



Photo by Chuck Cherny, Chicago Tribune

## Creating Sustainable Funding for Affordable Housing in Illinois

By Eithne McMenamin

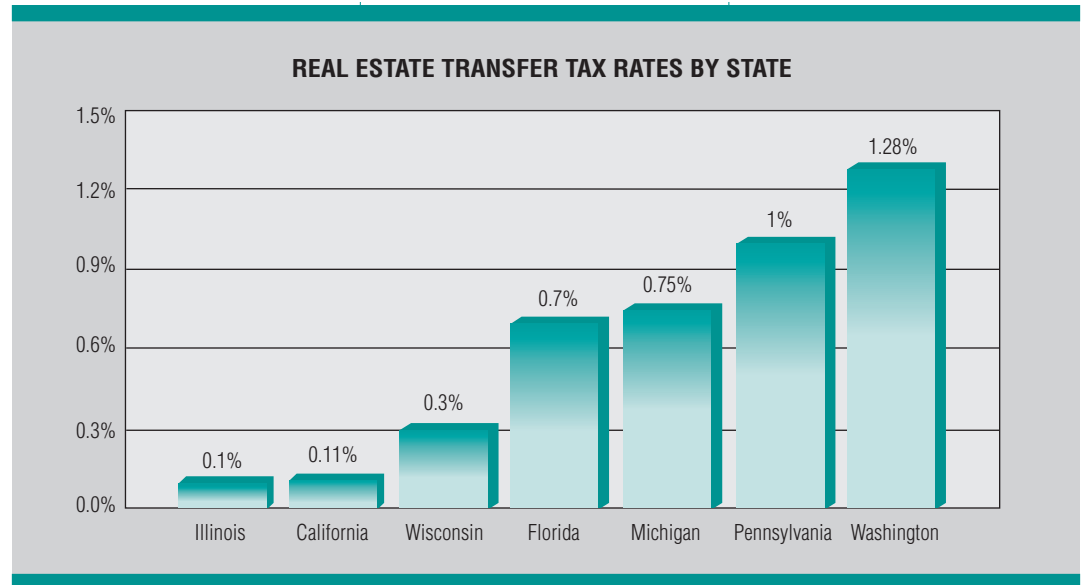
### The Affordable Housing Crisis

For more than 30 years, the nation has been losing affordable rental housing for extremely low-income households (those earning less than \$16,000 a year nationally). Affordable housing is defined as housing stock available at 30 percent of a household's income.

From 1993 to 2003, the inventory of these units plunged by 1.2 million. With losses to upgrading, abandonment, or demolition, currently there is a nationwide shortage of rentals affordable and available to low-income households of 5.4 million units.<sup>1</sup> Currently, 30,000 units of assisted affordable housing in the Chicago area and nearly 70,000 units statewide are at risk of being lost to the private market by 2010.<sup>2</sup>

Decades of declining federal housing support, along with rising land and construction costs, have created the growing national affordable-housing shortage, as skyrocketing housing prices have far outpaced stagnating wages for working families.

The Chicago region has seen a significant increase in population in the last decade. Though the increase in housing stock has kept pace with the increase in population around the region, the units added to the stock are not targeted to address the



increasing needs of low-income people.<sup>3</sup> Additionally, a real estate boom fueled condo conversions that contributed to a net loss of affordable rental units.

According to a recent report released by the Voorhees Center at the University of Illinois at Chicago, more than 72 percent, or 181,030, of extremely low-income households earning below 30 percent of area median income are housing-cost burdened. A household that pays over 35 percent of its income for housing is considered cost burdened. Additionally, an estimated 116,000 households are paying over 50 percent of their income for housing and are often forgoing other necessities.<sup>4</sup>

Unquestionably, a critical shortage of housing available to low-income households

exists in the city as well as statewide. The challenge becomes how to increase funds available for affordable-housing development.

### Housing Trust Funds

Housing trust funds represent one of the most innovative and promising initiatives in this nation's struggle to address housing needs for all of its citizens. Housing trust funds are distinct accounts that receive dedicated sources of public funds to support affordable housing. These funds typically are established through ordinance or by legislation creating the fund itself. Because they are designed locally, without federal intervention, housing trust funds offer a flexible funding mechanism for jurisdictions that seek to address their affordable-

housing needs.

The first housing trust fund was created in the late 1970s. However, widespread use did not occur until the 1990s, after federal funds for affordable housing dramatically diminished.

More than 275 housing trust funds are operating in cities, counties, and states throughout the United States. They provide at least \$750 million each year to support critical housing needs, primarily for lower-income households.<sup>5</sup>

By providing a continuous stream of funding that is not dependent on annual budget battles, housing trust funds advance the way this country has historically funded affordable housing. However, identifying public revenue sources that can be committed to a local housing trust fund makes creation of housing trust funds difficult.

*(continued on reverse)*

(continued from reverse)

## Illinois' Housing Trust Fund

Illinois currently has an affordable-housing trust fund supported by half the revenues raised from a statewide real estate transfer tax. The other half of the tax revenues goes toward open space and natural areas acquisition. Illinois established the transfer tax in 1967, after a similar federal tax was repealed.<sup>6</sup>

Trust fund revenues have increased over time. In fiscal year 2006, \$58 million was generated by the transfer tax for the trust fund. All trust fund revenues must go to support housing for low-income households (\$54,010 for a family of four in Illinois). At least half must go for very low-income households (\$33,756 for a family of four in Illinois).<sup>7</sup>

Monies from Illinois' Affordable Housing Trust Fund are primarily used for the building and rehabilitation of existing single-family and multi-family housing. Other uses for trust fund dollars include down payment and closing cost assistance and owner-occupied rehab programs to help low- and very low-income households bring their homes up to required building codes.

From its inception in 1989 through 2005, the trust fund financed the building of 36,197 affordable-housing units across the state.

Although funding for the trust fund has been increasing over time, it is still not adequate to meet the affordable-housing need in Illinois.

## Restructuring the Real Estate Transfer Tax

Chicago Coalition for the Homeless and its campaign partners—Housing Action Illinois, Business and Professional People for the Public Interest, Supportive Housing Providers Association, and several environmental groups—are proposing a progressive restructuring of the real estate transfer tax (RETT). As proposed, the changes would provide a cut to all transactions below \$500,000 and would increase the tax rate on higher-cost transactions.

---

*The need for more affordable housing in Illinois is clear. Development of housing for those at the bottom of the income scale has simply not kept pace with demand.*

---

A reformed transfer tax would generate an estimated \$136 million in new funding for affordable-housing and open-space trust funds. At the same time, 93 percent of all property transactions statewide would see a transfer tax cut.

Restructuring this tax now is critical, first, because revenues are starting to decline with a slumping real estate market. In addition, this year, the state increased the commitments of the trust fund to include funding for the Homeless Prevention Fund and a number of other housing programs. These programs have historically been funded by state general revenue funds. The trust

fund can sustain these commitments for the current fiscal year. However, estimates of next year's revenues show that, with these increased commitments, \$26.3 million less will be available for housing development in FY '08 than in FY '07, a 46 percent decrease.

One common argument against transfer taxes is that they will make housing unaffordable or reduce real estate transactions. Florida attorney Jaimie Ross disagrees. Ross was a real estate attorney in Florida before joining the coalition to reform that state's version of the transfer tax. She states that "there is not a real estate transaction anywhere—residential or commercial, low price or high—that has not happened because of the documentary stamp tax [Florida's transfer tax]."<sup>8</sup> Florida's tax (0.7%) is considerably higher than Illinois' (0.1%) and covers a wider range of transactions.

Another concern is that the RETT will drive businesses out of the state. Currently, of the 35 states with a transfer tax, only Colorado has a lower rate than Illinois. Under the reform proposal, commercial transactions in Chicago, even when including local real estate transfer taxes, would still be considerably more affordable than in other large cities. For example, for a \$20 million transaction in Chicago, the reformed tax would be \$372,300. In Philadelphia, a transaction of this size would be taxed at \$800,000. In New York, it would be taxed at \$937,300.

In addition to reforming the tax, the proposed legislation includes some

additional targeting of the housing development resources. It calls for a 20 percent set-aside for the creation of permanent supportive housing.

Supportive housing is affordable housing with support services closely attached for extremely low-income individuals and families (\$20,254 for a family of four in Illinois) who have been homeless and/or have special needs. Voluntary services often include mental health and substance abuse counseling and employment counseling and training. Households at this income level have historically been underserved by the trust fund.

The need for more affordable housing in Illinois is clear. Development of housing for those at the bottom of the income scale has simply not kept pace with demand. By restructuring the transfer tax to provide a cut to the majority of transactions while making the tax progressive on higher-end transactions, Illinois would go a long way toward filling that gap and bringing housing security to the poorest people in our state.

<sup>1</sup> *Joint Center on Housing Studies*, Harvard University, available at [http://www.jchs.harvard.edu/publications/markets/son2006/son2006\\_rental\\_housing.pdf](http://www.jchs.harvard.edu/publications/markets/son2006/son2006_rental_housing.pdf).

<sup>2</sup> *Housing and Urban Development Multi-Family and Section 8 Database*, available at <http://www.HUD.gov/offices/hsg/mfh/expmfhdiscl.cfm>.

<sup>3</sup> *Affordable Housing Condition and Outlook in Chicago: An Early Warning for Intervention*, UIC, Voorhees Center, 2006.

<sup>4</sup> *Ibid.*

<sup>5</sup> *Housing Trust Fund Progress Report*, Center for Community Change, 2002.

<sup>6</sup> "History of the Real Estate Transfer Tax in Illinois," internal memo, Business and Professional People in the Public Interest, 2006.

<sup>7</sup> *Program Overview*, Illinois Housing Development Authority.

<sup>8</sup> Policy Link Website, *Real Estate Transfer Taxes*, 2006.