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Hearing on the Mayor's Fiscal Year 2011 Preliminary Budget

New York City Housing Authority

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Committee on Public Housing

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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. On March 10, 2010 the NYCHA board approved the Five-Year Capital Plan for Fiscals 2010-2014 but has yet to approve the Fiscal 2010 Operating Budget. As a result this document summarizes NYCHA's Fiscal 2009 Expense Budget and any relevant actions that NYCHA has announced publicly to date as it relates to its Fiscal 2010 Operating budget.

FISCAL 2009 BUDGET

Expense Budget

The Fiscal 2009 expense budget totaled \$2.74 billion, which is approximately \$600 million less than the Authority's Fiscal 2008 expense budget. 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 make up nearly 40 percent or \$1.09 billion of the authority's budget. The largest component of NYCHA's Fiscal 2009 expense budget is \$770.3 million for Section 8 payments to landlords who provide private housing to low-income families. Other expenses included insurance, supplies, leases, PILOT payments, equipment, debt service, and other expenses.

Revenue Budget

The Fiscal 2009 revenue budget totaled \$2.69 billion. NYCHA's three largest sources of revenue include federal operating subsidies from the Department of Housing and Urban Development (HUD), subsidies from HUD to operate the Section 8/Housing Choice Voucher Program, and rental income from NYCHA tenants. The Fiscal 2009 budget also includes \$76 million in federal capital grant funds that were transferred to the operating budget. These funds were in addition to any reimbursements made to cover administrative costs of its capital program which NYCHA pays for out of its expense budget. 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 on using 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 DEFECIT

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%
Total	\$6,867,863	\$6,153,863	\$714,000	90%

Source: NYCHA

NYCHA'S FISCAL 2009 DEFICIT

In 2008, the NYCHA Board passed a budget that included a projected deficit of \$198 million for Fiscal 2009. NYCHA undertook numerous deficit reduction initiatives throughout Fiscal 2009 including workforce reductions which resulted in a savings of \$36.6 million, the consolidation of 19 community centers which resulted in a savings of \$2.4 million, and \$6.5 million less in PILOT payments to the City as a result of lower utility costs. Despite these actions NYCHA's deficit for Fiscal 2009 was still \$171.7 million. The deficit was the result of greater than expected expenses relating to collective bargaining and increased needs in the Authority's elevator program. Funding for the elevator program increased by \$12 million in Fiscal 2009

allowing NYCHA to hire 68 additional elevator mechanics and helpers which was an 18 percent increase over the prior staffing levels. The following actions summarize the initiatives NYCHA undertook to further reduce the Fiscal 2009 gap to \$45.1 million. According to NYCHA the remaining \$45.1 million deficit was eliminated through a combination of unexpected rental revenue along with realizing further savings from reducing central office functions.

(in thousands)

	FY09	FY10	FY11
Baseline Deficit	(\$171,772)	(\$172,737)	(\$182,920)
Implemented Actions			
Capital Transfer to Operating Budget	\$76,023		
Revenue from Sale of University Avenue	\$22,000		
HUD Subsidy Adjustments	\$13,475		
Central Office Reductions	\$10,000	\$10,000	\$10,000
Rent Increases	\$5,120	\$25,598	\$46,077
Total Implemented Actions	\$126,618	\$35,598	\$56,077
Remaining Deficit	(45,154)	(\$137,139)	(\$126,843)

Source: NYCHA FY 2009 Budget and 4-year Financial Plan

Capital Transfer to Operating Budget

As it has done in prior fiscal years, NYCHA transferred \$76 million from its federal capital grant funds to the operating budget in order to help close the budget gap. This practice results in deferred capital projects.

University Avenue Consolidated Housing

NYCHA received approximately \$22 million from the disposition of land to Bronx Pro which will develop affordable housing as a part of the University Avenue Consolidated III project in the Morris Heights section of the Bronx. The project was expected to begin construction in the summer of 2009 with the first units ready for residents by the summer of 2010.

Readjustment of HUD Operating Subsidy

NYCHA received an additional \$13.5 million from HUD due to changes in the federal operating subsidy related to inflation.

Workforce Reductions

NYCHA reduced its workforce within its Central Office, eliminating 100 positions, 56 managerial and 44 administrative positions. The personnel services costs savings resultant from these actions was approximately \$5 million with an additional \$5 million in OTPS costs savings.

Rent Increases

NYCHA collected an additional \$5 million in rents as a result of the second phase of rental increases. These rent increases affected 49,374 households, or 28 percent of all NYCHA residents, who pay on average 20 percent of their income on rent.

NYCHA's Community Operations Reduction Plan Fiscal 2009-2011

One of the major initiatives NYCHA undertook in Fiscal 2009 was its reorganization of community-based services provided to residents. In order to lessen the structural budget deficit NYCHA began shifting the provision of community-based services to City agencies that specialize in areas that are pertinent to those services. The City Council provided \$18 million for NYCHA in City Fiscal 2009 to help the Authority close its budget gap. The City Council and the Administration agreed to utilize the \$18 million, along with other leveraged federal funds, to fund those City agencies that would provide the services that NYCHA was abdicating. The following agencies are currently covering community services for NYCHA residents:

City Agency	Services	Funding Amount
Administration for Children Services	Preventative Services	\$3.9 million
Human Resource Administration	Employment Services	\$1.8 million
Department of Youth and Community Development	Youth Services	\$12.3 million

The Department of Youth and Community Development's (DYCD) Fiscal 2010 Budget reflected the implementation of a multi-agency plan to ensure the continuity of services at 25 NYCHA community centers. Approximately 12.3 million was provided through DYCD for these facilities in two phases. The first phase consists of funding for the agency's beacon community centers located near the 25 NYCHA facilities. This enabled DYCD to establish satellite programs which operated from February through December 2009. DYCD identified the 25 NYCHA sites through a needs-assessment analysis that took into account poverty and youth population indicators, availability of services, geographic diversity and the suitability of physical facilities within each public housing development. The sites were distributed among the boroughs as follows: ten in Brooklyn; five in Queens; five in the Bronx; four in Manhattan; and one in Staten Island. The second phase of implementation consisted of Request for Proposal (RFP) seeking qualified community-based organizations interested in operating programs at the 25 sites with new contracts beginning on January 1, 2010 and expiring on June 30, 2012. In the City's Fiscal 2011 Preliminary budget DYCD proposed a reduction of \$1.2 million for the remainder of Fiscal 2010 and \$980,000 in Fiscal 2011 and in the out-years due to the delayed opening of four NYCHA centers and from lower than anticipated start-up costs in 2010.

NYCHA's FISCAL 2010 DEFICIT

NYCHA enters Fiscal 2010 with a projected baseline deficit of \$137.1 million which assumes further savings in central office reductions along with a significant increase in rent payments providing \$5 million in additional revenue in Fiscal 2009 and \$25.5 million in additional revenue in Fiscal 2010. However due the budget gap within its Section 8 program which is estimated at \$45 million in Fiscal 2010, the real operating deficit may increase to approximately \$182 million for Fiscal 2010.

Section 8 Budget Gap

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 3,000 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 an new vouchers in Fiscal 2010 and more importantly lack enough funding to pay for current leases. According to NYCHA the projected budget shortfall for its Section 8 program alone will be approximately \$45 million in Fiscal 2010.

Fiscal 2010 Budget Gap Initiatives

The NYCHA board has yet to approve its Fiscal 2010 budget, however the Authority has indicated that it may close its budget gap with the following actions:

- Higher Rent Collections: According to NYCHA, family incomes within the developments are increasing and therefore higher rent collections may be allowed
- Increase Operating Subsidy: The Authority is confident that the current administration and Congress will increase the HUD reimbursement rate above Fiscal 2009 levels which may help significantly close the gap.
- Capital Transfer to Operating Budget: As in previous fiscal years, the Authority may transfer capital funds to its operating budget to help close its budget gap.
- NYCHA Reserves: NYCHA may use their HUD mandated reserves to close the budget gap which they have done in previous years.
- Federalization of City and State Developments. The Authority expects to receive approval from HUD to implement a plan that would provide a secure funding stream to the City and State developments. The following summarizes this plan:

Mixed-Finance Modernization Plan

Due to the underfunding of the City and State developments which has greatly contributed to NYCHA's structural deficit, the Authority is seeking approval from HUD to implement a mixed financing structure using federal stimulus funding that would federalize and therefore 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. If the plan is approved, 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. Furthermore if NYCHA receives HUD's approval by the March 17,

2010 deadline, it will expect to receive \$55 million beginning on October 1st, 2010 which would yield a prorated amount of approximately \$13 million in revenue for the Authority's Fiscal 2010 budget.

Fiscal 2010 Capital Plan

NYCHA's City Funded Capital Budget Summary

The January 2010 Capital Commitment Plan includes \$165.6 million in Fiscals 2010 -2013 for NYCHA (including City and Non-City funds). This represents less than 1 percent of the City's total \$39.14 billion January Plan for Fiscals 2010-2013. The agency's January Commitment Plan for Fiscals 2010 - 2013 is the same as the \$165.6 million scheduled in the September Commitment Plan. Over the past five years the 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 \$99.3 million in city-funds for Fiscal 2010. These appropriations are to be used to finance the agency's \$90.8 million city-funded Fiscal 2010 capital commitment program. The agency has \$8.5 million or over 9 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 identified from prior inspections in order to comply with Local Law 11.
- **American Recovery and Reinvestment Act (ARRA):** NYCHA received a total of \$423 million from 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 Marlboro development in Brooklyn. In total the MFMP will fund \$250 million of the modernization needs for the 21 City and State developments.