



INDEPENDENT BUDGET OFFICE

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Testimony
Of Preston Niblack, Deputy Director
Before the City Council Subcommittee on Public Housing:
The Shelter Allowance Increase—How Will it Affect NYCHA's Budget?

September 20, 2007

Good afternoon Chair Mendez and Members of the Subcommittee and Council. I am Preston Niblack, deputy director at the Independent Budget Office. I am accompanied today by Brendan Cheney, our housing analyst. Thank you for the opportunity to testify today about the budget deficits facing the New York City Housing Authority (NYCHA).

Although the recently enacted shelter allowance increase will begin to help close NYCHA's budget gaps, they remain dauntingly large. NYCHA continues to present a plan that has little chance of success, leaving what is widely considered to be one of the best public housing systems in the country in peril.

NYCHA's budget for fiscal year 2007 (NYCHA's fiscal year corresponds to the calendar year), presented in May, projected a \$271 million budget shortfall—equivalent to almost 10 percent of operating expenses. Through a series of measures, this was brought down to a projected \$52 million in the May budget plan. This was achieved through \$45 million in net spending reductions previously implemented, and a further planned \$18 million in savings from a partial hiring freeze and service reductions scheduled to go into effect October 1st, 2007. The bulk of the savings was achieved, however, by the use of \$150 million in one-time, non-recurring funds, including the use of capital funds and the sale of NYCHA property for development (a transaction which has yet to be completed).

Since the budget was approved by the authority's board, there has been one substantial piece of good news for NYCHA's financial situation. On August 15th, Governor Elliot Spitzer signed a bill that will equalize the shelter allowance paid to public assistance recipients living in public housing to what it pays for those who live in private housing. The bill will phase in the increase over three years. Once fully phased in, NYCHA will see an increase in annual revenue of \$47 million. Since the bill was effective immediately, IBO projects that NYCHA's revenue for 2007 will increase by almost \$9 million.

Unfortunately, this still leaves NYCHA with a \$43 million budget shortfall for 2007. The housing authority's projections for future fiscal years show even larger deficits. Taking into account only the cost saving or revenue raising initiatives that are under NYCHA's control or those that have been approved by the federal Department of Housing and Urban Development (HUD), the housing authority faces a \$129 million deficit in 2008, and \$145 million deficits in 2009, 2010, and 2011.

NYCHA has recently shown a pattern of optimistic projections, delayed action, and unrealistic assumptions. You may recall that as late as January of this year, NYCHA had not revised its projections of a \$30 million budget gap for 2007. In our testimony before this subcommittee in January, we estimated that the authority was actually facing a deficit for 2007 approaching \$300 million. In fact, when NYCHA finally produced the 2007 budget and financial plan in May, their estimate of their 2007 deficit was over \$270 million.

NYCHA's current financial plan also relies on expense projections that may prove optimistic. The four-year budget plan shows only a one percent increase in total expenditures overall between 2008 and

2011. Salaries and fringe benefits are projected to grow by just 2.3 percent over the plan period, while other than personal services spending is essentially flat.

NYCHA Budget Projections					
<i>Thousands of Dollars</i>					
	2007	2008	2009	2010	2011
Operating Budget Deficit	\$(270,750)	\$(223,834)	\$(250,594)	\$(251,229)	\$(251,229)
Departmental Reductions - Implemented	45,524	25,642	25,642	25,642	25,642
Revised Deficit, May Plan	(\$225,226)	(\$198,192)	(\$224,952)	(\$225,587)	(\$225,587)
NYCHA Actions					
State Subsidy	3,400	3,400	3,400	3,400	3,400
Vacant Land to HPD	50,000	-	-	-	-
Utilize Capital Funds for Operations	100,000	-	-	-	-
Sale of Occupied Single Family Homes	-	5,000	6,000	-	-
Hiring Freeze (Oct. 1, 2007)	10,000	-	-	-	-
Service Reductions (Oct. 1, 2007)	8,000	30,000	30,000	30,000	30,000
Shelter Rent 3 Year Phase In - <i>Approved</i>	8,910	30,462	40,837	46,655	46,655
Projected Deficit	(\$44,916)	(\$129,330)	(\$144,715)	(\$145,532)	(\$145,532)
Legislative Agenda					
Section 8 Transition	2,235	35,760	62,580	75,096	75,096
Increase Federal Proration	-	47,221	47,221	47,221	47,221
City / State Unit Federalization	-	54,600	54,600	54,600	54,600
Potential Surplus / Deficit	\$(42,681)	\$8,251	\$19,686	\$31,385	\$31,385
SOURCES: IBO; NYCHA 2007 Budget.					

NYCHA continues to hope to avoid the coming gaps by obtaining approval of its state and federal agenda. The first item is the transition of federally subsidized units to Section 8 vouchers, generating a hoped-for \$36 million in 2008, \$63 million in 2009, and \$75 million in 2010 and 2011. After considerable delay, HUD is currently reviewing NYCHA's property appraisals. Although this is finally progress, it is not clear that after HUD's review is complete NYCHA can expect to receive approval for the full value of the savings.

The two other initiatives call for an increase in appropriations to the public housing operating account from 85 percent of full funding to 90 percent, and for the federal government to take over the city- and state-sponsored units. Combined, these two initiatives would increase NYCHA revenues by \$102 million annually. At this point, there is nothing to indicate that the Bush Administration and the Congress will take these actions. As the economy begins to show signs of weakness, pressures on the federal and state budgets will not make it any easier to obtain additional funds.

It is difficult to emphasize enough the urgency of NYCHA's fiscal straits. NYCHA has no additional reserves beyond the minimum required by HUD, and can no longer fund budget deficits with reserves without losing some federal grants, and further imperiling its shaky financial status.

NYCHA lacks a serious alternative plan in the increasingly likely event that much of its legislative agenda is not realized. Without these initiatives, the housing authority faces the prospect of serious deterioration of what many have called the best public housing system in the country, and ultimately a serious threat to a major source of affordable housing in the city.

Thank you, and I would be happy to respond to any questions you may have.