

New York City Council
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Finance Division
Preston Niblack, Director
Jeffrey Rodus, First Deputy Director

Preliminary Hearing on the New York City Housing Authority's Fiscal 2011 Capital & Operating Budget

March 28, 2011

Committee on Public Housing

Hon. Rosie Mendez, Chair

Latonia McKinney, Deputy Director, Finance Division
Anthony Brito, Senior Legislative Financial Analyst

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 9, 2011 the NYCHA board approved the Five-Year Capital Plan for Fiscal 2011-2015, but has yet to approve the Fiscal 2011 Operating Budget which it is expecting to do by May of this year. As a result, this document summarizes NYCHA's Fiscal 2010 Operating Budget and any relevant actions that NYCHA has announced publicly to date as it relates to its Fiscal 2011 Operating Budget.

FISCAL 2010 OPERATING BUDGET

Expense Budget

The Fiscal 2010 expense budget totaled \$3 billion, which is approximately \$274 million greater than the Authority's Fiscal 2009 expense budget of \$2.7 billion. As Chart 1 below shows, 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 nearly 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 totaled \$2.9 billion. As Chart 2 illustrates 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 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.

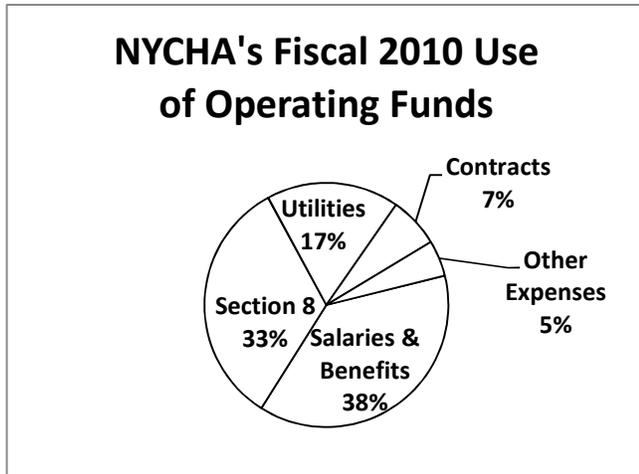


Chart 1

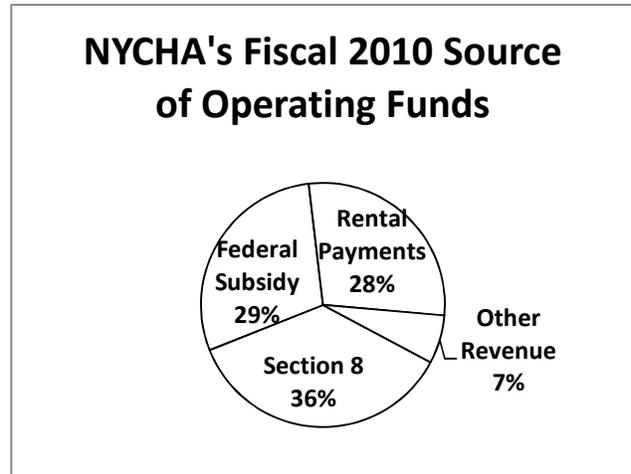


Chart 2

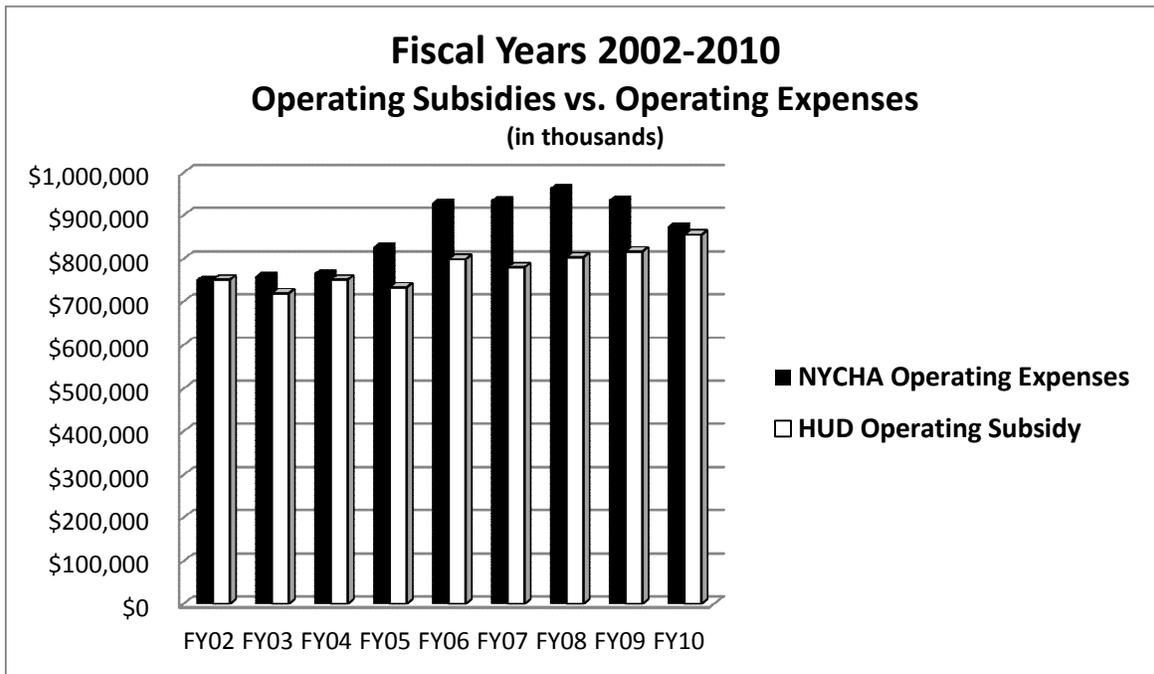
Federal Stimulus Funding

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.

NYCHA’S STRUCTURAL DEFECIT

Since 2002, NYCHA has experienced chronic underfunding from its main revenue source, the Department of Housing and Urban Development (HUD). As the Chart below illustrates, the Authority has been deprived a total of approximately \$714 million in operating subsidies in this time period due to HUD’s reimbursement rates which have ranged between 83-98 percent during this period. Another major contributing factor to NYCHA’s structural deficit is the underfunding of the six 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. The current implementation of the mixed-finance modernization plan is intended to address this structural deficit by funding the operating gap that existed within the City and State developments, although the Authority is still highly dependent on the budgetary actions of HUD and Congress.

Chart 3



NYCHA’s FISCAL 2011 DEFICIT

In May 2010, the NYCHA Board passed a budget that included a projected deficit of \$157 million for Fiscal 2010. As the table below shows, 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 close the Fiscal 2010 gap.

<i>(Dollars in thousands)</i>	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. In Fiscal 2010 the Authority 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 added \$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 instead received 98 percent from HUD which resulted in an additional \$70 million for 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.
- **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 2012. 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 received 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 stimulus funds. The revenue from the management fee is received at the rate expenditures are incurred, which for Fiscal 2010 was 59 percent or \$25 million in generated revenue. In Fiscal 2011, the rate of expenditures will be 85 percent yielding \$10.9 million and \$6.3 million in Fiscal 2012 when all stimulus expenditures are expected to expire.
- **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 began receiving funding in October 2010 which, equated to a prorated amount for Fiscal 2010 of \$13 million, but will be realized in Fiscal 2011.
- **Resident Training and Employment Initiative.** The Fiscal 2010 budget included \$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 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 2,500 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 was in a position not to issue new vouchers in Fiscal 2010 and more importantly lacked enough funding to pay for 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 received \$27 million. This left a remaining Section 8 deficit of \$18.7 million which accounted for the entirety of NYCHA's overall operating budget gap for Fiscal 2010.

This deficit within the Section 8 budget was closed in July of 2010 when HPD collaborated with NYCHA and the Department of Housing and Community Renewal (DHCR) to allow for the transfer of NYCHA Section 8 participants to HPD's Section 8 program. In particular, DHCR gave HPD the authority to help 750 families that lost vouchers in calendar year 2010 by utilizing the agency's reserves. In addition, HPD created a new rental subsidy from its federal HOME program that mirrors the Section 8 model for another 750 families that had their vouchers taken away. This rental subsidy was established on an interim basis until NYCHA began to receive more Section 8 funding from the Department of Housing and Urban Development (HUD). The Council provided HPD with approximately \$7 million in capital funds in order to make up for the loss of federal Home funds. During calendar year 2011, NYCHA will issue vouchers to the remaining 1,000 families based on risk factors that include previous shelter history, victims of domestic violence, intimidated witnesses, families awaiting unification with children in foster care pending suitable housing, and families with new lease commitments.

MIXED-FINANCNE 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. The Authority intends on preserving all units as affordable public housing by qualifying the units at the 21 developments for federal operating and capital subsidies. NYCHA expects to receive an annual operating subsidy of \$55 million from this plan. The

Authority received \$13 million from this plan in October of 2010 which will be credited to the Fiscal 2011 budget, resulting in a total of \$68 million in the current Fiscal year.

Fiscal 2011 City Capital Plan

Capital Budget Summary

The February 2011 Capital Commitment Plan includes \$130 million in Fiscal 2011-2014 for the New York City Housing Authority (including City and Non-City funds). This represents less than one percent of the City's total \$33.2 billion February Plan for Fiscal 2011-2014. The agency's February Commitment Plan for Fiscal 2011-2014 is eight percent less than the \$141 million scheduled in the September Commitment Plan, a decrease of \$11 million.

Over the past five years (2006-2010) the New York City Housing Authority has only committed an average of 33 percent of its annual Capital plan. Therefore, it is assumed that a portion of the agency's Fiscal 2011 Capital plan will be rolled into Fiscal 2012, thus increasing the size of the Fiscal 2012-2015 Capital Plan. Since adoption last June, the Capital Commitment Plan for Fiscal 2011 has decreased from \$96.8 million to \$92.8 million, a reduction of \$3.9 million or four percent.

Currently the New York City Housing Authority appropriations total \$122 million in City funds for Fiscal 2011. These appropriations are to be used to finance the agency's \$92,132 City-funded Fiscal 2011 Capital Commitment Program. The agency has \$121.9 million, or 100 percent more funding than it needs to meet its entire Capital Commitment Program for the current fiscal year.

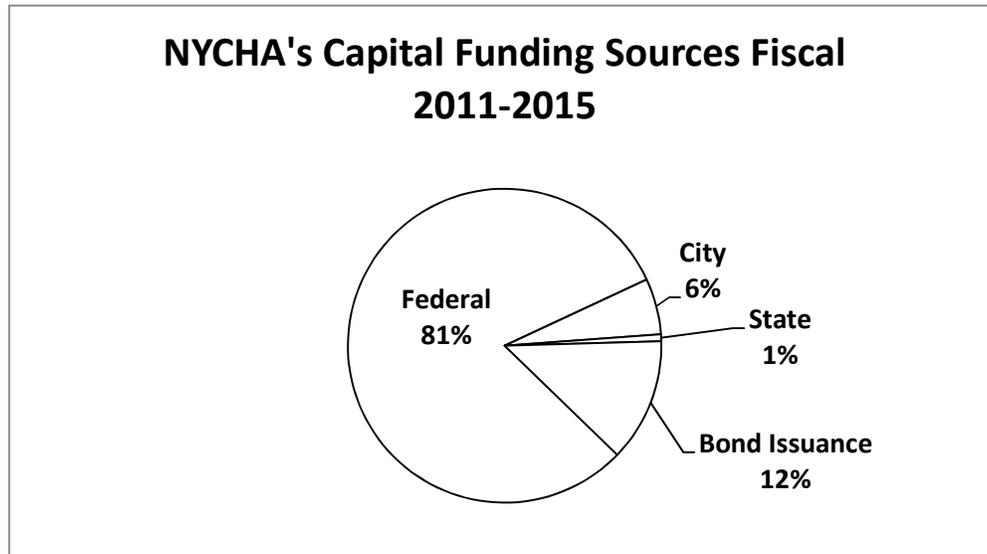
2011-2014 Commitment Plan: Adopted and Preliminary Budget

Thousands of Dollars

	FY11	FY12	FY13	FY14	Total
Adopted					
Total Capital Plan	\$96,807	\$7,573	\$29,066	\$8,454	\$141,900
Prelim					
Total Capital Plan	\$92,818	\$6,258	\$24,213	\$6,763	\$130,052
Change					
Level	(\$3,989)	(\$1,315)	(\$4,853)	(\$1,691)	(\$11,848)
Percentage	-4.12%	-17.36%	-16.70%	-20.00%	-8.35%

NYCHA'S FIVE-YEAR CAPITAL PLAN 2011-2015 SUMMARY

On March 9, 2011, the NYCHA board approved the \$2.4 billion Five Year Capital Plan for Fiscal 2011 to 2015. 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. As the chart below shows, approximately 81 percent of NYHCA's five-year capital plan comes from the Department of Housing and Urban Development (HUD), seven percent is from the State and City, and another 12 percent from the revenues incurred from a bond issuance.



The funding for the five-year capital plan will come from the following sources:

- **HUD's Capital Fund Program.** Approximately \$1.9 billion or approximately 81 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 \$255 million for elevators, \$139 million for heating and plumbing, \$137 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 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. NYCHA intended on issuing these bonds in the current fiscal year but will instead delay the issuance until Fiscal 2012 while new roof repair work is being installed. According to NYCHA, roof work must be done first before work on exterior walls is completed in order to prevent future Local Law 11 violations.
- **State and City Funding.** Albany has provided funding in the past for the 15 State developments, however, this source of capital funding will end starting in Fiscal 2012. For the current fiscal year there remains \$16.7 million from the State to provide funding for general construction and electrical work on the State developments. However, with the federalization of all developments being implemented, the State will no longer provide funding for the Authority. The City will provide \$137 million during the four-year capital plan, most of which is provided by the City Council in the form of discretionary funds.
 - **Layered Access Security System.** Approximately \$27 million of Council funds from 20 different Council Members have been provided for intercoms and security cameras

at various developments throughout the City. In the summer of 2010, the Authority froze the implementation of this funding in order to realign this funding towards a new comprehensive security system that NYCHA has called a “layered access control system.” The Authority is currently seeking the approval of Council Members and Tenant Resident Associations before the funding for this new initiative is implemented.

FIVE YEAR CAPITAL PLAN 2011-2015 HIGHLIGHTS

- **American Recovery and Reinvestment Act (ARRA).** NYCHA received a total of \$423 million in 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.
- **Maintenance and Repair Backlog Initiative.** Due to aging infrastructure and a decline in federal resources, the Authority has experienced a backlog of maintenance and repair work at its developments. In particular, NYCHA estimates that it will cost approximately \$500 million to address the physical needs within apartments or \$2,900 of repair work per unit. In the Fiscal 2011 operating budget, NYCHA allocated \$497 million for maintenance and repair work. In order to address this problem, NYCHA will transfer an additional \$31 million from its capital plan from Fiscal 2011-2015 into the Authority’s operating budget in order to reduce the maintenance and repair backlog that consist of 298,452 open work orders in 17,901 units. Of the \$31 million over the four years, \$11 million will be spent in the current fiscal year which will increase the number of work orders completed in a 90-day period from an estimated 26,800 to 64,018, thereby significantly reducing wait time for residents. Because the average cost per unit is \$2,900 the 90-day plan would costs a total of \$52 million, with the \$11 million allocated in Fiscal 2011, leaving a funding gap of \$41 million.
- **Elevator Service and Safety Plan.** In 2009 NYCHA initiated a plan that called for the modernization of over 1,000 elevators and 109 developments over a five-year period. The capital plan includes \$261 million for the modernization of 683 elevators at 80 developments. To date, the Authority has completed 11 projects and 18 projects are currently being worked on.