

March 2019

City May Need to Add More Funds to Meet Terms of Housing Authority Settlement

Under the city's 10-year capital strategy released in conjunction with the Mayor's Preliminary Budget, the New York City Housing Authority (NYCHA) is set to receive more than \$4.2 billion in city capital funds over the next 10 years to pay for major repairs and upgrades. This includes the \$2.2 billion required under the terms of the city's recent settlement with the U.S. Department of Housing and Urban Development (HUD) and NYCHA. Yet the full cost of the actions required under the settlement is currently unclear. Despite the fact that planned city capital funding is already set to far outpace expected federal capital awards over the next several years, additional support from the city may be necessary if the housing authority is to meet the performance standards the agreement requires.

At the end of January the city signed an agreement to settle federal litigation following a slew of scandals at the housing authority ranging from tenant exposure to dangerous levels of lead and mold, to regular heating and hot water outages, to accusations of mismanagement. The agreement requires the housing authority to meet improved performance goals on a set schedule under the oversight of a federal monitor. It also requires the city to provide \$2.2 billion over the next 10 years to finance improvements. These funds are in addition to the city's previously planned \$2.0 billion in capital support for a total city investment of \$4.2 billion planned by fiscal year 2028 to help finance the settlement goals. No federal funds have been added for the settlement.

Cost of Settlement Unclear. The settlement between the city, HUD, and NYCHA includes an appendix with broad performance goals tied to deadlines for remediating lead paint and mold, restoring heat, reducing elevator outages, and controlling pests that NYCHA will have to achieve to remain in compliance with the agreement. NYCHA is required

to create a more detailed Action Plan based on these performance goals, with specific actions and timelines to be approved by the federal monitor. If NYCHA is deemed to be out of compliance with the settlement, the federal monitor has the power to allocate or reallocate personnel and resources, hire contractors, and increase staff.

While it is difficult to estimate the cost of the settlement based on the broad performance goals, a comparison with NYCHA's most recent Physical Needs Assessment suggests that current funding levels may not be enough to meet the targets. For example, the settlement has several goals around how often elevator outages can occur before NYCHA's performance is deemed deficient. Within five years of the agreement, "85 percent of elevators in all buildings shall have an unplanned outage no more than eight times per year, and no single elevator shall have unplanned outages more than 12 times a year." According to the federal complaint against NYCHA, there was an average of more than 13 outages per elevator in 2016. NYCHA's current five-year capital plan contains \$220 million to replace 404 elevators. According to the housing authority's 2017 Physical Needs Assessment, however, the cost to make necessary repairs and/or replace elevators over the next five years is \$1.5 billion.

Heat-related repairs are another example. By October 2024, the settlement requires that "for 85 percent of heating shortfalls, NYCHA will restore heat within 12 hours and in no event more than 24 hours." The average heating outage during last year's heat season lasted 48 hours, although NYCHA recently announced its response time thus far this season is down to 10 hours. NYCHA's current five-year capital plan contains \$991 million to replace 290 boilers. Again, according to the housing authority's own needs assessment, more than 744 boilers have a



remaining useful life of five years or less and it estimates the cost of addressing NYCHA's heating needs over the next five years at \$2.5 billion.

If the housing authority were to make all the repairs outlined in its Physical Needs Assessment over the next five years for elevators and heat alone, the cost would be \$4 billion—nearly twice what the city is required to contribute in the settlement and more than 60 percent of the housing authority's proposed five-year capital plan. But this is before any capital work to remediate mold, lead paint, and pests is even accounted for. (Costs in these areas were less clearly discernible by IBO from the full needs assessment data). While the settlement may not require that all the work covered under the needs assessment be completed, its goals are sweeping enough that it seems likely a substantial amount of the work would need to take place.

No Additional Federal Funds. While the city must contribute increased funds, the settlement does not require the federal government to provide any additional support outside its normal, annual capital grant allocation—even though federal funding has failed to keep pace with the housing authority's capital needs for years.¹

The majority of city capital spending—\$2.7 billion—is planned over the next five years, and accounts for 42 percent of the NYCHA's proposed \$6.4 billion five-year capital plan, which spans calendar years 2019 through 2023. (While the city has a 10-year capital planning document, NYCHA has a 5-year capital plan.) The city's contribution is a six-fold increase compared with past years; from fiscal year 2014 through 2018, the city committed a total of \$449 million. City capital contributions are the largest single source of funds in NYCHA's current five-year capital plan.

Grants from the federal public housing capital fund are projected to total \$2.1 billion from 2019 through 2023. In addition, \$825 million in one-time federal disaster relief funds for repairs due to damage from Hurricane Sandy are also expected. State funds in the plan are a one-time

Funding the New York City Housing Authority's Proposed Five-Year Capital Plan						
<i>Dollars in millions</i>						
Funding Source	2019	2020	2021	2022	2023	Total
City	\$1,206	\$429	\$336	\$386	\$336	\$2,693
Federal Capital Grant	889	306	306	306	306	2,113
State	450	-	-	-	-	450
Disaster Recovery	825	-	-	-	-	825
Community Development Block Grant	125	20	20	21	20	206
Other	95	-	-	-	-	95
Total	\$3,590	\$755	\$662	\$713	\$662	\$6,382

SOURCE: New York City Housing Authority's Proposed CY 2019-2023 Financial Plan.

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subsidy totaling \$450 million in 2019. The state first approved a capital contribution of \$200 million in 2017, but has failed to release the funds to the housing authority. Last year the Governor added another \$250 million through an executive order but tied state funding to the appointment of an independent manager for NYCHA. This was prior to the announcement of a federal monitor. The Governor has indicated the federal monitor meets the requirement and that he would release funds as needed. The remaining \$300 million in capital funds are a mix of federal Community Development Block Grants and other funding.

Over the five years, planned capital spending is greatest in 2019 (\$3.6 billion), although this is largely due to unspent funds shifted from 2018 into the current year and to the timing of the planned disaster relief funds and the state payment. More than half of the total capital funds are budgeted over the five years for structural and exterior work (\$3.9 billion), followed by heating and plumbing projects (\$1.2 billion) and interior work (\$573 million). Another \$407 million is planned for debt service, with the remaining \$315 million divided among information technology, security, and other projects.

City Plans \$4.2 Billion Capital Funding for NYCHA Over Next 10 Years										
<i>Dollars in millions</i>										
Planned Commitments										Total
2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	
\$1,209	\$429	\$336	\$386	\$336	\$336	\$336	\$336	\$338	\$200	\$4,242

SOURCE: New York City February 2019 Capital Commitment Plan
NOTE: Years are city fiscal years.

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NYCHA's 2.0 plan contains strategies to increase housing authority's funds for addressing its capital needs over the next 10 years, including developing underused NYCHA land and transferring unused development rights that could help address capital funding shortfalls. None of these sources of funds are included in the housing authority's five year capital plan, however.

Recent history suggests that it is unlikely that funds needed for repairs in excess of what is already budgeted would come from Washington or Albany—leaving it to the city to pick up the tab or face the consequences of even greater federal control.

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Endnotes

⁴From 2001 through 2018 there has been a cumulative federal capital grant funding loss of \$1.4 billion, according to the New York City Housing Authority's 2018 Five Year Capital Plan. While, there has been a slight increase to federal capital fund allocation over the last several years, this change has not had a substantial impact on the overall funding shortfall.