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Senior Services Transferred, Subsidized Employment Increased at Housing Authority

Also Inside...

No Cents? Federal Subsidies for School Repairs Forfeited

...on page 3

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The city budget adopted last month contains two relatively little-noticed provisions that involve changing relationships between the New York City Housing Authority (NYCHA) and two other city agencies. Under one provision, the Department for the Aging (DFTA) will save $29.4 million by transferring the financial responsibility of 105 sites providing senior services to the housing authority. Under the other provision, the Human Resources Administration (HRA) will spend $29.4 million to subsidize the employment of public assistance recipients at NYCHA. As a result, both the city and NYCHA effectively break even on these initiatives.

Some Council Members and advocates for the elderly have expressed concerns about the transfer of the senior programs because the city has little direct control over the housing authority's budget or policy decisions. With NYCHA already facing diminished federal funding, the Council Members and advocates worry that the transfer will eventually lead to service cuts and programmatic changes.

The transfer stems from a proposal last year by the Mayor to close seven senior centers. That proposal met significant Council and public opposition and led the Mayor to seek alternative arrangements for savings at senior programs. Under the transfer included in the new city budget, NYCHA will assume the annual cost of operating the senior programs and through an interagency agreement DFTA will continue to be responsible for their operation. As a result, it seems unlikely, at least in the short-run, there will be a cutback in services.

Growing Population. The 105 sites affected by the transfer are all based in developments operated by the housing authority. The sites include 98 senior centers that provide meals, social and recreational programs, and other services, and seven so-called naturally occurring retirement communities, or NORCs. In general, a NORC can be formed when 50 percent of the residents in a given geographic area are aged 60 or over; a variety of social, recreational, and support services are provided within a NORC. According to housing authority testimony at a City Council hearing, NYCHA agreed to assume responsibility for the centers and NORCs—despite cuts to its overall budget of about 10 percent—because seniors represent the fastest growing population in public housing.

Although federal public housing appropriations have been subject to fluctuations in recent years, federal funds are seen by DFTA as a more stable funding stream for senior services than city dollars. As a result, DFTA sees this swap as beneficial because it will allow the agency to comply with budget reduction targets mandated by the Mayor while avoiding additional reductions in services for the elderly.

Funding for the senior centers and NORCs being transferred to NYCHA will remain at 2003 levels and DFTA will continue to administer the contracts of the nonprofit organizations that provide services. Other portions of the newly adopted budget such as the streamlining of bulk food purchases could lead to reductions in operating funds for senior centers.

Effect on Center Maintenance? At a City Council budget hearing, some members of the Council, as well as advocates for senior services, expressed concern that because NYCHA is such a large institution senior center repairs would be a low priority for the housing authority. But it appears that the transfer will not substantially change the process of identifying and completing needed repairs. Repairing or improving senior centers located within public housing developments was already the responsibility of NYCHA.

Nor does it appear that the City Council or other elected officials will find it more difficult to influence the repair process. Over the last five years, the city has committed an average of almost $10 million annually for capital projects—including some senior center repairs—at NYCHA developments. More than half of this has been City Council or Borough President-designated funds. The Capital Commitment Plan released in April 2003 generally continues this trend. A small amount of additional capital funding for NYCHA-centers also has been provided through DFTA's capital budget. With the transfer, all capital funds for NYCHA centers will now be administered by NYCHA.

City funds represent only a very small fraction of NYCHA's capital budget, which for calendar year 2002 was $401 million. Thus it is possible that senior center projects will get lost in the larger priorities of the housing authority. Furthermore, according to advocates, NYCHA's maintenance and facility upgrading services are slow. However, neither of these is a new problem resulting from the transfer. NYCHA's role in capital repairs and the city's ability to fund these repairs are not changed by the transfer.

Future Risks? NYCHA and DFTA have not yet released their Memorandum of Understanding, which will detail the arrangements for the transfer and ongoing operation of the senior centers and NORCs, so new information may surface at a later date. The senior services transfer is actually part of a complex network of financial interdependencies, and while there may be problems with capital renovations of senior centers, these are problems that already exist.

In the longer term, however, there is a risk that elderly services at NYCHA facilities will be affected. If federal funds for NYCHA become scarcer or city funds are reduced further, the housing authority may have difficulty maintaining its support for the 105 centers that were transferred. The City Council does not vote on the NYCHA budget, so if cuts to these centers are proposed in the future, senior service advocates will have to forge new institutional relationships to influence the spending process.

Subsidized Employment. The enacted budget also includes $29.4 million in city funds for a subsidized employment program at the city's Human Resources Administration. NYCHA will hire public assistance recipients for six months to fill a variety of vacancies throughout the housing authority. During that six-month period, HRA will pay their full salaries, thus leading to savings in personnel costs for NYCHA. Although the city subsidy for individual recipients ends at six months, the hope is that NYCHA will then hire the former public assistance clients on a full-time basis. The employment program will be ongoing, with funding provided for each year of the city's Financial Plan through 2007. HRA will likely achieve some savings through reductions in the public assistance caseload.

The senior center transfer and the subsidized employment expansion are programmatically distinct (subsidized employees will not be working at senior centers) and according to NYCHA, are also financially independent of one another. Indeed, at the same time there are other changes occurring in the city's fiscal relationship with NYCHA. The adopted budget also eliminated the city's general $17.6 million subsidy for NYCHA. (It is not clear if this cut will have any effect on the senior centers being transferred). However, it is significant that NYCHA will both assume $29.4 million in new spending and at the same time, receive $29.4 million in new aid from the city.

NYCHA and the city are financially interdependent in a number of ways—for example, NYCHA pays the city more than $94 million a year for police services. Despite the elimination of the general subsidy, with the senior center transfer and the subsidized employment program, it appears that the housing authority and the city are becoming more financially interdependent, rather than less so.

Written by Ana Ventura and Molly Wasow Park

No Cents? Federal Subsidies for School Repairs Forfeited

In fiscal year 2002, the city for the first time issued $31.4 million in Qualified Zone Academy Bonds (QZABs) to make capital improvements in 190 New York City public schools. QZAB, a federal program created in 1997, allows states or local governments to forego interest payments on capital debt for certain types of school projects by giving qualified lenders who hold these bonds a federal tax credit in lieu of the foregone interest income. The issuer remains responsible for the principal, which can be paid off with a schedule of payments as in traditional bond financing.

Although the QZAB program can benefit school districts, New York City and State have been slow to take advantage of this federal subsidy and the city has indicated that it does not expect to use the bonds in the near future. To date, the city has used just one-third of its QZAB allocation, meaning New York City already has forfeited the opportunity to save $5 million in interest payments over 15 years and could lose an additional $15 million in savings over a similar period if remaining allocations go unused.

The QZAB program was created by the Taxpayer Relief Act of 1997 for the purpose of rehabilitating or repairing public school facilities, investing in equipment and up-to-date technology, developing challenging curricula, and training teachers. It may not be used for new school construction, however. Public elementary, middle, or high schools are eligible for the program if they are either located in a federally designated Empowerment Zone or Enterprise Community, or if at least 35 percent of the students attending are eligible for the federal free and reduced-cost lunch program.

Individual states' program allocations are based on the number of residents with incomes below the poverty line. States or local governments may issue QZABs provided that at least 95 percent of the bond proceeds are used for qualified school improvements and private entities make contributions that total at least 10 percent of the bond proceeds. Private business contributions may take the form of equipment, technical assistance in developing curriculum or training teachers, services of employees, internships, field trips, or any other property or service as well as cash contributions.

Reauthorization Ahead. The program, which expires this year, has been extended twice, in 1999 and 2002. Congress is currently reviewing several pieces of legislation that would preserve and enhance the QZAB program. Further, the President's 2004 budget maintains the same level of annual funding—$400 million—for QZAB that has been provided since the program was established.

The state's education department is responsible for establishing procedures for distributing New York's QZAB allocation among eligible school districts.[1] New York City is entitled to half of the state's QZAB allocation while other school districts in the state must compete for the remaining 50 percent. In general, school districts other than New York City must apply for a QZAB allocation by March or April of each year. If the state allocation in a given year will not be exhausted, the state's Education Commissioner may reallocate QZAB funds.[2]

Underutilized. It took the state's education department several years to establish regulations that were consistent with federal and state law in order to implement the program. Eligible New York State school districts could not receive their first QZAB allocation before March 31, 2001 (the state application deadline for the 1998 and 1999 QZAB allocations). The program's late start limited districts' abilities to take advantage of the 1998 QZAB allocation, which expired December 31, 2001 under the federal guidelines. According to a 2002 report by the Progressive Policy Institute, most states were slow to take up QZAB in part because no technical assistance was provided to states and most states did not have the resources or expertise to deal with QZABs.[3]

A second problem with the implementation of QZAB was that in the early years of the program the bonds themselves were not viewed as good investments. According to the PPI report, the federal tax credit rate was too low to make the bonds competitive in the marketplace. In some cases, the participating school districts had to supplement the tax credit with additional interest. The credit rate now has been raised but there remains the sometimes critical disparity between the value of the tax credit and value of the forgone interest payments to bondholders based on their taxable income and use of other tax credits.

New York State's annual program allocation has been roughly $31 million, or 8 percent of the national total. Between 1998 and 2003 New York City was entitled to a total of $93 million of the state's share. To date, the Department of Education (DOE) only has tapped one-third, or $31.4 million, of the city's total QZAB allocation. Moreover, there is a federal time limit associated with QZAB. Bonds authorized for 1998 and 1999 had to be issued within three years while those authorized for subsequent program years must be issued within two years. New York City already has forfeited its QZAB allocation for program year 2000—$16.7 million.

The city is using academy bonds for Project CONNECT, a technology initiative that aims to provide Internet access in all of the city's public school classrooms. The initiative specifically involves providing data cabling, network equipment and circuitry to each school and creating a centralized network that will allow for ongoing support, management and future department updates. The Bloomberg Administration decided to use the $31.4 million in QZAB funds to supplement DOE's 2002 capital budget.

During the first four years of the program, only seven public school districts in New York State besides New York City applied for a QZAB allocation—Binghamton, Buffalo, Moriah, Rome, Syracuse, Wyandanch, and Yonkers. This represents 3 percent out of a total of 226 school districts within the state that were eligible based on October 1999 free/reduced price meals data. Although these seven districts were awarded a program allocation, many were not able to issue QZABs. For instance, the Syracuse City School District was awarded $13 million for the 1998-2000 program years and had to forfeit these funds in part because they revised their project list and could not get the necessary paperwork in place on time. The Yonkers City School District, which like the New York City public school district has no independent taxing or bonding authority, was awarded $37 million for the 1999-2001 program years and had to forfeit their funds because their city council would not agree to issue QZABs on behalf of the district which is financially dependent on the city government.[4]

According to the Mayor's Office of Management and Budget, the city does not have plans to issue additional QZABs in the near future. It is not entirely clear why New York City has not taken advantage of the federal QZAB program. The state's application process is relatively simple. The city's education department has identified QZAB-eligible capital projects and has been able to obtain the private match required by the program. One reason may be that the education department and the Mayor's budget office disagree on the use of QZAB. The Department of Education would like to use QZAB as an additional source of funding for the school system's capital budget for projects not in the DOE's five-year capital plan. The Mayor's budget office sees it as replacement for general obligation (GO) debt that would otherwise be issued by the city for projects in the five-year plan.

QZABs and Savings. DOE receives its capital funding as a portion of the city's overall capital plan, financed through the issuance of GO bonds. The city is currently entitled to approximately $15 million in QZAB authority annually. Since QZABs do not require an interest payment by the issuer if the city replaced GO bonds with QZAB bonds, the city would save a total of approximately $5 million in interest payments over a 15-year period for every QZAB issuance of $15 million. In addition, DOE would receive the required private contribution of 10 percent of the face value of the academy bonds, which in this case would be a total of $1.5 million. If the bonds were issued in order to augment the existing DOE capital budget, the city would be responsible for additional principal payments equal to the face value of the QZABs issued and the city's debt liability would increase accordingly.

Either way, QZAB financing could benefit the city. Replacing GO debt with QZABs yields savings—in this case a total of about $5 million over 15 years for a $15 million QZAB issue. In other words, given current market conditions this would yield annual savings of $400,000 to $600,000 at the outset for the city, savings that would increase if the city issued new academy bonds each year. Although the funding available through QZAB is relatively small compared to total capital spending for DOE, the program nevertheless can be used either to reduce city debt service payments or to restore funding for some school repair projects. Since few school districts in the state are participating in the federal program and because federal regulations require that annual appropriation be exhausted each year, New York City could potentially obtain a larger share of the state's QZAB allocation of $30 million per year. With the authority for the city's 2001 program year allocation of $14.9 million expiring in December, the city has six months to determine whether or not to participate in the QZAB program and take advantage of the federal subsidy.

Written by Ana Ventura and Merrill Pond

END NOTES

[1] New York State QZAB regulations can be viewed at the State Education Department's Office of Facilities Planning Web site—http://www.emsc.nysed.gov/facplan/.

[2] The state's education department has not set a date by which school districts who have been awarded a QZAB allocation must notify the State Office of School Facilities Planning of their inability to issue QZABs. As a result, other program awardees miss the opportunity to apply for additional QZAB funds and the state's QZAB allocation is not fully utilized.

[3] Mead, Sara. *Early Returns: Tax Credit Bonds and School Construction?* Progressive Policy Institute. September 2002.

[4] The "Big Five" financially dependent school districts in New York State are Buffalo, Rochester, Syracuse, Yonkers, and New York City.