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## **Testimony on NYCHA and New York City's Fiscal Year 2023 Preliminary Budget**

Submitted to the City Council Committee on Public Housing

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Thank you for the opportunity to testify regarding the New York City Housing Authority (NYCHA) and the City's Fiscal Year 2023 Preliminary Budget. I am Sean Campion, Senior Research Associate at the Citizens Budget Commission (CBC), a nonprofit, nonpartisan think tank and watchdog dedicated to constructive change in the services, finances, and policies of the New York City and New York State governments.

I will focus on NYCHA's operations and finances, including City subsidies to NYCHA in the Preliminary Budget. The rapidly worsening condition of NYCHA's building stock rightly commands the public's attention, but there needs to be a clear understanding that the housing authority's operations and financial outlook are highly stressed as well. The fate of NYCHA's turnaround plans depends not only on capital funding, but also on its ability to stabilize its finances and transform itself into a modern, efficient property management organization.

CBC's review found that based on NYCHA's (calendar year) 2021 financial performance and 2022 operating budget, the housing authority's outlook faces at least seven risks:

1. Operating costs that are growing faster than revenues;
2. A plummeting rent collection rate, which reduces revenue;
3. Continued reliance on City subsidies;
4. Dwindling reserves;
5. Diversion of capital subsidies to the operating budget;

6. Growing costs of unfunded mandates from the settlement with the U.S. Department of Housing and Urban Development (HUD); and
7. Operating reforms that have failed to secure savings or bring operating costs in line with industry standards.

Two important steps to help stabilize NYCHA's operating budget are:

1. State approval of the Preservation Trust, which would raise capital to improve conditions, improve management to better serve residents, and reduce operating costs; and
2. Labor productivity increases, which would bring operating costs in line with industry benchmarks and maximize the potential benefits of the Preservation Trust.

## Background

For most public housing authorities, two revenue sources—tenant rent and a federal operating subsidy—are sufficient to sustain operations. Rents paid by residents are capped at 30 percent of household income and reset annually. The Section 9 operating subsidy from the federal government is intended to fill the gap between tenant rents and housing authorities' operating costs. In most years, housing authorities get less than 100 percent of their need; over the past decade, this ranged from a low of 82 percent of HUD's formula-estimated need in 2013 to a high of 112 percent of need in 2020.<sup>1</sup> (Public housing authorities also received additional COVID-related federal aid in 2020.) Housing authorities may also collect operating revenue for parking fees, leases, and other commercial activity at their developments.

## NYCHA's Operating Budget and Recent Trends

Over the last decade, the cost of operating NYCHA's public housing portfolio has ballooned. Public housing operating expenses are approximately \$2.7 billion in NYCHA's calendar year 2022 adopted budget, or approximately \$1,300 per unit per month.<sup>2</sup> (All references to NYCHA's budget refer to calendar years, unless otherwise noted.) NYCHA's per-unit expenses have exceeded the operating costs of comparable properties, being 13 percent more than Mitchell-Lama rentals and 39 percent more than the average rent stabilized building (both excluding property taxes).<sup>3</sup> Its operating expenses also exceed operating revenues. In 2022, monthly operating costs are projected to be well over \$1,300 per unit, 38 percent higher than the \$943 per unit in rent and operating subsidy.

To balance its operating budget, NYCHA has employed an approach that is not fiscally sustainable. Efforts to increase efficiency have had limited success at curbing spending growth.

Instead, NYCHA has turned to City subsidies, capital transfers, and one-time revenues to balance its budget. In 2021, NYCHA received \$286 million in City subsidies, transferred \$296 million from its capital budget (the maximum allowed under federal regulations), and drew down \$75 million in reserves. This year, NYCHA expects to receive \$276 million from the City, transfer \$245 from the capital budget, and draw down another \$100 million from its reserves.<sup>4</sup>

## Risks to NYCHA's Operating Budget

NYCHA's 2022 operating budget starts the year with a modest deficit but includes several potentially optimistic assumptions about rents and expenses. CBC has identified seven risks that deserve close attention:

- **Operating costs growing faster than revenues:** Worryingly, NYCHA's operating expenses are growing more than three times as fast as its operating revenues. Since 2013, operating costs per unit have increased 50 percent, or 4.7 percent annually, while combined rental income, federal operating subsidies, and other operating revenue combined have increased only 14 percent, or 1.4 percent annually.
- **Plummeting rent collection rate costs NYCHA significant revenue:** NYCHA's rent collection rate was declining prior to the pandemic, but the trend has accelerated since March 2020, even despite the Authority processing more than 60,000 emergency rent reductions in 2020 and 2021.<sup>5</sup> NYCHA's rent collection rate, which was as high as 95 percent as 2016, declined from 88 percent in February 2020 to 70 percent by January 2022.<sup>6</sup> As a result of the falling collection rate, NYCHA's rental income was 12 percent, or \$119 million, below expectations in 2021.<sup>7</sup>

NYCHA's 2022 adopted budget forecasts \$867 in rent revenue, which assumes the collection rate returns to 83 percent. If the collection rate continues at 70 percent in 2022, NYCHA would collect only \$735 million in rent, increasing its budget gap by \$132 million.

- **Continued reliance on City subsidies:** Over the past decade, NYCHA's reliance on support from the City has increased steadily. As recently as 2013, NYCHA paid the City \$89 million for protective services and payments in lieu of property taxes.<sup>8</sup> Beginning in 2014, however, the City allowed NYCHA to end these payments and instead began to subsidize NYCHA's operations. By fiscal year 2021, the City provided \$257 million in direct subsidies to NYCHA.<sup>9</sup> (See CBC's 2021 policy brief "NYCHA's Operating Outlook" for more information on the historical trends in City subsidies for NYCHA.) The largest

components of the subsidy in City fiscal year 2021 were \$121 million for collective bargaining increases, \$51 million in Community Development Block Grant funding for capital project division staff, and \$33.6 million for the homeless unit readiness program.<sup>10</sup>

The City's Preliminary Budget for Fiscal Year 2023 anticipates a subsidy of \$412 million in fiscal year 2022 and \$223 million in fiscal year 2023.<sup>11</sup> The sharp increase in fiscal year 2022 is due to some non-recurring federal-COVID related aid and one-time funding for repair work that often rolls from year to year.

- **Dwindling reserves:** Actual and planned use of reserves in 2021 and 2022 would reduce NYCHA's operating reserves by 35 percent to just \$330 million, or 1.3 months of operating costs. This contrasts with other housing authorities, which have taken advantage of the atypically high funding rate for the federal operating subsidy in recent<sup>12</sup> years to replenish reserves and prepare for rainy days ahead.<sup>13</sup> As a result of taking reserves, NYCHA will have less of a cushion when operating subsidies inevitably return to historic levels.
- **Diversion of capital subsidies from critically important capital needs to the operating budget:** While HUD regulations allow housing authorities to transfer up to 20 percent of the capital subsidy to operations, exercising this option counterproductively reduces the money available to meet NYCHA's dire capital needs. NYCHA has done this increasingly in recent years to balance its budget.
- **Growing costs of unfunded mandates from the HUD settlement agreement:** Complying with the HUD agreement has been costly for NYCHA. NYCHA has spent \$1.2 billion in operating funds since 2018 on various action plans mandated under the agreement, including \$359 million spent in 2021 alone.<sup>14</sup> This accounted for 12 percent of last year's public housing budget. This spending goes towards urgently needed repairs and to improving NYCHA's operations, but to date, the federal government has not provided any additional funding or granted waivers to help NYCHA meet these obligations.
- **Operating reforms have failed to secure savings or bring costs in line with industry standards:** Another optimistic assumption is that NYCHA plans to increase headcount in 2022 but reduce labor costs. To date, the City and NYCHA have made little progress on bringing its operating costs in line with industry standards by either boosting productivity or decreasing labor costs. NYCHA's labor costs are high partly due to outdated work rules that limit productivity, inflexible scheduling that contributes to high rates of overtime, and high fringe benefit rates, which unlike City agencies, NYCHA must fund out of its own revenue.

It is worth noting that NYCHA has proposed or is implementing other promising reforms, including a new organizational strategy, a plan to shift to property-based budgeting, improved processes for maintenance and management activities, and revamped compliance and accountability standards, among others. However, to gain support for these initiatives, NYCHA more often than not has had to increase compensation for current workers or increase headcount, the costs of which offset any potential savings or productivity gains. The City also has failed to secure any savings or productivity enhancements in collective bargaining.

NYCHA's only path to stable operations and improved physical conditions requires comprehensive renovations funded through a combination of PACT and the Preservation Trust.

The City and State should approve the Preservation Trust, which has the potential to generate much needed capital investment and to deliver significant operating savings and productivity improvements. Converting from Section 9 funding to alternative federal funding programs like Section 8 or Tenant Protection Vouchers allows NYCHA to raise capital to renovate buildings and restore habitability. This capital investment will also allow NYCHA to operate more efficiently and reduce operating costs. New building systems can reduce utility costs, and renovations will reduce the need for repairs and associated staffing costs, allowing workers to be more productive. And procurement reforms proposed as part of the Preservation Trust legislation will ensure that NYCHA can get more and better value for its capital dollar.

The success of the Preservation Trust, however, also depends on NYCHA's ability to stabilize its finances, improve its financial outlook, and transform itself into a modern and efficient property management organization. To do so, NYCHA, in collaboration with its federal monitor, HUD, and labor, needs to redouble efforts to boost productivity and bring operating costs closer to peer housing authorities and private property managers, which sustain operations based on rents and federal subsidies alone. These operating changes are needed to ensure that NYCHA is prepared to self-manage developments converted under the Preservation Trust.

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<sup>1</sup> New York City Housing Authority, *Five Year Operating Plan Calendar Years 2021-2025* (December 30, 2020), <https://www1.nyc.gov/assets/nycha/downloads/pdf/operating-plan-2125.pdf>.

<sup>2</sup> These budget figures exclude revenue and expenses associated with NYCHA's Section 8 program. CBC estimates 2022 Section 8 expenses will be \$129.5 million, in line with prior year's expenses.

<sup>3</sup> New York University Furman Center for Real Estate and Urban Policy, *NYCHA's Road Ahead* (August 2019), p. 12, [https://furmancenter.org/files/NYCHAs\\_Road\\_Ahead\\_Final.pdf](https://furmancenter.org/files/NYCHAs_Road_Ahead_Final.pdf); and Sean Campion, "Stabilizing the Foundation: Transforming NYCHA to Address Its Capital Needs" (*Citizens Budget Commission*, July 3, 2018), <https://cbcny.org/research/stabilizing-foundation>.

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<sup>4</sup> Meeting minutes, New York City Housing Authority Board of Directors (December 29, 2021), [https://www1.nyc.gov/assets/nycha/downloads/pdf/board\\_meeting\\_final\\_calendar\\_summary\\_12292021.pdf](https://www1.nyc.gov/assets/nycha/downloads/pdf/board_meeting_final_calendar_summary_12292021.pdf).

<sup>5</sup> Mihir Zaveri, “I’m Scared’: Thousands in New York Public Housing Are Behind on Rent,” *New York Times* (February 8, 2022), <https://www.nytimes.com/2022/02/08/nyregion/nycha-evictions-tenants.html>.

<sup>6</sup> CBC staff analysis of data from New York City Housing Authority, *NYCHA Metrics* (Accessed March 3, 2022), <https://eapps.nycha.info/NychaMetrics/>.

<sup>7</sup> Meeting minutes, New York City Housing Authority Board of Directors (December 29, 2021), [https://www1.nyc.gov/assets/nycha/downloads/pdf/board\\_meeting\\_final\\_calendar\\_summary\\_12292021.pdf](https://www1.nyc.gov/assets/nycha/downloads/pdf/board_meeting_final_calendar_summary_12292021.pdf).

<sup>8</sup> Maria Doulis and Rachel Bardin, “Cleaning House: How to Close the New York City Housing Authority’s Operating Gaps” (*Citizens Budget Commission*, April 29, 2015), <https://cbcny.org/research/cleaning-house>.

<sup>9</sup> CBC analysis of data from Office of the New York City Comptroller, Checkbook NYC, [www.checkbooknyc.com](http://www.checkbooknyc.com) (Accessed January 7, 2022), [www.checkbooknyc.com](http://www.checkbooknyc.com).

<sup>10</sup> CBC analysis of data from Office of the New York City Comptroller, Checkbook NYC, [www.checkbooknyc.com](http://www.checkbooknyc.com) (Accessed January 7, 2022), [www.checkbooknyc.com](http://www.checkbooknyc.com).

<sup>11</sup> CBC staff analysis of data from New York City Mayor’s Office of Management and Budget, “Expense Budget” (accessed March 3, 2022, last updated March 1, 2022), New York City Open Data, <https://data.cityofnewyork.us/City-Government/Expense-Budget/mwzb-yiwb>.

<sup>12</sup> Meeting minutes, New York City Housing Authority Board of Directors (December 29, 2021), [https://www1.nyc.gov/assets/nycha/downloads/pdf/board\\_meeting\\_final\\_calendar\\_summary\\_12292021.pdf](https://www1.nyc.gov/assets/nycha/downloads/pdf/board_meeting_final_calendar_summary_12292021.pdf).

<sup>13</sup> Michael Novogradac and Rich Larsen, “Jan. 11 2022: Hot Topics for PHAs” (*Novogradac Tax Credit Tuesday Podcast*, January 11, 2022), <https://www.novoco.com/podcast/jan-11-2022-hot-topics-phas>. Public housing authorities were required to obligate CARES Act funding for qualified expenses and could not use it to bolster reserves.

<sup>14</sup> Meeting minutes, New York City Housing Authority Board of Directors (December 29, 2021), [https://www1.nyc.gov/assets/nycha/downloads/pdf/board\\_meeting\\_final\\_calendar\\_summary\\_12292021.pdf](https://www1.nyc.gov/assets/nycha/downloads/pdf/board_meeting_final_calendar_summary_12292021.pdf).