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Testimony on the New York City Housing Authority and the City's Preliminary Fiscal Year 2024 Budget

Submitted to the New York City Council Committee on Public Housing

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Thank you for the opportunity to testify. I am Sean Campion, Director of Housing and Economic Development Studies at the Citizens Budget Commission (CBC), a nonpartisan, nonprofit think tank and watchdog devoted to constructive change in the finances, services, and policies of New York State and City governments.

At last year's Preliminary Budget hearing on public housing, CBC testified about the risks that cloud the New York City Housing Authority's (NYCHA) fiscal outlook. NYCHA's already high operating costs were rising quickly, while operating revenues were failing to keep pace due to a plummeting rent collection rate. To balance its budget and fund its basic operations, NYCHA was increasingly reliant on City subsidies and non-recurring funding sources.

Over the past year, these structural challenges have worsened.

Decades of deterioration, mismanagement, and inaction on renovation plans have worsened the physical conditions of NYCHA apartments and quality of life for NYCHA residents. Now, deferred maintenance is driving higher costs in NYCHA's already strained operating budget. Furthermore, combined with flagging rent collection, NYCHA faces a structural budget gap, perpetuating its continued reliance on non-operating revenue and local government subsidies to balance its budget.

The cost of delaying needed repairs is also now becoming clear. In 2018, CBC warned that without action, by 2027 more than 90 percent of NYCHA units would be so deteriorated that it would be cheaper to build new units than to repair them. While some developments have benefited from repairs through the Rental Assistance Demonstration (RAD) program since that report was published, the moment of reckoning for the remaining properties is growing alarmingly closer.

To improve the lives of tenants and preserve NYCHA's viability, CBC continues to recommend that NYCHA:

- Fix deteriorating buildings through the RAD program and the Preservation Trust;
- Improve property management;
- Boost rent collections; and
- Negotiate savings and increased productivity through collective bargaining.

Rising costs

As developments convert from Section 9 to Section 8 under RAD as part of the Permanent Affordability Commitment Together (PACT) program, the number of public housing units under NYCHA management has fallen by four percent, but the total operating cost for those remaining units has increased rather than decreased. Overall, operating costs for NYCHA's public housing portfolio increased 6 percent between 2021 and 2022, while spending per unit increased 10 percent year-over-year. In 2022, there were 162,000 public housing units under NYCHA management, down from 168,000 the previous year. (Data is based on CBC's analysis of actual revenue and expense data from the New York City Comptroller's *Checkbook NYC* open data portal, excluding federal Section 8 funds.)

NYCHA's operating costs are also rising more quickly than those of comparable rental properties. The average cost to operate NYCHA's public housing reached nearly $1,500 per unit per month. That is 80 percent higher than cost to operate both privately owned rent regulated buildings, excluding property taxes, and NYCHA buildings converted to Section 8 under the RAD/PACT program. Worryingly, this gap has more than doubled since 2015, when the cost to operate the average NYCHA unit was just 39 percent more than the average rent stabilized unit.

NYCHA has always had high costs, driven by a combination of high fringe benefit rates for employees, high overtime use, outdated work rules, and inefficient management practices. However, most of the recent spending increases appear to be attributable to deferred maintenance for NYCHA's aging and deteriorating building stock. Spending increases are concentrated in the other than personal services budget: contracts increased 12 percent to $546 million, with increases in spending on façade repair, environmental remediation, plumbing and heating, and related project management. Spending on supplies increased 23 percent to $127 million, and insurance costs have also risen significantly in recent years, reaching $80 million in 2022.

NYCHA's in-house workforce also has faced additional pressure to meet repair needs. Notably, overtime remains high despite NYCHA's efforts to reduce it. NYCHA set a goal of reducing overtime costs by 40 percent in 2022, but overtime spending wound up increasing 3 percent, reaching $152 million.

Flagging rent collection

While expenses rose, the rent collection rate fell to an all-time low of 64 percent in December 2022, costing NYCHA hundreds of millions of dollars in lost revenue. The State's Emergency Rental Assistance Program (ERAP) put public housing in the lowest priority funding tier, which contributed to NYCHA's substantial and growing rent collection problem. However, flagging rent collection appears not to be caused by its limited ERAP eligibility alone. As of December 2022, 46 percent of NYCHA households were in arrears, having accrued $454 million in unpaid rent, but only one-third of those households had pending ERAP applications, covering only 24 percent of total NYCHA arrears.

NYCHA's rent recertification process also should have helped residents get current on their rent, which would have the effect of stabilizing the current collection rate. This appears not to have occurred. During the pandemic, the U.S. Department of Housing and Urban Development (HUD) granted waivers to speed up the income recertification process, which is designed to reset a resident's rent to an income-based affordable level following a decrease in income. Between March 2020 and February 2022, 59,811 households, or more than 35 percent of occupied units, requested rent decreases, according to data reported last year by the City Council. Yet despite that, the rent collection rate has continued to fall, and the number of households in arrears has continued to increase.

It appears there are deeper challenges with NYCHA's approach to rent collection and enforcement that need to be addressed to ensure adequate revenue to operate and maintain its housing units. While financial hardship is a critical factor, and additional State funding for back rent would be appropriate and help many residents and improve NYCHA's balance sheet, going forward, NYCHA should seek to appropriately enforce tenant obligations to pay rent.

Continued reliance on non-recurring revenues and subsidies

Lastly, NYCHA continued its unsustainable reliance on non-operating revenue and City subsidies to balance its budget. At its December 2022 board meeting, NYCHA reported using $789 million, 28 percent of its total revenue budget, in non-operating sources to balance its 2022 budget, including $248 million in transfers from its federal capital subsidy; $247 million in subsidies from the City budget, primarily used to pay salaries; and $194 million in miscellaneous other sources, including proceeds from the sale of development rights, RAD transactions, and grants. Even those transfers were not enough to bring the budget into balance, forcing NYCHA to withdraw $100 million from its operating and replacement reserves. At the end of 2022, NYCHA was left with $211 million in reserves, less than one month of expenses in cash on hand. No other large public housing authority relies on non-recurring revenue sources and local government subsidies to the extent that NYCHA does.

Conclusion

While a balanced budget remains in sight for 2023, fiscal stability is not on the horizon. Ultimately, structural reforms—not just one-time bailouts—are needed to put NYCHA's operations back on the path to solvency.