New York City Independent Budget Office

Focus On:
The Preliminary Budget

March 2018

# Increased Funding to Expand Housing Plan and Deepen Affordability

Last November the Mayor cited progress that put his administration ahead of schedule for his Housing New York plan and announced the plan's goals would be expanded from creating and preserving 200,000 affordable homes by 2024 to a new goal of 300,000 homes by 2026. (All years refer to fiscal years.) To continue these and other efforts, the de Blasio Administration added more than $700 million through 2021 in capital and $72 million in expense funds through 2022 in his latest budget for the Department of Housing Preservation and Development (HPD).

New capital funds were added for a mix of new construction programs and preservation of existing affordable housing. Capital funds were also added to expand city subsidies to help the New York City Housing Authority (NYCHA) address lapses in heat and hot water service. On the expense side of the budget, funds were included for a newly announced pilot program to bring existing basement spaces into code compliance to turn them into legal, safe affordable housing.

***More Funds for New Construction.*** The de Blasio Administration's revised housing plan, Housing New York 2.0, would finance construction of 120,000 new affordable housing units. Some of these new units will be financed using a total of $220 million that was added to the capital plan in January for 2018 through 2021 to fund projects created under the city's Extremely Low and Low-Income Affordability program (ELLA). The four-year total in the capital plan for ELLA is now $926 million. ELLA allows for mixed-income development, with a prescribed share of units set aside to serve extremely low- and very low-income households (up to $42,950 annual income for a household of three) and for households coming from the homeless shelter system. In the Mayor's revised housing plan, the city upped its commitment to serve the poorest households—25 percent of the total units under the plan are now to be reserved for households with extremely low and very low incomes, an increase from the previous 20 percent goal. As of October 2017, the city was on track to exceed this goal, financing the construction or preservation of 11,975 extremely low-income units and 14,037 very low-income units out of a total of 80,660 units, or 32 percent.

The Mayor's preliminary budget added a total of $150 million in new funding for another financing program for affordable mixed-income housing development—the Mix & Match Program—over the four years from 2018 through 2021, bringing the Mix & Match total to $513 million. The Mix & Match program allows developers to choose a combination of income tiers to serve, and requires a set aside for formerly homeless households. The updated housing plan, like the previous iteration, does not specify a numeric goal for serving households coming out of the city's homeless shelters, although with the shelter population expected to remain elevated, set asides for homeless households may become more common.

***Funding for Preservation of Expiring Tax Credit Projects.*** The second component of the updated housing plan aims to preserve 180,000 affordable units, keeping existing affordable housing from converting to market rate or falling into disrepair, or both. To this end, the preliminary budget adds $107 million from 2018 through 2021 for the Low-Income Housing Tax Credit Portfolio Preservation (Year 15) Program. The federal tax credit program has a 15-year affordability period to comply with the initial tax credit rules and generally serves very low- and low-income households (the federal tax credit program defines this as up to $51,540 for a family of three). When tax credit projects near the end of the 15-year period, the city

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typically provides incentives such as extending or modifying mortgages and providing low-interest loans to make building improvements in exchange for a renewed affordability agreement. Affordability agreements under the Year 15 program are extended for either an additional 15 years or the length of any new mortgage that the city provides (usually extending affordability for an additional 30 years), whichever is longer. Income restrictions from the federal tax credit rules carry over into the new affordability agreements. New funding in the preliminary budget more than doubles the funding for the Year 15 program, previously budgeted at $67 million, from 2018 through 2021.

The preliminary budget also adds $86 million from 2018 through 2021 for another preservation program, the Participation Loan Program (PLP). This brings the PLP funding total to $370 million. Available to building owners of three or more apartments, PLP provides low-interest loans, tax exemptions, or both to be used in combination with private financing to help facilitate moderate to substantial rehabilitation. Housing units served under PLP are then subject to a 30-year regulatory agreement to keep rents affordable to low- and moderate-income households.

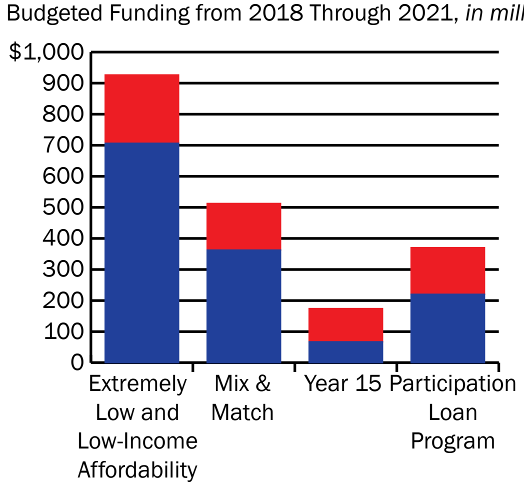
***Heat & Hot Water at NYCHA***. Notable funding additions were also made in the HPD capital budget specifically for the New York City Housing Authority. NYCHA has struggled to maintain its antiquated boiler systems this winter, resulting in heat and hot water breakdowns at numerous complexes. In an effort to alleviate these issues, the city has added $31 million in 2018 and another $232 million

**Preliminary Budget Increases Capital Funds for New Construction and Preservation Programs**

Baseline from November Plan

New Funds Added in Preliminary Budget

Budgeted Funding from 2018 Through 2021, *in millions*




SOURCES: November 2017 and January 2018 Financial Plans

from 2019 through 2021 for NYCHA capital improvements. The majority of this capital funding is for the installation and operation of temporary boilers, repairs to existing boiler systems, and work on the gas riser systems.

***Making Basement Apartments Legal & Habitable.*** One of the strategies for creating and preserving affordable housing highlighted in the Housing New York 2.0 plan is to make use of underutilized housing sites. In this vein, the preliminary budget adds $5 million from 2018 through 2021 to the HPD expense budget for a pilot program to help convert basements in private homes into legal, affordable rental housing; the bulk of the funding, more than $4 million, is planned for 2019 and 2020. Legal basement apartments are required to have at least 7 foot ceilings, be more than halfway above ground, and have water-proofed walls; the pilot does not cover cellar spaces, which are entirely underground and cannot be used legally for housing.

The initial pilot will take place in the East New York neighborhood of Brooklyn. Under this initiative, the city would provide homeowners with low- or no-interest loans to convert basement spaces into legal, habitable rental housing while agreeing to keep rents affordable to middle-income households, defined in the housing plan as a monthly rent not to exceed $3,543 for a family of three. Another component of the pilot is for the Department of Buildings to assess what aspects of the city's building codes inhibit the creation of basement-level housing. Codes will be examined to determine how to encourage the creation of additional affordable housing in existing building space without compromising safety. New annual funding, starting at $205,000 in 2018 rising to $302,000 by 2021 was added the Department of Buildings expense budget for this pilot. Although the program is currently only planned for one particular neighborhood, if deemed successful, the city may look to expand it citywide.

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## Endnote

[1]Future development of new units using Low Income Housing Tax Credits will likely be diminished as a result of the new federal tax legislation. Lowering the federal corporate tax rate from 35 percent to 21 percent makes the tax credits less valuable to investors and therefore less useful as a tool for financing housing construction.