City of New York
Independent Budget Office

INSIDE THE BUDGET

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City to Lose Pre-K Aid

The Board of Education (BOE) will lose $10 million in state aid because of lower than projected enrollment in universal pre-kindergarten. BOE has enrolled 35,300 students in the program during the current school year, the third phase of the initiative to make preschool available to all four-year olds statewide.

As IBO previously reported, BOE needed to enroll 44,000 four-year olds in universal pre-kindergarten to qualify for the maximum state grant of $147 million this school year. Before the school year started, BOE notified the state that the city would enroll 38,300 pre-k students and qualify for $128 million in aid. The remaining $19 million was placed in a reserve fund for next year.

Because actual enrollment was 3,000 less than anticipated, BOE's universal pre-k grant will drop an additional $10 million to $118 million. The Board is unable to defer the $10 million, however, because the deadline for placing funds in reserve was September 1, 2000.

The BOE's difficulty in reaching universal pre-k enrollment targets is

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Mayor's New Housing Plan: Following the Money, Detailing the Programs

Last month, the Mayor proposed a new housing development initiative, which would be the largest investment in housing by New York City in nearly a decade. In the announcement, the administration provided the broad outlines of its four-year, $1.2 billion plan to build or renovate 10,100 apartments. This overview by IBO now fills in many of the details.

The Mayor's housing proposal would finance the renovation of roughly 7,000 existing units (including 1,100 vacant apartments), the construction of 3,100 new units, and the development of 875,000 square feet of commercial and retail space. Altogether, the plan would add 4,200 new or currently vacant units to the city's housing inventory, and renovate and return to private ownership another 5,900 occupied units. While these occupied units are likely to be home to many low-income households, the new apartments to be created under the plan are targeted to moderate- and middle-income families. The Mayor has made implementation of the entire initiative contingent upon the City Council acting to ease regulations and lower the cost of construction in the city.

To date, $688 million in public funds for the $1.2 billion initiative have been identified. The administration expects private sector sources of funding will make up the balance. These would likely include commercial bank loans and private equity raised through the federal and state low-income housing tax credits (LIHTC). The federal LIHTC—allocated to states on the basis of population—was recently raised to $1.75 per capita.

Public funding for the plan is proposed to come from two sources. City capital funds will provide $336.0 million. At this time, no federal funds are planned for this initiative, but the administration is negotiating with two entities—the Battery Park City Authority and the New York City Housing Development Corporation (HDC)—to provide another $150 million as part of the city's capital plan.

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Additionally, $202 million is to be provided in the form of tax-exempt loans from HDC. These funds are part of the city's share of the so-called private activity volume cap, under which state and local governments and quasi-public authorities such as HDC may issue tax-exempt debt on behalf of private-sector entities for purposes such as housing and commercial development.

The Construction Programs

The housing plan includes three programmatic elements.

The first would renovate and sell 5,900 occupied units through the Department of Housing Preservation and Development's (HPD) third-party transfer program. Under this program, buildings that are often rundown and are in tax arrears are transferred by HPD to new ownership (tenants' right of occupancy is protected, although rents may be restructured.) The funds for this portion of the initiative—$278.3 million—will be channeled through the city's Participation Loan Program (PLP). PLP loans, which have an interest rate of one percent, are blended with commercial bank and other private lending sources to provide below market interest rate loans for the moderate- to gut-rehabilitation of buildings with more than 20 apartments. For extensive rehabilitation work, one dollar of city PLP funds typically leverages 75 to 80 cents of private money, according to HPD.

Two other components of the Mayor's initiative would add units to the affordable housing stock. The Vacant Buildings 2000 program would allot $77.7 million—$30.5 million in city funds and $47.2 million in non-city funds—for loans and grants to privatize 133 vacant, city-owned (*in rem*) buildings containing 1,100 apartments. Under an expansion of the ANCHOR Program, the Mayor's initiative would build 3,100 new units as well as help create 875,000 square feet of commercial space. The plan proposes allocating $331.9 million in new city and non-city funds over four years for ANCHOR. Most of the remainder of the overall $1.2 billion—about $300 million—would come from private sources and be put toward the development of the ANCHOR commercial and retail component. The success of this portion of the initiative will depend to a great extent on the ability of the city to persuade private-sector partners to participate.

Summary of Mayor's Housing Initiative
Dollars in millions

Program	Total	City Funds	Non-City Funds	HDC Private Activity Bonds	Units
Third-Party Transfer (PLP)	$278.3	$233.3	$45.0	$0.0	5,900 (rehab)
Vacant *in rem*	77.7	30.5	11.2	36.0	1,100 (rehab)
ANCHOR	331.9	72.2	93.8	166.0	3,100 (new)
TOTAL	$688.0	$336.0	$150.0	$202.0	10,100

SOURCES: Independent Budget Office; Mayor's Office of Management and Budget; NYC Department of Housing Preservation and Development.
NOTE: Individual items may not add to totals due to rounding.

Most of the units to be renovated under the plan will be affordable to moderate- and middle-income households—incomes up to $45,000 and $67,000 for a family of four, respectively. In the case of the Vacant Buildings 2000 program, initial rents will be set at market rates, and the apartments will then be covered under rent-stabilization guidelines. The HDC private activity bonds—to be used mostly for new construction under the ANCHOR initiative—typically finance construction of multi-family cooperative or rental buildings affordable to households with incomes up to a maximum of $140,000 for a family of four.

Reallocating Capital Dollars

The Mayor's plan entails some reallocation of existing capital funds. The net increase in city funding for HPD's capital plan over the period 2002 to 2005 is

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$102.7 million. The rest of the city funding for the Mayor's proposal is the result of reallocating $233.3 million from other HPD programs. Anticipated federal aid totaling $131.0 million will substitute for city funds in several of the programs, for a total net decrease in all other HPD capital programs of $102.3 million over the four-year period. The largest cuts come in two programs. Funding for the Small Homes program, which privatizes small *in-rem* buildings (under five units), will be eliminated. The inventory of small buildings has declined to the point that further funding for this program was not needed. Total savings will be $97.1 million. Also being reduced is an HPD loan program for rehabilitation and reconstruction of small privately owned buildings (up to 20 units). The reduction brings funding for the program more into line with annual commitments in recent years.

New and Reallocated Funds in HPD's Capital Plan for 2002-2005
Dollars in millions

	Mayor's Initiative	All Other HPD	Total
New City Funds	$102.7	$0.0	$102.7
Reallocated City Funds	233.3	(233.3)	0
New Non-City	150.0	131.0	281.0
Total	$486.0	($102.3)	$383.7

SOURCES: Independent Budget Office; OMB September 2000 and January 2001 Capital Commitment Plans.
NOTE: Figures in parentheses represent reductions.

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primarily due to two factors. First, many areas of the city lack the classroom space in schools or community centers needed to serve all eligible children. Second, universal pre-k is a half-day program and demand has been less than expected, leaving seats unfilled in some neighborhoods. The schedules of working parents often make full-day preschool/child care programs more attractive. While some providers have used other funds to create full-day classes, four-fifths of universal pre-kindergarten pupils attend school for only half a day.

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