New York City Council
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Hearing on the New York City Housing Authority's Fiscal 2010 Operating and Capital Budget

May 21, 2010

Committee on Finance

Hon. Domenic M. Recchia, Jr., Chair

Committee on Public Housing

Hon. Rosie Mendez, Chair

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Housing Authority

The New York City Housing Authority (NYCHA) provides affordable housing for low-income City residents by managing and maintaining 345 public housing developments with 181,000 apartments, housing approximately 420,000 authorized residents. NYCHA also administers Section 8 vouchers. The Authority manages new construction and rehabilitation of public housing buildings and units and also provides social services to its residents. NYCHA's budget is not part of the city's budget and NYCHA's fiscal year follows the calendar year.

FISCAL 2010 OPERATING BUDGET

Expense Budget

The Fiscal 2010 expense budget totals $3.016 billion, which is approximately $274 million greater than the Authority's Fiscal 2009 expense budget of $2.742 billion. The most significant portion of NYCHA's budget consists of the cost of full/part-time employees, overtime pay, seasonal workers, and fringe benefits, which accounts for approximately 38 percent or $1.14 billion of the Authority's budget. The second largest component of NYCHA's Fiscal 2010 expense budget is $998.5 million for Section 8 payments to landlords who provide private housing to low-income families. The third largest component of NYCHA expenditures are utility costs for the developments in the amount of $530.9 million or 17 percent of the budget. Other expenses included insurance, supplies, leases, PILOT payments, equipment and debt service.

Revenue Budget

The Fiscal 2010 revenue budget totals $2.998 billion. NYCHA's three largest sources of revenue include subsidies from HUD to operate the Section 8/Housing Choice Voucher Program in the amount of $1.085 billion, federal operating subsidies from the Department of Housing and Urban Development (HUD) in the amount of $873.7 million, and rental income from NYCHA tenants in the amount of $864.4 million. Other revenue sources consist of interest on investments, categorical grants and other miscellaneous revenue.

Federal Stimulus Funding

NYCHA received approximately $423 million in capital funds from the American Recovery and Reinvestment Act of 2009 (ARRA) with the requirement that 60 percent of the total funding be spent by the end of Fiscal 2010 and the remaining 40 percent by the end of Fiscal 2011. This infusion of capital funds is intended to augment NYCHA's capital budget and not replace capital funds that have been transferred to the operating budget to close prior and future year deficits. NYCHA intends to use approximately $107 million of the ARRA funds to leverage an additional $142 million in private equity and State modernization funds for the implementation of the Mixed Finance Modernization Plan. This Plan is described in detail on page 5 of this report.

NYCHA'S STRUCTURAL DEFICIT

From 2002 to 2009, NYCHA experienced chronic underfunding from its main revenue source, the Department of Housing and Urban Development (HUD). As the table below illustrates, the Authority has been deprived of approximately $714 million in operating subsidies in this time period due to HUD's reimbursement rates which have ranged between 83-95% percent during this period. Another major contributing factor to NYCHA's structural deficit is the underfunding of the five City and fifteen State developments which have not received full funding since 1998. The annual operating costs of the State developments are approximately $60 million, while the City developments operating costs averages $30 million. NYCHA's operating subsidy is only intended to fund the federal developments, however since the City and State no longer provide funding for the non-federalized developments the federal subsidy must be spread across all developments. This has resulted in an annual baseline funding gap of approximately $90 million. The Authority has also been faced with the rising costs of non-discretionary expenses such as salaries, benefits, and utilities. Since Fiscal 2002, employee benefit costs have risen by approximately 73 percent, largely due to the increase in pension costs which have gone up by more than a $100 million a year. In addition, utility costs have nearly doubled from $268 million in 2002 to $527 million in 2008. Overall, NYCHA's operating expenses have increased by 25 percent since Fiscal 2002 while HUD operating subsidies have only increased by 8.8 percent.

(in thousands)

Fiscal Year	NYCHA Operating Expenses	HUD Operating Subsidy	Operating Budget Deficit	HUD Reimbursement Rate
FY02	$751,000	$751,000		100%
FY03	$759,000	$719,000	$40,000	95%
FY04	$766,000	$751,000	$15,000	98%
FY05	$828,000	$733,000	$95,000	89%
FY06	$929,000	$799,000	$130,000	86%
FY07	$935,000	$780,000	$155,000	83%
FY08	$963,694	$803,694	$160,000	83%
FY09	$936,169	$817,169	$119,000	87%
FY10	$873,725	$873,725	$0	100%

Source: NYCHA

NYCHA's FISCAL 2010 DEFICIT

In 2009, the NYCHA Board passed a budget that included a projected deficit of $137 million for Fiscal 2010. NYCHA undertook numerous deficit reduction initiatives throughout Fiscal 2010 that resulted in a savings of $143 million. The following actions summarize the initiatives NYCHA undertook to further reduce the Fiscal 2010 gap to $18.7 million.

(in thousands)

	FY10	FY11	FY13
Baseline Deficit	**($137,139)**	**($126,843)**	**($132,010)**
Baseline Adjustments	($20,090)	($22,442)	($8,785)
Total Deficit	**($157,229)**	**($149,285)**	**($140,795)**
Deficit Reduction Actions			
Increase in federal operating subsidies	$70,031	$37,400	$36,548
Capital Transfer to the Operating budget	$34,395		
Investment earnings from Bond proceeds	$7,873		
Sale of NYCHA Land	$5,850		
Federal stimulus Management fee	$25,031	$10,948	$6,349
Federalization of 21 City and State Developments		$68,945	$55,156
Total Implemented Actions	**$143,180**	**$117,293**	**$98,053**
***New Need**-Resident Training and Employment Program*	*($4,672)*	*($10,302)*	*($12,029)*
Remaining Deficit	**(18,721)**	**($42,294)**	**($54,771)**

Source: NYCHA FY 2010 Budget and 4-year Financial Plan

- **Baseline Adjustments-Section 8 Conversion Program:** The projected deficit of $137 million in Fiscal 2010 was based on the assumption that NYCHA would still be transitioning 8,400 apartments in the City and State developments into the Section 8 Program. The original goal of the plan was to convert all 8,400 units by 2011 which would have yielded $75 million annually in revenue. To date the Authority has transitioned 2,236 units into the Program, while the remaining 6,164 units will not be converted due to the Section 8 deficit at least until Fiscal 2011. The foregone revenue from the Section 8 Conversion Program will add $20 million to the baseline deficit making the total budget gap $157.2 million in Fiscal 2010.

Deficit Reduction Actions

- **Increase in Federal operating subsidy:** The Fiscal 2009 budget and 4-year financial plan assumed that HUD would reimburse the authority at approximately 87 percent of its operating expenditures in Fiscal 2010. NYCHA now expects to receive 100 percent from HUD which will result in additional $70 million in Fiscal 2010. The Authority further assumes that it will receive 95 percent reimbursement from HUD in future fiscal years yielding approximately $37 million more than what was previously projected.
- **Capital Transfer to Operating Budget:** As it has done in prior fiscal years, NYCHA transferred $34.3 million from its federal capital grant funds to the operating budget in order to help close the budget gap. NYCHA currently has another $60 million in capital funds that it could transfer to the operating budget in case other revenue sources or budget cuts do not transpire.
- **Investment Earnings:** In 2005 HUD allowed NYCHA to issue $600 million in bonds through the New York City Housing Development Corporation (HDC) for capital improvement and modernization of developments. The first tranche of $300 million was issued in Fiscal 2006 and the remaining $300 million is expected to be issued in Fiscal 2010. As a requirement of issuing these bonds NYCHA

established a debt service reserve fund which accumulated interest earnings in the amount of $7.8 million. This action is anticipated to be a one-time infusion of funds to the Authority.

- **Sale of NYCHA Land:** NYCHA will receive a total $5.8 million from the sale of two vacant lots in Manhattan and the Bronx. In particular, the Thurgood Marshall Plaza in Manhattan will be sold by NYCHA to the City for $5 million in order to allow for the construction of a school and community health facility. The Highbridge Gardens in the Bronx will be sold for approximately $850,000 for the development of affordable housing.
- **American Recovery and Reinvestment Act Management (ARRA) Fee:** A legal stipulation in the ARRA allows local housing authorities to charge up to a 10 percent management fee to administer the use of the stimulus funds. The revenue from the management fee is received at the rate expenditures are incurred which for Fiscal 2010 is 59 percent or $25 million in generated revenue. In Fiscal 2011 the rate of expenditures will be 85 percent which will yield $10.9 million and $6.3 million in Fiscal 2012 when all stimulus expenditures are to be completed.
- **Federalization of 21 City and State Developments:** In March, 2010 HUD approved the mixed-finance modernization plan, which allows the 21 City and State developments to receive full operating funding in the amount of $55 million annually. NYCHA will begin to receive funding in October, 2010 which would equate to a prorated amount for Fiscal 2010 of $13 million but will not be realized until Fiscal 2011. Therefore the federalization initiative will not reduce NYCHA's structural deficit until Fiscal 2011.
- **Resident Training and Employment Initiative:** The Fiscal 2010 budget includes $4.6 million for the resident training and employment program which seeks to create employment opportunities for NYCHA residents. Through collaboration with philanthropic organizations, NYCHA will provide career training to as many as 800 residents who upon completion of the program will be eligible to work for the Authority and its contractors. The Fiscal 2010 4-year financial plan has earmarked funding for 200 positions over and above normal attrition replacement.

Section 8 Budget Deficit

NYCHA along with the Department of Housing Preservation and Development (HPD) are the two administrators of the federal Housing Choice Voucher Program otherwise known as Section 8. The Section 8 program provides families with a rent subsidy voucher that pays landlords the difference between 30 percent of household income and the contract rent, with NYCHA paying the remaining balance. Funding for the Section 8 program is based on federal appropriations from HUD which determines the voucher cap based on a formula that includes utilization rates from the prior fiscal year. NYCHA provides rental subsidies to over 101,000 families in privately owned housing making it the largest Section 8 administrator in the country. In 2009, Congress allocated $16.8 billion to fund Section 8 programs nationwide and mandated HUD to reduce the total pro-rated nationwide eligibility by $750 million. This amount was required to be offset from each public housing authority's Section 8 reserves which effectively reduced NYCHA's allocation by $58 million in 2009. The Authority was given notice of this situation by HUD in May 2009 but still continued to issue new vouchers until December 2009 when NYCHA announced that it would have to revoke 2,600 vouchers for families who already received them. Therefore, due to a reduction in federal funding, increased demand for Section 8 vouchers, and lower turnover rates, the Authority will not be issuing any new vouchers in Fiscal 2010 and more importantly lack enough funding to pay for current leases. In March, 2010 NYCHA projected the budget shortfall for its Section 8 program alone to be approximately $45 million in Fiscal 2010. To assist housing authorities that experienced similar problems nationwide, Congress set aside $150 million in funding for the Section 8 program of which NYCHA will receive $27 million. The remaining Section 8 deficit of $18.7 million accounts for the entirety of NYCHA's overall operating budget gap for Fiscal 2010.

Mixed-Finance Modernization Plan

The underfunding of the City and State developments has exasperated NYCHA's structural deficit. In order to ameliorate this problem the Authority received approval from HUD to implement a mixed financing structure that would utilize federal stimulus funding to adequately fund the 21 City and State Developments. In particular, the plan entails transferring ownership of the 21 City and State developments to two separate limited-liability corporations (LLC's), with NYCHA as the managing partner. In order to comply with legal restrictions from the American Recovery and Reinvestment Act of 2009 (ARRA), NYCHA will establish a long-term, non-subordinated ground-lease on the land and then sell the buildings to the LLC's. NYCHA will invest the federal stimulus funds, while the New York City Housing Development Corporation (HDC) will provide bond financing that will allow for the use of as-of-right Low-Income Housing Tax Credits which will in turn provide equity for the entire plan. If the federal stimulus funds are spent according to the ARRA timetable and buildings meet condition standards, the City and State units would be certified as federal units for funding purposes by HUD. The Authority hopes to preserve all units as affordable public housing by qualifying the units at the 21 developments for federal operating and capital subsidies. NYCHA expects to receive $55 million beginning on October, 2010 which would yield a prorated amount of approximately $13 million in revenue that will not be realized until the Authority's Fiscal 2011 budget.

Fiscal 2010 Capital Plan

NYCHA's City Funded Capital Budget Summary

The May 2010 Capital Commitment Plan includes $103 million in Fiscals 2011 -2014 for NYCHA (including City and Non-City funds). This represents less than 1 percent of the City's total $28.6 billion Executive Plan for Fiscals 2011-2014. The agency's May Commitment Plan for Fiscals 2011 is the same as the $103 million scheduled in the September Commitment Plan. Over the past five years NYCHA has only committed an average of 21.4 percent of its annual capital plan. Therefore, it is assumed that a large portion of the agency's Fiscal 2010 capital plan will be rolled into Fiscal 2011 thus greatly increasing the size of the Fiscal 2011-2014 capital plan.

Currently NYCHA's appropriations total $78 million in city-funds for Fiscal 2010. These appropriations are to be used to finance the agency's $102.9 million city-funded Fiscal 2010 capital commitment program. The Authority has $24.8 million or over 24 percent more funding than it needs to meet its entire capital commitment program for the current fiscal year.

NYCHA's Five Year Capital Plan 2010-2014 Summary

On March 10, 2010 the NYCHA board approved the $2.6 billion Five Year Capital Plan for Fiscal's 2010 to 2014. The capital plan will fund infrastructure improvements and major modernizations that will strengthen the structural integrity of developments by focusing on brickwork and roof improvements. Other non-construction related capital projects will be funded by the plan such as information technology initiatives, energy efficiency initiatives, and code compliance repairs. The funding for the five-year capital plan will come from the following sources:

- **HUD's Capital Fund Program:** Approximately $1.8 billion or nearly 70 percent of the total five-year capital plan will be funded by HUD's Capital Fund Program (CFP). Specifically, the CFP provides funds annually to Public Housing Authorities (PHAs) for the development, financing, and modernization of public housing developments and for management improvements. The major projects that will be funded under the CFP include $203.5 million for elevators, $141 million for heating and plumbing, $184.5 million for roof repairs, and $197 million for major renovations.
- **Capital Fund Financing Program (CFFP):** The CFFP allows public housing authorities such as NYCHA to borrow private capital to make improvements on developments and pledge, subject to the availability of appropriations, a portion of its future year annual Capital Funds to make debt service payments for either a bond or conventional bank loan transaction. In 2005 HUD allowed NYCHA via HDC to issue $300 million in bonds which the Authority fully completed in April 2009. NYCHA will now pursue a second bond issuance of $300 million to accelerate its modernization program. Nearly ninety-two percent of the $300 million will be used for Local Law 11 compliance. Local Law 11 addresses the dangers of associated with deteriorating buildings facades on buildings that are six or more stories. The $300 million in CFFP bonds will directly fund the upgrade and modernization of unsafe conditions indentified from prior inspections in order to comply with Local Law 11.
- **American Recovery and Reinvestment Act (ARRA):** NYCHA received a total of $423 million of federal stimulus funds, $282 million of which has already been obligated for modernization work. Of the remaining $141 million that is left to be obligated, $107 million will be used for rehabilitation work under the mixed-finance modernization plan. The remaining $34 million of ARRA funds will be spent on brickwork, roof replacements and elevator upgrades.

- **Mixed-Finance Modernization Plan (MFMP):** By implementing the MFMP, NYCHA will be able to leverage $100 million from tax credit equity along with the $107 million from the ARRA. The Authority also expects to leverage an additional $42 million in State modernization funds which will directly fund modernization at the Malrboro development in Brooklyn. In total the MFMP will fund $250 million of the modernization needs for the 21 City and State developments.