

Federal Changes May Mean Less Housing Aid for the City

Significant policy and funding changes at the federal level are affecting support for the city's public housing developments and the availability of rental subsidies for low-income households. Based on a review undertaken at the request of Public Advocate Betsy Gotbaum, IBO finds that President Bush's proposed 2004 budget would result in a further reduction to funding for public housing in New York City and could mean the loss of Section 8 rent vouchers for 4,000 households. The city already is at risk of losing 1,700 vouchers this year.

In federal fiscal year 2003 (October 1, 2002-September 30, 2003), there was an effective 10.5 percent decrease nationally in the public housing operating subsidy. The federal capital subsidy dropped by 9 percent between 2001 and 2003.

In addition, the 2003 budget renewed only those Section 8 vouchers currently in use, rather than all authorized vouchers. This means that housing authorities that have had difficulties using their vouchers will effectively see their funding cut. President Bush's budget proposal for 2004 calls for converting the Section 8 program to a block grant, which could further limit the number of available vouchers.

There are other proposals—such as the elimination of the HOPE VI program—that will have a smaller impact on the city, which we have not addressed here.

Impact on New York City. The New York City Housing Authority (NYCHA) operates 345 public housing developments, and as of June 2003, administers more than 87,000 Section 8 rental vouchers (additional vouchers are used by the city's Department of Housing Preservation and Development as part of its renovation and new construction projects).

NYCHA expects a 3.2 percent decline—\$71 million—in its total revenue between calendar years 2002 and 2003 (NYCHA's fiscal year corresponds to the calendar year). The vast majority of NYCHA's budget is funded by the federal public housing operating fund, tenant rent payments, and federal Section 8 payments. The public housing operating fund and rent payments generally support the \$1.4 billion in operating expenses of NYCHA's public housing developments, while the federal Section 8 subsidy covers the nearly \$700 million annual cost of rent payments to private landlords.

NYCHA's Operating Aid. NYCHA's public housing operating revenue is projected to fall more than 5 percent between calendar years 2002 and 2003, reflecting cuts in federal

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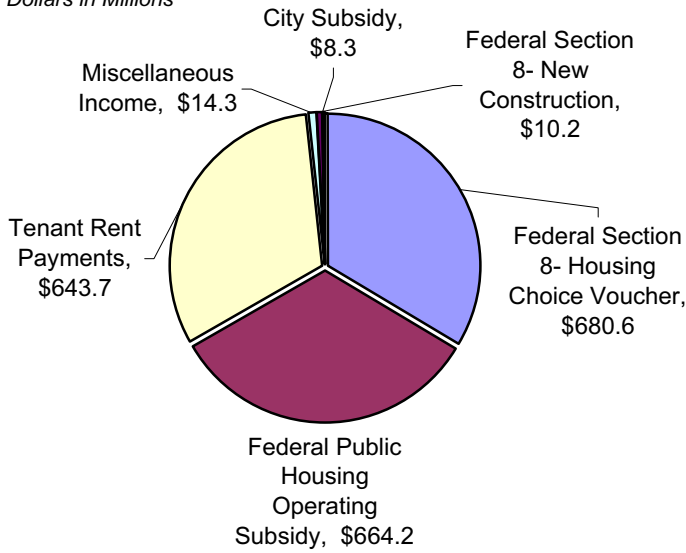
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NYCHA Projected 2003 Revenue by Source

Dollars in Millions



SOURCES: IBO; New York City Housing Authority

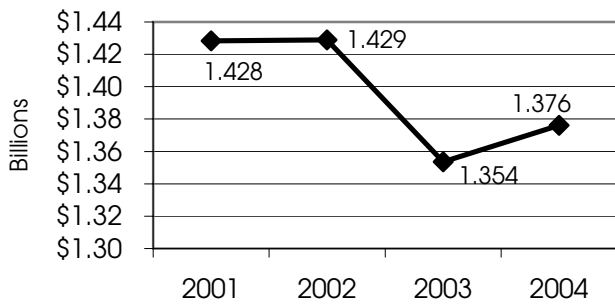
In addition, the federal fiscal year 2002 budget ended the Drug Elimination Grant Program, which pays for extra policing and other anti-drug programs. NYCHA traditionally received \$35 million annually in funds for this program. Some previously unused funds were available in 2002, but none are available for 2003 and beyond.

The city's own subsidy for NYCHA public housing is also projected to drop. As of July 1, 2003 the city eliminated its annual operating subsidy to the housing authority, originally projected at \$17.6 million.

According to NYCHA Chairman Tino Hernandez's testimony to the City Council in March and May of 2003, NYCHA will reduce its public housing operating expenses by cutting overtime, freezing new hiring, suspending the practice of keeping some management offices open one evening a week, implementing a 10 percent across-the-board reduction in contracts for services such as maintenance, and reducing the purchase of supplies such as cabinets and doors for apartments by 18 percent.

appropriations for the public housing operating fund as well as in the city's operating subsidy to NYCHA.

NYCHA Public Housing Revenue Budget



SOURCES: IBO, New York City Housing Authority
NOTE: Calendar years.

The bulk of NYCHA's public housing operating revenue comes from the federal government. In federal fiscal year 2002, there was a roughly \$250 million shortfall in the public housing operating subsidy nationwide. The federal housing department was given permission to borrow that money from the 2003 appropriation. Thus, although the appropriation for public housing operating funds increased from \$3.495 billion in federal fiscal year 2002 to \$3.6 billion in 2003, \$250 million is for 2002, so the effective 2002 and 2003 funding levels are \$3.745 billion and \$3.35 billion respectively—a 10.5 percent decrease. President Bush has proposed \$3.574 billion for the 2004 operating subsidy, \$26 million less than the appropriated 2003 level—but \$224 million more than the effective 2003 funding.

NYCHA Capital Aid. NYCHA also receives the bulk of its capital funds from the federal government. The NYCHA capital subsidy has dropped substantially in recent years, and it appears that it will be cut further this year. The drop has two components: a lower total federal appropriation, and a smaller allocation to NYCHA. Capital funds are allocated based on a formula that takes into account both modernization—systems replacement and other major repairs—and accrual (ongoing maintenance) needs. Federal regulations require that in New York, estimates of need be based on a sample of actual inspections. Elsewhere in the country, estimates of need reflect the age of the housing stock, regional cost adjustments, and other factors. As the formula elements change relative to one another, the share of the total appropriation to individual public housing authorities also changes. The result has been a slow decline in NYCHA's share of the national public housing capital subsidy.

President Bush's proposal for the 2004 public housing capital fund would further reduce the cash subsidy available to housing authorities, but would make it easier for authorities to receive private financing by providing federal guarantees of up to 80 percent of the value of loans. Individual projects would be converted to project-based Section 8 developments, thus allowing them to be pledged as collateral to receive private loans. This financing mechanism was included in the President's 2003 budget proposal but not adopted by Congress, and it is unclear if prospects have improved.

Public Housing Federal Capital Subsidy

Dollars in millions

	1999	2000	2001	2002	2003
NYCHA Federal Capital Subsidy	\$434.8	\$411.1	\$419.6	\$401.0	\$376.0
Percent Change	NA	-5.5%	2.1%	-4.4%	-6.2%
Total Federal Capital Subsidy	\$3,000	\$2,900	\$3,000	\$2,843	\$2,730
NYCHA as a Percent of Total	14.5%	14.2%	14.0%	14.1%	13.8%

SOURCES: IBO; New York City Housing Authority; Consolidated Plan Annual Performance Reports, various years; VA-HUD Appropriations Bills, various years.

NOTE: NYCHA subsidy for 2003 is NYCHA projection.

NYCHA also receives some capital funding from the city. City capital commitments for NYCHA projects have fluctuated significantly in recent years. The city has committed an average of \$7.5 million annually since 1995, but this has ranged from a low of \$2.3 million to a high of \$16.1 million. As of February 2003 (eight months into the fiscal year), the city had committed \$9.1 million in 2003, which suggests that 2003 total commitments will be relatively high. The city expects its capital commitments to NYCHA to fall from the 2003 level in 2004 and beyond, but to remain within their historical range.

Section 8 Subsidy Renewals. NYCHA anticipates that its total Section 8 subsidy will rise to \$680.6 million in 2003, an increase of \$75.3 million, or more than 12 percent, over 2002. But the increase in funding does not reflect an increase in the number of vouchers available for low-income households. Like all public housing authorities, NYCHA will receive no new vouchers in 2003. The increase in NYCHA's Section 8 funds represents a growth in funding available for existing vouchers, not an expansion of the program.

The Section 8 renewal process was changed in the federal fiscal year 2003 budget to provide funding only for those vouchers in use at the time of public housing authorities' most recent financial statements. NYCHA has a voucher utilization rate of almost 98 percent as of spring 2003, and hopes to reach 100 percent utilization by the end of the federal fiscal year on September 30, 2003. If it does so, federal-level reserve and carry-over funds are available to pay for these vouchers, and the change in the renewal process will not affect the authority. If NYCHA does not reach 100 percent utilization and, as seems likely, the 2004 appropriations bill authorizes renewal funding for only those vouchers in use in 2003, the remaining 2 percent of vouchers—more than 1,700 housing placements—may be lost as carry-over funds are depleted.

Block Grant Section 8. Under the President's block grant

proposal, the federal Department of Housing and Urban Development (HUD) would provide Housing Assistance to Needy Families grants to states beginning in 2005, which would then disperse funds to localities. During 2004, a transition year, HUD proposes giving states

\$100 million to develop capacity to take over the program, although voucher funds will still be directed to local housing authorities. If a block grant were implemented, annual appropriations for Section 8 would no longer be directly linked to the average voucher cost and the number of vouchers in use.

NYCHA's financial plan for 2004 holds its funding for Section 8 vouchers at the 2003 level of \$680.6 million, presumably to reflect the imposition of a block grant formula. HUD-calculated fair market rents have increased an average of 5 percent each year since 1985. If rents increase at this rate in the future and NYCHA's Section 8 allocation remains the same, the number of households that NYCHA can serve will fall, even if household income keeps pace with fair market rent. IBO estimates that a 5 percent increase in the average voucher payment with no increase in funds available would result in roughly 4,000 fewer NYCHA vouchers.

The Bush Administration has called for a block grant to states in part because it sees the practice of having many small housing authorities—more than half the public housing authorities administer fewer than 250 vouchers—as inefficient. However, NYCHA is the largest public housing authority in the country, and accounts for about 45 percent of New York State's Section 8 vouchers. The state could take over the administration of NYCHA's Section 8 program, or the funding could be funneled from the state's block grant to NYCHA, but in either case, it is not apparent that significant efficiencies would result.

To date, there has been little Congressional support for the block grant proposal. Neither the House bill nor Senate bill have co-sponsors, and Representative Robert Ney, who introduced the House bill, has repeatedly expressed his reservations about the policy change. Nonetheless, the Bush Administration continues to promote the proposal.

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