New York City Independent Budget Office

Focus On:
The Preliminary Budget

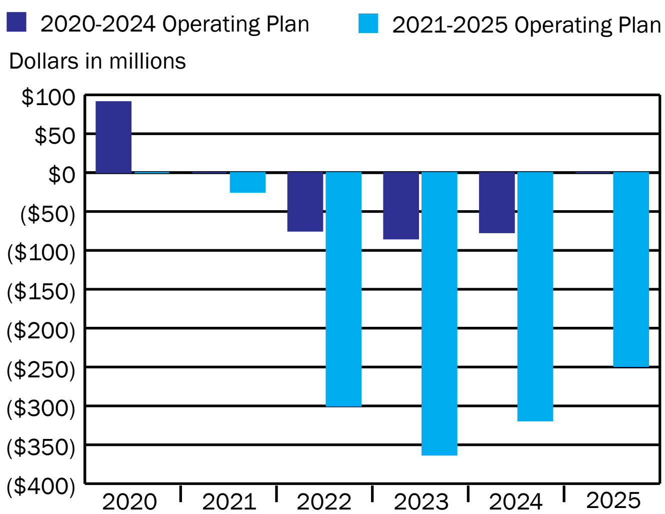
April 2021

Housing Authority Budget Faces Challenges As City Looks to a Post-Covid Future

The pandemic has made 2020 a tough year both for New York City Housing Authority (NYCHA) residents and for NYCHA's finances. Federal funding from Covid-19 relief packages enacted in 2020 has allowed the housing authority to close out the year with a balanced budget, but NYCHA faces substantial and growing costs in the years to come, with few options to pay for them without further city or federal assistance. (NYCHA operates on a calendar year basis; unless otherwise stated, all years refers to calendar years.) IBO examined NYCHA's newly adopted 2021-2025 Operating Plan to understand the magnitude of the problem and its causes.

Pandemic Erases Projected Surplus, But Loss Offset by Federal Funds. When its $3.8 billion budget for 2020 was initially adopted, NYCHA expected to end the year with a $91 million surplus. The pandemic then slammed NYCHA's finances and—after reductions in planned spending—the housing authority closed the year with its budget in balance.

NYCHA's Projected Budget Gaps Have Widened Since Last Year



SOURCES: New York City Housing Authority 2020-2024 Operating Plan and 2021-2025 Operating Plan

New York City Independent Budget Office

NYCHA's revenue in 2020 was $206 million less than it had forecast in its 2020-2024 Operating Plan, with rent revenue particularly affected by the pandemic. NYCHA rents are set at 30 percent of tenant income, meaning that as tenants lost income due to the economic downturn, their rents were adjusted downward and NYCHA's revenue fell. Furthermore, fewer tenants paid the rents that they did owe: in November 2019, NYCHA had an 89 percent 12-month collection rate, but in November 2020 the 12-month collection rate was only 82 percent. Late last year, NYCHA projected it would collect $64 million less in tenant rental revenue than the $1.0 billion it had initially budgeted for 2020. NYCHA also received $33 million less in city funds than it had anticipated when it initially set its budget. This was not caused by a reduction in the city's contributions to NYCHA in either the 2020 or the 2021 city fiscal years (which run from July through June). Rather, NYCHA anticipated receiving more funding from the city by the end of the calendar year than it actually did. The balance of the funding is now expected to be received in the first half of calendar year 2021.

These revenue shortfalls were largely offset by $120 million in funding through the Coronavirus Aid, Relief, and Economic Security (CARES) Act passed in March 2020, as well as $9 million in reimbursement from the Federal Emergency Management Agency (FEMA). On top of this, NYCHA also reduced spending by $14 million. Together, these budget actions allowed NYCHA to balance its 2020 budget.

Nearly Balanced in 2021, Future Budget Gaps Widen. For its 2021 operating budget, NYCHA is currently projecting a $25 million deficit, less than 1 percent of the $4.1 billion total. NYCHA has historically been able to close small gaps

IBO

New York City
Independent Budget Office
Ronnie Lowenstein, Director

110 William St., 14th floor
New York, NY 10038
Tel. (212) 442-0632

Fax (212) 442-0350
iboenews@ibo.nyc.ny.us
www.ibo.nyc.ny.us

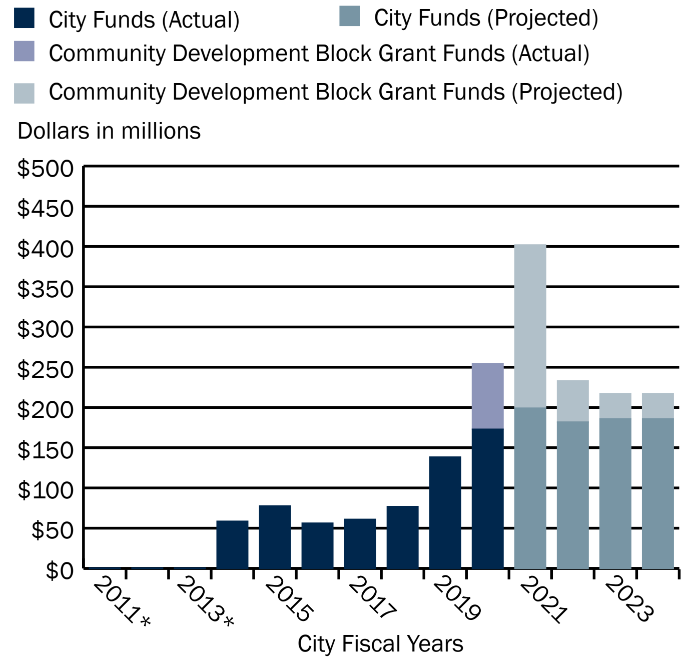
over the course of a year. Helping to minimize the current year's deficit are NYCHA's expectations of increases in revenues from rents, city funds, and federal subsidies (these subsidies are unrelated to federal Covid-19 relief), totaling $127 million more in revenue than the housing authority projected in December of 2019. But to bring 2021 close to balanced, NYCHA also plans to draw upon sources that are unsustainable in the long term. The 2021 budget relies on a $115 million transfer from NYCHA's capital budget to its operating budget and a withdrawal of $45 million from its reserves in 2021. The housing authority had previously planned to draw this amount from its reserves over the next four years, but will now withdraw the entire amount in 2021, with withdrawals from reserves zeroed out in later years. In another one-time action, the housing authority will roll over $30 million in Section 8 funding it received from the CARES Act into its 2021 budget. After adopting this budget, NYCHA now anticipates $6 million more in FEMA funds due to the Biden Administration's adoption of a 100 percent FEMA reimbursement rate for eligible coronavirus activities.

Back in December of 2019, NYCHA had projected out-year budget gaps of $75 million in 2022, $85 million in 2023, and $77 million in 2024. But NYCHA's 2021-2025 Operating Plan now shows much larger projected gaps. NYCHA now expects deficits of $300 million in 2022, $363 million in 2023, $319 million in 2024, and $249 million in 2025, bringing the total expected deficit across the current plan to $1.3 billion. While NYCHA's revenue in 2022 is projected at $3.8 billion, $1.3 billion of this revenue is paid to property owners under Section 8. The forecast of a $300 million gap in 2022 means that NYCHA's projected spending would be 112 percent of planned revenues in that year, excluding the Section 8 pass-through funding.

City Support Continues at Pre-Pandemic Levels. Despite the economic damage the pandemic has wrought to the city's finances, the de Blasio Administration has not cut the city's subsidies to NYCHA since the pandemic began. As of December 2020, NYCHA expected the city to contribute a total of about $1.1 billion to its operating budget over the next five calendar years.

The de Blasio Administration's two terms have been marked by increased city support for NYCHA. Transfers from the city's expense budget to NYCHA swelled from $2.3 million in the 2013 city fiscal year, the year before Mayor de Blasio took office, to $273 million in the 2020 fiscal year. In the 2021 city fiscal year, the city will make $424 million available to NYCHA, including $199 million in city funds

Transfers to NYCHA From City Expense Budget Have Risen Over Past Decade



SOURCES: IBO analysis of Mayor's Office of Management and Budget documents spanning 2011 through 2021.
NOTES: *Values for 2011-2013; 2011, $490,200; 2012, $553,400; 2013, $491,400.
Totals exclude Community Development Block Grant-Disaster Recovery pass-through funding.

New York City Independent Budget Office

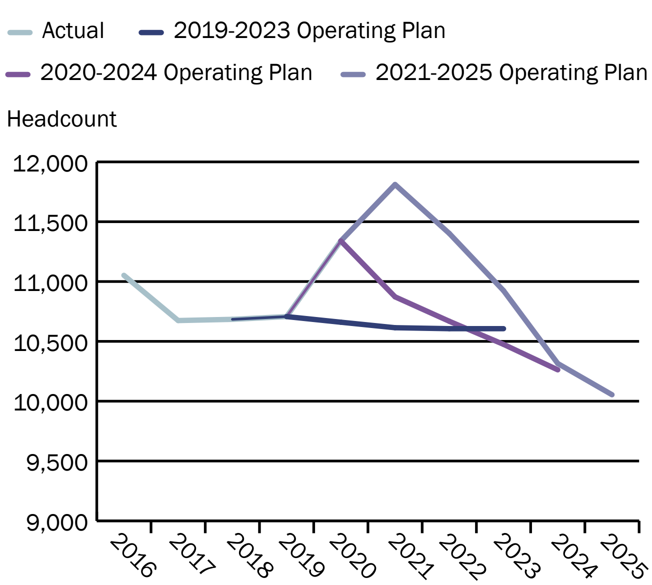
and $203 million in federal Community Development Block Grant funding. Much of this federal block grant funding (which is unrelated to federal pandemic relief) is likely to roll over into 2022, just as it did from 2020 to 2021.

While a new mayoral administration will take over next year, it is unlikely that a new mayor could substantially shrink the level of city support for NYCHA, at least in the near term. NYCHA is currently operating under a federal monitor agreement it signed with the city and the federal Department of Housing and Urban Development (HUD) in 2019 after a lawsuit relating to poor building conditions. The monitor agreement requires the city to provide NYCHA with a total of at least $449 million for operating expenses over the next five fiscal years. At the same time, the city has earmarked a total of more than $1 billion for subsidizing the cost of NYCHA's collective bargaining agreements in city fiscal years 2021 through 2024; as a signatory to these agreements the city cannot reduce this contribution without negotiating with the labor unions.

While continued city support at current levels is reasonably assured, NYCHA's large out-year gaps may be too deep for the housing authority to resolve on its own, and it may look to the city for additional subsidies. The recently enacted federal relief bill will improve the city's short-term fiscal condition, but there is no certainty that the city will be able to commit significant new operating funding to NYCHA, particularly in 2022 through 2024 when NYCHA faces the largest projected gaps.

NYCHA Monitor and Capital Needs Increase Costs. The monitor agreement binds NYCHA to an aggressive schedule of capital improvement work, and forces the housing authority to create three new departments. Last year, in support of these changes, NYCHA hired 632 more staff, including 358 positions related to the monitor agreement. Later this year, as required by the monitor agreement, NYCHA will undergo a larger reorganization under a draft plan called *Blueprint for Change*. In support of this reorganization and to increase its capacity even further, NYCHA will increase its headcount by another 472—including 236 to support *Blueprint for Change*—for a total headcount of 11,811 in 2021. This is in contrast to last year's plan, which had anticipated 2020 to be the peak of NYCHA's headcount at 11,339. In addition to the reorganization and monitor-related work, the additional staff will support maintenance and repairs at its developments, which require constant upkeep stemming from years of deferred capital needs. All told, NYCHA now plans to spend $65 million more for personnel costs in 2021, $112 million more in 2022, $115 million more in 2023, and $72 million more in 2024 than it planned for last year.

NYCHA Will Hire More Than Planned to Comply With Federal Monitor Work and to Support Reorganization



SOURCES: New York City Housing Authority Board Meeting Minutes for December 30, 2020 and December 18, 2019, New York City Housing Authority Fiscal Year 2019 Budget Book.

New York City Independent Budget Office

On top of these costs, the housing authority will also spend $612 million on contracts in support of the reorganization, capital improvements, monitor-related work, and coronavirus-related expenses in 2021—over one and a half times what it spent on contracts in 2020. NYCHA also expects to spend an additional $60 million to $70 million on contracts from 2022 through 2024 when compared with the last plan. NYCHA's spending in 2021 on contracts includes funding for one-year initiatives; if NYCHA decides to continue funding for these initiatives, costs could increase further in the out-years.

If NYCHA looked to savings through reduced headcount and contract spending, it could risk falling out of compliance with its federal monitor. Meanwhile, any attempts to reduce labor costs beyond attrition more generally would mean renegotiating with labor unions. NYCHA hopes implementation of the reorganization will yield efficiency gains and help control future costs.

PACT Transfers Decrease NYCHA's Future Revenue. As part of the housing authority's strategic plan, NYCHA expects to transfer a total of 62,000 units (a little over a third of its portfolio) via the Permanent Affordability Commitment Together (PACT) program, which uses the HUD Rental Assistance Demonstration (RAD) program. Under PACT, a program that has stirred controversy among housing authority residents and advocates, NYCHA transfers developments to public-private partnerships it forms with private developers and management companies. This arrangement allows the partnership to borrow against the federal subsidies and rent revenue tied to the property to fund capital repairs, while the partnering management company operates the building instead of NYCHA. So far, as of this March, over 9,500 units have undergone PACT conversion, with over 14,000 more in active pre-development.

PACT allows NYCHA to generate funding for capital needs. However, as developments are transferred to public-private partnerships, NYCHA's tenant rental revenue and its federal Section 9 operating subsidy both stand to decrease; the federal operating subsidy is calculated based on the number of public housing units directly under NYCHA, a number that is reduced by units moving out of traditional public housing and into these public-private management partnerships. These decreases, however, are partly offset by an increase in Section 8 administrative fees and decreased utility costs. NYCHA has adopted a more aggressive PACT conversion plan than was planned for last year, which has led the housing authority to lower its revenue expectations for 2022 through 2024. Altogether, newly decreased expectations for operating subsidy, tenant rental revenue, and utility costs and newly increased expectations for Section 8 administrative fees—all mainly due to PACT—account for $131 million less in revenue for 2023 and $140 million less in 2024 than expected in December 2019. As part of PACT, NYCHA also receives ongoing and one-time payments from its developer partners for the ground leases for PACT-converted developments; NYCHA will use $30 million of these payments in 2021 to help balance its budget. As units are converted to private management through PACT, the number of units NYCHA will directly manage will continue to fall, even as NYCHA's planned headcount remains above 2019 levels until 2024.

Blueprint for Change Provides Strategy to Address Capital Needs. While NYCHA will use PACT conversions to address the capital needs for developments spanning 62,000 units, the housing authority now also has a new plan for the remaining 110,000 units in its portfolio. While still looking for increased capital funding for public housing from Washington, NYCHA has proposed an alternate solution that would not require large federal appropriations.

The new capital strategy, put forward as part of NYCHA's *Blueprint for Change*, would use a state-created entity: a housing preservation trust. In this model, NYCHA would transfer control of the developments that comprise the 110,000 units not slated for PACT conversion over to the housing preservation trust set up as a public benefit corporation. The units in these developments would convert from Section 9 to Section 8 project-based vouchers. The board of this trust would be comprised of members appointed by either the Mayor or NYCHA's CEO. NYCHA's plan depends on the federal government appropriating and then allocating more valuable subsidies, called tenant protection vouchers, to NYCHA for these 110,000 units through a process called Section 18 Disposition during the transfer. The trust would then pool this revenue and issue bonds against it, funding between $18 billion and $25 billion in capital needs for these 110,000 units in combination with federal, state, and city subsidies. In the out-years of the financial plan, NYCHA is expecting increases in Section 8 administration fees and decreases in operating subsidies and tenant rental revenue in part due to this new capital strategy. The combination of PACT and Blueprint conversions would reduce the number of Section 9 units by about 32,000 from 2021 through 2025, while increasing the number of Section 8 units NYCHA supports by the same amount.

NYCHA's capital strategy will face a number of roadblocks: tenant opposition, passing a state bill to create the preservation trust, obtaining HUD permission both to gain access to tenant protection vouchers and to pool those vouchers to facilitate the bond issue, and obtaining an additional appropriation from Congress to fund the necessary tenant protection vouchers. Like PACT, this strategy would allow NYCHA to borrow against operating surpluses, but, unlike PACT, NYCHA would continue to manage the properties and indirectly handle procurement via the trust.

Prepared by Alec Goodwin