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Examining NYCHA's Plan to Preserve Public Housing

Summary

In April of 2006, the New York City Housing Authority (NYCHA) released a "Plan to Preserve Public Housing," in which NYCHA proposes a number of steps to close budget gaps facing its public housing developments. At the request of Manhattan Borough President Scott Stringer, IBO has reviewed the authority's recent financial condition and its proposals for achieving a balanced budget in the future.

With respect to the authority's financial condition, we found the following:

- NYCHA's costs—particularly for fringe benefits and utilities—have been increasing;
- Revenues, in contrast—particularly federal, state, and city operating subsidies—have not kept pace with rising costs: Federal operating subsidies have been essentially flat in recent years; state subsidies were eliminated in 1998 and city subsidies were all but eliminated beginning in 2004.
- In recent years NYCHA has drawn down its reserve funds to fund operating deficits in the public housing program.
- Reserves have now declined to a level where they can no longer be used to fund operating deficits.

In our review of the Plan to Preserve Public Housing, we found that the plan faces substantial risks and uncertainties, such that NYCHA will likely continue to face challenges in maintaining a balanced budget in years to come:

- The proposal to use Section 8 vouchers to subsidize operating costs for 8,400 city- and state-sponsored units faces several risks, including uncertain federal approval, and whether the needed number of vouchers will become available in the timeframe necessary. Further federal reductions in Section 8 funding could also jeopardize the proposal's implementation.

- Similarly, NYCHA's efforts to obtain flexibility in how it uses its federal funding sources will depend on success in obtaining HUD and Congressional approval.

- Finally, apart from the risks in the plan initiatives, NYCHA's baseline financial plan, which assumes balanced revenues and expenditures, may also contain some risks. Specifically, the plan does not recognize liabilities for future labor settlements and underestimates the future costs of fringe benefits.

Among the other findings of our review:

- The proposed rent increases, which would increase the share of income paid for rent by the highest-income residents, still would impose rents of less than the 30 percent of income generally paid by lower-income tenants.
- NYCHA continues to benefit from a range of indirect subsidies from the city, including police costs that exceed what it pays the city for police services; and real property tax exemptions.
- New York State social service regulations limit the shelter allowance paid to NYCHA for public assistance recipients living in public housing, which costs the authority $70 million to $85 million annually.

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Examining NYCHA's Plan to Preserve Public Housing

In April of 2006, the New York City Housing Authority (NYCHA) released its 2006 proposed budget, and with it, a "Plan to Preserve Public Housing," which calls for taking a number of steps to close budget gaps that would otherwise extend into the foreseeable future.[1]

IBO has reviewed NYCHA's budget and preservation plan. We examined trends and projections in the agency's funding sources and expenditures over recent years. In addition, we have looked at the assumptions on which the plan is based, and identified potential risks and challenges in this proposal. Finally, we have examined some of the issues and alternatives raised by tenant advocates and elected officials reacting to the plan.

With the "Plan to Preserve Public Housing," NYCHA has presented a proposal to address the challenge of meeting the rising costs of operating public housing with less public funding. The plan faces substantial risks and uncertainties that may still leave NYCHA facing challenges in maintaining a balanced budget in years to come.

BACKGROUND

The New York City Housing Authority manages two forms of subsidized housing. First, NYCHA owns and operates more than 179,000 units of public housing. Approximately 20,000 NYCHA units were originally built with city or state capital subsidies and get no operating assistance from the federal government.[2] About 8,000 units are city units, and the remaining 12,000 are state units. Public housing tenants rent apartments in NYCHA-owed developments, paying 30 percent of income up to ceiling rents (currently $495 per month for a two bedroom).

Second, the agency administers more than 86,000 Section 8 vouchers. Under the Section 8 program, households rent apartments on the private market. Tenants pay 30 percent of income in rent up to a federally established fair market rent (currently $1,133 for a two bedroom), and the remainder is covered by the federally funded voucher.

Public housing and Section 8 are programmatically distinct and receive separate funding streams from the federal government. Section 8 is essentially a pass-through of federal funds to private landlords, administered by NYCHA. However, in order to get a true picture of the NYCHA budget and budget gaps, it is important to understand the full scope of NYCHA's operating funds. In addition, under the "Plan to Preserve Public Housing," the two programs are increasingly interrelated.

NYCHA'S FINANCIAL CONDITION

NYCHA's operating budget is over $2.5 billion annually. The authority's recent budget gaps have been driven both by flat or declining revenue, and rising costs. NYCHA's agencywide deficit in 2005 was approximately $54.5 million, which it "self-funded" from reserve funds. NYCHA no longer has reserves sufficient to cover future budget gaps, however.

Revenue. Over 90 percent of NYCHA's operating revenue comes from four sources: Section 8 voucher payments (33 percent on average for the period 2004 through 2006), federal public housing operating subsidies (30 percent), rent paid by public housing tenants (27 percent), and transfers from the public housing capital budget for personnel working on capital projects and related costs (4 percent to 5 percent). Over the last five years, rent payments have grown—6.5 percent, or $42 million, between 2004, and 2005, for example—but other sources have been largely flat or declining.[3]

NYCHA Revenue, 2004-2006 Budget
Dollars in millions

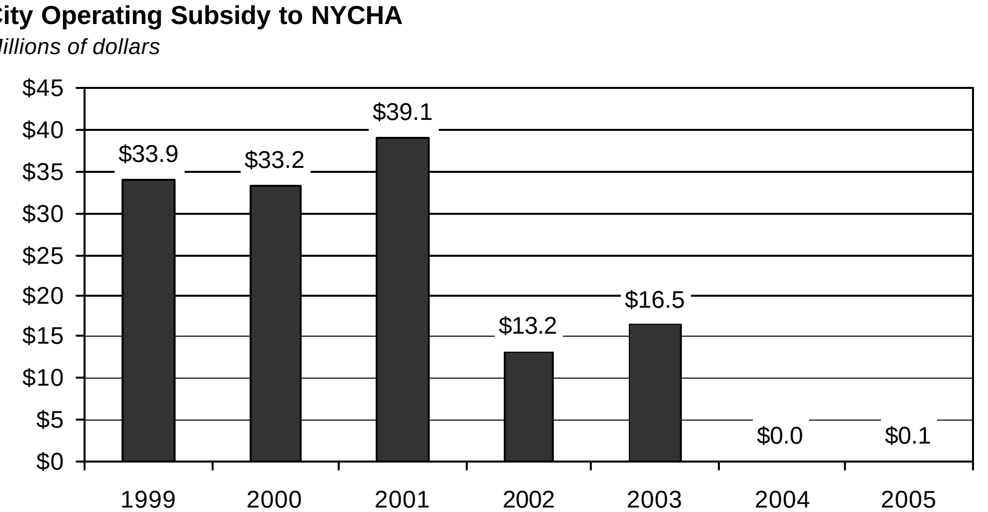
	2004 Actual	2005 Actual	Change	Percent Change	2006 Budget
Section 8	$808.6	$820.9	$12.4	2%	$817.6
Public Housing Operating Subsidy	751.8	733.5	(18.3)	-2%	838.8
Public Housing Dwelling Rent	647.4	689.7	42.3	7%	692.1
Transfers from Capital Grant	117.5	91.7	(25.8)	-22%	74.1
Categorical Grants	56.8	31.4	(25.4)	-45%	37.5
Other	44.7	56.6	12.0	27%	218.8
TOTAL	**$2,426.7**	**$2,423.8**	**$(2.8)**	**0%**	**$2,678.9**
Addition to/(Withdrawal from) Reserves	$4.8	$(90.8)	$(95.6)	NA	-

SOURCES: IBO; New York City Housing Authority.

Declining Subsidies. Total federal subsidies for public housing (all sources) have decreased 6 percent since 2001. The drop in subsidies is a reflection of lower federal appropriations, rather than declining need. NYCHA submits funding requests to the federal Department of Housing and Urban Development (HUD) for the amount it is entitled to under statutory formulas for operating and capital funds. After receiving submissions from all Public Housing Authorities, HUD prorates each allocation in accordance with actual appropriations. Over the last several years, because appropriations have been less than the cumulative amount needed by all housing authorities, NYCHA has received an average of 95 percent of the operating funds for which it is eligible each year. From 2001 through 2005, federal operating subsidies to NYCHA fell 2 percent, and capital subsidies fell 12 percent, in line with the decline in subsidies nationwide.

In the past, the city and state funded the operating costs for the units that they originally financed, but both levels of government stopped providing operating funds in the last decade. Although NYCHA has tried to "federalize" these units, making them eligible for operating assistance, the federal government has so far declined to assume responsibility.

The state eliminated its operating subsidy in 1998. Through city fiscal year 2001, the city provided enough operating support to NYCHA to cover the expenses of the city units, as well as a portion of the costs associated with the state units. In 2002, that funding was cut substantially, and was essentially eliminated in fiscal year 2004.



SOURCES: IBO, Comprehensive Annual Financial Report of the Comptroller, various years.
NOTE: City fiscal years.

Expenses. Excluding Section 8 payments, personal services expenses—salaries and wages of NYCHA employees and their fringe benefits—constitute over half of annual spending. Non-labor costs are dominated by utilities expenses—which averaged 23 percent of all spending (excluding Section 8) in 2004 and 2005.

NYCHA Expenditures, 2004-2006 budget

Dollars in millions

	2004 Actual	2005 Actual	Change	Pct. Change	2006 Budget
PS					
Salaries	$678.6	$692.8	$14.2	2%	$662.8
Fringe Benefits	255.6	314.3	58.7	23%	348.3
PS Subtotal	934.2	1,007.1	72.9	8%	1,011.1
OTPS					
Section 8 Payments	744.8	733.7	(11.1)	-1%	751.5
Utilities	364.6	429.9	65.3	18%	527.2
Contracts	203.1	188.6	(14.6)	-7%	246.3
Other	175.1	155.4	(19.8)	-11%	142.8
OTPS Subtotal	1,487.7	1,507.6	19.9	1%	1,667.7
Total Expenditures	**$2,421.9**	**$2,514.7**	**$92.8**	**4%**	**$2,678.9**

SOURCES: IBO; New York City Housing Authority.

The largest expenditure categories have increased significantly. NYCHA changed its accounting software in mid-2003, and therefore cannot produce expense statements for 2003 and prior years that are comparable to those for 2004, 2005, and the future budgets. However, according to NYCHA, between 2001 and 2005:

- Utility costs have grown 42 percent, from $303.7 million in 2001 to $429.9 million in 2005. The authority was $34 million over-budget for utilities in 2004, and $79 million over-budget in 2005.
- Pensions costs have grown from $6.5 million to $55.2 million, as the authority has had to fund investment losses and enhanced benefits;
- Health insurance expenditures have risen 44 percent, from $76.2 million to $109.8 million. NYCHA reports that they receive almost quarterly increases in health care costs.

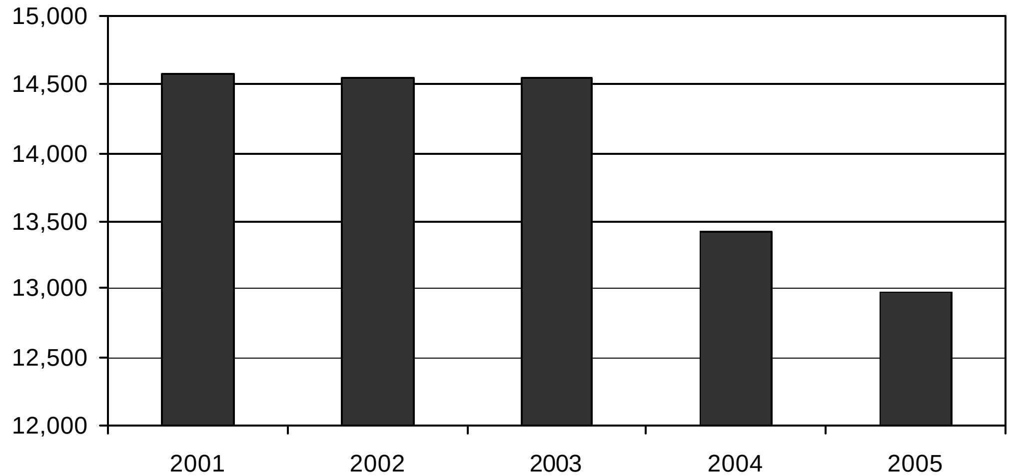
Fringe benefits and utilities are expected to continue to rise in 2006. In addition, NYCHA also anticipates increased spending on contractual services in 2006, such as painting, fire safety, and pest control, which fell 7 percent from 2004 to 2005.

Another source of NYCHA's budget gap is the operating expenses for the city and state public housing units, for which it receives no subsidy. Instead, NYCHA has stretched its federal operating subsidies to cover the costs of operating the city and state units. According to the authority, expenditures for these units contribute significantly to NYCHA's budget gap. IBO estimates that the city would have to contribute at least $24 million annually to fund the operating costs of the 8,000 city units. This estimate is low, because it excludes some central administration costs.

Gap-Closing Initiatives. Over the last several years, NYCHA has taken a range of steps to reduce expenditures and raise revenue. Despite these initiatives, NYCHA's budget is growing. Total expenditures climbed 4 percent between 2004 and 2005, and are expected to grow another 7 percent in 2006.

NYCHA has repeatedly cut vacant positions, reducing its number of employees 11 percent since 2001. In January of 2004, NYCHA predicted that it would have 14,374 employees in 2005, but by the end of 2005, actual headcount had fallen to just under 13,000. Spending on personnel has actually gone up, despite the drop in the number of employees, largely because of rising fringe benefit costs, although labor settlements have also increased costs. However, IBO estimates that if the NYCHA headcount had remained at 2003 levels, it would now be spending an additional $123 million annually.

NYCHA Full-Time Headcount



SOURCES: IBO; NYCHA Comprensive Annual Financial Report, 2004; NYCHA 2006 Financial Plan.

Examples of other cuts (and NYCHA's anticipated savings) include:

- An extension of the cycle for maintenance painting, which was estimated to save $12 million in 2004 and $10 million each year thereafter.
- Consolidation of management offices citywide (excluding Staten Island) ($2.6 million annually, beginning the second half of 2006).
- Reduced overtime ($2 million annually).
- Five percent reduction in private management contracts ($1.5 million annually, beginning in 2006).
- Terminating maintenance contracts for compactors and using NYCHA staff to do the work ($1.4 million annually).
- Eliminating security guard services—provided where electromagnetic lobby doors are inoperable—in most buildings ($1.1 million annually).
- Adjusting payments in lieu of taxes (PILOT) to the City of New York based on operating costs ($1.0 million)

The largest of the revenue increases was a surcharge for washing machines implemented in the fall of 2005. (After the plan was released, NYCHA agreed to grant discounts on this surcharge to some tenants. As a result, the value of this initiative is still to be determined.)

Budget Deficits. As a result of relatively flat revenue and growing expenses, NYCHA has reported a budget gap every year since 2001. Excluding Section 8 and some other grant funds, the gaps have averaged almost $83 million annually, and totaled more than $414 million. However, looking at the full universe of NYCHA's operating funds—including Section 8 and a wide range of other categorical grants—the picture is somewhat different, and not quite as dire. In fact, NYCHA ended 2004 with a small surplus. NYCHA did have a deficit in 2005 of about $54.5 million; excluding Section 8 and other grants, the deficit was slightly higher.

There are three primary reasons for these difference. First, because NYCHA's fiscal year is different from the city, state, or federal fiscal years, there can be apparent surpluses that reflect the timing of grants. For example, NYCHA participates in the city Department of Parks and Recreation Parks Opportunity Program, a job training program for public assistance recipients. In NYCHA's fiscal year 2004, the authority received $18 million more in Parks Opportunity Program funding than it spent. The following year, however, NYCHA spent almost $21 million more than was received from the city for this program. Overall, the program has essentially no net effect on NYCHA's budget, but in a given year, the impact can be substantial. There are dozens of other smaller categorical grant programs that are subject to similar timing issues, thus leading to small surpluses or gaps in any NYCHA fiscal year.

Second, in 2005, NYCHA received about $36 million in unexpected, one-time revenues, largely rebates from utility companies. These revenues are included in the authority's budget overview that shows a $57.7 million deficit for 2005, but excluded from NYCHA's more detailed financial reporting that included a $90.8 million withdrawal from reserves. The $36 million in one-time revenue should ultimately be added to NYCHA's reserves, so the net withdrawal for 2005 was $54.5 million.

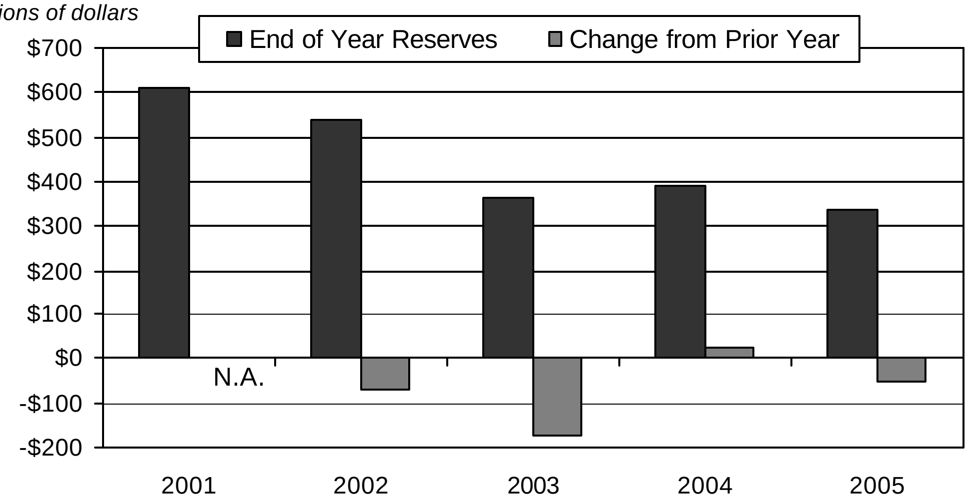
Finally, and most importantly, NYCHA has adopted a relatively conservative approach to Section 8 administration in recent years. Over the last several years, the Bush Administration and Congress have changed the funding process for Section 8 from providing support—based on actual costs—for all authorized vouchers, to providing a fixed amount of money reflecting the costs of vouchers in use at a given point in the past. This new funding methodology has resulted in funding cuts to Section 8. In response to the new funding process, as well as late federal budgets and overall uncertainty about resource availability, many housing authorities—including NYCHA—have held back vouchers that are no longer needed by a particular household, rather than reissuing them to families on the waiting list. Holding back vouchers has ensured that NYCHA has enough resources to support those that are actually in use.

Because NYCHA has reissued vouchers so conservatively, the authority actually received $8.3 million more in Section 8 revenue than it spent in 2004, and $32.5 million more in 2005. HUD regulations do not allow public housing authorities to directly subsidize public housing with Section 8 funds. Nevertheless, NYCHA's cautious approach to Section 8 over the last several years has mitigated some of the authority's budget shortfalls.

Reserves Used to Close Gaps. To date, deficits have been "self funded" out of NYCHA's reserve funds. The authority must keep a minimum of two months of operating costs on hand in order to avoid being considered a "low performing Public Housing Authority" by HUD and consequently losing a portion of its grant funding. HUD looks only at operating costs for the public housing program when setting this floor—in 2005, NYCHA was required to have about $321 million on hand to avoid losing funding. However, the industry standard reserve level is two months of operating costs for the entire authority—including both public housing and Section 8. On this broadest level, two months of NYCHA's 2006 operating budget is equal to $446 million.

As of the end of 2005, NYCHA had $336.7 million in agencywide reserves—less than two months of total operating costs, and close to the HUD threshold. Total reserve funds have fallen 45 percent since 2001.

NYCHA Reserve Funds
Millions of dollars



SOURCES: IBO, New York City Housing Authority.
NOTE: Unrestricted Net Asset reserves as of the end of the year.

In short, NYCHA had an authority-wide budget surplus of $4.8 million in 2004, and a deficit of $54.5 million in 2005, after implementing a range of gap-closing measures. Although IBO did not have comparable financial statements prior to 2004, the drop in the reserve funds, particularly in 2003, suggests that NYCHA did have substantial budget deficits in the period 2001-2003.

NYCHA no longer has sufficient reserves to continue to self-fund public housing operating gaps. Instead, NYCHA has released its "Plan to Preserve Public Housing" in an attempt to eliminate its budget gaps in 2006 and beyond. The plan presents a balanced budget through 2010.

THE PLAN TO PRESERVE PUBLIC HOUSING
NYCHA's "Plan to Preserve Public Housing" encompasses seven initiatives.

Aid from City of New York. In his Executive Budget, Mayor Bloomberg announced that the city would provide NYCHA with $100 million in "transitional aid" to help the authority balance its budget while it implemented long term savings initiatives. This is a one-time subsidy.

Although NYCHA is an independent entity that is not technically a city agency, there are complex financial relationships between it and the city, of which this one-time subsidy is only one piece. Many of these transactions—including both tax expenditures and direct payments by and to NYCHA—reflect long-standing agreements between the two entities rather than current financial conditions, and are discussed in more detail below in the section entitled "other issues."

Plan to Preserve Public Housing Initiatives *Millions of Dollars*	2006	2007	2008	2009
Aid from City of New York	$100.0	$ -	$ -	$ -
Public Housing Rent Increases	14.5	37.7	52.9	60.9
Transition 8,400 Public Housing Units to Section 8	4.5	23.2	50.3	66.8
Development Fees	10.0	10.0	10.0	-
Federal Funding Flexibility	39.3	78.2	23.3	7.6
Re-engineer Management Systems	-	-	10.0	10.0
Energy Conservation Initiatives	-	-	10.0	10.0
TOTAL	**$168.3**	**$149.2**	**$156.5**	**$155.4**

SOURCES: IBO; NYCHA FY2006 Proposed Budget and Financial Plan.

Public Housing Rent Increases. NYCHA plans to increase rent for a portion of public housing tenants. Under federal law, tenants can pay no more than 30 percent of income in rent. In addition, NYCHA has implemented "ceiling rents" based on apartment size. For example, the maximum rent that NYCHA now charges for a two-bedroom apartment is $495 per month, regardless of income. NYCHA plans to phase in 10 to 44 percent increases in ceiling rents over two years, creating three tiers of ceiling rents.[4] Households' new ceiling rents will be determined by their family size and income—but in most cases, higher income tenants will continue to pay less than 30 percent of their income for rent.

Rent Burden for a Family of Three in a Two-Bedroom NYCHA Apartment	Monthly Rent	Rent as Percent of Income
Current Rules		
Income under $19,800	30% of Income	30%
Income above $19,800	Ceiling Rent: $495	30% and below
Proposed Rules		
Income under $21,840	30% of Income	30%
Income $21,840 - $38,279	Ceiling Rent: $546	17%-30%
Income $38,280 - $51,050	Ceiling Rent: $599	14%-19%
Income $51,051 and above	Ceiling Rent: $713	17% and below

SOURCES: IBO; NYCHA "Limited Rent Reform Initiative."
NOTE: Based on second year of two-year phase-in.

The proposed rent schedule both reduces some sources of inequity in NYCHA's current payment structure, and creates new peculiarities. The majority of public housing tenants—and all Section 8 recipients—pay 30 percent of their income in rent, the federal threshold for affordable housing. About 30 percent of public housing residents, however, now get a better deal because they are subject to ceiling rents that have not been changed since 1989, making them both absolutely and relatively better off than lower-income households or Section 8 recipients.

Raising the ceiling rents reduces the discrepancy in rent burdens between different NYCHA households. For example, a family of three with an income of $31,900 (50 percent of area median income) would pay $495 per month to rent a two-bedroom public housing unit under current rules, and $798 per month to rent an apartment using Section 8. This difference in rents translates into annual savings of nearly $4,000 if the family lives in public housing rather than Section 8. Under the new rules, this public housing resident would pay $546 per month, still less than a comparable Section 8 recipient, but the gap is smaller.

However, the three-tiered structure creates new inequities. For example, under the new rule, a family of three with a household income of $51,000 will pay 14.1 percent of their income in rent for a two-bedroom apartment after increases are fully phased-in in year two. If that household's income climbs to $52,000, their rent burden will jump to 16.5 percent, and they will actually be left with *less* income to spend on goods and services other than rent. This family's rent as a share of income will not return to its original, 14.1 percent level until its income has climbed to $61,000 annually.

Transition Public Housing Units to Section 8. Of the total universe of public housing units, just under 20,000 were initially built with city or state, rather than federal subsidies. As a result, they are not eligible for federal operating subsidies. NYCHA has been using the federal operating subsidy designed for about 160,000 units to support all 180,000 units.

The agency now plans to use Section 8 vouchers to support 8,400 of these city- and state-built units. The Department of Housing Preservation and Development (HPD) provided NYCHA with 3,400 vouchers beginning in 2005. HPD typically uses a significant share of its voucher allocation to allow households living in city-owned housing to remain in their apartments after buildings have been rehabilitated and transferred to private ownership. Because there is little city-owned housing left, some HPD vouchers have been freed up for alternative uses.

The remaining vouchers will come from reallocations of so-called enhanced Section 8 vouchers. Enhanced Section 8 vouchers are targeted to households living in buildings originally financed with federal support, and which no longer have rent ceilings. Enhanced vouchers operate similarly to "normal" Section 8 vouchers in that tenants pay 30 percent of income in rent. However, income ceilings for recipient households are higher, and there are no caps on the rents covered by enhanced vouchers. When a building financed with federal funds leaves its subsidy program, HUD grants an enhanced voucher to all income-eligible tenants. Households with incomes above the ceiling (currently $67,355 for a family of four) do not receive enhanced vouchers.

As buildings with various federal subsidies—primarily Mitchell Lama buildings with Section 236 mortgage interest subsidies—have converted to market rate housing, the city has received enhanced Section 8 vouchers from the federal government to assist the households affected by buyouts. If a household that received an enhanced voucher becomes ineligible for the rental assistance—because, for example, their income rises above the statutory ceiling—the voucher is added to NYCHA's allocation for redistribution (minus its enhanced status). As a result, NYCHA has Section 8 funding available for use.

Section 8 vouchers can be used in apartments with rent up to "fair market rent," a standard set by the federal Department of Housing and Urban Development intended to reflect rents for the 40th percentile of apartments. Fair market rent for a two-bedroom apartment in New York City is currently $1,133. Average rent for a NYCHA apartment, on the other hand, is $300 to $400 per month. Once the public housing units are converted to Section 8, tenants will continue to pay 30 percent of income in rent, but NYCHA will receive the difference between tenant rents and fair market rent as a Section 8 subsidy. In other words, an average apartment would generate more than $700 in additional revenue each month. NYCHA anticipates that this will be enough to support about 80 percent of the operating costs for the roughly 20,000 city and state public housing units.

There are some risks associated with this strategy. Most importantly, the conversion requires federal approval. The plan is currently at HUD for review.

Second, it is not clear that the supply of available vouchers freed up after Mitchell Lama conversions will meet NYCHA's projections. IBO estimates that there are just under 23,000 Section 236, Mitchell Lama units that have already left the program, making tenants potentially eligible for enhanced vouchers. Some of these tenants were not income-eligible for the vouchers at the time of the buyout, however. In order to meet NYCHA's need for vouchers under the plan, IBO estimates that at least one-quarter of the enhanced voucher recipients would have to become ineligible, thereby freeing up their vouchers for use by NYCHA. More buyouts will almost certainly occur over the next four years, but households are more likely to retain their vouchers in the years immediately following the buyout, so it is not clear that this population is a viable source of new vouchers in the timeframe necessary to implement the plan. Furthermore, the city is pursuing a number of state legislative strategies designed to slow the number of buyouts and limit rent increases when buyouts occur, which could have effect of reducing the number of vouchers available for NYCHA's plan.

Third, over the last several years, the Bush Administration and Congress have changed the Section 8 funding process and reduced available resources. If the federal government further curtails Section 8 funding, it could be difficult for NYCHA to complete the conversion without jeopardizing current voucher holders.

Other Issues. Some observers have expressed concern that this element of the plan will reduce the total supply of affordable housing in the city, and harm NYCHA's ability to provide Section 8 vouchers to priority waiting list populations.

There is a tradeoff between using the vouchers to support public housing, and in the private market. This strategy for supporting the city and state public housing units effectively reduces the total supply of affordable housing by 8,400 units. If these units received operating support through the federal public housing operating fund or from the city or state, the authority would be able to support both the public housing units and subsidize 8,400 private market rentals. However, if NYCHA continued to receive no operating support for the city and state public housing units, it is possible that some of these public housing apartments would be removed from the supply of affordable housing.

NYCHA reports that because all 8,400 vouchers are essentially new—from HPD or Mitchell Lama conversions—this plan will not affect its ability to serve priority populations such as victims of domestic violence. About 6,000 to 7,000 vouchers turn over each year. These vouchers freed up through natural attrition will be used to serve priority populations and households on the waiting list.

Development Fees. As part of Mayor Bloomberg's expanded "New Housing Marketplace Plan," HPD, NYCHA, and private real estate developers are collaborating to build approximately 6,000 new units on underutilized NYCHA property. The development fees—$10 million annually from 2006 through 2008—will be paid by the private developers.

In effect, to the extent that the developers are getting the financing for the development projects from HPD, these development fees will be indirectly paid by the city. In other cases, developers may not receive additional capital from HPD, and will instead charge somewhat higher rents in order to cover this cost.

Federal Funding Flexibility. NYCHA is seeking flexibility in the way it uses federal funds. In the plan, the authority states that it is applying to become a "Moving to Work" (MTW) demonstration site. MTW is a HUD demonstration program designed to reduce costs and increase housing choices for low-income families. Participating sites are granted waivers from a variety of federal regulations, and in some cases, are allowed to combine public housing operating and capital subsidies and Section 8 funds into a single source to address all needs.

However, HUD is no longer accepting new MTW sites, so NYCHA is also exploring other options, such as federal legislation, that would give it comparable flexibility.

The savings projected in the plan would largely come from savings in Section 8 administration. If granted the flexibility requested, NYCHA is considering options such as reducing the frequency of apartment inspections and income certification of tenants, both of which must now be done on an annual basis.

NYCHA would also likely eliminate the community service requirement for public housing tenants. The community service requirement is costly to administer, so eliminating it would lead to savings above those included in the plan.

There are two potential problems with this aspect of the plan. First, it is almost certainly going to be difficult for NYCHA to get the federal approval—from HUD or Congress—necessary to implement it. Second, the savings estimates are a reflection of the gaps remaining in the budget after other components of the plan were implemented, and may not reflect actual outcomes.

Management Initiatives. NYCHA is building a single computer system that will consolidate tenant information, waitlists, work tickets, and other data. This information is now stored in hard copy and a variety of legacy systems which are expensive to maintain and time-consuming to work with. The authority expects to be able to eliminate 280 positions by facilitating data processing with the new system.

In addition, NYCHA expects the computer system to improve services to tenants, by allowing scheduling of repairs and follow up on work tickets.

Energy Conservation Initiatives. NYCHA is currently replacing domestic hot water heaters with instantaneous water heater devices. While conventional hot water heaters keep water hot at all times—thereby wasting energy—the new devices will provide hot water when needed, saving on utility costs.

NYCHA is also installing computer aided heating systems, which can be monitored and managed from a central location. Once these are fully operational, NYCHA can diagnose and in some cases fix heating problems from a central office, rather than sending repair people to individual apartments.

Finally, in some cases NYCHA will convert steam heated buildings to natural gas, which is less expensive. The authority expects that the $20 million savings estimate from these initiatives is conservative.

Expense and Revenue Estimates. In order to eliminate its out-year budget gaps, NYCHA must both achieve the cost savings and revenue increases contained in the Plan to Preserve Public Housing, and meet its existing targets for spending and revenue generation. NYCHA's financial plan projects flat spending and revenue for most items for the period 2007 through 2010. The authority is essentially assuming that its revenue growth will keep up with expenses.

There is some risk in this assumption. Several categories of expenses have climbed rapidly in recent years, and could continue to do so in the future. In particular, salaries, fringe benefit costs, and utilities are potential problem areas. At the same time, no significant growth is anticipated in federal public housing operating and capital subsidies.

Teamsters Local 237 recently voted to ratify an extension of its contract with the City of New York, covering the period August 7, 2005 to September 22, 2006. The union, which represents the majority of NYCHA employees, has not yet settled with NYCHA, but the authority expects to follow the same pattern as the city. The contract includes a 3.25 percent wage increase, retroactive to August 2005. These contract costs are not incorporated into the plan, nor are any future wage increases. In 2005, NYCHA spent over $52 million on retroactive wage increases, but has budgeted nothing for similar payments in 2006 or beyond.

NYCHA has also assumed flat fringe benefit costs for 2008 through 2010, despite recent growth. In contrast, the city actuary estimates that NYCHA's pension contributions will almost double over the plan period, from $57.9 million in city fiscal year 2006 to $110.8 million in 2010. Similarly, the city projects that its health care costs will rise an average of 8 percent annually.

NYCHA has budgeted for an increase in utilities in 2006—up to $527 million—and another 1 percent increase in 2007, but then assumes flat expenditures for the remaining years of the plan. Although some of the recent growth was due to extraordinary circumstances such as Hurricane Katrina, predicting flat utility costs is risky.

Federal revenue sources have remained relatively flat over the last several years, and it is a reasonable assumption that they will continue to do so. President Bush's proposed budget for 2007 calls for a modest increase for Section 8, flat spending on the Public Housing Operating

Fund, and a reduction in the Public Housing Capital Fund. While Congress has yet to pass budgets for federal fiscal year 2007, it is unlikely there will be significant growth in discretionary spending.

THE NEW OPERATING FUND FORMULA

In federal fiscal year 2007, HUD will begin implementing a new formula for distributing Public Housing Operating Funds. NYCHA's plan assumes that the authority will not lose any operating funds under the new formula.

To date, operating funds have been distributed based on a formula that takes into account age of housing, the number of units, and a variety of other factors. Changes to operating fund grants were made on an incremental basis.

HUD is in the process of dramatically overhauling this process. In conjunction with the Harvard Graduate School of Design, it has developed a financial model to estimate the actual costs of operating public housing developments. Housing authorities' grants will reflect the difference between the projections from this model and rent collections, subject to both limitations on increases and decreases, and prorations for federal appropriations. Analysts and industry groups—including the Public Housing Authorities Directors Association and the National Low Income Housing Coalition—have criticized the model, in large part because it was based on studies of Federal Housing Administration insured housing, and assumed costs would translate to public housing.

Under the new rule, authorities that convert to "asset management"—that is, budget at the level of individual developments, rather than the authority as a whole—can limit any losses. Over the first five years of the new operating fund formula, each authority stands to lose 20 percent of their total maximum loss each year if they have not fully implemented asset management. NYCHA's maximum loss is $60 million, so it could lose as much as $12 million in operating funds in federal fiscal year 2007. The reduction could be larger if, as in recent years, Congress does not appropriate enough money for public housing operations to fully fund all housing authorities at their allowable level. However, the Plan assumes that NYCHA converts to asset management and does not lose any operating funds under the new formula.

OTHER ISSUES

Tenant advocates and elected officials looking at the "Plan to Preserve Public Housing" have identified a range of issues that they feel should be addressed as part of the effort to preserve the financial health of public housing. In response, IBO has examined the fees for services and taxes paid by NYCHA, and the role of the public assistance shelter allowance, as well as looked at the authority's capital program.

NYCHA Payments to the City of New York. NYCHA reimburses the city for certain services provided by city agencies—although not always at their full value. In addition, NYCHA public housing developments are exempt from city property taxes, paying instead a nominal payment in lieu of taxes.

In city fiscal year 2005, NYCHA paid the city $62.6 million for police services, which cost at least $122.5 million to deliver (this excludes central administration, fringe benefits, etc.). This payment for police services reflects a long-standing agreement between NYCHA and the city that dates back to 1995, when the Housing Authority Police Department was merged with the New York Police Department (see *Inside the Budget* Number 129, "As Federal Aid Drops, City's Cost for Policing Public Housing Climbs," April 15, 2004).

NYCHA also pays the city about $1.9 million for supplemental sanitation pick ups. According to the Department of Sanitation, it provides services to NYCHA residents beyond those provided to residents of private housing, which necessitates the fee.

Some have pointed out that other city residents do not pay separate fees for policing or sanitation services. This is certainly true, however, it is also important to note that NYCHA does not pay property taxes to the city on its developments—a savings that the Department of Finance estimates was worth $334.6 million in city fiscal year 2005.

The federally subsidized public housing units are fully tax exempt (although subject to a payment in lieu of taxes, or PILOT) for 60 years, with the possibility of a 60-year extension. The PILOT payment for the 160,000 federally subsidized units was about $21.4 million in city fiscal year 2005. The approximately 8,000 city units are tax exempt for 50 years, with the option of a 50-year extension, and pay a flat PILOT of $109,000, about one-tenth the rate the federal units pay. The state units pay $1.9 million in property taxes annually.

Shelter Allowance. About 17 percent of NYCHA tenants receive public assistance. One component of public assistance grants is the shelter allowance, which varies by county and is designed to help recipients pay rent.

Under New York State social service regulations public housing shelter allowance thresholds may be lower than those for privately owned units in the same county. First, the regulations include public housing-specific shelter allowance levels that are substantially lower than "normal" floors. However, public housing authorities can apply to have these shelter allowance levels raised. Second, the state increased shelter allowance levels in November 2003, but limited the increase for public housing authorities to 10 percent annually. For example, the shelter allowance for a three-person family was raised from $286 to $400, but a housing authority must phase in this increase over four years.

For NYCHA, the situation is even more complex. The units originally financed by the city and state currently receive the pre-November 2003 shelter allowances, subject to a potential 10 percent annual increase, thereby phasing in the new levels. NYCHA received the increase this year, and is applying again for the coming year. For a family of three, therefore, the shelter allowance is currently about $315, and will likely rise to $346 next year. If NYCHA received the full shelter allowance increase in one year—as a private landlord would—the increased revenue for the city and state units would be about $3.5 million.

The federal NYCHA units—the vast majority of the public housing stock in New York City—are subject to their own shelter allowance schedule, based on the number of bedrooms, rather than family size. This schedule is much lower than that for the city and state units; for example, the shelter allowance for a family in a two bedroom federal unit is $137. NYCHA is transitioning the federal units to the same family-size based schedule as the city and state units, but this is also subject to the 10 percent annual phase-in process, which will take 11 years. IBO estimates that if NYCHA could use the standard shelter allowance schedule for the federal units without the phase-in period, it could receive as much as an additional $81 million annually.[5]

Capital. NYCHA's buildings are, on average, more than 40 years old, and have significant capital needs. The authority receives capital funding from the federal government (about $365 million annually), and limited capital grants from the city and state.

In 2005, NYCHA, through the city's Housing Development Corporation, issued $300 million in bonds for capital projects. NYCHA plans to issue another $300 million in bonds in 2006. The debt service on the bonds will be paid from NYCHA's federal capital grant. The bonds are in effect an advance on future capital funding, and will reduce the future funding available for capital expenditures by about $47 million annually.

CONCLUSION

NYCHA's 2006 financial plan and the accompanying "Plan to Preserve Public Housing" take a more comprehensive look at the authority's fiscal status than previous years' budgets. They also propose a much more sweeping package of changes to improve that fiscal status than prior budget plans. This plan represents an attempt to solve budgetary problems with roots well in the past. NYCHA faced a number of difficult tradeoffs, and this plan is clearly an attempt to address these tradeoffs while minimizing the effect on tenants.

However, there are still substantial risks embedded in NYCHA's budget. If federal approvals fail to materialize, if utility and fringe costs increase as they have in the recent past, or if federal subsidies dip as funding formulas change, NYCHA will once again face operating deficits. IBO expects that maintaining a balanced budget will continue to be a challenge for NYCHA.

NOTES

[1] NYCHA's fiscal year is January 1 through December 31. The city's fiscal year is July 1 through June 30. Unless otherwise noted, the years in this analysis refer to NYCHA's fiscal year. NYCHA did release a 2006 budget plan in December of 2005, but was instructed by its board to develop a plan to balance the budget. This balanced plan was released in April 2006.

[2] According to NYCHA, there are 21,000 city and state units. IBO used the unit counts in the NYCHA development guide (http://gis.nyc.gov/nycha/im/NychaStart.do;jsessionid=84F23E7FD6B287B07F9C6DADDF715C57?) and identified 19,904 such units. The number of city and state units is subject to change as units are taken off the rent rolls for repairs, or used for non-residential uses such as meeting spaces for tenant groups.

[3] NYCHA changed its accounting software in mid-2003, and therefore was unable to provide comparable data on revenue streams for 2003 and prior years.

[4] The highest income tenants face a 20 percent rent increase in each of the two years of the phase in schedule, which, compounded over two years, translates to a 44 percent overall increase.

[5] IBO assumed that public assistance levels are constant across all developments, and that all public assistance recipients living in public housing are three-person families living in two-bedroom apartments. To the extent that these assumptions are wrong, the additional revenue would vary. NYCHA estimates the additional revenue from the phasing in of the shelter allowance at $70 million annually (they do not project the revenue from eliminating the phase-in schedule).