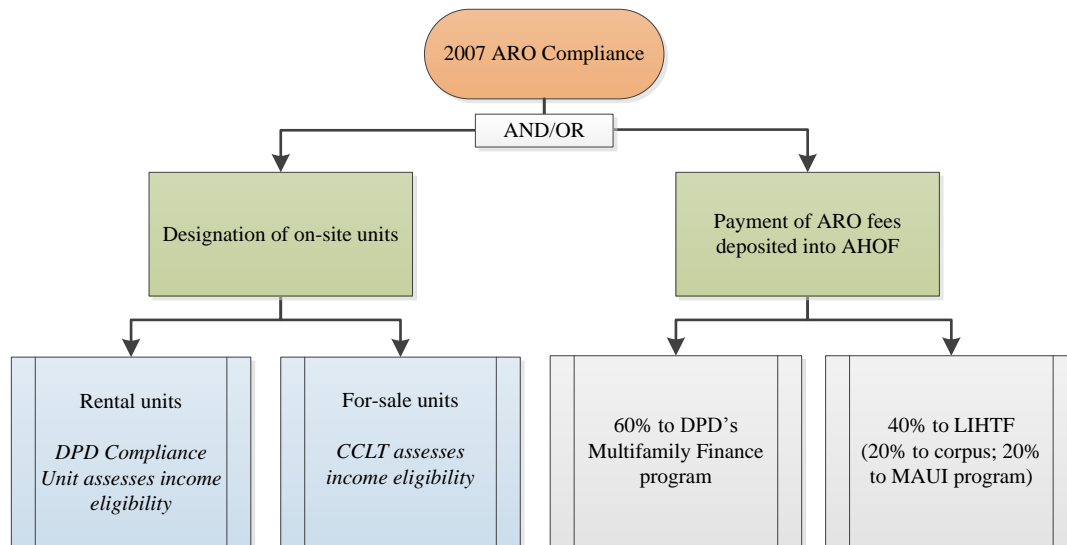
A. The Affordable Requirements Ordinance

The City enacted the ARO in 2003 for the purpose of increasing affordable housing opportunities in Chicago for income-qualified individuals and families. The Ordinance requires certain private-market residential developers⁴ to designate a percentage of units as affordable housing per the federal government’s low-income thresholds⁵ and/or to pay a fee for deposit into the City’s AHOF. The ARO designates DPD as its enforcing agency.

The City amended the ARO in 2007 and again in 2015 (MCC § 2-45-110 and -115, respectively). In conducting this audit, OIG reviewed affordable housing goals and outcomes under the 2007 ARO, which created affordable housing through the following three channels:

1. designation of on-site units for sale or rent at ARO-subject developments;
2. investment of the 60% of AHOF fees allocated to DPD’s Multifamily Finance program; and
3. investment of the remaining 40% of AHOF fees allocated to LIHTF’s MAUI program.⁶

The chart below illustrates methods of ARO compliance and associated processes, which are described in the following sections of this report.



Source: OIG based on DPD documents and 2007 ARO

⁴ See <http://www.cityofchicago.org/dam/city/depts/dcd/general/housing/AROfactsheetwebversion.pdf> for more information about which private-market residential developers are subject to the ARO.

⁵ See Appendix A for DPD’s table of income limits, effective between March 6, 2015, and March 27, 2016, which the Department sets in accordance with the U.S. Department of Housing and Urban Development’s area median income (AMI) levels.

⁶ The 2015 amendments to the ARO, discussed below, allow certain developers to create affordable housing off-site.

B. ARO Amendments

The table below describes key differences between the 2007 and 2015 AROs. While the 2015 ARO is outside the temporal scope of this audit, we describe the amendments for informational purposes.

ARO Amendment Year	For Developers		For the City		
	Percentage of required affordable housing units	In-lieu fees	City's use of in-lieu fees	LIHTF's use of in-lieu fees	For-sale unit affordability period
2007	20% if developer receives Tax Increment Financing (TIF) funds; otherwise, 10%	\$100,000 per required unit	60% to DPD's Multifamily Finance Program; 40% to LIHTF ⁷	20% to LIHTF corpus; 20% to LIHTF's MAUI program	99-year deed covenant
2015	20% if developer receives TIF funds; otherwise, 10% 25% of required units must be provided on-site (subject to certain exceptions)	\$50,000 per required unit in low-moderate income areas; \$125,000 in higher income areas; \$175,000 downtown	50% to DPD's Multifamily Finance Program; 50% to LIHTF	At the Fund's discretion, LIHTF may use fees for its corpus, for MAUI, and/or for Rental Subsidy programs	30-year deed covenant

Source: OIG based on DPD documents and MCC

C. DPD's Multifamily Finance Program

Under the 2007 ARO, DPD's Multifamily Finance program received 60% of ARO fees. Multifamily Finance is a gap financing vehicle—developers are encouraged to seek out other sources of project funding (e.g., first mortgages) before seeking City financing. DPD uses ARO fees, among other sources of funding,⁸ to fill gaps in project financing. In exchange for this funding, developers commit to including a certain percentage of units affordable⁹ at 50% or 60%

⁷ The City's AHOF distribution (i.e., 60% to Multifamily Finance and 40% to LIHTF) was a matter of practice and not mandated by the 2007 ARO.

⁸ Other forms of assistance that DPD provides through Multifamily Finance include funds from the City's federal Community Development Block Grant, TIF funds, and a variety of tax credits.

⁹ A schedule of maximum monthly rental amounts by income level, number of bedrooms, and utilities is published in DPD's quarterly reports on the City's five-year housing plan. For the 2015 schedule, see City of Chicago, DPD, "2014-2018 Chicago Five Year Housing Plan: 2015 Fourth Quarter Progress Report October-December," pdf 88-91, accessed December 19, 2016,

<https://www.cityofchicago.org/content/dam/city/depts/dcd/general/quarterly%20housing%20reports/FullReport2015Q4.pdf>.

of Chicago's area median income (AMI).¹⁰ Applying the 2015 AMI levels, for example, an individual at 60% AMI had an annual income of \$31,920, and that individual's maximum gross monthly rent for a studio apartment including all utilities was \$798.¹¹

D. Chicago Low-Income Housing Trust Fund

Under the 2007 ARO, LIHTF received 40% of ARO fees. LIHTF is a nonprofit entity, established in 1989 and governed by a 15-member board appointed by the mayor with City Council consent.¹² Four DPD employees staff LIHTF.

Before the 2015 ARO revisions, LIHTF evenly split its share of ARO fees between its corpus and its MAUI program.¹³ MAUI funds subsidize affordable rental units by covering a portion of developers' construction costs (i.e., capital loans) or by covering owners' building operation costs (i.e., long-term operating subsidies). According to LIHTF management, capital loans are the more common MAUI financing method. In exchange for this funding, MAUI recipients commit to making half of their units affordable at 15% AMI and the other half affordable at 30% AMI. Applying the 2015 AMI levels, for example, an individual at 30% AMI had an annual income of \$16,000, and that individual's maximum gross monthly rent for a studio apartment including all utilities was \$400.¹⁴

E. Chicago Community Land Trust

While developers are responsible for renting out on-site rental units to income-qualified tenants, CCLT manages the sale of on-site, for-sale units. CCLT is a nonprofit entity, established in 2006 and governed by an 18-member board of directors appointed by the mayor with City Council consent.¹⁵ Two DPD employees staff CCLT. According to the Trust's website, "the goal of the CCLT is to preserve the long-term affordability of homes created through City programs and

¹⁰ A developer may opt to provide, at a minimum, 20% of rental units to households at or below 50% AMI, or 40% of rental units to households at or below 60% AMI. City of Chicago, DPD, "Multi-Family Housing Financial Assistance Application," accessed December 19, 2016,

https://www.cityofchicago.org/content/dam/city/depts/dcd/general/housing1/2015_Application_Portion.doc.

¹¹ See Appendix A for DPD's table of income limits (effective between March 6, 2015 and March 27, 2016).

¹² LIHTF receives funding from the City and the State. According to its audited financial statements, in 2014, LIHTF had income of \$10.6 million comprised of: \$0.1 million net investment income; \$0.8 in-kind donations and "other income;" \$1.2 million from the State; and \$8.4 million from the City, of which \$1.6 million was from AHOF and \$6.8 million was from the City's Corporate Fund. LIHTF, "Financial Statements and Independent Auditors' Report for the Year Ended December 31, 2014," 4, accessed December 19, 2016, <http://www.chicagotrustedfund.org/wp-content/uploads/2016/04/2014-Audit-Report-Final.pdf>.

¹³ MAUI is the smaller of the two programs that LIHTF administers. The second is the Rental Subsidy Program (RSP). According to its audited financial statements, in 2014, LIHTF spent \$0.9 million on MAUI and \$13.8 million on RSP. The RSP, however, did not receive support from ARO fees under the 2007 ordinance, and therefore we did not address it in this audit.

¹⁴ See Appendix A for DPD's table of income limits (effective between March 6, 2015 and March 27, 2016). For the 2015 maximum rent schedule, see City of Chicago, DPD, "2014-2018 Chicago Five Year Housing Plan: 2015 Fourth Quarter Progress Report October-December," pdf 88-91, accessed December 19, 2016, https://www.cityofchicago.org/content/dam/city/depts/dcd/general/quarterly%20housing%20reports/FullReport2015_Q4.pdf.

¹⁵ According to CCLT's unaudited financial statements, in 2015, CCLT had income of \$290,745, of which \$227,006 was a grant from the City of Chicago. CCLT's 2015 expenses were \$276,095, of which \$204,500 was for employee salaries and benefits.

maintain a permanent pool of homeownership opportunities for working families.”¹⁶ The Trust’s enabling ordinance identifies a number of mechanisms that CCLT can utilize to achieve this goal. For example, CCLT may preserve affordability by acquiring land and providing long-term ground leases to eligible homeowners, who would own title to the structure on the land. CCLT also may preserve affordability by imposing deed restrictions on units to ensure that future buyers meet income eligibility requirements.¹⁷ The Trust also has the option of exercising its right of first refusal to repurchase properties from CCLT homeowners in order to preserve the City’s affordable housing stock.

F. Affordable Housing Fund

In 2015, DPD, in collaboration with the Office of Budget and Management (OBM), established the Affordable Housing Fund (AHF). Prior to 2015, the City collectively referred to ARO and Downtown Affordable Housing Zoning Bonus (“Density Bonus”)¹⁸ fees as the AHOF. To spend these monies, the City first had to transfer them into its Corporate Fund. DPD management explained that this is the key distinction between the old and new versions of the fund—the City can both deposit into and spend out of AHF.

G. City’s goals for the ARO and ARO outcomes

In its most recent five-year housing plan, DPD stated that one of its goals for the ARO is to “help the City create and sustain mixed-income communities.”¹⁹ Similarly, a DPD senior manager explained to OIG that a goal for the ARO is to create affordable housing opportunities in an equitable distribution geographically across the city, in every ward.

The table below summarizes ARO outcomes through December 31, 2015.

Units created through ARO on-site designation	240
Units created through MAUI with AHOF support	100
Units created through Multifamily Finance with AHOF support	<u>1,523</u>
Total	1,863

Source: OIG based on DPD data (as of December 31, 2015)

See Appendix B for a map illustrating the location of the 1,623 units created through Multifamily Finance and MAUI with AHOF support.

¹⁶ City of Chicago, CCLT, accessed December 19, 2016,

https://www.cityofchicago.org/city/en/depts/dcd/supp_info/chicago_communitylandtrust0.html.

¹⁷ This mechanism is useful for preserving the affordability of condominium units in situations where CCLT does not own the underlying land.

¹⁸ The City describes the program as follows: “[The Density Bonus] is available to central area real estate developers. The bonus offers additional square footage for residential development projects in downtown zoning districts in exchange for affordable housing on-site or a financial contribution to the City’s Affordable Housing Opportunity Fund.” City of Chicago, DPD, “Downtown Affordable Housing Zoning Bonus,” accessed December 19, 2016,

https://www.cityofchicago.org/city/en/depts/dcd/supp_info/downtown_affordablehousingzoningbonus.html.

¹⁹ City of Chicago, DPD, “Bouncing Back: Five-Year Housing Plan 2014-2018,” February 5, 2014, 21, accessed December 19, 2016,

https://www.cityofchicago.org/content/dam/city/depts/dcd/general/housing/Chicago_Housing_Plan_Web_Final.pdf.

H. Assessing income eligibility for prospective residents of ARO on-site units

DPD's Compliance Unit assesses the income eligibility of ARO tenants. This process involves collecting and reviewing third-party verification of tenant income (e.g., income tax returns and paystubs). DPD performs this assessment at the time of initial occupancy.

CCLT assesses the income eligibility of prospective buyers of ARO on-site, for-sale units. As part of the application process, CCLT requires interested buyers to submit a variety of information, including a list of household members, income (including income of older dependents living in the household), Social Security letters (if applicable), and identification materials.

I. HUD's "Affirmatively Furthering Fair Housing" Rule

In July 2015, HUD issued the Affirmatively Furthering Fair Housing (AFFH) Final Rule, which applies to local governments, states, and public housing agencies (referred to collectively as "HUD program participants") that receive federal Community Development Block Grant funds.²⁰ The AFFH Final Rule is intended to enable HUD program participants "to take significant actions to overcome historic patterns of segregation, achieve truly balanced and integrated living patterns, promote fair housing choice, and foster inclusive communities that are free from discrimination."²¹

As a HUD program participant, the City commissioned an "Analysis of Impediments to Fair Housing Choice" to assess its responsibilities and obligations under AFFH.²² The Analysis, submitted to the City in February 2016, provides an overview of the "policies, practices, and local socioeconomic and market conditions and trends" that have contributed to Chicago's history of housing segregation and continue to impede housing choice in the city.²³ The report recommended that the City adopt a more holistic, proactive strategy to address the pernicious impact of entrenched housing segregation and its collateral consequences. "The City has the responsibility to identify issues and develop a strategy to address impediments to fair housing, including those that originate in the private sector," the report stated. "Affirmatively furthering

²⁰ U.S. HUD, "AFFH Fact Sheet: The Duty to Affirmatively Further Fair Housing," accessed December 19, 2016, <https://www.huduser.gov/portal/sites/default/files/pdf/AFFH-Fact-Sheet.pdf>; U.S. HUD, "Affirmatively Furthering Fair Housing: Final Rule," July 16, 2015, accessed December 19, 2016, <https://www.gpo.gov/fdsys/pkg/FR-2015-07-16/pdf/2015-17032.pdf>.

²¹ U.S. HUD, "Affirmatively Furthering Fair Housing: Final Rule," July 16, 2015, 42272, accessed December 19, 2016, <https://www.gpo.gov/fdsys/pkg/FR-2015-07-16/pdf/2015-17032.pdf>.

²² Applied Real Estate Analysis, Inc., "Analysis of Impediments to Fair Housing Choice," February 16, 2016, accessed December 19, 2016, <https://www.cityofchicago.org/content/dam/city/depts/cchr/AdjSupportingInfo/AdjFORMS/2016%20Adjudication%20Forms/2016AIToFairHousing.pdf>.

²³ Applied Real Estate Analysis, Inc., "Analysis of Impediments to Fair Housing Choice," February 16, 2016, 1, accessed December 19, 2016, <https://www.cityofchicago.org/content/dam/city/depts/cchr/AdjSupportingInfo/AdjFORMS/2016%20Adjudication%20Forms/2016AIToFairHousing.pdf>.

fair housing is an important process that requires the leadership of the City's officials and preparation of a viable plan to increase fair housing choice in the city."²⁴

The Analysis of Impediments to Fair Housing Choice identifies the ARO as a key component in such a strategy, particularly as it relates to the City's decisions on where to invest in-lieu fees. Specifically, the Analysis points out that "the location of affordable housing and patterns of residential segregation in most major cities have created a situation in which where people live depends largely on their income, race, and ethnicity."²⁵ Thus the City, under AFFH, must ensure that "opportunity is not limited by where a person lives and that all households can find decent and affordable housing in neighborhoods that offer safety, stability, and opportunity."²⁶

²⁴ Applied Real Estate Analysis, Inc., "Analysis of Impediments to Fair Housing Choice," February 16, 2016, 3, accessed December 19, 2016, <https://www.cityofchicago.org/content/dam/city/depts/cchr/AdjSupportingInfo/AdjFORMS/2016%20Adjudication%20Forms/2016AtoFairHousing.pdf>.

²⁵ Applied Real Estate Analysis, Inc., "Analysis of Impediments to Fair Housing Choice," February 16, 2016, 1, accessed December 19, 2016, <https://www.cityofchicago.org/content/dam/city/depts/cchr/AdjSupportingInfo/AdjFORMS/2016%20Adjudication%20Forms/2016AtoFairHousing.pdf>.

²⁶ Applied Real Estate Analysis, Inc., "Analysis of Impediments to Fair Housing Choice," February 16, 2016, 1, accessed December 19, 2016, <https://www.cityofchicago.org/content/dam/city/depts/cchr/AdjSupportingInfo/AdjFORMS/2016%20Adjudication%20Forms/2016AtoFairHousing.pdf>.

III. OBJECTIVES, SCOPE, AND METHODOLOGY

A. Objectives

The objectives of the audit were to determine if the City,

- achieved equitable geographic distribution of ARO-created and ARO-financed affordable housing units in accordance with its goals for the program;
- used all ARO fees for the creation of affordable housing as required by the Ordinance; and
- optimized its use of the Chicago Community Land Trust with regard to ARO-created, for-sale affordable units.

B. Scope

This audit identified ARO outcomes (i.e., the creation of affordable housing) achieved through both on-site designations and investment of ARO fees (i.e., DPD's Multifamily Finance and LIHTF's MAUI programs) between January 1, 2003, and December 31, 2015, per the 2003 and 2007 versions of the Ordinance. This audit assessed these outcomes in relation to the City's programmatic goals for the ARO.

C. Methodology

For all objectives, we interviewed senior management from DPD, LIHTF, and CCLT to learn about DPD's administration of the ARO and associated processes. We also interviewed senior management from OBM regarding the City's historical use of ARO and Density Bonus fees and the formalization of the Affordable Housing Fund. We reviewed ARO-related documentation, including ARO policies and procedures, developer applications for the Multifamily Finance and MAUI programs, and documentary evidence of ARO and Density Bonus fee disbursements.

To assess the geographic distribution of ARO-created and ARO-financed affordable units, OIG analyzed City data²⁷ in ArcMap, a mapping software. We also interviewed affordable housing subject matter experts from various non-profits, think tanks, academic institutions, and state and local government entities to identify best practices for affordable housing development.

D. Standards

We conducted this audit in accordance with generally accepted Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

²⁷ OIG assessed the reliability of ARO data by interviewing DPD employees knowledgeable about the data and reviewing documentation of controls related to its management. OIG determined that the data were sufficiently reliable for the purposes of this report.

E. Authority and Role

The authority to perform this audit is established in the City of Chicago Municipal Code § 2-56-030 which states that OIG has the power and duty to review the programs of City government in order to identify any inefficiencies, waste, and potential for misconduct, and to promote economy, efficiency, effectiveness, and integrity in the administration of City programs and operations.

The role of OIG is to review City operations and make recommendations for improvement.

City management is responsible for establishing and maintaining processes to ensure that City programs operate economically, efficiently, effectively, and with integrity.

IV. FINDINGS AND RECOMMENDATIONS

Finding 1: The City lacked an evidence-based strategy to define high and low opportunity areas and allocate ARO fees accordingly.

OIG found that, contrary to affordable housing best practices, the two programs that distributed ARO and Density Bonus fees—DPD’s Multifamily Finance program and LIHTF’s MAUI program—lacked an evidence-based strategy that defined high and low opportunity areas²⁸ and incentivized affordable housing development accordingly. This may have impeded affordable housing development in high opportunity areas and limited housing choice.

OIG interviewed six affordable housing experts from a variety of policy, academic, and research institutions. Each agreed that the City should incentivize affordable housing development not only in low opportunity areas but in high opportunity areas as well. To that end, while it does not control where private-market residential developers choose to build, the City should strategically allocate fees to promote affordable housing throughout Chicago. These experts underscored the importance of such a strategy to address Chicago’s history of housing segregation and the reality of housing cost-burdened renters and owners in every city neighborhood.²⁹

Through our interviews with subject matter experts, OIG learned that there are negative implications to incentivizing affordable housing development only in low opportunity areas. The experts explained that a “path of least resistance” approach to the investment of these fees, i.e., investing in areas where development is the least expensive and where limited funds yield the highest number of units, can result in affordable housing development that concentrates poverty and/or reinforces historical patterns of housing segregation.

OIG found that DPD lacked both defined goals for the ARO and an evidence-based strategy to achieve them. We interviewed DPD management, who identified achieving equitable geographic distribution of ARO-created and ARO-financed units throughout the city as a general goal for the ARO. However, we found that DPD’s goal of geographic equity was undefined. OIG also found that, lacking defined goals, DPD did not identify or assess high opportunity areas for investment of these fees nor did it monitor the geographic distribution of ARO-created or ARO-financed affordable housing units to assess progress toward defined goals.³⁰ Moreover, citing the deal-by-deal nature of the Multifamily Finance and MAUI programs, DPD management stated that it opposed restricting the allocation of ARO and Density Bonus fees to the geographic areas that generated the funds because it did not want to hold up funds for projects that may not happen.

²⁸ Affordable housing experts use the terms “low opportunity areas” and “high opportunity areas” to distinguish housing markets based on socioeconomic indicators, including average income, job access, and transportation access, among others.

²⁹ “Housing cost-burdened” is an industry term defined as households paying more than 30% of their income on housing. Chicago Rehab Network, “Household Instability Increases Dramatically—Chicago At-Risk,” 2011, accessed December 19, 2016,

http://www.chicagorehab.org/resources/docs/research/buildingchicago/buildingourfuturechicagopart2_costburden.pdf.

³⁰ See Appendix B for a map illustrating the location of the affordable housing units created through Multifamily Finance and MAUI with AHOF support.

Instead, DPD wanted to retain the discretion to invest in affordable housing projects in lower-income communities. However, the affordable housing experts we spoke with expressed the belief that many Chicago-area developers would be willing to build in high opportunity areas if the City provided sufficient incentives through its application selection criteria.

Our research revealed that other Chicago-area housing programs, unlike DPD's, assessed high opportunity areas and incentivized development accordingly. For example, the Illinois Housing Development Authority (IHDA)³¹ and the Chicago Housing Authority (CHA)³² employ specific methodologies to define and measure opportunity. Based on these models, OIG determined that DPD can use metrics such as average income, job access, and transportation access to define opportunity areas.

OIG notes that distributing ARO and Density Bonus fees in accordance with an evidence-based assessment of opportunity may help the City build consensus among affordable housing stakeholders. OIG understands that there are multiple parties involved with the City's decision on where and how to invest ARO and Density Bonus fees, including aldermen, community members, and the developers themselves. Individual aldermen, for example, exert influence on the question of whether to bring ARO and Density Bonus fee-funded development into their wards or, alternatively, to keep such developments out. In addition, City Council's Committee on Housing and Real Estate must approve each Multifamily Finance deal before the development receives City support. Subject matter experts noted to OIG that, if DPD had an empirically-based strategy to inform its decision-making process regarding the investment of ARO and Density Bonus fees, DPD would be better equipped to navigate potential disagreements with such stakeholders about where and how to invest these monies.

Because the City does not define and incentivize affordable housing development in high opportunity areas, it is out of step with the best practices cited by experts and the methodologies employed by other government-run housing programs in the Chicago area. Moreover, the City's current tactics do not reflect the holistic, proactive approach to addressing historic patterns of segregation and achieving truly integrated communities as contemplated in the HUD Final Rule and recommended in the City's own commissioned study, "Analysis of Impediments to Fair Housing Choice."

Recommendation:

OIG recommends that DPD develop defined goals relating to the geographic distribution of affordable housing. As part of this work, the Department should assess and formalize the city's high opportunity areas for affordable housing development, perhaps referencing IHDA's or CHA's approaches as a guide. Once formalized, OIG recommends that DPD incentivize affordable housing development in these areas. This may include amending the selection criteria in its Multifamily Finance and MAUI applications to award points for high opportunity development. OIG recommends that DPD monitor Multifamily Finance and MAUI outcomes on an ongoing basis to ensure that it meets its geographic distribution goals.

³¹ See Appendix C for information regarding IHDA opportunity areas.

³² See Appendix D for information regarding CHA opportunity areas.

Management Response:

“Improvements to the ARO initiated by Mayor Emanuel in 2014 and implemented in late 2015 took significant steps to create more affordable units in high opportunity areas.

*“While the 2007 ARO, which is the subject of this Audit, allowed developers to meet their ARO obligation by either paying an in-lieu fee or putting affordable units on-site, the 2015 ARO requires that, with very few exceptions, all ARO-triggering projects must create some affordable units rather than buy out of the obligation. Further advancing the goal to create affordable units in opportunity areas, the 2015 ARO creates and defines three distinct zones: Higher Income; Downtown; and Low-Moderate Income. With the exception of Downtown For-Sale projects, which can put their required units anywhere in the City, projects built in the Downtown and Higher Income zones are **required** to put a percentage of their ARO units on-site or off-site within two miles of the triggering project and in a Downtown or Higher Income zone.*

“DPD’s commitment to this goal is supported by the data: Through Q4 2016, of the 569 units in 62 projects that have been committed or planned, all but 3 of the projects were located in Higher Income areas, per the 2015 ARO definition. Moving forward, the number of units created in Higher Income areas will increase significantly, as the required on-site/off-site units come online.

“A timeline to ensure that the boundaries of these zones reflects current data is built into the Ordinance.

“DPD commits to reporting on the zone of each project as part of its quarterly reporting process.

“Affordable Housing Opportunity Fund (AHOF)

“ARO in-lieu payments are deposited into the Affordable Housing Opportunity Fund (AHOF). These funds are used to construct, rehab, and preserve affordable units, primarily via DPD Multi-family lending and the Chicago Low-Income Housing Trust Fund’s Multi-Year Affordability Upfront Investment (MAUI) program.

“Multi-Family Investment

“While DPD does invest AHOF funds in higher income communities whenever possible, DPD has been intentionally resistant to limiting or creating quotas that would limit AHOF investments to specific communities.

*“DPD’s Housing bureau is guided by its Five Year Housing plans, which are drafted with extensive community input and involvement, and set goals and guidelines for the department’s housing production. The 2014-2018 Five Year Housing Plan set goals to **both** ‘concentrate its limited amount of public resources in targeted areas to rebuild weak and transitional markets and attract private, non-subsidized development’ and to ‘expand the number of affordable units available across different types of markets, with special attention to renter populations at the lowest income levels.’*

“Those equally important mandates guide DPD’s housing investment. DPD acknowledges the importance of investing in high-opportunity neighborhoods, and in fact, Appendix B of the Inspector General’s report demonstrates that much of the City’s investment has been concentrated in these higher income areas.

“However, DPD must balance this investment with its equally pressing responsibility to invest in communities and housing markets characterized by low opportunity. In part because the other state and federal agencies cited as models are limited to investing in higher income areas, AHOF funds are critical – and sometimes the only - sources of catalytic, job and quality-housing-creating investment in communities that may have no active housing markets and experience very little investment.

“However, while DPD can not commit to limiting its investment to specific communities, we do want to be intentional about meeting our goal to create affordable units in all markets – and maintain the progress we have made in creating affordable units in opportunity areas.

“To that end, DPD will refine and better communicate its selection criteria for projects seeking funding to construct affordable housing. Specifically, DPD will strengthen its Multi-Family project selection criteria as part of the public process to update its Qualified Allocation Plan (QAP), by which projects seeking City funding for affordable housing are evaluated.

“MAUI

“Regarding the allocation of MAUI funds, The Chicago Low Income Housing Trust Fund is an independent non-profit organization, created by the City of Chicago to commit valuable resources to bridge the gap between market rents and what a low-income household can afford. The Trust Fund is unique in that it is not treated like most Federal Programs. Its goal is to remain flexible in an effort to address a wide range of housing needs.

“There are currently 200 MAUI units funded by CLIHTF, located in varying communities across Chicago. MAUI provides a grant to property developers and owners that offer affordable rental housing to households living at or below fifteen percent (15%) and thirty percent (30%) of the AMI. The Property commits to the affordability for fifteen to thirty years through a Regulatory Agreement.

“The following new ‘Actions’ were adopted by the CLIHTF Board in 2016 with target ‘Implementation’ in 2017. How and where CLIHTF decides to allocate dollars in the City will depend on the following:

- *Preservation of existing affordable housing, including ARC and SROs*
- *Special Needs / Supportive Housing (Homeless, Vets, AIDS, Domestic Violence)*
- *Geographic affordability in gentrifying areas*

“When determining which projects will be funded, CLIHTF will balance the needs in the communities and utilize a point system (and in the event of tie, perhaps a lottery system), to prioritize investments. Below are priorities currently under consideration by the CLIHTF.

“Priorities for new units:

“Geographic Distribution

- *Areas where Trust Fund is under-represented*
- *Areas where there is a higher Latino population than the City average >30%*
- *Communities impacted by increased gentrification*
- *Communities where Trust Fund has lost units / buildings*

“Targeted Populations

- *Does the property partner with a Homeless, Veteran or AIDS Foundation agency?*
- *Does the property partner with future targeted population – school aged children?*
- *Does the building provide needed amenities?*
- *Is the building physically accessible?*
- *Is the building an SRO (these properties are a City priority)?*

“For both Multi-Family and CLHTF investment, DPD will continue to report quarterly to City Council on the Department’s progress in meeting the goals established under the Five Year Housing Plan.”

Finding 2: DPD did not appropriately account for \$4.5 million in ARO and Density Bonus fees.

According to DPD accounting and reporting, the City collected \$89.8 million in ARO and Density Bonus fees and interest from 2003 through 2015. The City disbursed \$19.9 million to the Low-Income Housing Trust Fund and \$23.2 million to DPD’s Multifamily Finance program for the creation of affordable housing as required by the MCC. There was a balance of \$42.0 million in the City’s Affordable Housing Fund (AHF) at the beginning of 2016. These figures, including the \$4.5 million unaccounted difference OIG identified, are presented in the chart below.

ARO and Density Bonus fees collected	\$89,754,470
AHOF monies to LIHTF	(\$19,934,957)
AHOF monies to Multifamily Finance	(\$23,238,541)
(1) Calculated AHF balance	<u>\$46,580,972</u>
(2) Actual AHF balance	\$42,034,321
(1)-(2) Unaccounted for difference between calculated and actual balance identified by OIG	\$4,546,651

Source: OIG analysis based on DPD data through December 31, 2015

During the audit, OIG interviewed DPD and OBM regarding the unaccounted for difference. With assistance from the departments, OIG determined that the City could not account for \$4,005,400, or 4.5% of the total amount it collected in ARO and Density Bonus fees, being spent for affordable housing purposes. OIG tracked the shortfall of \$4,005,400 in fees to a single accounting record, dated December 2008, that allowed the funds to be used for other purposes. OIG found that the remaining \$541,252 in previously unaccounted for fees was unspent but erroneously being held in the City’s Corporate Fund. DPD explained that there was unused appropriation authority for fiscal years 2007, 2012, and 2013; that is, City Council approved a certain amount in appropriations to LIHTF and Multifamily Finance for those years, but the City ultimately did not expend all those monies. DPD failed to reconcile those amounts of unused appropriation authority in its accounting and reporting.

OIG believes that the risk of unaccounted for ARO and Density Bonus fees, such as described above, has been mitigated going forward by the creation of the AHF in 2015. Prior to 2015, the City collectively referred to ARO and Density Bonus fees as the AHOF, monies which the City had to transfer into the Corporate Fund in order to spend. DPD explained that this is the key distinction of the new fund—the City can both deposit into and spend out of AHF. In interviews with Department management, DPD stated that the City created the new fund in part to promote accountability and transparency. According to DPD, with the amended ARO’s new fee structure, the City wanted to ensure that all fees generated via the ARO could be easily accounted for and used exclusively for the creation of affordable housing.

Recommendation:

OIG recommends that DPD ensure the restoration of the \$4,005,400 in ARO and Density Bonus fees to the AHF so that those monies can be used for the creation of affordable housing. In addition, OIG recommends that DPD secure the transfer of the \$541,252 in appropriation-authorized but unused ARO and Density Bonus fees from the Corporate Fund to the AHF.

Management Response:

“DPD has worked closely with the Office of Budget and Management to determine the cause of the ARO and Density Bonus fee accounting discrepancies raised by the OIG report.

“OBM has determined that in the past, particular accounting and budgeting practices were put in place to assure that the unpredictability of density bonus collections did not impact the CLIHTF. The ARO and Density Bonus revenue was supplemented with different funding sources including corporate, parking meter reserves, and the Skyway concession fund. These other funding sources have both accounting and appropriation time limitations. The City established a policy on expenditures that not only supplemented the ARO and Density Bonus Fees but also protected against the variable cash flow of these fees. As a result corporate fund revenue was set up first to support the account, but the actual corporate subsidy was spent last.

“Because Density Bonus collections are intermittently collected throughout the year, historically the City budgeted the expenditures related to the ARO and Density Bonus in the corporate fund and then transferred the revenue into the corporate fund as the revenue was received to cover these expenses. For example, in 2008 only \$420K in density bonus funds were collected from January through October, but \$9.7M was spent during the same time period on affordable housing, most of which benefited the CLIHTF. Without this policy in place, these CLIHTF expenditures would not have been possible, unless and until Density Bonus collections were received. When ARO and Density Bonus collections finally came in, the City’s practice was to deposit funds into the corporate fund to refund the revenue the corporate fund had fronted for CLIHTF expenses. This is what occurred in December 2008 with the \$4M transfer from Fund 934 to the corporate fund.

“OBM has reviewed the accounting provided by DPD but finds no evidence that there is a shortfall or an inappropriate transfer of funds from Fund 934. The records provided were maintained by DPD and are not supported by the City’s primary accounting system. These records also identify only the 2008 transfer and do not account for all of the transfers made over time consistent with the practice discussed above. Because Fund 934 and corporate were linked through these accounting processes it is not sufficient to only analyze the revenue account, and not reconcile the transactions that occurred on the expenditure side. Additionally, the CLIHTF accounting processes and reports are independent of the City’s financial records and accounting system. Therefore the funding reported by the CLIHTF, specifically from ARO and Density Bonus funds, may not always be recorded in the same timeframe as the City’s records. In order to fully and correctly reconcile, a complete review of the City’s records in conjunction with CLIHTF’s records would be necessary.

“OBM recognized that the past practice did not allow for simple and clear tracking of the ARO and Density Bonus revenues and as a result moved away from the practice of budgeting funds that are not based on actual cash collections. Additionally, we have addressed issues associated with transferring monies between funds by placing ARO and Density Bonus revenues in a separate fund and budgeting for them in this separate fund.”

“The same logic described above pertains to the second part of Finding #2. In years 2007, 2012, and 2013, a combined total of \$386,945 was appropriated but unspent at those years end. This was due to late changes to financial structures and closing dates for housing deals that were scheduled to close late in those years, which meant that a small amount of available funds were unspent. In addition, in years 2007, 2008, 2009, and 2013 a combined total of \$154,306.51 was collected through the ARO and Density Bonus but not transferred to the corporate account from which these funds were disbursed. This was due to the former practice of shifting funds between collection and expenditure accounts, which was eliminated in 2015. In total, \$541,252 was collected but has not yet been spent through the CLIHTF or MAUI programs. To ensure that all funds collected through the ARO and Density Bonus are invested as required by the ordinance, the City has placed collections in a separate fund and budgets for them in a separate fund.”

“In summary, the purported losses, if any, to the program described in this report were losses on paper only. From 2003 to 2015 the CLIHTF received over \$75 million of other City funding, in addition to approximately \$20 million in ARO and Density Bonus revenues. These funds were allocated to affordable housing projects in order to meet the City’s commitment to affordable housing.”

OIG Reply:

OIG maintains that DPD was unable to account for \$4.5 million in ARO and Density Bonus fees. During the audit, DPD acknowledged the accounting inconsistencies related to ARO and Density Bonus fees and agreed to work with OBM to restore \$4.5 million to the Affordable Housing Fund. However, after receiving a draft of our report and upon further review by OBM of accounting provided by DPD, OBM stated that DPD’s records were not supported by the City’s primary accounting system. OBM also stated that payments in excess of \$4.5 million were made from the Corporate Fund to support affordable housing projects, concluding that these payments compensated for the discrepancies identified.

Finding 3: The Chicago Community Land Trust did not fully embody its role as defined in its establishing ordinance.

In its ten-year history, CCLT has never acquired land for construction of affordable housing units. Rather, CCLT has historically employed deed restrictions to preserve the long-term affordability of for-sale affordable units created through City programs. Recent and proposed changes to this mechanism, combined with insufficient funding to achieve its mandate, have curtailed, if not eliminated, CCLT's ability to grow and preserve affordable housing options in Chicago. As a result, the City lacks an effective community land trust vehicle to create affordable housing. CCLT's existing functions—screening prospective homebuyers and providing homeownership workshops—do not necessitate a discrete non-profit entity to conduct and therefore represent inefficiency in the City's organization.

In 2006, City Council established CCLT to,

- (a) provide opportunities for low- and moderate-income families and individuals to secure decent and affordable housing by increasing affordable housing choices in Chicago and fostering the availability of a combination of owner-occupied and rental housing that meets diverse needs, including balancing of individual and community wealth;
- (b) preserve the quality and affordability of housing for future generations of owners and renters through long-term ground leases, restrictive covenants, options to repurchase and similar mechanisms; and
- (c) in furtherance of the purposes of [CCLT], acquire, develop, lease, sell or otherwise convey parcels of land, improvements thereon, or both; enter into redevelopment agreements; impose covenants, conditions and restrictions of record; accept and make grants and loans; accept mortgages executed by persons benefiting from [CCLT's] affordable housing initiatives; and enforce all agreements described [herein].³³

OIG found that CCLT has never acquired land and, as such, has never utilized long-term ground leases as a mechanism to preserve affordable housing. According to CCLT and DPD officials, the CCLT Board of Directors has advocated unsuccessfully for funding to create an endowment to enable the CCLT to purchase land. Without an endowment, CCLT and DPD officials told OIG that the CCLT is a community land trust in name only.

Although CCLT has never utilized long-term ground leases to preserve affordable housing, as is the practice of most community land trusts throughout the country, it has utilized deed restrictions to preserve long-term, affordable home ownership units, thereby still achieving the Trust's goals. However, recent and proposed changes to this mechanism weaken its utility in preserving long-term affordability.

³³ City of Chicago, City Clerk, "Journal of the Proceedings of the City Council of the City of Chicago, Illinois," January 11, 2006, 68006, accessed December 19, 2016, <http://chicityclerk.com/legislation-records/journals-and-reports/journals-proceedings>.

First, between 2006 and 2015, CCLT required developers to impose 99-year deed restrictions on ARO for-sale units. According to DPD and CCLT officials, the 99-year deed restriction, which was intended to be renewed at each time of sale, was a cost-effective mechanism to preserve affordable housing and requires no capital investment in land. However, the 2015 revisions to the ARO specified that deed restrictions will not be renewed at each time of sale and will expire “if the owner of the affordable unit occupies the...unit as his principal residence for a continuous period of 30 years.”³⁴ In other words, ARO units administered by the Trust under the new ordinance will remain affordable for 30 years (unless the owner voluntarily chooses to sell the unit at an affordable price at the end of the 30 years—an unlikely scenario, according to DPD), at which point the owner, who purchased the home at a heavily subsidized price under the ARO, is free to sell the home at market rate rather than preserve the affordability of the home for a new, qualified buyer. DPD and CCLT officials explained that the City agreed to reduce the affordability period of for-sale units in exchange for required on-site units in negotiations with developers as part of the 2015 ARO amendment process. In order to streamline administrative processes, CCLT is considering converting all existing 99-year covenants to 30-year covenants.

Second, from 2006 to the present, agreements between CCLT and homebuyers have given the Trust the option to purchase properties from homeowners wishing to sell their property. This option, or right of first refusal, serves as a mechanism by which community land trusts can preserve their existing housing stock into the future, thus ensuring a property’s continued affordability. However, as mentioned above, CCLT has never had an endowment and has thus been thwarted in its ability to exercise its right of first refusal. In fact, the Trust is considering relinquishing its right of first refusal because it lacks the funds necessary to exercise this right.

In addition to imposing deed restrictions and having—though never exercising—the right of first refusal, the City tasked CCLT with the function of screening prospective homebuyers for affordable units created through City programs, including the ARO. Between 2006 and 2015, the two DPD employees that staff CCLT screened prospective homebuyers in support of the closing for about 80 affordable homes. CCLT also provided homeownership workshops for new CCLT homebuyers. These functions, while important, do not necessitate a discrete non-profit entity to conduct and therefore represent inefficiency in the City’s organization.

Recommendation:

OIG recommends that DPD and CCLT work with City Council and OBM to secure the financial resources necessary for CCLT to function as a community land trust. Once CCLT secures these resources, the Trust should align its practices with its mission of providing and preserving long-term affordability in Chicago. Should CCLT continue to employ deed restrictions as an affordability mechanism, OIG recommends that the City and City Council collaborate to revise the 2015 ARO to allow for the reintroduction of 99-year deed restrictions.

Alternatively, OIG recommends that DPD and CCLT work with City Council to explore the possibility of sunseting CCLT and integrating its existing functions into DPD’s operations.

³⁴ MCC § 2-45-115 (H)(3).

Management Response:

“DPD gratefully acknowledges the Inspector General’s recognition of the CCLT’s groundbreaking and important work by calling for secured financial resources for the work of the CCLT. In its 11 years, many of which were defined by a foreclosure crisis, the CCLT lost none of its nearly-100 units to foreclosure.

“The 2017 Budget provides funding for a CCLT Executive Director, which DPD is in the process of hiring. This dedicated, full-time position will enable the CCLT to increase its membership; expand its stewardship activities to additional affordable units created by the City; and fundraise externally, advancing the goal of long-term affordability.

“DPD challenges the assertion that CCLT is not currently functioning as a community land trust, or that the CCLT does not fulfill its mission to provide and preserve long-term affordability.

“While most land trusts do purchase land and utilize ground leases to maintain affordability, the CCLT Ordinance specifically contemplated the use of deed restrictions to secure long-term affordability. Deed restrictions serve as an innovative, cost effective tools that achieves long-term affordability extremely effectively, especially in our context, in which most CCLT units are condominiums.

“That said, the CCLT Board has acknowledged that confusion about the designation of a ‘land trust’ when no land is held by the CCLT may have created a barrier to lender, developer, and homeowner adoption, and is taking steps to change the name.

“The CCLT Board made the decision to reduce the term of the deed restriction from 99 to 30-years to align CCLT units with ARO unit affordability restrictions, thereby increasing the number of units that can be monitored by the CCLT, while maintaining the tax benefits associated with long-term affordability restrictions.

“Because the CCLT is staffed by the City, whether it is independent or part of a City agency would have no effect on resource allocation or availability, and in fact, as a not-for-profit, the CCLT has more capacity to fundraise externally than a City department might have.

“Further, while cost savings was by no means the impetus for the Board’s creation, the City experiences significant cost savings by utilizing the expertise of an independent, voluntary, Board to support and advance the mission of the CCLT rather than hiring independent consultants to do the same work.”

V. APPENDIX A: AREA MEDIAN INCOME LIMITS FOR CHICAGO

The table below shows the area median income (AMI) limits for the metro region that includes Chicago, Naperville, and Joliet, as established by the U.S. Department of Housing and Urban Development (HUD).³⁵ HUD provides AMI calculations for 30%, 50%, and 80%; DPD provides the others. These limits were in effect between March 6, 2015, and March 27, 2016.

**TABLE OF INCOME LIMITS
 (Effective March 6, 2015)**

Household Size	10% Area Median Income	15% Area Median Income	20% Area Median Income	30% Area Median Income (HOME Extremely Low Income Limit)	40% Area Median Income	50% Area Median Income (HOME Very Low Income Limit)	60% Area Median Income	65% Area Median Income	80% Area Median Income (HOME Low Income Limit)	90% Area Median Income	95% Area Median Income	100% Area Median Income	115% Area Median Income	120% Area Median Income	140% Area Median Income
1 person	\$5,320	\$7,980	\$10,640	\$16,000	\$21,280	\$26,600	\$31,920	\$34,580	\$42,600	\$47,880	\$50,540	\$53,200	\$61,180	\$63,840	\$74,480
2 persons	\$6,080	\$9,120	\$12,160	\$18,250	\$24,320	\$30,400	\$36,480	\$39,520	\$48,650	\$54,720	\$57,760	\$60,800	\$69,920	\$72,960	\$85,120
3 persons	\$6,840	\$10,260	\$13,680	\$20,555	\$27,360	\$34,200	\$41,040	\$44,460	\$54,750	\$61,560	\$64,980	\$68,400	\$78,660	\$82,080	\$95,760
4 persons	\$7,600	\$11,400	\$15,200	\$24,250	\$30,400	\$38,000	\$45,600	\$49,400	\$60,800	\$68,400	\$72,200	\$76,000	\$87,400	\$91,200	\$106,400
5 persons	\$8,210	\$12,315	\$16,420	\$28,410	\$32,840	\$41,050	\$49,260	\$53,365	\$65,700	\$73,890	\$77,995	\$82,100	\$94,415	\$98,520	\$114,940
6 persons	\$8,820	\$13,230	\$17,640	\$32,570	\$35,280	\$44,100	\$52,920	\$57,330	\$70,550	\$79,380	\$83,790	\$88,200	\$101,430	\$105,840	\$123,480
7 persons	\$9,430	\$14,145	\$18,860	\$36,730	\$37,720	\$47,150	\$56,580	\$61,295	\$75,400	\$84,870	\$89,585	\$94,300	\$108,445	\$113,160	\$132,020
8 persons	\$10,040	\$15,060	\$20,080	\$40,890	\$40,890	\$50,200	\$60,240	\$65,260	\$80,300	\$90,360	\$95,380	\$100,400	\$115,460	\$120,480	\$140,560
9 persons	\$10,640	\$15,960	\$21,280	\$45,050	\$45,050	\$53,200	\$63,840	\$69,160	\$85,120	\$95,760	\$101,080	\$106,400	\$122,360	\$127,680	\$148,960
10 persons	\$11,248	\$16,872	\$22,496	\$49,210	\$49,210	\$56,240	\$67,488	\$73,112	\$89,984	\$101,232	\$106,856	\$112,480	\$129,352	\$134,976	\$157,472

NOTES:

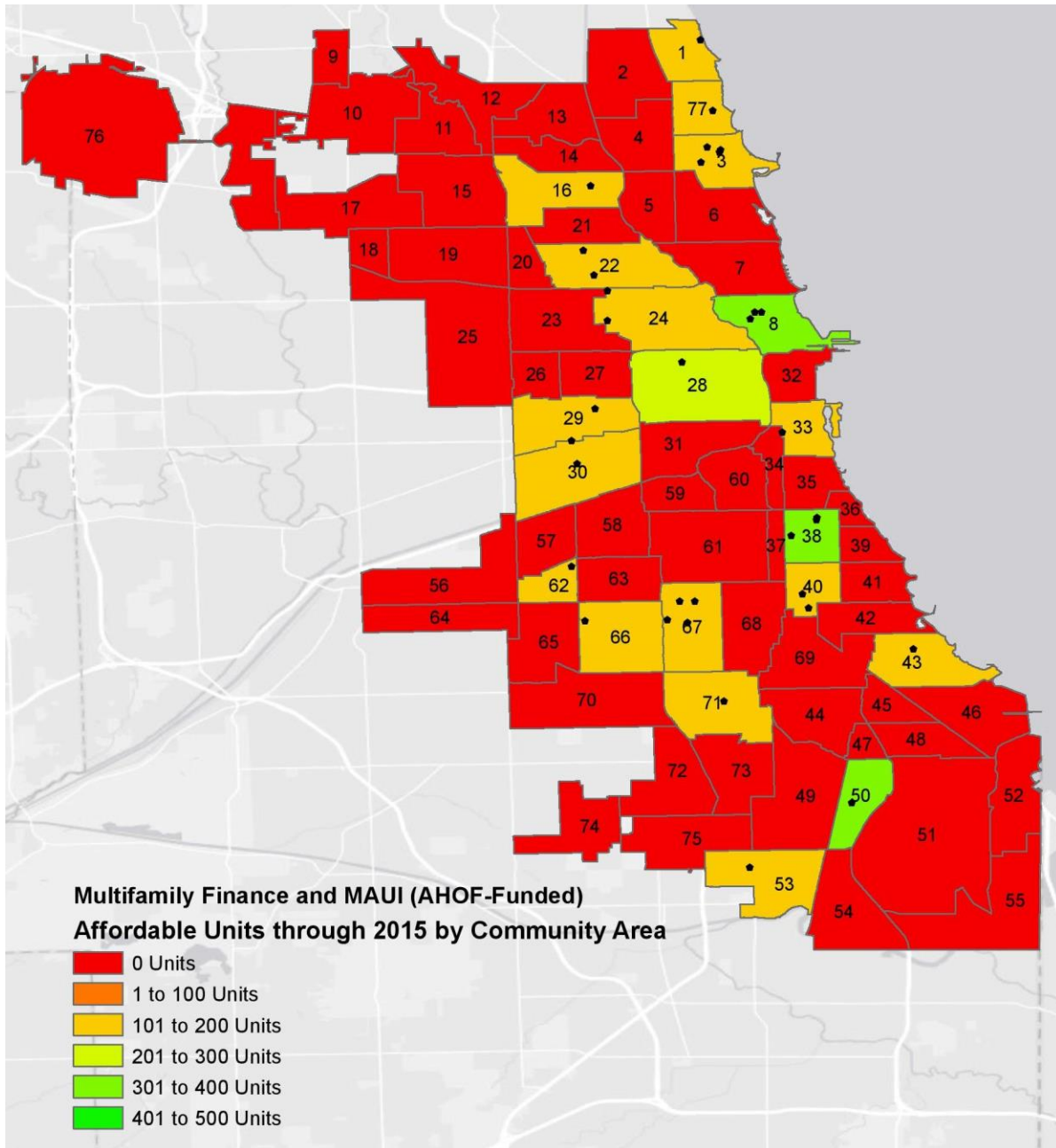
- Income limits are for the Chicago-Naperville-Joliet, IL HUD Metro FMR Area.
- Effective until superseded.
- Income limits at 30%, 50% and 80% AMI are as published by HUD.
- Income limits at all other income levels are calculated per HUD methodology, based on Very Low Income (50% AMI) limit.
- Income limits at 40% AMI for 8-, 9- and 10-person households were adjusted so that they are not exceeded by Extremely Low Income (30% AMI) limit.
- Income limits for 9-person households are calculated at 140% of 4-person limits; income limits for 10-person households are calculated at 148% of 4-person limits.

Source: DPD

³⁵ City of Chicago, DPD, “2014-2018 Chicago Five Year Housing Plan: 2015 Fourth Quarter Progress Report October-December,” pdf 87, accessed December 19, 2016, <https://www.cityofchicago.org/content/dam/city/depts/dcd/general/quarterly%20housing%20reports/FullReport2015Q4.pdf>.

VI. APPENDIX B: LOCATION OF AHOF-FUNDED AFFORDABLE UNITS

This map illustrates the location of the 1,623 AHOF-supported affordable housing units created through the year 2015. The dots show the building locations while the boundaries and numbers represent the city's 77 community areas, listed on the following page.³⁶



Source: OIG based on DPD data through December 2015

³⁶ For detailed community area maps see City of Chicago, Department of Innovation and Technology, "Chicago Maps," accessed December 6, 2016, https://www.cityofchicago.org/city/en/depts/doi/supp_info/citywide_maps.html.

Community Area Numbers and Names

1 Rogers Park	40 Washington Park
2 West Ridge	41 Hyde Park
3 Uptown	42 Woodlawn
4 Lincoln Square	43 South Shore
5 North Center	44 Chatham
6 Lakeview	45 Avalon Park
7 Lincoln Park	46 South Chicago
8 Near North Side	47 Burnside
9 Edison Park	48 Calumet Heights
10 Norwood Park	49 Roseland
11 Jefferson Park	50 Pullman
12 Forest Glen	51 South Deering
13 North Park	52 East Side
14 Albany Park	53 West Pullman
15 Portage Park	54 Riverdale
16 Irving Park	55 Hegewisch
17 Dunning	56 Garfield Ridge
18 Montclare	57 Archer Heights
19 Belmont Cragin	58 Brighton Park
20 Hermosa	59 McKinley Park
21 Avondale	60 Bridgeport
22 Logan Square	61 New City
23 Humboldt Park	62 West Elsdon
24 West Town	63 Gage Park
25 Austin	64 Clearing
26 West Garfield Park	65 West Lawn
27 East Garfield Park	66 Chicago Lawn
28 Near West Side	67 West Englewood
29 North Lawndale	68 Englewood
30 South Lawndale	69 Greater Grand Crossing
31 Lower West Side	70 Ashburn
32 Loop	71 Auburn Gresham
33 Near South Side	72 Beverly
34 Armour Square	73 Washington Heights
35 Douglas	74 Mount Greenwood
36 Oakland	75 Morgan Park
37 Fuller Park	76 O'Hare
38 Grand Boulevard	77 Edgewater
39 Kenwood	

Source: City of Chicago Data Portal

VII. APPENDIX C: IHDA OPPORTUNITY AREAS

IHDA defines opportunity areas as “communities with low poverty, high access to jobs, and low concentrations of existing affordable rental housing.”³⁷ IHDA identifies opportunity areas annually and designates them as such for a period of four years, provided these areas continue to meet the identification criteria.³⁸

2016 IHDA Opportunity Areas

Geographic Considerations and Determination Metrics

IHDA Opportunity Areas are determined for purposes related to the State of Illinois’ Low Income Housing Tax Credit Qualified Allocation Plan. Please visit the IHDA website for more information.

Geographic Considerations

IHDA determines Opportunity Areas at one of two levels of geography:

1. Places within Illinois with populations equal to or greater than 1,000 and less than 50,000 are examined in whole. As defined by the US Census Bureau, “Place” means incorporated places (cities, towns, villages) or unincorporated areas that meet population density thresholds (Census-Designated Places). Census Designated Places are excluded from Opportunity Area consideration. IHDA intends to incent communities that are generally large enough to support rental housing developments, therefore places with populations under 1,000 are excluded from Opportunity Area consideration.
2. Places with populations above 50,000 are examined by individual Census Tracts. Places with larger populations may be too large to accurately reflect measurements of opportunity.

2016 Major Determination Metrics (Data):

The following four data-based drivers (metrics) were considered as the major determination factors for a person-based determination of Opportunity Areas:

1. **Poverty Rate** – Targeting affordable housing development in communities with low poverty rates should be the primary goal of any determination of Opportunity Areas. Data Source: *The American Community Survey – 5-Year Estimates (published by the US Census Bureau) includes a poverty rate estimate that is available for all geographies for the State. SPAR recommends using the most current ACS 5-year data available (currently 2009-2013).*

Job Access Indicators - Two different indicators of Job Access were considered for the 2016 Opportunity Areas determination:

2. **Jobs to Population Ratio** – Opportunity Areas should be located in areas with high concentrations of jobs. The Jobs to Population Ratio is constructed using the Estimated Population of the Community (from ACS 5-year data sets) and the Total Number of Jobs located within each community (From the Longitudinal Employer-Household Dynamics survey published by the US Census Bureau and based on State and Federal data from unemployment issuance and quarterly census of employment and wages). The total number of jobs in a community was divided by its population to create a percentage that can be compared across geographies. Data Sources: *The American Community Survey – 5-Year Estimates (published by the US Census Bureau) includes population estimates that are available for all geographies for the State. Additionally, the Longitudinal Employer-Household Dynamics survey is published by the US Census Bureau and based on State and Federal data from unemployment issuance and quarterly census of employment and wages – this data is published by Census Block Group and is aggregated by place and Census Tract by IHDA.*
3. **Mean Travel Time To Work** - People don’t always live where they work and therefore jobs located in a specific area is not a complete indicator of the way jobs are really accessed. Transportation access is considered an equally important part of accessing jobs, but “access” to transportation is not a universally (throughout different regions) defined consideration. Mean travel time to work is an indication of how long it takes people to get to their jobs. Unlike other indicators of transportation /

³⁷ IHDA, “Opportunity Areas,” accessed November 28, 2016, <https://www.ihda.org/developers/market-research/opportunity-areas/>.

³⁸ IHDA, “Opportunity Areas,” accessed November 28, 2016, <https://www.ihda.org/developers/market-research/opportunity-areas/>.

job access this metric does not presume a need to access public transportation or multiple nodes of travel – though this metric doesn’t discount this type of access either. Data Source: *The American Community Survey – 5-Year Estimates (published by the US Census Bureau) includes estimated Mean Travel Time to Work by both Place and Census Tracts for all of Illinois.*

- 4. Unemployment Rate** – Opportunity Areas should also include communities where there are a great deal of people working. Unemployment Rate, is a commonly used benchmark of the number of people who do work in an area, and because unemployment data is available through the U.S. Census Bureau for all geographies in Illinois. Data Source: *The American Community Survey – 5-Year Estimates (published by the US Census Bureau) includes a Civilian Unemployment Rate (Estimated percent of people age 16 years or older who were unemployed) that is available for all geographies for the State.*

2016 Threshold Consideration - Eligible geographies must be above or below (as appropriate) a threshold benchmark in ALL Major Determination Metric categories to qualify as Opportunity Areas.

In 2015, Statewide Thresholds for each metric category were utilized. The statewide thresholds were determined using averages of all Places (definition discussed above) in Illinois. For 2016, these thresholds were reconsidered based on recommendations received from participants in QAP summits and Opportunity Area focus groups.

In general, the received input recommended that Regionally Based thresholds be used in determining the 2016 Opportunity Areas. IHDA conducted extensive research on this method and determined that regional thresholds for the “downstate” regions are generally more restrictive (except in poverty and in some cases unemployment) than the statewide categories, meaning that fewer Opportunity Areas are identified in downstate regions using the regional thresholds. For this reason, **a hybrid threshold model is being used with a regional model being used in the Chicago Metropolitan Area and a Statewide Threshold being used in Other Metro and Non-Metro Set-Asides.** This model allows for the greatest geographic diversity in IHDA’s Opportunity Areas. Thresholds are determined both regionally and statewide by an average of Census Tracts.

The chart below shows the thresholds for the 2016 Opportunity Areas Determination:

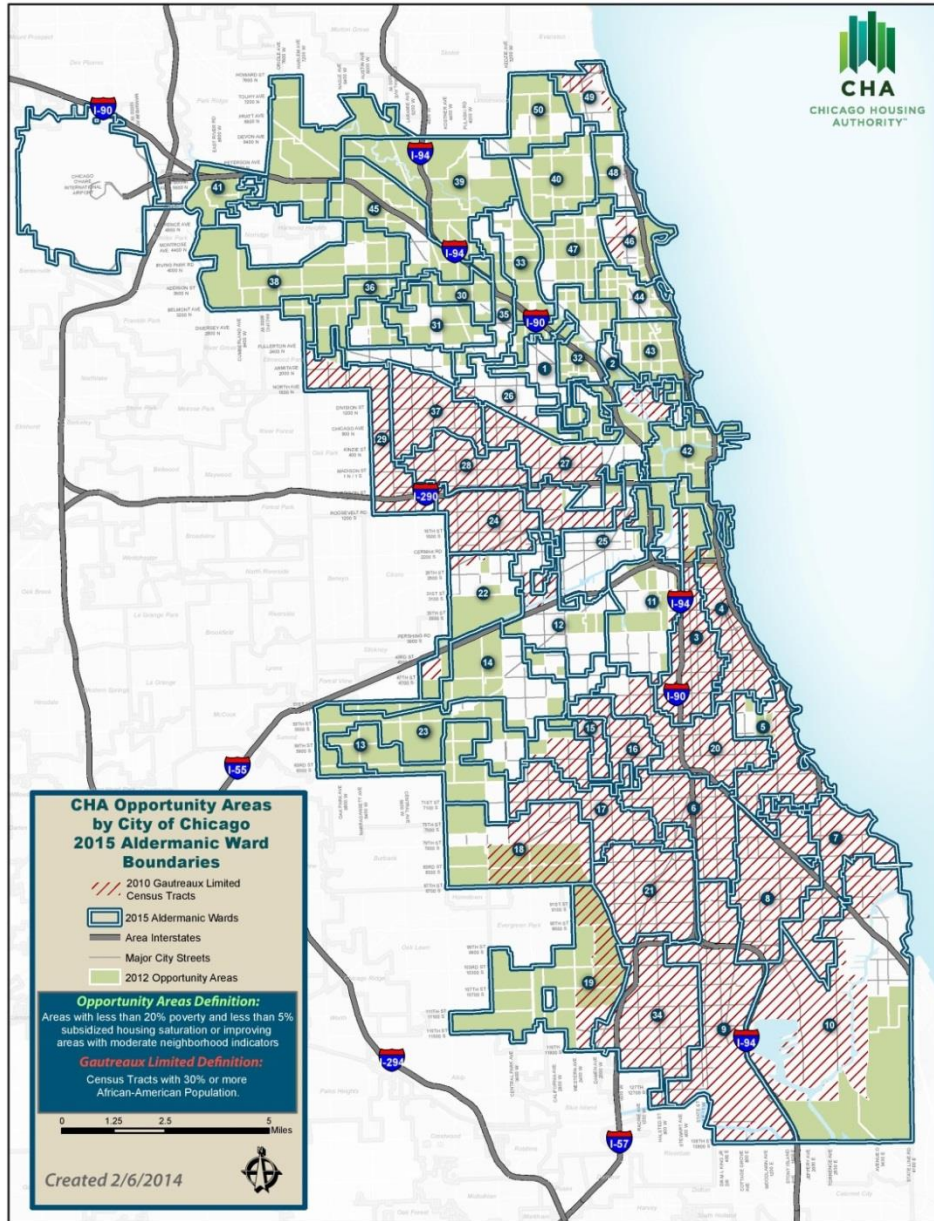
2016 Opportunity Area Thresholds	STATEWIDE	SET-ASIDE THRESHOLD CONSIDERATION				
		Chicago	AHPAA	Chicago Metro (Non AHPAA)	Other Metro	Non Metro
Poverty Rate (Average Census Tract %)	16.03	24.33	5.85	12.50	21.16	13.72
Unemployment (Average Census Tract %)	11.61	16.12	7.71	11.97	11.20	9.02
Jobs to Pop (Average Census Tract %)	44.1	41.2	49.9	45	44	41.4
Mean Travel Time (Average Census Tract Mean Minutes)	27.97	34.08	30.32	29.70	19.77	22.95

Source: IHDA³⁹

³⁹ IHDA, “2016 IHDA Opportunity Areas: Geographic Considerations and Determination Metrics,” accessed November 28, 2016, https://www.ihda.org/wp-content/uploads/2016/03/SPARLink2-2016IHDAOpportunityAreas-GeographicConsiderationsandDeterminationMetrics_000-2.pdf.

VIII. APPENDIX D: CHA OPPORTUNITY AREAS

CHA defines opportunity areas for its Mobility Counseling Program as “a census tract with less than 20% of its individuals with income below the poverty level and a low concentration of subsidized housing. Some census tracts with low poverty, moderate subsidized housing, and improving community economic characteristics are also designated as Opportunity Areas.”⁴⁰ CHA represented these designations in the map below.



Source: CHA⁴¹

⁴⁰ CHA, “Mobility Counseling Program,” accessed November 28, 2016, <http://www.thecha.org/residents/services/mobility-counseling-program/>.

⁴¹ CHA, “CHA Opportunity Areas by City of Chicago 2015 Aldermanic Ward Boundaries,” February 6, 2016, accessed November 28, 2016, http://www.thecha.org/assets/1/6/Opportunity_Area_Final_8.5_x11_w_Limited.pdf.

CITY OF CHICAGO OFFICE OF INSPECTOR GENERAL

Public Inquiries	Danielle Perry (773) 478-0534 dperry@chicagoinspectorgeneral.org
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From these activities, OIG issues reports of findings and disciplinary and other recommendations to assure that City officials, employees, and vendors are held accountable for the provision of efficient, cost-effective government operations and further to prevent, detect, identify, expose and eliminate waste, inefficiency, misconduct, fraud, corruption, and abuse of public authority and resources.

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