



BLOG | HOUSING

NYCHA's 2020 Budget Previews

Challenges of Implementing Forthcoming Organizational Plan

March 12, 2020

Introduction

Last December the New York City Housing Authority's (NYCHA) board approved NYCHA's 2020 operating budget—the first since the City of New York and NYCHA entered into the January 2019 agreement with federal prosecutors and since the February 2019 appointment of a federal monitor. The budget offers a preview of how NYCHA plans to address the issues raised in the agreement. NYCHA, with financial assistance from the City, has begun to allocate funds for capital staffing, lead remediation, and additional front-line staff who operate and maintain its public housing.

The budget also highlights the challenges that NYCHA will face in the coming years:

- While NYCHA's budget is balanced, its operations are increasingly reliant on City funding, putting NYCHA at risk in the event of a recession or change in political priorities at the City level.
- The rent collection rate continues to fall, costing NYCHA more than \$100 million annually that could go toward funding operations.
- NYCHA's high labor costs, which have continued to rise even as its headcount shrinks, make it costly to add front line staff and bolster its capital planning division.
- Recent collective bargaining agreements—supported by the City's willingness to pay for work rule changes—set a pattern that makes it very expensive to modernize NYCHA's management structure and operations as it transitions to a property-based management system.
- NYCHA will tackle many of these challenges in the mandated organizational plan it will release in June, but its 2020 operating budget offers a preview of the enormity of the challenge ahead.

Overview of the 2020 Public Housing Operating Budget

NYCHA operates more than 170,000 units of public housing across 2,350 buildings throughout New York City. Its operating revenues are projected to exceed \$3.7 billion in 2020, with a surplus of \$91 million¹ (See Figure 1.) About one-third of the budget, or \$1.2 billion, is allocated for NYCHA's Section 8 rental housing voucher program. The remaining two-thirds are split between public housing operations (41 percent), headquarters and centralized functions (25 percent), and other activities funded by grants and Community Development Block Grant programs (3 percent).

NYCHA's operating budget has increased 19 percent since 2015. The growth in its expense budget is driven primarily by NYCHA's increasingly expensive public housing operations. Three factors contributed to growing costs: rising labor costs, the increasing pace of capital investment, and efforts to bolster front-line staffing to improve operations. Increased subsidies from both federal and City governments helped NYCHA pay for these additional expenses, but this additional funding is offset partly by a decline in NYCHA's rent collection rate.

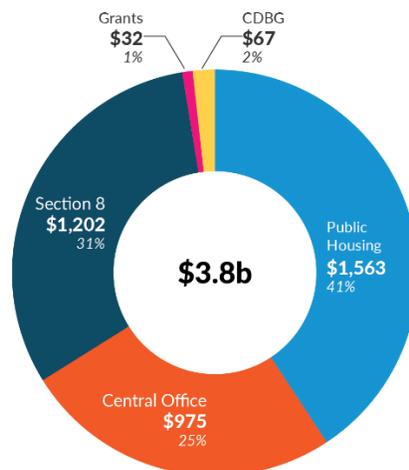
Table 1: Growth in NYCHA's Operating Budget
(dollars in millions)

	2015 Actual	2019 Year-End Forecast	2020 Budget	% Change 2015-2020
REVENUE				
<i>Operating Revenue</i>				
Rental Income	\$972	\$1,059	\$1,025	5%
<i>Subsidies</i>				
Federal Public Housing Operating Subsidy	\$938	\$987	\$984	5%
Capital Transfer and Reimbursement	\$59	\$60	\$236	300%
City Support	\$94	\$219	\$262	179%
All Other	\$72	\$96	\$59	-18%
Subtotal Revenue, excluding Section 8	\$2,135	\$2,421	\$2,566	20%
EXPENSES				
Personal Service	\$1,302	\$1,389	\$1,422	9%
Utilities	\$559	\$543	\$545	-3%
Contracts	\$136	\$405	\$377	177%
Supplies and Equipment	\$79	\$133	\$186	135%
All Other	\$126	\$87	\$83	-34%
Total Expenses, excluding Section 8	\$2,202	\$2,557	\$2,613	19%
SECTION 8 PASS-THROUGH REVENUE AND EXPENSES				
Housing Choice Voucher Subsidy Revenue	\$1,082	\$1,178	\$1,271	17%
Housing Assistance Payments	(\$947)	(\$1,042)	(\$1,133)	20%
SURPLUS/(DEFICIT)	\$95	\$0	\$91	-4%

Note: NYCHA's operating budget combines the Section 8 Housing Choice Voucher program and public housing operations. CBC staff presents public housing revenue and expenses in the table separately from the Section 8 funding that NYCHA receives annually from HUD and passes through to the private property owners on behalf of individual voucher holders.

Sources: CBC staff analysis of data from Meeting minutes, New York City Housing Authority Board of Directors (December 18, 2019); New York City Housing Authority, *Comprehensive Annual Financial Report* (fiscal year 2015 edition), "Financial Data Schedules of Revenue and Expenses and Basic Financial Statements."

Figure 1: NYCHA's 2020 Operating Budget by Program
(dollars in millions)



Source: CBC staff analysis of data from Meeting minutes, New York City Housing Authority Board of Directors (December 18, 2019)

Subsidy Revenue Has Increased

Public housing is funded through a combination of tenant rents, which are capped at 30 percent of a tenant's annual income, and federal operating subsidies, which are intended to make up the difference between what tenants pay and NYCHA's total operating costs. After years of insufficient federal funding, Congress has recently increased the federal operating subsidy for public housing. The share of the formula-based need that Congress has funded increased from 85.4 percent in 2015 to 97.8 percent in 2019. As a result NYCHA's operating subsidy increased 12 percent over that period.²

The City also has substantially increased its financial support for NYCHA's operations. NYCHA anticipates that more than 10 percent of 2020 public housing expenses, or \$262 million, will come from City subsidies. City support for NYCHA's budget has increased 75 percent since 2015. (That figure includes some funding from the 2019 budget that was shifted to 2020; if some of the City funds remain unspent at the end of 2020, they could be rolled over into future years.)

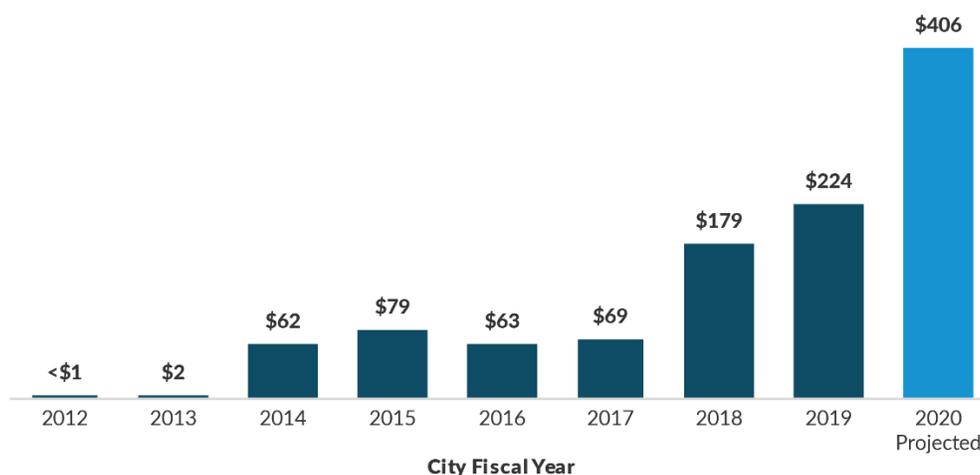
The City's financial statements show how City support for NYCHA has grown rapidly in recent years. (See Figure 2). The City's fiscal year 2020 budget currently includes \$406 million in payments to NYCHA. This includes \$235 million in federal Community Development Block Grants (CDBG) allocated to NYCHA by City officials out of the City's annual CDBG allocation and \$172 million in City funds.³ This is in addition to \$138 million in City spending for the benefit of NYCHA or its residents, which includes funding for youth programming, City-funded Living in Communities (LINC) rental housing vouchers, public safety projects, NYCHA's federal monitor operations, and staffing costs at the Departments of Investigation and Housing Preservation and Development.⁴

It is difficult to track City funding for NYCHA in the City's expense budget for a variety of reasons. First, NYCHA operates on a calendar year, while the City's fiscal year begins in July, which makes it difficult to track the timing of payments between the entities. In addition, NYCHA's operating budget for 2020 includes funds that it received from the City in previous years that it has not yet spent. Likewise, the City's budget includes funding that it anticipates will be allocated for NYCHA but that may be transferred in future fiscal years or that NYCHA will receive in 2020 but spend in future years. The City's accounting rules require budget officials to record expenditures in the fiscal year in which the City commits funding to NYCHA, even if

NYCHA plans to spend those funds over a period of time. The result is that for technical and accounting purposes, NYCHA and the City report different figures for the amount of City subsidy anticipated to be spent in the current year.)

The City’s federal CDBG funding for NYCHA is intended to help NYCHA offset the cost of capital projects, including \$97 million for staffing and design costs, \$50 million to help NYCHA remediate lead, \$35 million for façade repairs, \$33 million to renovate vacant apartments, and \$20 million for contractual project managers.⁵ NYCHA will spend this CDBG funding over a period of years. Allocating CDBG funding to address NYCHA’s growing needs results in fewer resources being available for other priorities; in the past, these funds had gone toward other City housing and community development needs.

Figure 2: City Support for NYCHA, City FY 2012-2020
(dollars in millions)



Sources: City of New York Office of Management and Budget, *Comprehensive Annual Financial Report* (fiscal years 2012 to 2019 editions); and City of New York Office of Management and Budget, *Preliminary FY 2021 Budget Departmental Estimates*.

Of the \$172 million in City-funded subsidies, \$102 million covers the cost of recent labor settlements with NYCHA’s workforce. The funding also includes \$38 million for the homeless unit readiness program, \$10 million to help close NYCHA’s work order backlog, \$9.5 million for trash compactors, and \$8 million for lighting and security.⁶

The City’s decision to subsidize the cost of NYCHA’s labor settlements comes at a high and growing price. For example, the total net cost of NYCHA’s 2018-2021 contract with Teamsters Local 237, the bargaining unit representing Caretakers and Heating Plant Technicians, was \$59 million over four years. (The City expects that the gross \$83 million cost will be offset by \$24

million in health care savings.) In addition to raises and retroactive pay consistent with the pattern established by the City in agreements with District Council 37 and the United Federation of Teachers, the agreement included one-time bonuses and shift differentials to encourage Caretakers to sign up for work shifts outside of the standard 8:30 am to 4 pm work day.⁷ These costs were funded out of the City's operating budget rather than NYCHA's resources.

The cost of settlements paid by the City may increase in future years. The bargaining unit representing NYCHA's maintenance workers previously rejected an agreement similar to the agreement NYCHA reached with Local 237, though a mediator ultimately ruled in NYCHA's favor in mandatory arbitration. NYCHA will roll out new work schedules for maintenance workers in the near future. At the time the agreement was signed, City officials estimated that the net cost of the maintenance workers' contract would be \$34 million through January 2022.⁸

Rental income is flat

The rent, fees, and charges paid by tenants is projected to surpass \$1.0 billion, accounting for 39 percent of public housing revenue. Rental revenue, however, has grown at a rate of 1 percent annually in recent years, which is substantially slower than the growth in NYCHA's operating costs. A portion of the stagnant rental income growth is due to the conversion of units from traditional public housing under Section 9 to Section 8 under the Rental Assistance Demonstration (RAD) program. However, NYCHA's flagging rent collection rate is a growing problem.

NYCHA's rent collection, defined as the amount of rent collected in a year divided by the gross rent due in that year, fell from 94.9 percent in 2016 to 89.6 percent in 2019. Over the same period, the delinquency rate, or the share of occupied units with a rent balance greater than zero, grew from 27.7 percent to 34.9 percent. As a result, NYCHA failed to collect nearly \$110 million in tenant rent and arrears it billed in city fiscal year 2019.⁹ This leaves NYCHA with less revenue available to fund its basic operating and maintenance needs.

A recently-released report on NYCHA's operating challenges conducted by KMPG found additional evidence that NYCHA struggles to collect rent in a timely fashion. KMPG's analysis of NYCHA financial data found that 41 percent of delinquent accounts owed more than one month of rent, and that on average, NYCHA billed tenants \$200.1 million each month, which includes current rent plus back rent and arrears, but collected only \$89.2 million, or 45 percent of what it was owed.¹⁰

Operating costs remain high

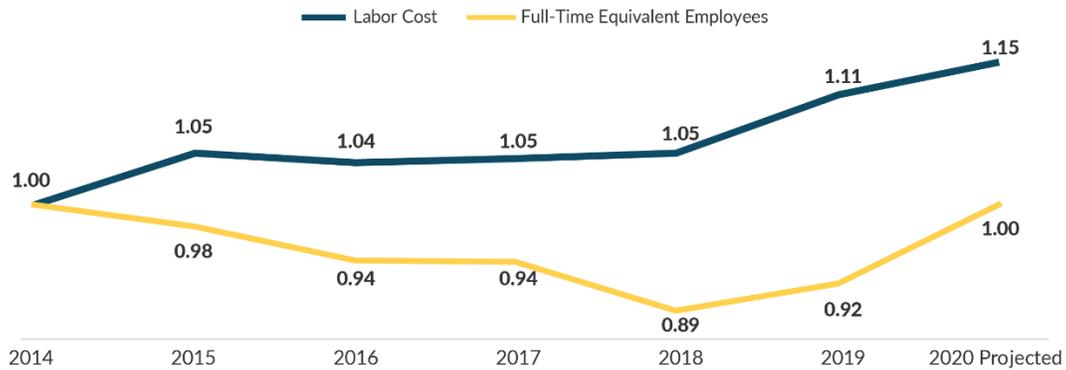
NYCHA's operating costs have continued to grow even as the number of units its portfolio shrank. As NYCHA converts public housing units to RAD, the number of public housing units under NYCHA's direct management has fallen from more than 176,000 units at the end of 2015 to 173,000 units today. The cost to operate these units (along with the revenue associated with them) moves off NYCHA's budget. However, even though the number of units decreased by 2 percent and headcount fell by 5 percent since 2015, NYCHA's operating budget increased by 19 percent over the same period.¹¹ On a per-unit basis, NYCHA's self-reported management cost reached \$1,052 per unit per month in city fiscal year 2019, up from \$893 in fiscal year 2015 – an annualized growth rate of 4.2 percent.¹² These costs are as much as 30 percent higher than the cost to operate comparable private sector apartment buildings.¹³

On a percentage basis, spending on contracts, supplies, and equipment have shown the fastest rate of growth in recent years. NYCHA's spending on supplemental services and materials has more than doubled since 2015 in an effort to address years of deferred maintenance.

The cost of labor, which represents the largest share of NYCHA's operating basis, has also contributed to NYCHA's growing operating budget. The 2020 budget assumes that payroll costs will reach \$1.4 billion, which includes the cost of staff working on both public housing and Section 8. (See Figure 3.) Payroll costs have grown 9 percent since 2015.

High benefit rates are one of the most significant drivers of the cost differences between NYCHA and private landlords.¹⁴ Fringe benefits account for 42 percent of payroll expenditures. (See Table 2.) In 2019 NYCHA projected that health insurance costs, which represent 38 percent of fringe benefit spending, would grow at 4 percent annually through 2023. NYCHA employees and retirees are members of the City's health insurance plans. Other components of fringe benefits include pensions (29 percent of fringe spending in 2019), payroll taxes and annual leave (12 percent), worker's compensation (10 percent), welfare fund and annuity payments (10 percent), and unemployment benefits (0.2 percent).¹⁵

Figure 3: Growth in NYCHA's Labor Costs and Full Time Equivalent Employment, FY2014-FY2020
(dollars in millions)



Sources: New York City Housing Authority, *Comprehensive Annual Financial Statements* (fiscal year 2018 edition); and Meeting minutes, New York City Housing Authority Board of Directors (December 18, 2019).

Table 2: NYCHA Personal Services Budget
(dollars in millions)

	2019 Actual	2020 Projected
Salaries	\$620	\$685
Fringe	\$575	\$594
Overtime	\$128	\$105
All Other	\$66	\$37
TOTAL PS BUDGET	\$1,389	\$1,421
YEAR-END HEADCOUNT	10,495	11,339

Source: Meeting minutes, New York City Housing Authority Board of Directors (December 18, 2019).

Increased transfers from the capital budget to the operating budget

The 2020 operating budget includes \$236 million transferred from the capital budget, which consists of \$181 million in reimbursements from the capital fund for capital-related operating costs and \$55 million transfers of capital subsidies. (HUD allows housing authorities to use up to 20 percent of their federal capital subsidies for operating needs.) This is an increase from the past ten years, when NYCHA transferred between \$55 and \$60 million from its capital budget to its operating budget.

The size of this transfer represents a substantial shift in policy. NYCHA relied extensively on capital transfers to balance its operating budget in the early 2000s, but it had largely stopped

transferring funds in recent years. Instead NYCHA chose to use its federal capital subsidies to pay for capital work and to pay for capital project management out of its operating budget.¹⁶

Unlike in previous years, however, the intent of the transfer from capital to operations is not to plug operating shortfalls. Rather it is intended as a temporary strategy to fund increased front-line staffing and the cost of staff working to manage capital projects. The one-time transfer could result in future budgets being structurally imbalanced if staffing levels remain at 2020 levels without continued transfers or savings efforts.

Shifting staff to front lines amid long-term headcount reduction

NYCHA is planning for a 9 percent reduction in headcount by 2024, largely resulting from the planned conversion of 30,000 units to RAD, with headcount reductions achieved through attrition. NYCHA currently projects that headcount will fall from 11,339 in 2020 to 10,262 by 2024.

While overall headcount is planned to shrink in the years to come, NYCHA is planning to shift staff to front-line positions to mitigate issues as required by its settlement with HUD and federal prosecutors. This year's operating budget is the first to show the programmatic impacts of the action plans mandated under the settlement agreement. The budget includes funding for 358 new positions in 2020 as part of action plans to address compliance with annual federal inspections, HUD's Public Housing Assessment System (PHAS), heat, elevators, mold, pests, and waste management. This hiring will be in addition to filling vacant positions, particularly caretakers, who clean and maintain NYCHA buildings and grounds. As of February 2020, NYCHA's federal monitor has approved the action plans for PHAS, heat, and elevators. NYCHA may need to increase spending further to implement the remaining action plans.

Hiring additional frontline staff will be funded by drawing down on reserves, shifting capital funding to the operating budget, using surplus, and not filling vacancies at the central office. These personnel shifts are necessary but could contribute to structural imbalances if they are not accompanied by a combination of additional funding, reallocation of resources, spending cuts, or productivity enhancements.

Conclusion – Substantial risks remain

NYCHA's 2020 operating budget offers insight to the many changes it is likely to propose in the forthcoming organizational plan, as well as the risks and challenges that NYCHA will face in that effort.

NYCHA's operating budget is increasingly reliant on City subsidies. Support for both NYCHA's capital and operating budgets under the current Administration has reached record levels, buoyed by the City's strong fiscal position as well as mandates from HUD and federal prosecutors. While the City is bound by the commitments it made to HUD and federal prosecutors in its January 2019 settlement agreement, it is unknowable whether future administrations will continue to subsidize NYCHA for needs outside of the agreement's mandates. Reliance on City subsidies also places NYCHA's budget at substantial risk in event of changes in the City's finances during the next recession.

NYCHA's labor costs are high and continue to rise, and payroll expenditures make up a growing share of the NYCHA budget. The de Blasio Administration's decisions to subsidize NYCHA's labor contracts and to pay for work rule and schedule changes sets a precedent that likely will increase the cost of work rule, scheduling, and job title changes needed to improve operations as part of its turnaround plan. This will further stress NYCHA's operating budget. In addition, while NYCHA has now reached agreements with caretakers and maintenance workers on new work schedules, there have been few public discussions about how its skilled trades unions will contribute to the turnaround plan. NYCHA's fiscal stability depends on future settlements being financially sustainable and providing enough flexibility for NYCHA to implement its turnaround plan.

NYCHA's flagging rental collection rate not only costs revenue, but also reflects sagging morale among frontline staff and growing distrust among tenants. Devolving budgeting and accountability to the property level could improve collections but it will depend on property managers' ability to implement changes and meaningfully improve tenants' quality of life. NYCHA's forthcoming organizational plan must include a program to boost the rent collection rate and maintain it going forward.

The challenges presented here are just a few of the many topics that NYCHA must address in the months to come. NYCHA and its partners will face hard choices about how not only to stabilize the Housing Authority's buildings but also its operations. The mandated organizational plan promises to fundamentally reshape how NYCHA manages its public housing portfolio. Stabilizing its fiscal outlook must be front and center in these discussions.

By Sean Campion

Footnotes

1. Meeting minutes, New York City Housing Authority Board of Directors (December 18, 2019), https://www1.nyc.gov/assets/nycha/downloads/pdf/board_meeting_minutes_12182019.pdf.
2. NYCHA has also secured additional project-based Section 8 rental vouchers from the U.S. Department of Housing and Urban Development for units originally built by the City and State without federal assistance, which previously made them ineligible for the federal operating subsidy. HUD granted NYCHA permission in 2008 to convert 8,400 of its 20,170 unfunded units to project-based Section 8 vouchers. Under the plan, NYCHA has been converting unfunded units to Section 8 as units become vacant. As of April 2019, NYCHA had converted 4,078 of the initial 8,400 units to Section 8. In September 2018, NYCHA received permission from HUD to convert 3,581 of the remaining units with the current tenants in place rather than waiting to convert them upon vacancy. This results in additional subsidy in the short-term, though NYCHA has bundled nearly all of these properties into PACT megabundles to cross subsidize properties converted under the RAD program. As such, most of these project-based Section 8 developments will soon move off NYCHA's operating budget. Source: New York City Housing Authority, *Draft PHA Agency Plan: Annual Agency Plan for Fiscal Year 2020* (May 31, 2019), <https://www1.nyc.gov/assets/nycha/downloads/pdf/FY%202020%20Draft%20Annual%20Plan%20and%20Five-Year%20Agency%20Plan.pdf>.
3. The annual operating budget for the City's Department of Housing Preservation and Development includes this funding as a pass-through to NYCHA. Direct payments from the City to NYCHA are grouped in City budget documents under Object Code 770. See: City of New York Office of Management and Budget, *Preliminary FY 2021 Budget Departmental Estimates* (January 16, 2020), <https://www1.nyc.gov/assets/omb/downloads/pdf/de1-20.pdf>.
4. City of New York Office of Management and Budget, *Preliminary FY 2021 Budget Departmental Estimates* (January 16, 2020), <https://www1.nyc.gov/assets/omb/downloads/pdf/de1-20.pdf>.
5. City of New York Office of Management and Budget, *Preliminary FY 2021 Budget Departmental Estimates* (January 16, 2020), <https://www1.nyc.gov/assets/omb/downloads/pdf/de1-20.pdf>.
6. City of New York Office of Management and Budget, *Preliminary FY 2021 Budget Departmental Estimates* (January 16, 2020), <https://www1.nyc.gov/assets/omb/downloads/pdf/de1-20.pdf>.
7. As part of the agreement, Local 237 members received a retroactive raise of 2 percent in May 2018, along with scheduled 2.25 percent raise in 2019 and a 3 percent raise in 2020. These increases conformed to the agreements the City reached with District Council 37 and the United Federation of Teachers in their 2017-2021 bargaining round. In addition to pattern raises, Local 237 members received one-time \$1,500 bonuses for opting into an Alternative Work Schedule and a 20 percent shift differential for working weekend hours as part of their regular work schedule. See: New York City Housing Authority, "NYCHA Hails Landmark Ratification of New York Rules, Seven Day A Week Schedules" (press release, January 11, 2019), <https://www1.nyc.gov/site/nycha/about/press/pr-2019/pr-20190111.page>.
8. City of New York Office of the Mayor, "Mayor de Blasio and Teamsters Local 237 Secure Fair Wages, New Schedules for Approximately 1,000 NYCHA Maintenance Workers" (press release, April 9, 2019), <https://www1.nyc.gov/office-of-the-mayor/news/187-19/mayor-de-blasio-teamsters-local-237-secure-fair-wages-new-schedules-approximately-1-000>.
9. City of New York, Mayor's Office of Operations, *Mayor's Management Report, Fiscal 2019: New York City Housing Authority*, https://www1.nyc.gov/assets/operations/downloads/pdf/mmr2019/2019_mmr.pdf.
10. KPMG, *Current State Observations and Maturity Assessment Report* (December 2019), <https://nychamonitor.com/wp-content/uploads/2019/12/NYCHA-Current-State-Observations-and-Maturity-Assessment-Report.pdf>.

11. City of New York, Mayor's Office of Operations, *Mayor's Management Report, Fiscal 2019: New York City Housing Authority*, https://www1.nyc.gov/assets/operations/downloads/pdf/mmr2019/2019_mmr.pdf.
12. City of New York, Mayor's Office of Operations, *Mayor's Management Report, Fiscal 2019: New York City Housing Authority*, https://www1.nyc.gov/assets/operations/downloads/pdf/mmr2019/2019_mmr.pdf.
13. Sean Champion, "Stabilizing the Foundation: Transforming NYCHA to Address Its Capital Needs," *Citizens Budget Commission* (July 3, 2018), <https://cbcny.org/research/stabilizing-foundation>.
14. Sean Champion, "Stabilizing the Foundation: Transforming NYCHA to Address Its Capital Needs," *Citizens Budget Commission* (July 3, 2018), <https://cbcny.org/research/stabilizing-foundation>.
15. New York City Housing Authority, *Five-Year Operating Plan Calendar Years 2019-2023* (December 19, 2018), <https://www1.nyc.gov/assets/nycha/downloads/pdf/operating-plan-narrative-04-2019.pdf>.
16. Sean Champion, "Room to Breathe," *Citizens Budget Commission* (July 19, 2017), <https://cbcny.org/research/room-breathe>.