

June 2020

## **Mounting Troubles: Coronavirus Burdens the New York City Housing Authority's Already-Strained Finances**

The coronavirus pandemic and the ensuing economic downturn will create new fiscal challenges for the New York City Housing Authority (NYCHA), which was already struggling to fund the 302 developments it oversees. Now, as cleaning and safety costs mount and rental revenue is expected to decrease, neither the de Blasio Administration's Executive Budget nor New York State's enacted budget have provided new funds for NYCHA to address the coronavirus pandemic. NYCHA has received \$166 million in funding for coronavirus response from the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act. Nevertheless, NYCHA will likely spend nearly all of the operating funds on sanitizing its developments, buying personal protective equipment for its workers, and other necessary coronavirus mitigation measures, leaving little leeway for the additional challenges posed by the pandemic.

The starkest of these challenges is on the revenue side since the rent NYCHA charges its tenants is pegged to their household income. As incomes fall due to the economic downturn, NYCHA's rental revenue from tenants will decrease. IBO estimates that with the present economic downturn, NYCHA's tenant rental revenue will be \$85 million (8 percent) less in 2020 and \$140 million (14 percent) less in 2021 than estimates produced by NYCHA this past December. If that happens, the city would likely face pressure to increase its contribution to NYCHA to shore up this financial hole at a time when the city is facing severe budget problems of its own.

A further challenge for NYCHA posed by the pandemic is keeping up with maintenance and repairs in its developments. As age, underfunding, and mismanagement have taken their toll, developments now require frequent attention to maintain livability, requiring NYCHA to perform

hundreds of thousands of repairs each year. Adding to these responsibilities, a federal monitor was imposed last year by the Trump Administration to ensure NYCHA would perform work related to lead paint, mold, and pest infestations that will bring the housing authority into compliance with the law—work that NYCHA had previously failed to fully address. But since the pandemic hit, NYCHA has stopped performing all but the most crucial repairs in an effort to mitigate the spread of coronavirus between workers and tenants. While NYCHA's ability to perform repairs is currently limited, the need for repair work will not be. NYCHA's already-substantial backlog of repairs will likely grow over the coming months.

### ***Federal Funds for Coronavirus, None from City or State.***

In the Mayor's Executive Budget and the state budget enacted in April, the city and state did not provide any additional funds for NYCHA for coronavirus response. The city's funding for NYCHA grew by \$34 million from 2020 through 2024 to reflect new collective bargaining agreements with NYCHA workers, but otherwise was unchanged from January's Preliminary Budget. The state did not appropriate any additional new funding for NYCHA as part of the current budget.

NYCHA, however, can expect coronavirus relief from the U.S. Department of Housing and Urban Development. As part of the sweeping CARES Act, Congress appropriated millions of dollars in additional funding for public housing authorities. Through the CARES Act, NYCHA received \$150 million from the Public Housing Operating Fund. These funds are based on operating expenses and are, as of yet, unavailable to offset any loss of rental income. CARES public housing operating funds can be used for eligible operating and capital expenses as well as coronavirus-related activities.



Under the act, NYCHA can shift funds from its capital budget into its operating budget; however, given NYCHA's extensive capital needs, this may not be a viable option for the housing authority. NYCHA also received \$16 million in CARES Act funding for administrative fees for the Section 8 Housing Choice Voucher Program. Apart from administrative fees, NYCHA will also receive additional rent subsidies funds for Section 8 housing, although the amount NYCHA will receive has yet to be determined by the federal housing department.

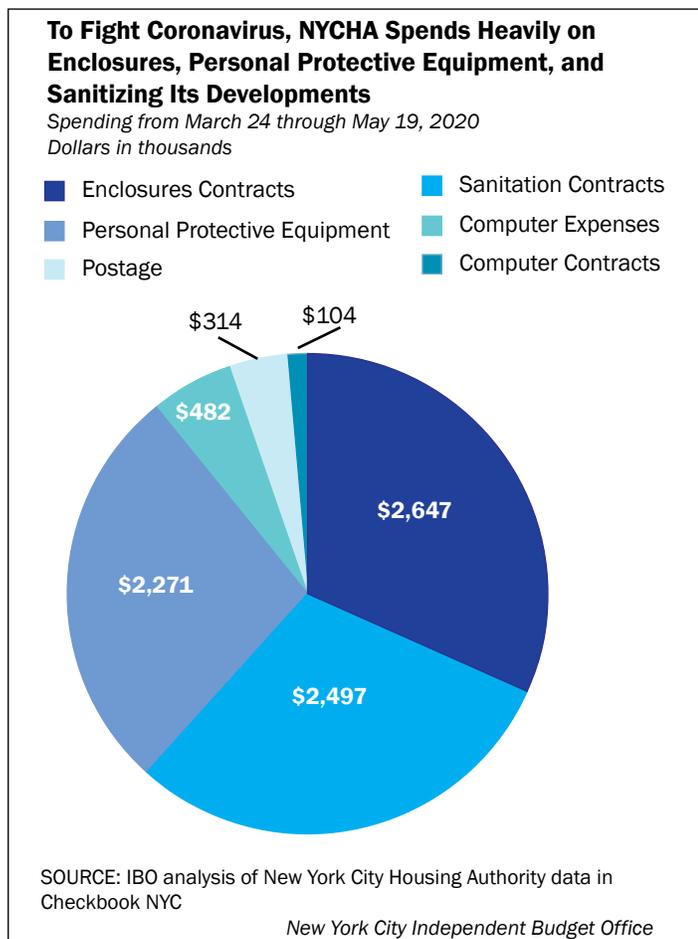
**High Mitigation Costs, Federal Reimbursements.** In recent months, NYCHA has undertaken various efforts to mitigate the spread of coronavirus for both tenants and employees. NYCHA expects to spend \$140 million on coronavirus mitigation efforts related to the pandemic, including \$100 million alone in contracts to sanitize NYCHA developments. NYCHA plans to hire 1,200 temporary workers to assist with cleaning and property management efforts along with additional temporary workers to deliver food to vulnerable tenants. Spending by the housing authority on coronavirus mitigation, such as personal protective equipment and sanitizing, will be eligible for reimbursement through the CARES Act funding and the Federal Emergency Management Agency.

As of May 19, NYCHA has spent over \$8 million on coronavirus mitigation, including more than \$2 million on personal protective equipment and \$2 million on sanitization. The largest expenditure related to the coronavirus so far has been nearly \$3 million to fence or otherwise close off playgrounds and recreational gathering areas in NYCHA developments to ensure social distancing.

**Rent Revenue Will Fall During Recession.** The global economic downturn brought about by the coronavirus pandemic will hammer one of NYCHA's largest sources of revenue—the rents it collects from its tenants. Tenant rental revenue makes up over one-third of NYCHA's total operating revenue. Tenant rents are pegged at 30 percent of household income, so when tenants become unemployed or lose income, the rents they owe NYCHA decrease proportionally. Tenants are required to recertify their household income with NYCHA annually, but are also able to recertify their income to adjust their rent any time their income or household composition changes under a Rent Hardship Policy, which has been simplified during the Covid-19 crisis. While this arrangement protects tenants from economic vulnerabilities, it also exposes NYCHA's budget to economic downturns.

IBO's outlook for the local economy projects that mass unemployment in New York City will continue through the end of this year and will remain high for several more years. Unemployment in economic downturns tends to be markedly higher among individuals with lower-paying jobs; the Federal Reserve found that 39 percent of individuals making under \$40,000 per year who held a job in February had lost their jobs by the beginning of April. Though only 44 percent of NYCHA households rely on employment for income, these working households have incomes and rents that are substantially higher than households that rely solely on Social Security or public assistance; working households account for nearly three-quarters of NYCHA's tenant rental revenue.

In its 2020 budget estimates, made in December 2019, NYCHA expected to receive just over \$1 billion in tenant rental revenue this year. Based on the increase in unemployment, IBO estimates that NYCHA will receive only \$940 million in rent payments. Funds from enhanced unemployment benefits authorized under the CARES Act are expected to indirectly flow to NYCHA, which will help offset lost rent revenue until July 2020, when these additional payments are scheduled to end. IBO's estimate also assumes that increased unemployment will reduce NYCHA's rent collection rate, which had already trended downward in the past year.



## Tenant Rental Income Was Expected to Make Up Largest Share of NYCHA's 2020 Operating Budget

NYCHA Forecast, December 2019

Dollars in millions



SOURCE: SOURCE: IBO analysis of New York City Housing Authority 2020-2024 Proposed Operating Plan

NOTE: Excludes Section 8 funding, which is largely passed through the housing authority budget.

New York City Independent Budget Office

IBO's outlook for NYCHA's tenant rental revenue is even gloomier for next year. In its 2020 proposed operating plan, NYCHA estimated it would receive \$980 million in tenant rental revenue in 2021. (NYCHA's tenant rental revenue outlook declines from 2020 through 2024 as NYCHA pursues plans to convert units to Section 8 funding through the Permanent Affordability Commitment Together program.) With high unemployment expected to continue through the year, IBO projects that NYCHA will receive only \$840 million in 2021—\$140 million less than expected. Our 2021 estimate is based on the assumption that, consistent with fiscal policy during prior recessions, Congress will extend the duration of unemployment benefits through 2021. IBO forecasts that the majority of job losses will occur in the second quarter of 2020, which means that without an extension, individuals who became unemployed during the current quarter will begin to lose unemployment benefits in December of this year. If unemployment benefits are not extended, NYCHA's tenant rental revenue would be far lower than IBO estimates.

NYCHA anticipates spending nearly all the additional public housing funding it received from the CARES Act on coronavirus mitigation. Without additional funding, the decline in tenant rental revenue caused by the economic downturn represents a major vulnerability for NYCHA's budget.

**Repair Backlog Grows Due to Social Distancing.** Before Covid-19 hit the city, NYCHA already faced a formidable repair schedule to maintain its aging developments. On top of these repairs, agreements NYCHA signed with its federal monitor have meant more work related to lead paint, mold, and pest control. In the 12 months before the coronavirus outbreak, NYCHA opened and closed over 2 million work orders. In spite of this pace, NYCHA's work order backlog stood at 377,030 by the end of March.

Social distancing measures since then have made it more difficult for NYCHA to close work orders. Many repairs require workers to enter occupied apartments, raising concerns around infection risks for both workers and tenants, particularly for seniors in NYCHA developments. In response, NYCHA has stopped performing all but the most crucial repair work related to flooding, gas leaks, water leaks, loss of heat, or significant electrical issues. NYCHA is also continuing some work related to the federal monitor agreement, such as activities related to lead remediation, mold, or pest infestations. Repairs related to mild mold and pest infestations and routine maintenance have been put on hold for the time being.

April was the first month in over a year when NYCHA closed more work orders than it opened. In April, NYCHA created 139,790 work orders and closed or canceled 144,321 work orders, shrinking the backlog of open work orders by a few thousand down to 372,520. This decline in open work orders, however, is attributable to fewer work orders than usual being opened in April. Fewer work orders were opened because the housing authority has limited the kinds of work it is performing and has deferred routine maintenance, but also very likely because the pandemic led tenants to defer needed repairs. Any short-term reduction in NYCHA's ability to perform repairs—let alone months of disruption—will substantially grow the backlog of repairs that await NYCHA once social distancing measures are lifted.

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