New York City Independent Budget Office Fiscal Brief

August 2022

Filling in the Gaps: An Examination of the New York City Housing Authority's Budget

Summary

The fiscal and physical woes of the New York City Housing Authority (NYCHA) are both longstanding and well-documented. NYCHA regularly passes its five-year operating budget with funding gaps, which in last year's plan reached at least $300 million in three of the five years. This is addition to the authority's more than $40 billion in outstanding capital needs. While NYCHA was able to lower its projected operating deficits in the operating plan it released this year, this was largely due to short-term solutions.

In this brief, IBO examines the changes in NYCHA's five-year operating plan, as well as changes in the amount of the subsidies the city provides to NYCHA. We also examine some of the other financial challenges facing the city's housing authority, which has been operating under the oversight of a federal monitor since 2019. Among our findings:

- Last year, NYCHA projected it would end 2022 (NYCHA's fiscal years follow calendar years) with a $300 million deficit. This year's operating plan anticipates closing 2022 with a deficit of $35 million. NYCHA largely used one-time funding sources to narrow the gap, including drawing down its operating reserves and transferring the maximum amount allowable of its federal capital grant to its operating budget.
- NYCHA has long had expenses that exceeded revenues and the pandemic has exacerbated these issues. Since April 2020, the tenant rent paid to NYCHA—which makes up about one-third of its operating revenue—has declined. NYCHA's rent collection rate, 88 percent in March 2020, fell to 68 percent in May 2022. Last year, the federal government increased its operating support to help cover some of these losses, but this additional support is not expected to continue.
- As part of its $5 billion commitment to build and preserve affordable housing, announced this spring, the city increased its capital subsidy to NYCHA by $1.4 billion from city fiscal year 2022 through 2026. Most of the funding—$1.2 billion—will be used to subsidize NYCHA's Permanent Affordability Commitment Together (PACT), which transfers management of groups of developments to public-private partnerships to help finance capital repairs.
- The city's operating support has decreased slightly under the Adams Administration, by a total of $70 million over city fiscal years 2022-2025, a 6 percent decline compared with the de Blasio Administration's last budget. Much of the reduction comes from shrinking the subsidy to prepare vacant units for occupancy by homeless families, as fewer units have turned over during the pandemic.

While NYCHA has been able to reduce its current year deficit, its future year gaps—while lower than previously projected—still total in the hundreds of millions. Recently passed legislation in Albany is set to allow NYCHA to access new funding. Through the creation of a preservation trust, NYCHA can tap into federal rental vouchers and bond financing. However, there are many steps to be taken before the trust can be realized, and only a subset of NYCHA developments can take part leaving the future of NYCHA's finances and the condition of its housing far from certain.

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A year ago, the New York City Housing Authority (NYCHA) was staring down hundreds of millions in operating budget gaps in its financial plan, including a $300 million hole in its $4.2 billion fiscal year 2022 budget. On its face, NYCHA's outlook has improved since last year, with its 2022 deficit now planned to total $35 million and its current operating plan shows that future year gaps have narrowed. But the authority largely relied on one-time sources of funding to shrink its deficit in the current year, and risks remain in future years.

It is difficult to overemphasize the financial and operational challenges facing NYCHA, which has been operating under the oversight of a federal monitor since 2019. As of June, it had 634,000 outstanding work orders. (For reference, NYCHA operates around 162,000 apartments.) The authority has been forced to increasingly divert staff and overtime toward maintaining deteriorating buildings, while still developing plans to address the root causes of this deterioration—reflected in NYCHA's estimated $40 billion in capital needs. Since taking office, the Adams Administration increased city capital subsidies for the authority in an effort to assist in this endeavor; at the same time, however, it somewhat reduced the subsidies it transfers for the operations of the authority.

Most New City Capital Subsidy for NYCHA Designated for PACT/RAD Public-Private Partnerships

As part of the Adams Administration $5 billion commitment to funding affordable housing announced in the Executive Budget in April, the city increased its capital subsidies to NYCHA by a substantial sum—about $1.4 billion spread over city fiscal year 2022 through 2026. (NYCHA operates on a January to December fiscal year, while the city's fiscal year goes from July 1 to June 30; in this brief all years refer to city fiscal years unless otherwise noted). Most of the additional funding—$1.2 billion from 2023 through 2026—will be used to subsidize NYCHA's Permanent Affordability Commitment Together (PACT) real estate deals.

NYCHA's PACT program takes advantage of the Obama-era federal program known as Rental Assistance Demonstration (RAD) to make capital repairs at NYCHA developments. Under PACT, NYCHA transfers management of bundled groups of developments to public-private partnerships the authority forms with developers and management companies. NYCHA has so far transferred developments spanning 15,000 units under the program, with a further 19,000 units in pre-development; the authority plans to eventually transfer a total of 62,000 units, or about one-third of its portfolio, under the program. After the deal closes and the developments convert from public housing to project-based rental vouchers under RAD, management-partners operate the properties while developer-partners oversee capital repairs. To pay for the capital repairs, the public-private partnership borrows against tenant rental revenue and the developments' federal operating subsidy, something NYCHA itself does not have the authority to borrow against under federal public housing rules.

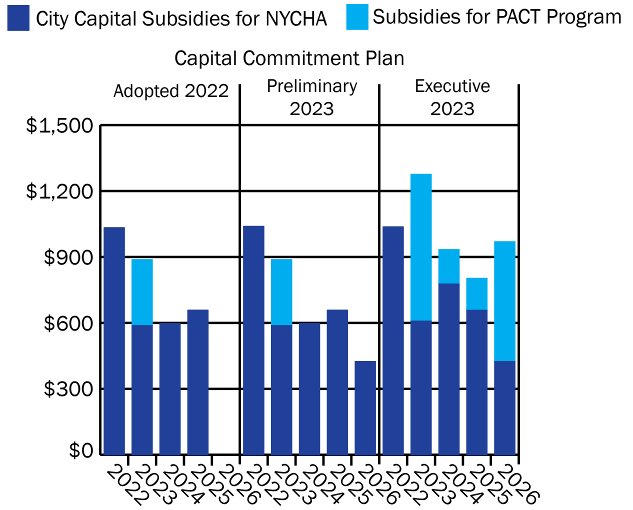
But because of the staggering costs of capital needs at NYCHA developments—the authority has an estimated $40 billion in total capital needs—it is possible that the income stream from tenant rents and federal operating subsidy will not support enough traditional debt to pay for all the capital repairs needed at the developments covered by the deals. This is where city capital funding comes in—the city's Department of Housing Preservation and Development (HPD) now plans to expand its practice of subsidizing PACT deals by making low-interest loans to PACT public-private partnerships.

When New York City's PACT program was first announced in 2016, there were no plans for the city to subsidize PACT deals; capital repairs were to be funded entirely through debt backed by developments' income stream. HPD has so far subsidized one PACT transaction with city capital dollars, the Highbridge Franklin PACT deal in 2018. Last year, the city added $300 million to HPD's capital budget for 2023 to subsidize additional PACT conversions. The budget changes made in April reflect that HPD now anticipates subsidizing these deals more frequently. As part of the city's Executive Capital Commitment Plan, the most recent plan available, the city more than doubled its PACT subsidy for 2023, now totaling $668 million, and added a total of $847 million in additional funding for 2024 through 2026, with most of the additional funding planned for 2026. This increase in planned commitments does not represent an expansion of the PACT program, but rather an indication that city subsidies will be needed for NYCHA to meet its goal of addressing capital needs for the 62,000 units already slated for conversion under the program. After speeding up the expected timeframe for PACT conversions in 2021, NYCHA now plans to convert developments under PACT at a slower pace.

In addition to subsidizing PACT deals, the mayor also added a cumulative $200 million for capital repairs to Gowanus Houses and Wyckoff Gardens, funding promised as part of the community agreement for the city's rezoning of the Gowanus neighborhood.

Adams Administration Increases NYCHA Capital Subsidies for PACT Program

Dollars in millions



SOURCES: Adopted 2022, Preliminary 2023, and Executive 2023 Capital Commitment Plans.
NOTE: Totals exclude intrafund agreements and contingency funds.
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Adams Administration Reduced Somewhat City Operating Subsidy for NYCHA

The addition of capital funding for NYCHA comes on the heels of some reductions in city operating support for the housing authority. Since taking office, the Adams Administration has reduced the funding it transfers for operating support of NYCHA by $70 million from 2022 to 2025—a 6 percent decrease compared with the de Blasio Administration's last budget. The bulk of this reduction comes from two major changes made in the Preliminary Budget released in March. First, the city removed a total of $47 million of its federal Community Development Block Grant (CBDG) funding for 2024 through 2026 (the latter year was not yet included in the de Blasio Administration's last budget). The city routinely allocates a portion of its CDBG funds to NYCHA. This funding had been budgeted for staffing NYCHA capital work.

The city also reduced funding in 2022 for the NYCHA Homeless Unit Readiness Program by $31 million in city funds and by $33 million in federal CDBG funds. With this program, the city subsidizes NYCHA to prepare vacant units for occupancy so that it can place homeless households in these units. Funding was lowered due to underspending, because fewer NYCHA units during the pandemic have become vacant. From the Preliminary Budget to the Executive Budget, only minor changes were made: $2 million in unspent funding was rolled over into 2023 for the NYCHA-based arm of the City Cleanup Corps program, and a total of $7 million was added from 2023 through 2025 to establish eight new urban farms at NYCHA developments. At the Adopted Budget, the city rolled $40 million in unspent funding for NYCHA from 2022 to 2023.

In total, as currently budgeted, the city will make $278 million available to NYCHA in 2023, including $246 million in city funds and $32 million in federal American Rescue Plan Act Covid-19 relief funds and Community Development Block Grant funding. However, a substantial portion of the $180 million in federal funding currently allocated to NYCHA in 2022 is likely to roll over unspent into 2023 in the coming months as the city closes out the 2022 spending (just as it did from 2021 to 2022), which would increase these figures.

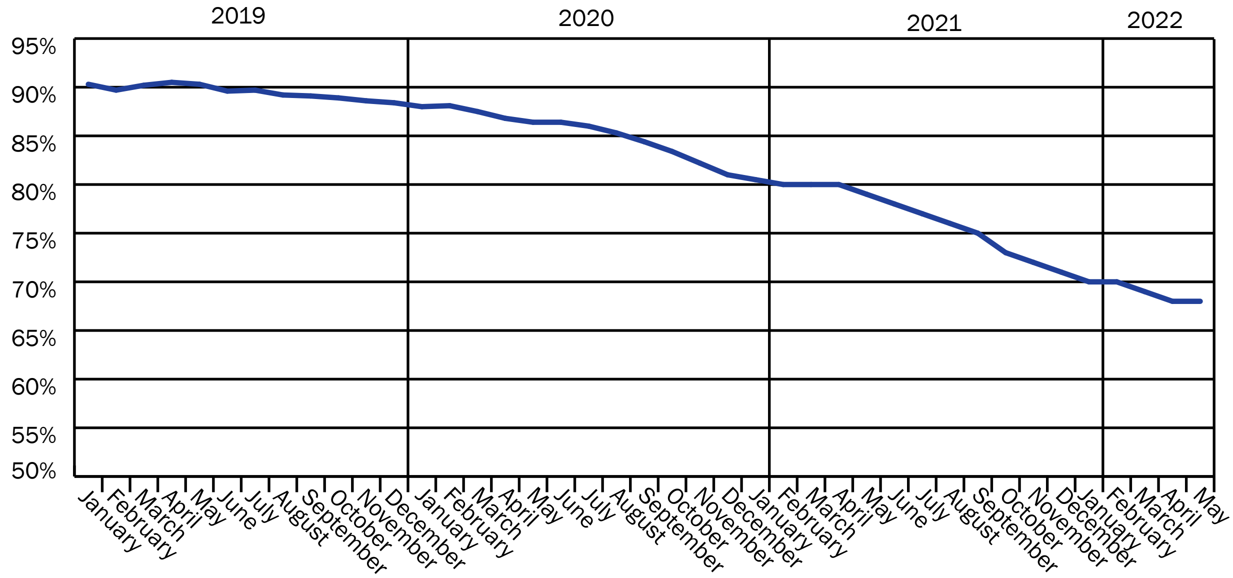
Unpaid Rent Hammers NYCHA Revenue

NYCHA's 2022-2026 Operating Plan showed that the authority's operating budget, which took a hit during the pandemic, is expected to continue to face difficulties, particularly with rent collection. (For more coverage of NYCHA's budget over the course of the pandemic, see IBO's briefs from June 2020 and April 2021.) Since April 2020, the rent paid to NYCHA by its tenants—which makes up about one-third of revenue in NYCHA's operating budget—has been declining. NYCHA's rent collection rate, 88 percent in March 2020, fell to 68 percent in May 2022. The authority has consistently under-collected rent since the pandemic began so that tenants owed NYCHA a cumulative $285 million as of October 2021.[1] In the housing authority's 2021 fiscal year, NYCHA collected about $118 million less in rental revenue than budgeted at the beginning of the year in the Operating Plan. NYCHA does not expect to reverse this trend this fiscal year; NYCHA lowered its estimate for tenant rental revenue by $51 million in 2022, compared with last year's plan, though the authority is looking to reverse this trend going forward.

Many private property owners who had tenants fail to pay rent during the pandemic received government assistance to make up for unpaid rent. This was mainly through the federal Emergency Rental Assistance Program (ERAP), to the tune of $2.8 billion in rental support payments across the state, so far. The state legislators, when implementing ERAP, however, gave low priority to public housing tenants. While NYCHA submitted thousands of applications under ERAP, the state has paid out nearly all its ERAP funding to private property owners already.

With the $118 million gap in rent collected, and a further $77 million more in additional overtime spending, NYCHA faced unanticipated difficulties in its 2021 fiscal year. At the

NYCHA's Rent Collection Rate Fell 10 Percent in 2021 and 20 Percent Since Pandemic Began



SOURCE: IBO Analysis of NYCHA Metrics Data

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beginning of 2021, NYCHA had expected to manage a small deficit of $25 million. While NYCHA successfully closed the 2021 without a deficit, it did so after receiving an operating subsidy that was $101 million more than expected and by the authority and reducing the amount it spent on contracts by $94 million. The extra federal operating funding was due to the U.S. Department of Housing and Urban Development (HUD) changing how it calculated its operating subsidy formula to more heavily weight lost rent from the pandemic, this additional support, however, is expected to be a one-time rule change and NYCHA has indicated it is resuming its pre-pandemic formula for weighting unpaid rent.

Short-Term Funding Sources Will Bring Current Year Near Balance

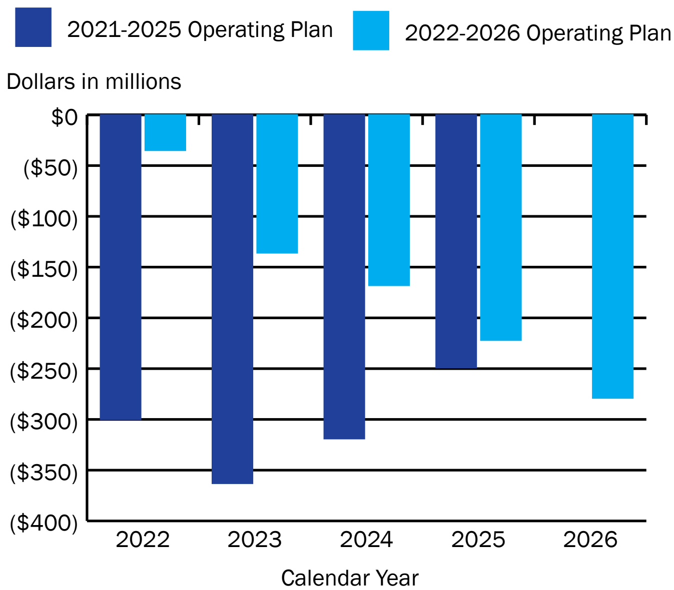
Last year's operating plan showed a deficit of $300 million for the authority's fiscal year 2022. While NYCHA has since shrunk that deficit to $35 million, NYCHA is relying on one-time sources of funding to address the budget gap this year. For 2022, NYCHA will withdraw $100 million from its unrestricted operating reserves, leaving just $330 million remaining. The authority will also use $80 million in one-time funds generated by PACT real estate deals and take advantage of a HUD program related to utilities savings.

Separately, public housing authorities are allowed to transfer up to 35 percent of their capital grant to their operating budget. Under last year's plan, NYCHA intended to transfer about 30 percent of its capital grant to its operating budget from 2022 to 2026, but now NYCHA plans to use the maximum 35 percent each year to help close the budget gaps. Since last year, Congress has raised the funding allocated to the Public Housing Capital Fund, resulting in an additional $69 million in funding flowing from NYCHA's capital budget to its operating budget, compared to last year's plan, for a new total of $245 million in transfers each year of the plan.

This move will put NYCHA's operating budget in better shape but comes with potential consequences. Historically, NYCHA has been successful in obligating its federal capital funding. NYCHA also receives capital funding from the city and (a relatively small amount) from the state, in addition to its federal dollars, but the authority has struggled to commit the state and local funding. (In the 2021 calendar year, for example, NYCHA's capital commitment rate for city dollars was about 5 percent, a rate which the authority largely attributed to administrative hurdles.) With over a third of its most easily committed capital funds instead flowing into its operating budget, this move puts NYCHA's operating budget in better shape, but reduces funds available for potential capital repairs—particularly troubling considering the authority's staggering capital need.

NYCHA now plans to slow the pace of the public-private partnership conversions under its PACT program which also impacts the authority's operating budget. When a development converts from traditional public housing to private management under PACT, the development's share of operating subsidy and tenant rental revenue flows to the public-private partnership instead of to NYCHA's operating budget, meaning that the quicker NYCHA converts

NYCHA's Projected Budget Gaps Have Narrowed Since Last Year



SOURCES: NYCHA 2021-2025 Operating Plan, NYCHA 2022-2026 Operating Plan

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developments under PACT, the less revenue it can expect in future years. With the slowing of PACT conversions, NYCHA now anticipates more operating subsidy and tenant rental revenue in the near term than it did last year, helping to reduce future budget gaps. Primarily due to increased capital transfers and a slowed pace of PACT conversions, budget gaps in NYCHA's operating plan in future years have narrowed since last year. But the authority's current plan is still showing gaps of $136 million in 2023, $168 million in 2024, $222 million in 2025, and $279 million in 2026.

Transformation Plan and Monitor Responsibilities Pile on Costs

This year, NYCHA has committed to $137 million in new spending over its 2022-2026 Operating Plan related to the federal monitor agreement and the resulting transformation plan. In 2019, NYCHA signed an agreement with HUD and the U.S. Attorney for the Southern District of New York that would place NYCHA under a federal monitor. Under the monitor agreement, NYCHA has committed to achieving goals in several pillar areas, including lead abatement, mold, pests, heating, and elevators; in its 2022 fiscal year, NYCHA will spend $38 million more on these areas than it planned to last year. Furthermore, under the monitor agreement, NYCHA was required to submit a transformation plan to HUD detailing how it would reform its organization. As part of this transformation plan, submitted to HUD and approved last year, NYCHA is hiring 450 additional staff; these additional staff and other costs will add $47 million in 2022.

While NYCHA expects to spend an additional $137 million in new needs related to the HUD agreement pillar areas and the transformation plan in its operating budget, NYCHA received requests for $300 million in new needs from its property managers. Thus, the amount being invested is still far less than what NYCHA would likely spend if funding were available.

The state legislature has recently passed a bill that would create the Housing Preservation Trust, an alternate strategy for addressing NYCHA's capital needs. If successfully implemented, it would allow NYCHA tap into federally funded rental vouchers and bond financing to alleviate some of the authority's capital needs and the pressure on its operating budget. However, only a subset of NYCHA properties will be able to take part in the trust, at least initially (25,000 according to the legislation that passed) and there are still many steps to be taken before the trust can be realized. For example, under the legislation developments may only take part in the trust if its residents opt into it and NYCHA is currently working on a mechanism for the voting.

Prepared by Alec Goodwin

Endnote

[1]While NYCHA tenants pay 30 percent of their income in rent and can recertify to lower their rent if they experience sudden declines in income, despite this, some tenants still fail to make rent payments when due.