THE CITY OF NEW YORK
INDEPENDENT BUDGET OFFICE
110 WILLIAM STREET, 14TH FLOOR
NEW YORK, NEW YORK 10038
(212) 442-0632 • FAX (212) 442-0350 •EMAIL: ibo@ibo.nyc.ny.us
http://www.ibo.nyc.ny.us

Testimony
Of Preston Niblack, Deputy Director
Before the City Council Subcommittee on Public Housing
On NYCHA's 2006 Plan to Preserve Public Housing

June 12, 2006

Good afternoon, Council Member Mendez. Thank you for the opportunity to testify regarding the New York City Housing Authority's (NYCHA) "Plan to Preserve Public Housing." IBO recently completed a review of the plan and of NYCHA's financial condition more broadly at the request of Manhattan Borough President Scott Stringer, and today I will summarize our findings. In brief, the plan relies on several initiatives the achievement of which is subject to considerable uncertainty and risk. In addition, several of the authority's baseline financial projections appear to understate the likely rate of growth in future spending. It appears likely that NYCHA, even if the plan is implemented as proposed, will continue to face financial challenges in the future.

The authority's financial condition has been deteriorating in recent years. NYCHA's costs to operate public housing—particularly fringe benefits and utilities—have been increasing rapidly. Revenues, in contrast—particularly federal, state, and city operating subsidies—have not kept pace with rising costs. Federal operating subsidies have been essentially flat in recent years; state subsidies were eliminated in 1998 and city subsidies were all but eliminated beginning in 2004. As a result, NYCHA has had to draw down its reserve funds to cover the operating deficits in the public housing program. Reserves have now declined to a level where they can no longer be used to fund operating deficits without risk of penalty from the federal Department of Housing and Urban Development (HUD).

To address the situation, NYCHA presented its "Plan to Preserve Public Housing" in April, along with a revised 2006 budget and financial plan. The plan proposes a series of measures, some of which are quite far-reaching, to stabilize NYCHA's financial condition.

Even if all of the proposed measures are achieved, however, we believe that there are some significant risks in NYCHA's baseline financial plan, which assumes balanced revenues and expenditures in the future. Specifically, the financial plan budgets for very limited expenditure growth in 2007, and assumes flat expenditures for the period 2008 through 2010. The plan assumes no growth in either wages and salaries or fringe benefit costs. The city actuary, in contrast, expects NYCHA's pension contributions to almost double over this time period, from $58 million annually to $111 million. Utilities, which are nearly one-quarter of NCYHA's public housing operating expenses, and have risen very sharply recently, are also of course highly unpredictable.

The success of several major elements of the plan will depend on the willingness of the federal government to go along with them.

Three elements of the plan in particular will require federal approval. First, NYCHA is proposing that it get the same flexibility in using federal funds, and the same waivers of federal rules, that other Housing Authorities have received under HUD's Moving to Work program. Moving to Work is a demonstration program that allows public housing authorities to bypass a range of program regulations, and, in some cases, to combine funding streams into a single, agencywide source. HUD is no longer accepting Moving to Work applications, however, so accomplishing this element of the plan will require special action by HUD, or more likely, congressional action, neither of which is guaranteed.

Plan to Preserve Public Housing Initiatives
Dollars in millions

	2006	2007	2008	2009
Aid from City of New York	$100.0	$ -	$ -	$ -
Public Housing Rent Increases	14.5	37.7	52.9	60.9
Transition 8,400 Public Housing Units to Section 8	4.5	23.2	50.3	66.8
Development Fees	10.0	10.0	10.0	-
Federal Funding Flexibility	39.3	78.2	23.3	7.6
Re-engineer Management Systems	-	-	10.0	10.0
Energy Conservation Initiatives	-	-	10.0	10.0
TOTAL	**$168.3**	**$149.2**	**$156.5**	**$155.4**

SOURCES: IBO; NYCHA FY2006 Proposed Budget and Financial Plan.

Second, NYCHA is proposing to use 8,400 Section 8 vouchers for families that are living in the 20,000 city and state-sponsored apartments that do not receive federal operating assistance. The Department of Housing Preservation and Development has already provided NYCHA with 3,400 vouchers. The remainder will come from vouchers that turn over after tenants in certain former Mitchell-Lama buildings become ineligible for "enhanced" Section 8 vouchers. This proposal will also require approval by HUD. We believe there is some risk here as well that the necessary number of vouchers may not actually materialize on the timeframe envisioned in the plan, which will delay realizing the expected revenue.

Finally, NYCHA is proposing rent increases for higher-income tenants—about 27 percent of all NYCHA tenants. This would be implemented by raising ceiling rents, which have not been raised since they were put in place in 1989, in part to help encourage higher-income working families to live in NYCHA developments. Many of these families now pay well under the 30 percent of income that lower-income tenants typically pay. The proposal would raise ceiling rents by as much as 44 percent over two years, but would still generally leave them at a level such that many of the affected households would pay less than 30 percent of income in rent. This measure will also require approval by HUD.

To assist NYCHA's implementation of the plan, the city is providing one-time assistance this year of $100 million. Although the operating subsidy that the city provided NYCHA has been all but eliminated, the web of financial transactions between the city and NYCHA remains fairly complex. NYCHA provides a grant to the city for police services, which covers roughly half the cost of actually providing policing in housing authority developments. NYCHA also benefits from a real property tax exemption on its properties, which the Department of Finance estimates is worth at least $335 million annually.

Although the city was unwilling to restore an annual operating subsidy, we estimate that an operating subsidy for the 8,000 units originally financed by the city that was roughly equivalent to the current per unit allocation provided through the federal operating grant would cost the city about $24 million per year.

Additional measures include management initiatives, energy conservation measures, and fees for development of underutilized NYCHA properties. These actions do not require federal approval and appear likely to be achievable.

In short, NYCHA has presented a series of proposals to address its long-term financial balance, but it remains to be seen whether all of the elements will fall into place. NYCHA can no longer rely on its reserve funds to close budget gaps without risking HUD sanction. If the housing authority cannot achieve major elements of the plan, or if utility, health care, pension, or other costs continue to rise, NYCHA and its residents will continue to face the challenge of maintaining the financial viability of public housing.

Thank you and I would be happy to answer any questions you may have.