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New York City Independent Budget Office

Fiscal Brief

February 2003

Mayor Bloomberg's Housing Plan: Down Payment on the Future

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SUMMARY

Last December, Mayor Bloomberg announced a $3 billion, five-year plan for building and rehabilitating 65,000 apartments in New York City. The funds for the plan would come from a mix of existing and new sources, including the budget of the city's Department of Housing Preservation and Development, private investment, federal grants, and the resources of the Housing Development Corporation.

More specifically, there are three components to the funding::

- *Maintenance of Effort.* The plan maintains currently planned levels of capital and expense budget spending of $2 billion from fiscal year 2004 through 2008 by the housing department.

- *Reallocation.* Starting in 2007, the housing department will begin to redirect funds it has used for the operation and privatization of city-owned, tax-foreclosed buildings to programs for rehabilitation and new construction. These redirected funds total $562 million, including $362 million in expense and capital funds and $200 million in private equity generated from the sale of federal low-income housing tax credits

- *New Resources.* The Housing Development Corporation will raise an additional $500 million in new equity to expand its existing new construction programs and fund the preservation of existing affordable housing units.

A considerable portion of the $2 billion previously earmarked for housing will continue to be targeted to low- to moderate-income and special needs households, The $1 billion in reallocated and new resources targeted to the new initiatives outlined in the Mayor's plan will place a greater emphasis on units affordable to middle-income households. IBO estimates that almost 50 percent of the units built or rehabilitated through the Mayor's plan are targeted towards households making between $88,000 and $157,000 for a family of four. Sixteen percent of the units would be affordable to low- to moderate-income households (up to about $50,000). About one-third of the new or rehabilitated units would be affordable to families between these two ranges, with another 2 percent targeted to the homeless and special needs populations.

In December of 2002, Mayor Bloomberg announced a five-year plan for building and rehabilitating housing in New York City. The plan would combine $3 billion in private funding, federal grants, city money, and the resources of the Housing Development Corporation (HDC) to finance the construction and rehabilitation of over 65,000 units between fiscal years 2004 and 2008. The plan is expected to build 59,000 new units and rehabilitate 27,000 units.

The plan in effect promises to hold constant currently planned levels of capital and expense budget spending by the Department of Housing Preservation and Development (HPD) in order to build or rehabilitate nearly 30,000 housing units. The plan also meets the longstanding expectation, first spelled out in the 2000 version of the city's 10-year capital strategy, that resources no longer needed for the maintenance and disposition of the city-owned *in rem* stock will continue to be used for housing purposes. Beginning in 2007 the city will devote a large portion of the federal grants and city capital dollars currently used for *in rem* maintenance and disposition to new construction. In addition, through HDC, the plan dedicates $500 million in new money over five years to build and preserve low- to middle-income housing. Together, these two pieces of the plan will direct more than $1 billion to build or rehabilitate almost 36,000 housing units that might not otherwise have been developed.

Mayor's Housing Plan by Source of Funds

Dollars in millions

	Capital Budget	Expense Budget	HDC	Private	TOTAL
HDC	$ -	$ -	$500	$ -	$500
HPD Maintenance of Effort	1,685	425	-	-	2,110
HPD *In Rem* Reallocation	327*	35	-	200	562
TOTAL	$2,012	$460	$500	$200	$3,172

SOURCES: IBO; HPD, "The New Marketplace: Creating Housing for the Next Generation," Dec. 2002.

NOTE: *HDC will provide $200 million in financing through 2006, which HPD will reimburse beginning in 2007.

OVERVIEW OF THE PLAN

The plan has four general components: new housing development, rehabilitation of vacant and dilapidated units, subsidies to first-time homebuyers, and a variety of initiatives designed to facilitate residential construction.

The plan's estimated cost is over $3 billion, with funding derived from three broad sources: First, the plan essentially guarantees a continued baseline level of funding for HPD's expense budget preservation programs and the capital budget as whole, at roughly $85 million and $337 million per year respectively. Second, as HPD sells off the last remaining city-owned *in rem* buildings, it will redirect $562 million to housing, including $327 million in city capital funds, $35 million in expense budget dollars, and $200 million in private equity. This is significant because it means that federal Community Development Block Grant (CDBG) funds and city capital dollars will continue to be dedicated to housing purposes even after the city completes the privatization of *in rem* buildings—which have consumed hundreds of millions of dollars annually for years. Finally, the Housing Development Corporation (HDC) will contribute $500 million in new funds toward new construction and preservation.

HPD MAINTENANCE OF EFFORT

The largest single portion of the Mayor's housing plan is the HPD "maintenance-of-effort," which totals about $2 billion. Effectively, HPD is committing to continue its core housing preservation and new construction programs over the next five years. The $2 billion includes all of HPD's current capital plan for 2004 through 2008, with the exception of the new initiatives described below, plus $85 million each year in expense budget funding for housing preservation programs. Altogether these existing programs are expected to build 8,830 new units and help rehabilitate 20,820 units—including the remaining 4,900 occupied and 3,500 vacant *in rem* units.

Expense Budget. Expense budget preservation programs in the maintenance-of-effort component include housing code enforcement and the Emergency Repair Program, the Housing Litigation Division, and anti-abandonment programs. On the capital side, the maintenance-of-effort includes the remaining *in rem* maintenance and disposition; loan programs to private landlords such as the Participation Loan Program and Article 8A; the Third Party Transfer Program; and the portion of the Supportive Housing Loan Program that was planned prior to the release of the Mayor's Housing Plan.

Capital Budget. Like other city agencies, HPD's capital program was cut significantly in the January 2003 Capital Commitment Plan. Over the period covered by the Mayor's housing plan, 2004 to 2008, HPD's capital program was cut 16 percent compared to the level foreseen in the prior commitment plan, to $1.7 billion. Thus, the capital portion of the plan's maintenance-of-effort component is lower than it would have been if the capital program had continued at its recent level—although the new capital program is consistent with its historical level during the 1990s. The cuts to HPD's capital plan were achieved by stretching out the privatization of occupied *in rem* buildings, by a reduction in the level of funding for the Third Party Transfer program to reflect transfer schedules that are six months longer than previously anticipated, and by cuts to housing preservation loan programs like the Article 8A and Participation Loan programs. Funding for HPD's two existing new construction programs—the Partnership New Homes and Nehemiah programs—are substantially reduced.

NEW AND EXPANDED HOUSING INITIATIVES

The plan devotes about $1 billion in financing to new or expanded programs to build or rehabilitate housing. Also included are two programs to subsidize purchases of existing housing.

New Construction. Funding for two existing HDC programs would be expanded under the Mayor's plan. The New Housing Opportunities (New HOP) program subsidizes construction and substantial rehabilitation of new cooperative and rental housing for middle income households (up to 250 percent of area median income [AMI], or $157,000 for a family of four). New HOP will receive $290 million in new financing. IBO estimates that this would be sufficient to build or substantially rehabilitate roughly 7,000 units.

The New HOP Mod program is a new variation of New HOP that will set aside 20 percent of units for households earning less than 50 percent of AMI ($31,400) and 30 percent of units for households earning less than 100 percent of AMI ($62,800). This program is funded at $60 million, enough for approximately 1,000 new units.

HDC's 100% Low Income Tax Exempt (LITE) bond program would receive $100 million in new funds. The 100% LITE program provides tax-exempt financing and cash subsidies to developers building housing for families earning up to 80 percent of AMI, or $50,240. This level of funding would be sufficient to build or rebuild at least 2,000 units.

Special Needs Housing. Four new programs for construction of 1,960 units of special needs housing would be funded in the city capital budget. These include $93 million for 1,360 units of supportive housing for single adults, families, and youth aging out of foster care, and rental housing targeted to homeless households, as well as $12 million to develop 600 units for homeownership for the formerly homeless. These special needs programs will be paid for using a combination of city capital and federal HOME block grant funds, and come on top of the $135.7 million already included in the capital plan for HPD's Supportive Housing Loan program.

Mayor's Housing Plan: New and Expanded Initiatives
Dollars in millions

	Funding	Source of Funds	Units
New Construction Programs* **			
New Housing Opportunities Program	$290.00	HDC	7,000*
New HOP Mod Program	60.00	HDC	1,000*
100% LITE	100.00	HDC	2,000*
Subtotal, HDC	$450.00		10,000
Homeless Rental Production Program	$50.00	Capital budget	1,000
New Supportive Housing - Singles	24.00	Capital budget	240
New Supportive Housing - Families	19.20	Capital budget	120
Formerly Homeless Homeownership	12.00	Capital budget	600
Subtotal, Special Needs	$105.20		1,960
New Venture Incentive Program	$200.00	Capital budget**	10,000
Leveraged Tax Credit Allocation	82.00*	Private financing	1,075
Subtotal, Pre-Construction and Other	$282.00		11,075
New Construction Subtotal	**$837.20**		**23,035**
Rehabilitation Programs			
Leveraged Tax Credit Allocation	$118.00*	Private financing	1,550
Mitchell Lama Preservation	50.00	HDC	7,000*
New Partners Program	20.00	Capital budget	500
Neighborhood Homes Homeless Pilot	1.00	Capital budget	40
TIL Homeless Pilot	0.80	Capital budget	40
Rehabilitation Subtotal	**$189.80**		**9,130**
Homeownership Subsidies			
Employer Assisted Housing	$10.00	Expense budget	1,000
HomeFirst Down payment Assistance	25.00	Expense budget	2,500
Homeownership Subsidy Subtotal	**$35.00**		**3,500**
TOTAL	**$1,062.0**		**35,665**

SOURCES: IBO, Department of Housing Preservation and Development.
NOTES: * IBO estimate. ** HDC will provide $200 million in financing through 2006, which HPD will reimburse beginning in 2007. *** Includes some substantial rehabilitation.

Site Acquisition and Remediation. The Mayor's plan would create a new program, the New Venture Incentive Program (New VIP), to provide loans to developers for pre-building costs, such as site acquisition and environmental remediation. The total budget for this program is $200 million over the five years. According to HPD, HDC will pay for the initial years of the New VIP program. HPD will take over financing future loans, and will pay back HDC for its upfront investment, beginning in 2007. This funding has not yet been included in the city's capital commitment plan. The provision of state law that HPD is using to make the New VIP loans requires that the housing be affordable to households earning no more than 165 percent of AMI ($103,620). HPD is considering options that would allow it to make New VIP loans without affordability restrictions, however.

HPD also will redirect a portion of its Low Income Housing Tax Credit allocation currently used when privatizing *in rem* buildings to new construction. HPD expects to generate 1,075 new units using tax credits.

Units by Target Income Group: New and Expanded Initiatives

Target Group	Income	Programs	Units	Percent of Total Units
Homeless/Special Needs	--	Supportive Housing; Homeless Rental & Ownership; Neighborhood Homes	820	2%
Up to 80% of AMI	$50,240	100% LITE; New HOP Mod; Supportive Housing; LIHTC	5,845	16%
81% Up to 140% of AMI	$87,920	New HOP Mod; Homeownership assistance; New Partners; HDC Preservation	11,500	32%
141% Up to 250% of AMI	$157,000	New HOP; New HOP Mod; New VIP	17,500	49%
TOTAL			**35,655**	

SOURCES: IBO; HPD, "The New Marketplace: Creating Housing for the Next Generation," Dec. 2002.
NOTE: IBO estimates. Actual target income group will depend on final financing packages for individual projects.

Rehabilitation. HPD also expects to rehabilitate 1,550 existing privately owned units using Low Income Housing Tax Credits as one of several programs, funded at a total of $189.8 million, that would focus on rehab and preservation of affordable units. HDC will dedicate $50 million to rehabilitating and preserving up to 7,000 units (by IBO's estimate) in Mitchell-Lama buildings and other affordable housing developments. These funds may be used for both physical rehabilitation and for initiatives to preserve affordability in the face of expiring subsidies or mortgage buy-outs.

The New Partners Program will provide $20 million in low-interest loans to rehabilitate 500 privately-owned, vacant units and bring them back onto the market. HPD is particularly targeting vacant units over active commercial properties for participation in this program. The units receiving New Partners assistance must be affordable to households earning no more than 120 percent of AMI ($74,360) and will be rent stabilized to ensure ongoing affordability. New Partners units are also eligible to receive J-51 tax benefits, which were recently expanded to provide 34 years of tax exemption for rehabilitation work for privately owned affordable housing, thus deepening the subsidy.

Finally, there are two small programs designed to place homeless families in rehabilitated *in rem* housing. The total budget for these programs is $1.8 million, which is expected to provide housing for 80 households.

Homeownership Subsidies. Two new homeownership assistance programs, Employer Assisted Housing and HomeFirst: Down Payment Assistance, will help moderate-income households become homeowners. Both programs will target households earning less than $87,920, or 140 percent of AMI. These programs will be funded through the expense budget using federal CDBG funds made available from the reduction of the *in rem* stock.

WHO BENEFITS?

The Mayor's plan benefits a wide range of income groups and populations.

The maintenance-of-effort component of the plan will largely continue to target low-income and special needs households. Historically, HPD's capital and expense spending have benefitted low- to moderate-income households—the primary residents of *in rem* buildings—and the homeless. Between 1987 and 2000, over 80 percent of units built or rehabilitated using HPD capital funds went to low- and moderate-income households, and another 9 percent went to homeless and formerly homeless households.

The new initiatives outlined in the Mayor's plan will shift the emphasis toward middle-income households. IBO estimates that almost 50 percent of units built or rehabilitated through the Mayor's plan are targeted towards households making between 140 percent and 250 percent of area median income—between $88,000 and $157,000 for a family of four. Sixteen percent of the new program units would serve low- to moderate-income households (up to 80 percent of AMI, or $50,240). However, to the extent that programs are used in conjunction with one another, the relative allocation of units by income group could change. For example, if a developer received New VIP funds for environmental remediation, but then used Low Income Housing Tax Credits to raise construction equity, the stricter LIHTC affordability standard would apply.

Because per-unit subsidies are typically deeper for lower income populations than for higher income households, the pattern of funding commitments will weight more heavily toward homeless/special needs and low-income households than is reflected by their share of total planned units.

CONCLUSION

Mayor Bloomberg made two important commitments with this plan. First, the plan commits resources no longer needed for the city-owned *in rem* stock for housing purposes. The city will devote a large portion of Community Development Block Grant, HOME, and city capital dollars that are currently being used for *in rem* maintenance and disposition to new construction and preservation. Second, through HDC, the plan will dedicate $500 million in new money over five years to build and preserve low- to middle-income housing. Together, these two pieces of the plan will direct more than $1 billion to build or rehabilitate more than 35,000 housing units that might not otherwise have been developed.

The first elements of the plan's implementation are reflected in the capital plan released in January of this year and in the proposed HPD expense budget for 2004. IBO will continue to monitor the plan's implementation.

Written by Molly Wasow Park