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

January 10, 2007

Good afternoon, Chairwoman Mendez and members of the Committee. I'm Preston Niblack, a deputy director of the city's Independent Budget Office. Thank you for the opportunity to testify regarding the New York City Housing Authority's (NYCHA) fiscal condition.

As you may recall, IBO completed a review of NYCHA's "Plan to Preserve Public Housing" last June. As I testified before this subcommittee at that time, there were a number of risks in the plan that, taken together, suggested that it was not likely to be fully realized on the schedule envisioned. Although NYCHA has not published a budget update since late last spring, it now seems clear that some of these risks have materialized, and that NYCHA is facing a serious budget shortfall for 2007—probably on the order of $300 million, or 20 percent of the roughly $1.5 billion cost of operating public housing—that will require significant action soon.

NYCHA's operating budget deficits are rooted in two factors. First, revenues for the agency over the last several years have stagnated while costs have risen. Although tenant rent revenues—which make up approximately 28 percent of total authority revenues—increased 6.5 percent between 2004 and 2005, this has been offset by declining federal operating aid, largely due to inadequate appropriations. On average over the last few years, NYCHA has received 90 percent to 95 percent of the annual operating funds for which it is eligible under statutory formulas for operating and capital funds. This year, however, Congress appropriated only enough money to fund 78 percent of eligible costs. This shortfall cost the authority well over $150 million.

The second factor is an historical structural problem: NYCHA is eligible to receive federal operating aid for less than 90 percent of the units it actually operates. Only its 159,000 federal units are included in the federal funding formula—but NYCHA also operates another 8,000 city-sponsored units and 12,000 state-sponsored units. Since state operating support for NYCHA was eliminated in 1998, and the city effectively ended its operating support in 2004, federal operating aid is being stretched to cover all 179,000 NYCHA units. This structural shortfall is equivalent to about $60 million annually.

In recent years, NYCHA has self-funded its deficits, using at least $250 million in reserve funds to cover gaps, by our estimate. At the end of 2005 though, the authority's reserve funds were close to the minimum allowed without the federal Department of Housing and Urban Development (HUD) cutting a portion of federal funding. Therefore, NYCHA will no longer be able to run deficits and cover them with reserve funds.

To address the shortfalls, NYCHA presented its Plan to Preserve Public Housing last April. The plan relied on a few major initiatives to provide roughly $150 million annually to eliminate the budget gaps: in particular, seeking federal funding flexibility through HUD's Moving to Work Program; rent increases for higher-income tenants; and using Section 8 vouchers for state and city public housing units—all of which require HUD approval. The plan also included $100 million in one-time financial assistance from the city to help tide NYCHA over until HUD approved the changes.

So far, rent increases have been approved and will begin in February, and are expected to provide $60 million in additional revenues by 2009. The city was anticipating a response from HUD on the use of Section 8 vouchers next week but it appears that HUD will delay approval pending additional review. That initiative was expected to provide $23 million in savings this year and $50 million in 2008. Finally, NYCHA's application for funding flexibility like that available to public housing authorities participating in the Moving to Work pilot program came after the statutory deadline for application to the program. At this point it does not appear likely that Congress will revisit this, and this initiative is effectively dead.

As a result of all these factors, while the budget plan from last summer projected a $29 million budget gap for 2007, as of now it is more likely approaching $300 million:

NCYHA's 2007 Budget Position Has Significantly Deteriorated
Dollars in millions

2007 Projected gap as of June 2006:	$30
Additional shortfalls and risks:	
Moving to Work application	78
Congressional appropriation shortfall	150
Phase housing units to Sec. 8	23
Estimated 2007 gap:	$281

In short, the measures NYCHA has proposed to address the gaps will not be sufficient to close the gap for 2007, and the agency will continue to face longer-term shortfalls as well. In the short run, the Bloomberg Administration was clear last year that it did not intend to provide an ongoing subsidy to NYCHA. The one-time transitional aid provided in 2006 will therefore not likely be repeated.

Without major reforms to address the long-run problems in a structural way now, the risk is that the authority will simply be unable to afford to operate its current inventory. The authority must begin to revise the Plan to Preserve Public Housing to address the long-term structural shortfalls it faces.

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