



REPORT | HOUSING

NYCHA's Operating Outlook

More Uncertainty Amid Pandemic and Repair Needs

February 3, 2021

The New York City Housing Authority (NYCHA) was in a [precarious fiscal position](#) prior to the pandemic. Increasingly its operating budget was reliant on City subsidies and its rent collection rate steadily declined. Meanwhile operating costs rose amid efforts to clear a work order backlog and maintain properties suffering from decades of disinvestment. High labor costs, driven largely by benefits, made adding needed front-line maintenance and repair staff and capital project managers expensive.

Eleven months later NYCHA's already tenuous outlook has been compounded by the impact of the COVID-19 pandemic on its revenues and expenses. While one-time federal aid helped NYCHA cover its COVID costs in 2020, the outlook for 2021 depends on how NYCHA manages the ongoing impacts of the economic crisis in addition to the challenges it already faced to preserve and improve the City's public housing stock.

NYCHA's 2020 Fiscal Performance

With over 170,000 units under management and a \$1 billion Section 8 housing choice voucher portfolio, NYCHA is both the country's largest public housing authority and New York City's largest landlord. NYCHA's 2020 operating budget totaled \$3.7 billion, with two-thirds for public housing and one-third for the Section 8 program. (NYCHA's fiscal year begins January 1.) Public housing is funded through a combination of rents, which are capped at 30 percent of residents' incomes, and subsidies from the federal government, which make up a portion of the difference between what tenants pay and NYCHA's operating costs. In recent years, the City also has provided additional funding on top of the federal operating subsidy. The federal government also provides an annual capital subsidy.

At the start of 2020, NYCHA expected to end the year with a \$91 million surplus, which it would use to hire additional front-line staff to close the work order backlog, catch up on deferred maintenance, and implement its federally mandated reorganization plan. Even then, the surplus was tenuous, and resulted more from continued growth in City and federal operating subsidies than efficiencies. NYCHA's per-unit operating costs continued to increase faster than its operating revenues. (CBC described these trends in a [March 2020 policy brief](#).)

That budget outlook quickly changed in March. As the City and State implemented lockdown measures amid the onset of the pandemic, NYCHA revamped its operations to protect its residents and workforce. It stopped most in-unit work, introduced new cleaning protocols, and delivered food, medical assistance, and rent reductions to households that suffered economic hardship. NYCHA estimates that its pandemic response efforts cost the authority \$152 million in additional expenses and lost revenue, about 4 percent of its 2020 public housing operating budget

Fortunately, these costs were offset by additional federal aid, which helped NYCHA end 2020 with a balanced budget. The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided \$150 million in supplemental operating funds (\$30 million of which NYCHA will roll into 2021), and FEMA provided \$9 million in reimbursements.¹ (See Table 1.)

Despite the short-term relief, several longer-term, structural trends in NYCHA's operating budget suggest NYCHA will face fiscal pressures in 2021.

Table 1: Adopted 2020 Operating Budget vs Year End Projection
(dollars in millions)

	Adopted	Year End Projection	Variance	% Variance
REVENUE				
Tenant Rental Revenue	\$1,025	\$961	(\$64)	-6%
Federal Operating Subsidy	\$984	\$973	(\$11)	-1%
Section 8 Subsidy	\$1,275	\$1,263	(\$12)	-1%
City Funds	\$262	\$228	(\$34)	-13%
Other Revenue	\$291	\$206	(\$85)	-29%
FEMA	\$0	\$9	\$9	-
CARES Act Operating	\$0	\$120	\$120	-
Total Revenue	\$3,837	\$3,760	(\$77)	-2%
EXPENSES				
Personal Services	\$1,422	\$1,460	(\$38)	3%
Salary F/T	\$685	\$659	\$26	-4%
Seasonal	\$18	\$40	(\$22)	122%
Fringe	\$594	\$580	\$14	-2%
OT	\$105	\$146	(\$41)	39%
Other Salaries	\$19	\$35	(\$16)	84%
OTPS	\$2,324	\$2,300	\$24	-1%
Supplies	\$109	\$87	\$22	-20%
Utilities	\$545	\$524	\$21	-4%
Contracts	\$377	\$379	(\$2)	1%
Section 8	\$1,181	\$1,171	\$10	-1%
Other OTPS	\$112	\$139	(\$27)	24%
Total Expenses	\$3,746	\$3,760	(\$14)	0%
SURPLUS/(DEFICIT)	\$91	\$0	\$91	-100%

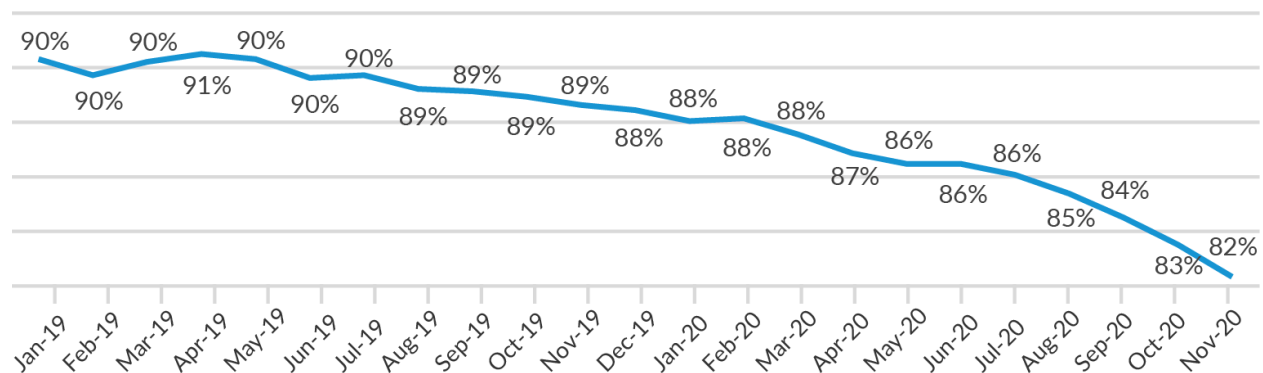
Sources: CBC staff analysis of data from Meeting minutes, New York City Housing Authority Board of Directors (December 18, 2019) and Presentation by Annika Lescott, Chief Financial Officer, to the New York City Housing Authority Board of Directors (December 30, 2020)

Deteriorating Rental Income

One pressing concern is the continued deterioration in rental income. Historically, rents paid by tenants, which are capped at 30 percent of household income, are NYCHA's largest source of revenue. In 2020 rental receipts were 6 percent below expectations due in part to income losses and rent reductions issued to residents who lost income during the pandemic. NYCHA has processed rent reductions for 20,000 households since March, with another 1,000 applications pending. It will take several years for NYCHA's federal operating subsidy to make up for the rent reductions granted in 2020.

These rent reductions combine with a long-term deterioration in NYCHA's rent collection rate, which has been declining steadily since 2016. By November, the collection rate had fallen to 82 percent from 89 percent the year prior. (See Figure 1.) As of August 2020, over 42,000 households, or one in four NYCHA tenants, owed at least one month of rent (up from 35,000 at the same time last year).² (See Figure 2.)

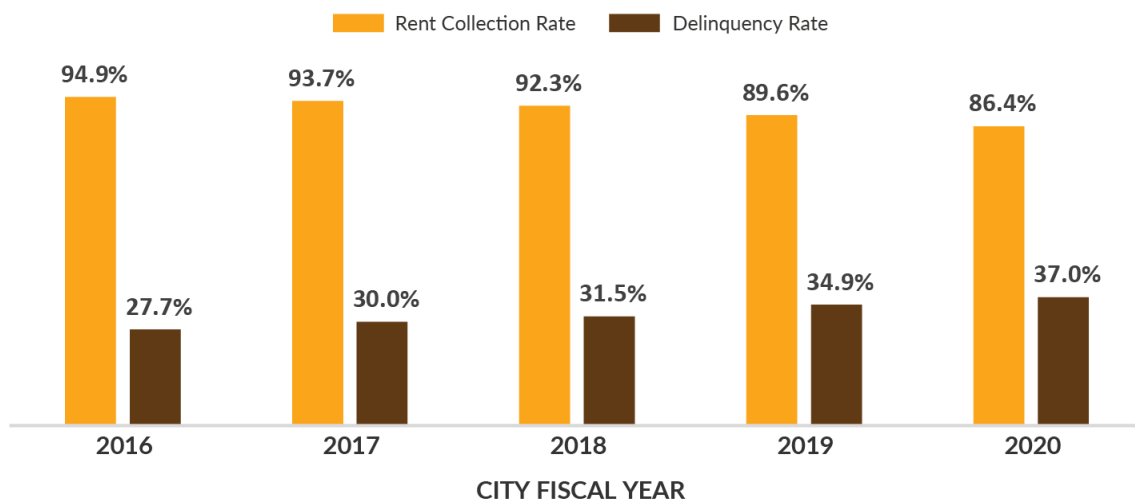
Figure 1: NYCHA's Rent Collection Rate by Month



Source: CBC staff analysis of data from Presentation by Annika Lescott, Chief Financial Officer, to the New York City Housing Authority Board of Directors (December 30, 2020).

The deteriorating collection rate has cost NYCHA a significant amount of revenue. At the end of 2019, tenant accounts receivable totaled \$111 million, of which NYCHA deemed \$72 million doubtful for collection.³ If NYCHA had achieved its target 95 percent collection rate in 2019, it would have netted at least \$100 million in additional rental income.

Figure 2: Rent Collection and Delinquency Rates, City FY2016-FY2020



Source: City of New York, Mayor's Office of Operations, *Mayor's Management Report 2020* (September 2020), pp 307-314, https://www1.nyc.gov/assets/operations/downloads/pdf/mmr2020/2020_mmr.pdf.

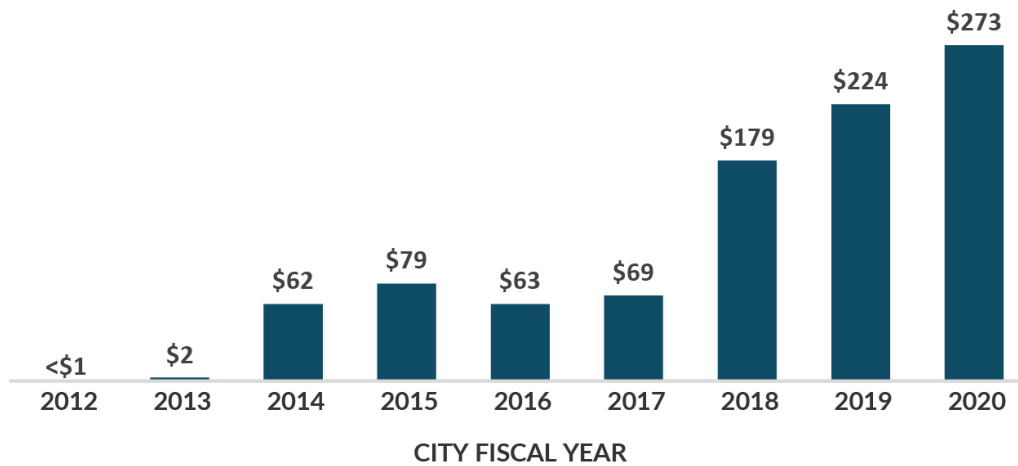
Delays, Reductions in Subsidies

NYCHA's fiscal problems also are the result of City and federal subsidies falling below the adopted 2020 budget projections. The federal operating subsidy was \$11 million, or 1 percent, less, and City subsidies were \$34 million, or 13 percent, less. There was also an \$85 million shortfall in "Other Revenue," which includes transfers from NYCHA's capital budget.

At the onset of the pandemic, City budget officials implemented measures to control the City's cash position amidst uncertainty about its revenue collections and outlook. This cash management strategy affected both NYCHA's capital and operating support.

NYCHA ultimately received \$228 million in City funding for its operating budget in calendar year 2020, less than the \$262 million it originally anticipated. At the end of the City's fiscal year, City officials reduced NYCHA's allocation of City and federal subsidies as the City rolled some unspent funding into 2021 and reduced funding allocations in other areas. (See Figure 3.) In addition, the City has been slow to transfer funding in order to preserve cash on hand.⁴ As of November 3, the City had transferred to NYCHA only \$69 million of the funding that the City committed in fiscal year 2020, which ended in June. That means that \$203 million in City funding remained unreimbursed four months after the close of the City's fiscal year.⁵

Figure 3: City Operating Support for NYCHA, City FY2012-FY2020
(dollars in millions)



Note: Payments are based on the City's fiscal year, which begins on July 1. NYCHA's fiscal year begins January 1.

Source: City of New York Office of Management and Budget, *Comprehensive Annual Financial Report* (fiscal years 2012 to 2020 editions); and Office of the New York City Comptroller, *Checkbook NYC*, www.checkbooknyc.com (Accessed November 3, 2020) www.checkbooknyc.com.

With City subsidies making up a growing share of NYCHA's operating budget in recent years, these cuts and delays diminished NYCHA's ability to conduct maintenance and repair work.⁶ The majority of City funding for NYCHA in 2020 paid for routine operating costs, including increases in labor costs resulting from new labor agreements (\$101 million) and to renovate units for formerly homeless families leaving the shelter system (\$38 million).

The City also allocates federal Community Development Block Grant (CDBG) funding to help NYCHA pay for repair and maintenance expenses. Most CDBG funding in 2020 helped hire additional capital project management staff (\$67 million). The City rolled \$151 million in proposed CDBG funding into City fiscal year 2021 to support façade repairs, apartment renovations, lead testing, capital project management, and capital project staffing.

These delays create uncertainty, making it difficult to plan work, and demonstrating how NYCHA's increased reliance on City subsidies makes it vulnerable to changes in economic conditions and policy.

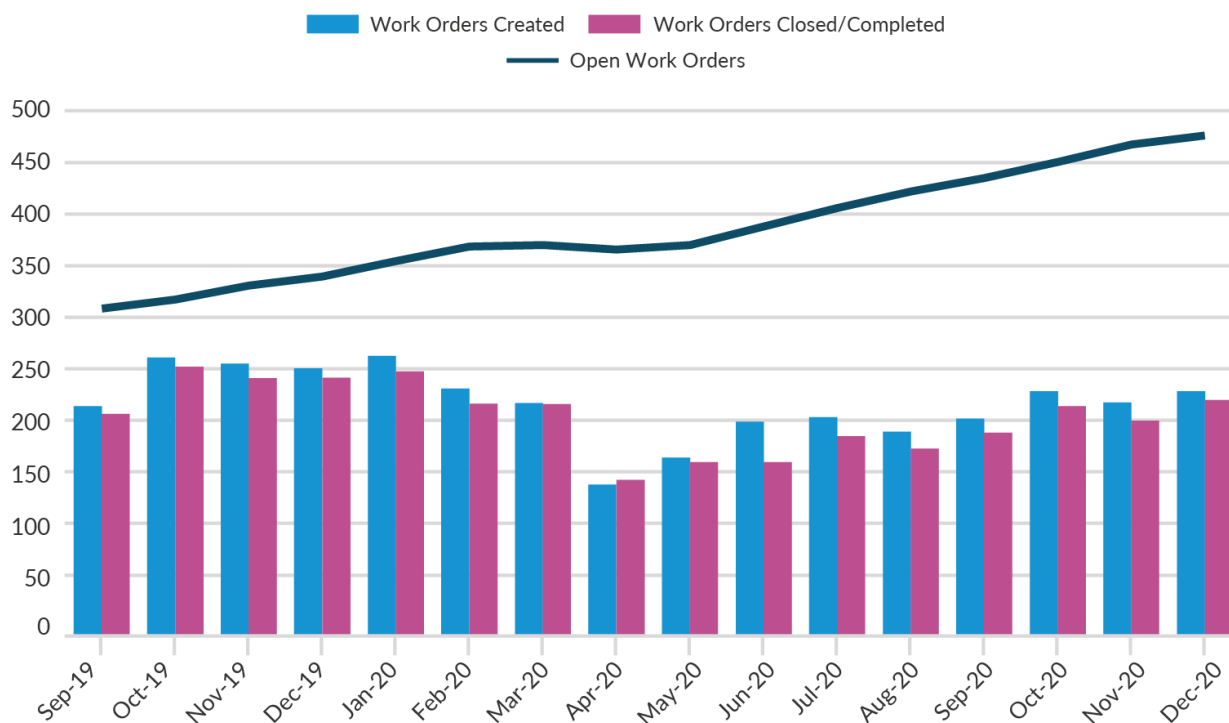
Rising number of work orders

After the lockdown went into effect, NYCHA halted most routine repair work, with exceptions for emergency repairs and health and safety issues like lead and mold. This shift had two effects, both of which will increase the long-term burden of addressing deferred maintenance.

The first was that residents and staff created significantly fewer work orders after the onset of the pandemic. The number of new work orders fell by a third from March to April and remained low through the summer before returning closer to pre-pandemic levels.

The second trend was that NYCHA staff closed fewer work tickets, with a drop-off similar in scale to the number of tickets created. As a result, the number of outstanding work orders increased sharply, exceeding 483,000 in December 2020, a 40 percent increase from the same time last year.⁷ (See Figure 4.) The growing backlog of work orders and maintenance needs could potentially increase NYCHA's workload in 2021.

Figure 4: Number of Open Work Orders and New Work Orders Created and Closed by Month, September 2019 to December 2020
(in thousands)



Source: New York City Housing Authority, *NYCHA Metrics* (accessed October 26, 2020, and January 20, 2021), <https://eapps.nycha.info/Nycha-Metrics/>.

NYCHA responded in part by prioritizing emergency work. The share of emergency work orders completed within 24 hours increased from 78 percent in February to 93 percent in September, before falling back to 82 percent by December. (The average time to complete the work increased 4 hours to 16.7 hours in 2020.⁸ The average time to resolve non-emergency repairs increased from 19 days in city fiscal year 2019 to 27.6 days in fiscal year 2020.)

What's the Outlook For 2021?

The pandemic has increased the uncertainty about NYCHA's already uncertain financial future. NYCHA's Adopted 2021 Budget shows a \$25 million deficit as NYCHA attempts to manage the effects of a pandemic and an economic downturn while simultaneously adding staff and resources to implement the action plans required under its federal monitorship.⁹ (See Table 2.)

Table 2: NYCHA Revenue and Expenses, Year-End 2020 and 2021 Projections

	Year End 2020 Projection	Projected 2021 Budget	Difference
REVENUE			
Tenant Rent	\$961	\$1,008	5%
Federal Operating Subsidy	\$973	\$1,015	4%
Section 8	\$1,263	\$1,352	7%
City Funds	\$228	\$248	9%
All Other Sources	\$335	\$436	30%
Total Revenue	\$3,760	\$4,059	8%
EXPENSES			
Labor	\$1,460	\$1,444	-1%
Supplies	\$87	\$105	21%
Utilities	\$524	\$513	-2%
Contracts	\$379	\$612	61%
Other OTPS	\$139	\$225	62%
Section 8 Payments	\$1,171	\$1,185	1%
Total Expenses	\$3,760	\$4,084	9%
SURPLUS/(DEFICIT)	\$0	(\$25)	-

Source: CBC staff analysis of data from Presentation by Annika Lescott, Chief Financial Officer, to the New York City Housing Authority Board of Directors (December 30, 2020)

The 2021 revenue outlook is precarious and depends heavily on one-time, non-recurring resources. NYCHA anticipates using \$115 million in funding transferred from the capital budget,

\$45 million in reserves, \$30 million in rolled CARES funding, \$36 million in proceeds from real estate transactions and consultant reimbursements, and \$8.5 million in CDBG and lead grants from the U.S. Department of Housing and Urban Development (HUD).

The 2021 budget also assumes rental revenue will increase 5 percent from 2020 despite the continuously falling rent collection rate, outstanding requests for rent reductions, and plans to convert developments to Section 8 funding through the RAD program, which moves the rental rolls off of NYCHA's budget. It also assumes a 4 percent increase in federal operating subsidies, a 7 percent increase in Section 8 revenue, and additional funding from the City, even though all three subsidy streams declined in 2020. While the incoming federal administration provides reason for optimism, without additional federal stimulus to help NYCHA recoup diminished rental income, the rent recertifications that NYCHA processed in 2020 also will put downward pressure on rent collections until HUD's operating subsidy formula takes the lower contract rents into account.

Spending is anticipated to increase 9 percent. Increased spending on contracts and on materials and supplies account for much of the expected growth, as NYCHA hopes to catch up on the work order backlogs, implement action plans under its federal monitorship, and move to property based budgeting and new staffing models. Labor costs are expected to decrease by 1 percent despite a 4 percent planned increase in budgeted headcount. NYCHA leadership hopes that its proposals to hire more staff and to develop new staffing plans, particularly for the skilled trades, will improve building conditions and reduce the need for scheduled overtime.

NYCHA's settlement agreement with the United States Attorney for the Southern District of New York and HUD required NYCHA to develop action plans to address quality of life issues including lead, heat, and mold, and to develop a new organizational plan to improve its operations. As part of the agreement, the City of New York agreed to support these efforts with capital and operating funding, though at the time, the full costs of compliance were not yet known. Only as NYCHA conducts inspections, submits action plans to the federal monitor for approval, and implements the needed changes, are these costs becoming clear.

NYCHA's lead paint testing program provides one example of this process. NYCHA had acknowledged the presence of lead paint in some of its developments, but at the time of the settlement agreement, the Housing Authority had not conducted enough tests to estimate remediation and abatement costs with certainty.

By the spring of 2020, NYCHA had tested enough units to be able to estimate for the first time how much it would cost to inspect, remediate, and ultimately abate properties with lead paint. At that time, NYCHA had tested about 30 percent of units of the 134,000 units built before 1978 that it had not previously tested for the presence of lead-based paint. Based on that sample, NYCHA estimated that more than 43,000 units were likely to test positive, and that it would cost \$2.8 billion over 20 years to remediate and ultimately abate the affected properties. That estimate included \$1.6 billion for remediation, \$1.1 billion for abatement, and \$92 million for testing.^[10] The final bill will change as NYCHA tests more units and will likely increase as NYCHA begins to test exterior areas. As of December 31, 2020, 23,852 units have tested positive for the presence of lead paint, 26,167 have tested negative, 10,168 units are awaiting results, and 73,897 units await initial tests.^[11]

Assuming an even distribution of work over 20 years, NYCHA will need \$138 million in new revenues each year to fund the in-unit remediation and abatement work. NYCHA currently is working to identify funding sources to complete this work, though City funding will likely fund a large share.

NYCHA has reached an agreement with the New York City Office of Management and Budget and the Comptroller's Office to make City capital funds available for NYCHA's lead program. (Even though the work will be funded through the City's capital program, the spending will be recorded as an operating expense in the City's audited financial statements; pollution remediation is not capital eligible under generally accepted accounting principles.) The City has also allocated Community Development Block Grants to NYCHA to fund remediation work. The City's fiscal year 2020 budget allocated \$6.5 million in CDBG funding for lead remediation, though none of the allocated funding has been transferred to NYCHA to date.^[12]

NYCHA also anticipates taking advantage of conversions to Section 8 under the Rental Assistance Demonstration program (RAD) to abate a number of the developments that were initially identified as having high rates of lead paint. As part of the Section 8 conversion, RAD allows NYCHA to leverage additional funding to abate lead, along with other environmental hazards like mold and pests, as part of broader renovation plan.

The scope of the lead contamination problem, when added to other basic health, safety, and habitability issues identified in NYCHA's physical needs assessment, has pushed the NYCHA's total repair needs to over \$40 billion - a total that NYCHA and the City cannot fund on their own.

Conclusion

NYCHA begins 2021 with plans to implement new organizational structures, quality controls, staffing plans, and accountability measures with the goal of operating like a modern and effective property management organization. The fate of these turnaround strategies, however, also depends on NYCHA's ability to stabilize its finances and raise enough capital to fund its facility

needs. Additional negative financial shocks, whether through increased costs, reduced revenue, or delayed funding, will serve only to destabilize NYCHA's finances even more, and make the agency's operations more costly and more difficult to fix.

By Sean Campion

ENDNOTES

1. New York City Housing Authority, "Subsequent Events" Comprehensive Annual Financial Report for the Years Ended December 31, 2019 and 2018 (September 17, 2020), p. 111-112, https://www1.nyc.gov/assets/nycha/downloads/pdf/NYCHA_2019_CAFR.pdf.
2. New York City Housing Authority, NYCHA Metrics (Accessed October 26, 2020), <https://eapps.nycha.info/NychaMetrics/>; and City of New York, Mayor's Office of Operations, Mayor's Management Report 2020 (September 2020), P 307-314 https://www1.nyc.gov/assets/operations/downloads/pdf/mmr2020/2020_mmr.pdf.
3. New York City Housing Authority, "Subsequent Events" Comprehensive Annual Financial Report for the Years Ended December 31, 2019 and 2018 (September 17, 2020), https://www1.nyc.gov/assets/nycha/downloads/pdf/NYCHA_2019_CAFR.pdf.
4. City of New York, Office of Management and Budget, Fiscal Year 2021 Adopted Budget Supporting Schedule (July 2, 2020), <https://www1.nyc.gov/assets/omb/downloads/pdf/ss6-20.pdf>.
5. Since NYCHA operates on a calendar year, while the City's fiscal year starts in July expenses funded in City Fiscal Year 2020 will accrue to 2020 for accounting purposes, and the City can retain cash on hand past July without affecting NYCHA's budget. Office of the New York City Comptroller, Checkbook NYC, www.checkbooknyc.com (Accessed November 3, 2020), www.checkbooknyc.com.
6. Sean Campion, "NYCHA's 2020 Operating Budget," Citizens Budget Commission (March 12, 2020), <https://cbcny.org/research/nychas-2020-operating-budget>.
7. New York City Housing Authority, NYCHA Metrics (Accessed October 26, 2020), <https://eapps.nycha.info/NychaMetrics/>.
8. City of New York, Mayor's Office of Operations, Mayor's Management Report 2020 (September 2020), P 307-314 https://www1.nyc.gov/assets/operations/downloads/pdf/mmr2020/2020_mmr.pdf.
9. Under the terms of the settlement, NYCHA agreed to develop action plans to address lead-based paint, mold, elevators, heating, pests, annual housing quality inspections, Public Housing Assessment System (PHAS) inspections, a Grant Disbursement Agreement to allocate \$450 million in state funding, and to develop a new organizational plan based on the findings of a consultant's report on its management and operations.
10. New York City Housing Authority, "Pollution Remediation Obligations" Comprehensive Annual Financial Report for the Years Ended December 31, 2019 and 2018 (September 17, 2020), p. 65-67, https://www1.nyc.gov/assets/nycha/downloads/pdf/NYCHA_2019_CAFR.pdf.
11. New York City Housing Authority, Lead-Based Paint Report: XRF Testing Initiative (Data as of October 22, 2020, Accessed October 30, 2020), <https://my.nycha.info/PublicSite/Transparency/XrfReport>.

12. City of New York, Office of Management and Budget, Fiscal Year 2021 Adopted Budget Supporting Schedule (July 2, 2020), <https://www1.nyc.gov/assets/omb/downloads/pdf/ss6-20.pdf>. Office of the New York City Comptroller, Checkbook NYC, www.checkbooknyc.com (Accessed November 3, 2020), www.checkbooknyc.com.