Introduction
The Chicago Housing Authority’s (“CHA”) Plan for Transformation is an ambitious, $1.5 billion blueprint to rebuild or rehab 25,000 units of public housing and transform isolated public housing developments into mixed-income communities. Under the Plan, CHA will improve the appearance, quality and culture of public housing in Chicago. The CHA seeks to renew the physical structure of CHA properties, promote self-sufficiency of public housing residents and reform administration of the CHA.

The unprecedented costs to support this monumental change for the city and its residents will come partly from HOPE VI grants and federal development grants and from the bonding that can be backed by these funds, and partly from private equity and financial institutions through the developers of the new mixed-income communities. Much of the city’s responsibility in the redevelopment of the public housing neighborhoods is to restore the traditional city street grid and provide new and upgraded street, sewer and municipal infrastructure. For the past several years, the city has been building new police stations in many of the public housing redevelopment areas, and, in a few cases, new libraries.

To help pay for the City’s commitment to the Plan, the City Department of Planning and Development has created a significant number of Tax Increment Financing (TIF) districts in areas of public housing. By doing this, the City brings much of the development decision-making power into its own hands, allowing it to make planning and development decisions as well as to borrow funds against future property value and tax revenue increases in these areas.

The Chicago Housing Public Transformation Program demonstrates an effective use of Tax Increment Financing (TIF) as a resource for public housing redevelopment.

TIF Background
Tax Increment Financing (TIF) is a special community development tool that allows local governments to stimulate private investment, attract new business, invest in infrastructure improvements and rebuild blighted areas. After a TIF district is established, any taxes
collected on increased property values (also called the “increment”) for the duration of the TIF area (typically 15 to 30 years) goes into a special fund and is redirected back into the TIF district. The increment rises if new development takes place in the TIF district or if the value of existing properties rises. The funds can then be spent on public works projects or given as subsidies to encourage private development. TIF districts are a popular and effective redevelopment tool and are used in 44 states across the country and in over 250 Illinois cities. There are over 400 TIF districts in the State of Illinois.

**Description of the Transaction**
Under CHA’s Plan for Transformation TIF Financing Program, the City will borrow up to $15 million from private lenders (Fannie Mae and General Board of Pension and Health Benefits of the United Methodist Church ("GBOP")) to front-fund TIF-eligible construction costs of new homes being built as part of the Plan. The MacArthur Foundation will guarantee these loans through a Program Related Investment (PRI). The Community Reinvestment Fund ("CRF") service the loans made by American Communities Fund (ACF) and GBOP.

The City will enter into multiple loans, each for an individual project area. The loans will be repaid from future tax increment generated by the new homes. The City will use the loan proceeds to provide subsidies to the developers for the affordable for-sale housing units in the redevelopments. These loans will help speed the revitalization process by allowing the City to provide the subsidy dollars upfront while the repayment source is uncertain. The loan guarantee provided by the MacArthur Foundation was critical to convincing for private lenders to make these otherwise risky loans.

**Partners:**

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<tr>
<th>Role</th>
<th>Name</th>
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<tr>
<td><strong>Borrower</strong></td>
<td>City of Chicago</td>
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<td><strong>Planner</strong></td>
<td>Chicago Housing Authority</td>
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<td><strong>Guarantor</strong></td>
<td>MacArthur Foundation</td>
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<td><strong>Co-Lender</strong></td>
<td>General Board of Pension and Health for the United Methodist Church</td>
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<td><strong>Administrative Agent</strong></td>
<td>Community Reinvestment Fund</td>
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<td><strong>Independent Consultant</strong></td>
<td>S.B. Friedman</td>
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Sample Project & TIF Loan
Jazz on the Boulevard – a mixed-income redevelopment

Development Team:
- Thrush Companies
- Citibank
- City of Chicago
- IHDA

Project Total Development Cost: $34 million
- $25 million Citibank Construction Loan (backed by Developer Guarantee)
- $6.7 million in grants from other sources
- $2.3 million TIF loan

Affordability:
- 30 public housing units
- 9 tax-credit rental units
- 27 affordable for-sale units
- 71 market rate for-sale units

TIF Loan
- Will fund $2.3 million to support the 27 affordable for-sale units

Repayment Source for TIF Loan:
- Tax increment produced from the 27 affordable for-sale units and the 71 market rate for-sale units

Lessons Learned
TIFs provide a model for aggressively raising funds to rehab blighted areas. However, TIF financing has some drawbacks. It is important to obtain strong and sustained public participation and potential dedication to revitalize blighted areas. Without that support, TIFs may change the basic character of a neighborhood against the wishes of those who live and work there. In addition, TIFs can accelerate the pace of gentrification and drive up property values to the point that existing residents and businesses cannot afford to stay in the community.