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Priorities Shift in City's Plans for Spending on Housing

Under its most recent capital budget plan the city has trimmed its three-year spending for housing by $76 million, to $1.2 billion. As funding has declined, the Department of Housing Preservation and Development (HPD) also has altered its spending priorities, shifting $160 million in funds to new construction of affordable housing, including housing for the homeless, primarily by reallocating funds that had been targeted to help preserve existing housing. Additionally, the department is delaying plans to 2011 to completely sell off roughly 3,900 occupied city-owned apartments taken from landlords who had failed to pay their taxes. The city had previously intended to privatize all of these tax-foreclosed apartments by 2007.

In part, these shifts reflect the new initiatives outlined as part of the Mayor's "New Housing Marketplace" plan, announced last December. Those new programs represent only a relatively small piece of the total changes made to the HPD capital plan, however. Looking at HPD's full capital program provides a clear picture of the city's priorities for its housing capital investments.

Greater Emphasis on New Construction. In September 2002, the city planned to spend $1.3 billion on housing capital programs over three years. Housing preservation programs and privatization of occupied city-owned housing represented 82 percent of that total. A year later, HPD's capital plan had shifted; total planned spending is $1.2 billion, and housing preservation and privatization of city-owned, or *in rem*, apartments are 70 percent of the total.

Neighborhood development—which includes a variety of new construction programs designed to redevelop mostly low-income communities—is the program area projected to see the largest growth. The $97 million increase includes $30 million for the New Venture Incentives Program—a component of the Mayor's housing plan to provide loans for site acquisition and cleanup—and $18.5 million for Cornerstone, a program to build multifamily affordable housing on vacant city-owned land, as well as relatively modest increases to urban renewal and land acquisition efforts.

The remaining $38 million increase in neighborhood development is in City Council allocated funds. HPD typically spends $5 million to $10 million annually in City Council and Borough President allocated funds. However, as part of the 2004 expense budget negotiations, the City Council allocated an additional $25 million to the HPD capital budget for 2005, to be used for projects citywide. Specific uses for this $25 million are still to be determined, but like the other new construction initiatives, these funds will likely be used to consolidate land for housing development and spur the construction of new housing and community facilities. The other growth area is in housing development for populations with special needs, such as homeless single adults and families, and the mentally ill. The principal special needs housing program is the

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HPD Capital Plan, 2004-2006
Dollars in millions

	Sept. 2002	Sept. 2003	Change	Percent Change
Neighborhood Development	$8.1	$105.5	$97.4	1195.6%
Special Needs Housing	85.3	151.0	65.7	77.0%
Homeownership Programs	81.0	81.8	0.9	1.1%
All Other HPD	21.6	14.7	-6.9	-31.9%
In Rem Renovation & Maintenance	15.6	5.5	-10.1	-64.5%
In Rem Privatization (Vacant)	17.4	2.8	-14.6	-84.1%
In Rem Privatization (Occupied)	622.5	543.9	-78.7	-12.6%
Housing Preservation Programs	414.0	283.9	-130.1	-31.4%
Total	**$1,265.4**	**$1,189.0**	**($76.4)**	**-6.0%**

SOURCE: IBO.
NOTES: There were some interim changes to the HPD capital budget. In January of 2003, the city cut $183.3 million over the three year period. The September 2003 plan restored the majority of these reductions.

Supportive Housing Loan Program. The "New Housing Marketplace" plan added $43.2 million to supportive housing loans for the 2004-2006 period. Another $21.2 million over the same three years was added to the loan program using federal Housing Opportunities for People with AIDS funds, bringing the total increase to $64.4 million. Although the supportive housing loan funds can be used to substantially renovate existing housing, the emphasis will be on new housing construction.

Changes in Preservation Spending. While funding for new housing development has increased significantly, funding for programs intended to protect or improve the condition of existing housing decreased over 30 percent from levels planned a year ago.

The largest preservation program is Third-Party Transfer, which takes the buildings of owners who have fallen behind on their taxes and renovates the properties and then transfers them to new owners. Funding for the program was cut by $83.1 million over the three years, a 38 percent reduction. The cut would have been deeper if not for HPD using $4 million in federal HOME grant funds and the Housing Development Corporation (HDC) providing a loan of $16.2 million that must be repaid in 2007.

According to HPD, the reduction in the transfer program's budget reflects administrative changes in the timing of the program. Most significantly, earlier budget projections assumed that all buildings would remain in interim ownership during renovation for 12 months. In practice, however, some units have required 18 months, which has resulted in a reduction in annual spending. The agency has not reduced its projected per unit capital subsidy.

The reduction in funding also reflects the clearing up of a backlog of units in the transfer program. There were several years between the point at which the city stopped taking ownership of foreclosed units and the start of the Third-Party Transfer Program. In that period, HPD accumulated a backlog of units waiting for rehabilitation, which then had to move through the program in its initial years. HPD has almost reached the end of this backlog. As a result, there will be fewer units that need to go through the program in future years.

Loan Programs. Changes to HPD's low-interest housing preservation loan programs are more complex. The current capital plan reduces funding for the existing loan programs—Article 8A, Participation Loan, and Small Buildings—by $32.6 million over three years, compared to a year ago. HPD intends, though, to add back $10 million in funding for the Participation Loan Program, using $6.5 million in federal HOME funds and another $3.5 million borrowed from HDC. In addition, HPD is funding a new preservation loan program—the New Partners Program, part of the Mayor's housing plan—at $11 million over the next three years. Actually a part of the 8A program, New Partners, unlike the other preservation loan programs, is explicitly focused on making vacant housing habitable, rather than upgrading occupied units. Overall, the budget for preservation loan programs has fallen by $11.6 million.

Over the last three years, HPD has actually spent $134.5 million on preservation loans, so despite the reductions, the three-year

HPD Preservation Loan Programs, 2004-2006
Dollars in millions

	September 2002	September 2003*	Change	Percent Change	Actual 2001-2003
Participation Loan Program	$74.7	$67.5	($7.2)	-9.7%	$46.3
Article 8A Loan Program	68.3	56.1	-12.2	-17.8%	70.6
New Partners	NA	11	11	NA	NA
Small Buildings Loan Program	22.1	19	-3.2	-14.3%	17.6
TOTAL	**$165.1**	**$153.5**	**($11.6)**	**-7.0%**	**$134.5**

SOURCE: IBO; Capital Commitment Plans.
NOTE: *Including $10 million in HDC and HOME funds not yet reflected in capital plan.

planned $153.5 million commitment for these loan programs is higher than in the recent past. For example, the three-year budget for the Participation Loan Program—when including the planned addition of $10 million—is substantially higher than actual spending for the last three years. On the other hand, the planned commitments for Article 8A are lower than actual spending from the previous years.

HPD had raised loan program budgets in 2002 because of an expected increase in demand, which has not materialized. HPD attributes this to the low interest rates that are available in the private market. Reducing the budget for these programs will bring them more into line with actual spending levels in the recent past.

Sell-off of City-Owned Buildings Slows. The third program area for which planned spending has been significantly reduced is the sale of city-owned and managed housing. This appears to reflect a delay in accomplishing the long-planned sell-off of all city-owned units by 2007. The city once held some 150,000 units of mostly dilapidated housing that it had taken because the owners stopped paying their taxes, mostly in the late 1970s. Much of this housing has since been renovated and privatized. Today the city still owns 6,160 of these tax-foreclosed apartments. Roughly 2,200 of these units are vacant and 3,900 are occupied.

The delay will affect the occupied units. Essentially the same funding level will be provided over the next eight years—through 2011—rather than four years. HPD has stretched out the schedule for privatizing these units because of the limited availability both of construction management firms qualified to oversee the renovation of small, scattered buildings, and of apartments to which the occupants can be relocated during the construction process. HPD has hired more architects and other technical staff in order to speed up the rehabilitation and privatization process.

Progress on the Mayor's Housing Plan. Mayor Bloomberg's five-year, $3 billion housing plan was announced in December 2002, and officially went into effect when fiscal year 2004 began on July 1, 2003. (For an overview of the plan, see IBO's "Mayor Bloomberg's Housing Plan: Down Payment on the Future.")

The total city allocation for new initiatives is $562 million—including $327 million in capital budget funds, $200 million in tax credit equity, and $35 million in expense budget spending. The capital plan for 2004 through 2006 includes $98 million for new construction under the Mayor's initiative.

Four months into the first year of the Mayor's plan, no contracts for these funds have been completed. This is not necessarily unusual for capital construction projects, which often take a while to get underway.

Some elements of the Mayor's plan have made demonstrable progress. For example, in May of 2003, the city began to adopt the International Building Code, which the city hopes will lower the cost of construction. HPD has released a request for proposals to develop new housing on land owned by the New York City Housing Authority as outlined in the plan. Four banks have pledged a total of $160 million to the New Venture Incentive Program, which will eventually substitute for city capital funds. In addition, capital commitments for HPD's existing programs—counted as the "maintenance of effort" portion of the Mayor's plan—are ongoing.

Although the bulk of the housing plan uses capital funds, there are some expense budget components. In the 2004 expense budget, HPD has budgeted $1 million for the Employer Assisted Housing Program and $2.5 million for the HomeFirst Down Payment Assistance Program; contracts for these allocations are underway.

Preservation Still Majority of Spending. The changes in planned capital spending reflect a shift in priorities beyond just responding to the Mayor's "New Housing Marketplace" initiative. Even with the reallocation of funds to new construction and the administrative and other changes to some preservation programs, HPD still plans to spend the majority of its $1.2 billion capital budget over the next three years on the rehabilitation of existing housing. Still, a clear shift in priorities has occurred, with a declining share of the overall capital budget going to preservation programs.

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