Policy Brief ■ July 2017

Room to Breathe:

Federal and City Actions Help NYCHA Close Operating Gaps, But More Progress Needed on Implementing NextGenNYCHA

By Sean Campion

In 2015 the Citizens Budget Commission (CBC) issued a report, *Cleaning House: How to Close the New York City Housing Authority's Operating Gaps*, which analyzed the deteriorating fiscal condition of the New York City Housing Authority (NYCHA) and made recommendations for improving its finances, namely increasing income, decreasing operating costs, and improving service quality, particularly maintenance. Many of these recommendations were subsequently adopted in NYCHA's strategic plan, NextGenerationNYCHA (NextGen).

In the two years since CBC's report, NYCHA's financial position has improved: increased City and federal support allowed it to recognize a small surplus in 2016. NYCHA has also taken steps to improve its efficiency as a landlord and to expand development revenues, but these efforts have progressed slowly and yielded modest savings. With potential changes in federal policy looming, NYCHA should move more forcefully to implement NextGen reforms.

WHY WAS NYCHA A FISCAL MESS?

In 2015 NYCHA was struggling to close the latest in a series of operating deficits. Between 2003 and 2015 NYCHA had experienced deficits in nine fiscal years.[1] CBC identified four long-term causes of NYCHA's fiscal stress:

1. **Declining federal operating subsidies:** Federal operating subsidies fund more than 40 percent of NYCHA's annual $2.1 billion public housing budget.[2] Since 2003 Congress generally has not appropriated the funding that federal formulas indicate is necessary to fund NYCHA's operations adequately.[3]

2. **Inability to maximize non-rental income:** NYCHA had a poor track record in rent collection and generated minimal operating income from other sources, including parking facilities and commercial spaces. It had also failed to accommodate new development on its underutilized land, which would both raise revenue and bring new services and affordable housing options to residents.

3. **High per-unit operating costs:** Reasons NYCHA's costs were higher than those of comparable rent-stabilized buildings included higher personnel costs, inflexible work rules, redundancies at the managerial and central office levels, high utility costs, and the subsidy of community and senior centers.[4]

4. **Inability to implement gap-closing plans:** NYCHA had largely failed to implement recommendations developed in several strategic plans.[5]

CBC offered a series of recommendations to address these core issues:

1. Raise operating revenues by increasing the collection rate from 77 percent to the Authority's 95 percent target, the standard for privately-owned rental housing; and by raising non-rental income through measures such as raising parking permit fees to market rates, increasing monthly appliance fees, activating ground floor commercial spaces, and charging rents to nonprofit tenants in NYCHA buildings.

2. Curb expenses by reducing headcount and eliminating responsibility for community centers, which are outside NYCHA's core mission.

3. Improve services and productivity through new procurement arrangements, such as job order contracts; altering collective bargaining agreements to remove restrictive work rules; and pursuing opportunities to use private management to reduce high per-unit operating costs.

GETTING SOME BREATHING ROOM

Shortly after the CBC report was released, NYCHA released a new 10-year strategic plan,

NextGenerationNYCHA, or NextGen.[6] The plan represented the new administration's vision for stabilizing NYCHA's long-term financial position, modernizing its management structure, and preserving its physical infrastructure.

NextGen identifies ways NYCHA can achieve short-term financial stability and diversify funding; operate as an efficient and effective landlord; expand and preserve public and affordable housing; and engage residents.

Many of the strategies advanced in the plan reflect CBC's recommendations. Strategies to generate additional revenue included raising the rent collection rate, boosting non-rental income sources, and identifying underutilized land for affordable and mixed-income development. The plan also called for NYCHA to transfer control of senior and community centers to City agencies and proposed strategies to convert properties to private management through project-based Section 8 financing. To reduce headcount, NYCHA proposed cutting its central office workforce through attrition and shifting non-core workers, especially in community and senior centers, to the City's payroll. NYCHA also wanted the City to eliminate or reimburse its payments for City services, including its payment-in-lieu-of-taxes (PILOT).[7] The plan also included strategies to reduce energy consumption, introduce a recycling program, and establish new workforce development and social service partnerships.

Since NextGen was released, NYCHA's public housing operations have operated at a surplus: in 2015 the surplus was $171.8 million, and in 2016 it was $36 million (See Table 1). This allowed the Authority to rebuild its operating reserves, reduce the amount of capital funds used to cover operating expenses, and invest more in day-to-day maintenance needs. However, the positive results were generated mostly by federal and City actions, not through implementation of NextGen initiatives, which have progressed slowly.

Four factors contributed to the budget surplus:

1. **Increased rental revenues thanks to new rent structure.** Rent paid by NYCHA tenants grew $122 million between 2013 and 2016, a 14 percent increase.[8] Changes in Federal law required public housing authorities to increase "flat rents" to 80 percent of fair market rents. Previously, public housing authorities had the discretion to set flat rents based on their estimates of the market value of public housing units in their jurisdiction. Tenants continue to pay the lesser of 30 percent of their annual income or the flat rent.

   Before the federal rules were amended in 2014, 33,000 households, or 19 percent of NYCHA tenants, paid flat rents that were less than 30 percent of income. NYCHA expects new flat rents will result in most of these households reaching the 30 percent cap by 2017; after that, benefits of new flat rents will diminish as residents shift to paying 30 percent of income.[9]

2. **Increased federal operating subsidies.** The public housing operating subsidy increased from 82 percent of formula-determined need in 2013–its lowest level in more than two decades—to 90 percent in 2016. NYCHA realized $82 million more in federal support in 2016 than in

Table 1: NYCHA's Public Housing Revenues and Expenses, Excluding Section 8 FY2013-2016

	2013	Actuals 2014	2015	Projected 2016	Change 2013-2016
REVENUES	**$1,925**	**$2,049**	**$2,192**	**$2,138**	**$213**
Operating Revenue	**$953**	**$989**	**$1,026**	**$1,086**	**$134**
Tenant Rent	$900	$938	$972	$1,023	$122
Tenant Fees & Charges	$20	$19	$19	$19	($1)
Commercial Rent	$14	$13	$13	$13	($0)
Other	$19	$20	$22	$31	$12
Subsidies	**$973**	**$1,060**	**$1,153**	**$1,052**	**$79**
HUD Operating Subsidy	$830	$901	$938	$912	$82
Capital Funds	$85	$102	$55	$49	($36)
City Support	$16	$25	$150	$85	$69
All Other	$41	$32	$11	$6	($36)
EXPENSES	**$2,074**	**$2,086**	**$2,020**	**$2,102**	**$28**
Personal Service	**$1,046**	**$970**	**$1,054**	**$1,065**	**$19**
Salaries	$669	$665	$711	$700	$31
Fringe Benefits	$377	$304	$344	$365	($12)
Utilities	**$568**	**$575**	**$559**	**$519**	**($48)**
Protective Services	**$63**	**$13**	**$17**	**$18**	**($45)**
PILOTs	**$26**	**$28**	**($28)**	**$0**	**($26)**
All Other	**$371**	**$501**	**$417**	**$500**	**$128**
SURPLUS/(DEFICIT)	**($149)**	**($37)**	**$159**	**$36**	**$185**
OPEB Payment	$59	$59	$65	$66	$7
SURPLUS/(DEFICIT) including OPEB Payment	**($208)**	**($97)**	**$93**	**($30)**	**$178**

Note: Expenses are estimated by taking the Financial Data Schedule totals and excluding expenses from the Housing Choice Voucher Program, Mainstream Voucher Program, and New Construction/Substantial Rehabilitation Section 8 Program. Fringe benefits do not include cash payments made to retirees for health care expenses; these expenses are shown here as "OPEB Payment." Projected 2016 revenue and expense figures are preliminary, unaudited results provided by NYCHA staff.

Sources: New York City Housing Authority, *Comprehensive Annual Financial Report* (fiscal year 2013, 2014 and 2015 editions), "Financial Data Schedules of Revenues and Expenses and Basic Financial Statements;" and NYCHA staff.

2013.

3. **Increased City subsidies and support.** Under Mayor Bill de Blasio, the City of New York has increased its financial support for NYCHA in several ways. First, control of 17 senior centers and 24 community centers at NYCHA was transferred to city agencies for savings of $9 million annually.[10] Fourteen senior centers remain; the City provided $3 million in annual operating support for these centers in City fiscal years 2017 and 2018, but no funding has been allocated for future years.

   Second, the City waived NYCHA's $27 million annual PILOT, which was intended to cover

supplemental sanitation and police services (in addition to a $72.5 million payment for police services that the City previously eliminated in 2014).[11] Third, the City covered the cost of contract raises resulting from collective bargaining settlements, including retroactive payments. The subsidies amounted to $54 million in City fiscal year 2015, $50.4 million in fiscal year 2016, and will rise to $65 million annually by 2019.[12]

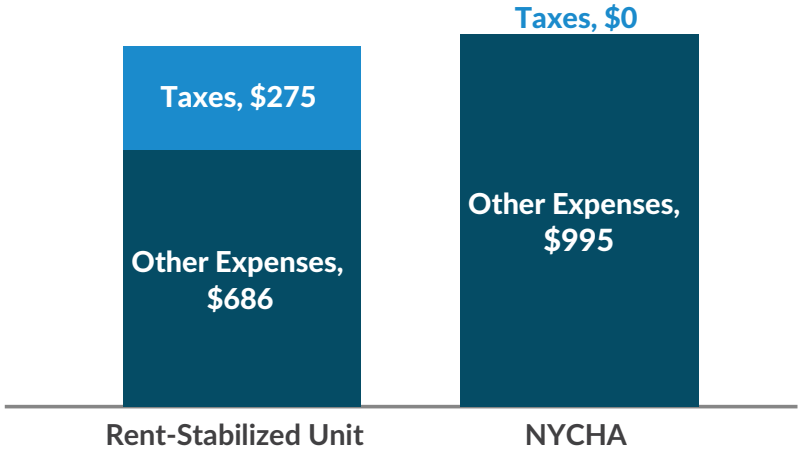
4. **Controlling expenses.** Personnel costs, which represent half of the cost of operating public housing, grew 2 percent to $1.1 billion in 2016. Salaries rose 5 percent between 2013 and 2016 as a result of wage increases in the new collective bargaining agreement, while fringe benefit costs fell 3 percent. Headcount reductions and the transfer of personnel from NYCHA's community centers to City agencies helped control growth.

   Utility costs fell by $48 million, or 9 percent, to $519 million, largely due to falling natural gas prices, although NYCHA's recent sustainability efforts, including the installation of efficient lighting and heating systems, also contributed the reduction in energy costs. The initial phase of NYCHA's first Energy Performance Contract is expected to generate $3.5 million in utility cost savings at 16 developments.[13]

   NextGen has also led to modest improvements in service delivery. Use of smart phones by maintenance staff has saved $1.2 million in administrative costs and increased the work order closure rate. Pilot programs to devolve maintenance responsibility to individual developments and to experiment with work rule reform have improved building conditions and cleanliness.

Unlike previous gap-closing efforts and strategic plans, NYCHA is holding itself accountable for implementing NextGen by publishing progress reports and other information on its website. Its cost-control efforts have narrowed the gap in monthly per-unit operating costs with comparable rent-stabilized properties; however, NYCHA's costs continue to be significantly higher. As Figure 1 shows, NYCHA's costs, excluding property taxes, are 45 percent higher—down from 52 percent in 2012.

Figure 1: Monthly Operating Costs per Unit: NYCHA vs. Rent Stabilized Unit, 2016



Sources: New York City Housing Authority; New York City Rent Guidelines Board, 2017 Income and Expense Study (March 2017).

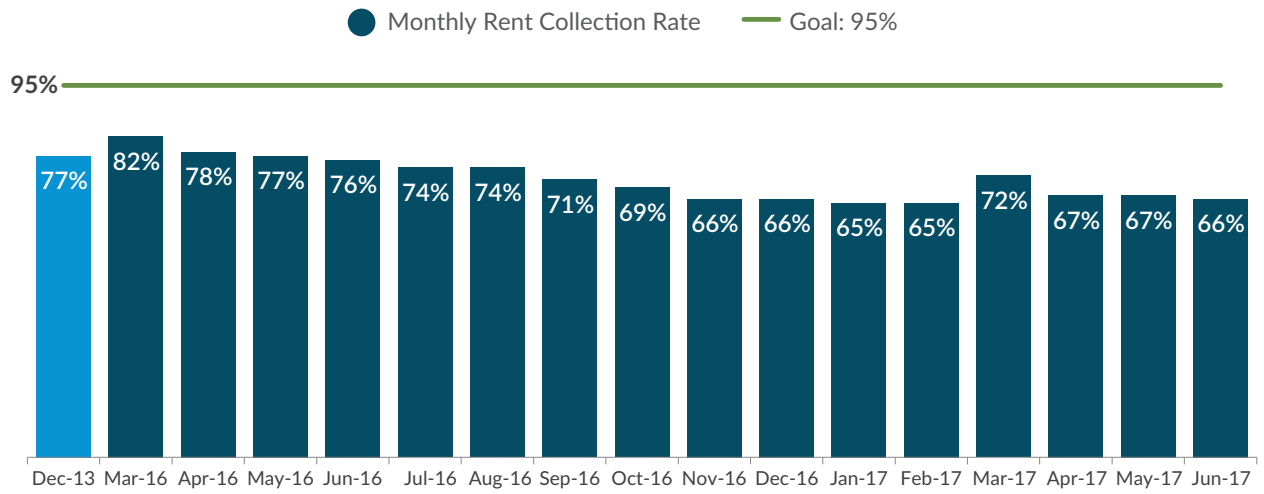
BUILDING ON MOMENTUM TO BOLSTER ITS POSITION

NYCHA has taken important steps forward to begin to control its expenses, but its operating costs remain high. Greater progress should be made in implementing NextGen strategies, particularly in the areas CBC has identified.

1. Raise Operating Revenues

Rent Collection Rate. NYCHA's rent collection rate has not improved. Figure 2 shows the amount of revenue collected as a share of the total amount due in a given month. The rent collection rate fell from 77 percent in December 2013 to 65 percent in February 2017. The annual average was 69 percent between July 2016 and June 2017, which is well below NYCHA's 95 percent goal. It is likely that increases in flat rents have depressed collection rates, even as total rent revenues have grown.

Figure 2: NYCHA's Monthly Rent Collection Rate vs. Target



Sources: Source: New York City Housing Authority, "NYCHA Metrics," https://eapps.nycha.info/NychaMetrics/Charts/PublicHousingChartsTabs, accessed July 13, 2017.

NYCHA's efforts to improve collections include robocall reminders and the MyNYCHA app, which provides automated reminder notices. NYCHA also partners with the City's Human Resources Administration to secure rental assistance payments for households at risk of eviction. NYCHA estimates these initiatives have started to have a modestly positive impact on collections, with tenant rental revenue exceeding the forecast by $5 million in 2016.

Non-rental income. Revenue from non-rental sources, including tenant fees and commercial rent, fell slightly from $33.2 million in 2013 to $32.3 million in 2015. NYCHA has raised neither appliance fees nor parking fees. Although parking rates are well below market rates for residents and nonresidents, NYCHA has not revised its pricing as planned in NextGen.

Vacancy rates in commercial spaces have declined from 18 percent in 2013 to 7 percent in 2017.[14]

NYCHA expects to collect an additional $605,000 annually in revenue from new commercial leases, but commercial revenue actually fell from $13.6 million in 2013 to $13.3 million in 2016. Many nonprofits in NYCHA-owned spaces do not pay rent; NYCHA is pursuing a strategy to have the City, which funds the groups, reimburse the Authority for the leases.

2. Curb Expenses

NYCHA's total authorized headcount fell by 211 positions between 2015 and 2017, driven by a reduction of 398 positions for community programs and in the central office. These decreases allowed NYCHA to add 187 positions in the field to improve service performance. Streamlining operations and control of personnel expenses should continue.

3. Improve Service/Productivity

NYCHA has taken a number of steps to boost productivity, improve customer service, and reduce operating costs. The initial results have been promising, though they have yet to be rolled out across the NYCHA system.

Job Order Contracts. Job order contracts (JOCs) are used in small, routine jobs with minimal design requirements. While NYCHA has used JOCs for security upgrades in the past, it had rarely used them for more costly maintenance work. Recently, NYCHA released Requests for Qualifications for JOCs relating to plumbing, Local Law 11-related façade repairs, and other general contracting work. These arrangements have the potential to improve productivity and increase savings.

Work Rule Changes. As part of the NextGen initiative, NYCHA launched a pilot program called FlexOps to test a staggered shift schedule for caretakers (who take out trash and maintain the buildings and grounds) and maintenance workers at 12 developments.[15] Due to contract restrictions, the shifts are primarily staffed by volunteers. Caretakers can opt for early shifts (6 a.m. to 2 p.m.) or late shifts (10:30 a.m. to 7 p.m.) in lieu of the standard 8 a.m. to 4:30 p.m. shift. Maintenance workers who have scheduled appointments for repairs in individual apartments can volunteer for a late shift from 11:30 a.m. to 8 p.m. In addition, management offices remain open until 7 p.m. one day per week. Volunteers receive a shift differential and a one-time bonus.

In the first phase, all 12 developments had extended management hours, and 5 developments had early morning-shift caretakers, 1 had an evening-shift caretaker, and 1 had extended maintenance hours. Inspections of the buildings and grounds of the five developments indicate the program significantly improved conditions at lower-rated buildings.

The early success has led to a slight expansion of the program with extended caretaker and maintenance shifts provided at additional developments. This is a promising approach, and NYCHA should work with the City's Office of Labor Relations to negotiate work rule changes with the labor

unions in order to codify the schedules in collective bargaining agreements so that no additional financial incentives are required.

More Cost-Effective Operating Approaches. In addition to making its operations more efficient through headcount reductions and scheduling changes, NYCHA is pursuing public-private partnerships with private management companies to stabilize operating costs and improve service outcomes. These deals are also motivated by access to outside capital sources to fund renovations, and there has been encouraging progress on this front.

To date, NYCHA has pursued private management deals in three ways: the conversion of traditional public housing units through US Department of Housing and Urban Development's Rental Assistance Demonstration (RAD) program; the conversion of non-federally subsidized housing units to private ownership with project-based Section 8 funding; and the sale of small, scatter site units to homeownership programs through Habitat for Humanity.[16]Through RAD, public housing authorities transfer control of buildings to private owners, while the housing authority retains ownership of the underlying land to ensure permanent affordability. NYCHA's RAD program is known as Permanent Affordability Commitment Together (PACT).[17] The first PACT transaction was completed in 2016 at the Ocean Bay development in Far Rockaway. The deal brought $43 million in one-time revenue to NYCHA and will leverage $325 million in private funding for capital improvements.[18] HUD has approved the conversion of an additional 17 developments through RAD, and a request for proposals (RFP) for developers interested in converting 1,700 apartments in the Bronx and Brooklyn was issued in May 2017.[19] RAD has provided new resources for NYCHA and will reduce operating costs at PACT properties, but it is too early to estimate the ongoing impact of RAD conversions on NYCHA's operating budget.

In addition to RAD transactions, NYCHA has continued to spin off the small number of properties it controls that were ineligible for federal operating subsidies, as well as small scatter site properties that it has acquired over time. These properties are often more difficult and costly to operate than larger developments.[20] In 2015 NYCHA closed on a transaction with L+M Development Partners and BFC Partners to take over 874 Section 8 units in the Bronx, Brooklyn, and Manhattan. In addition to leveraging $100 million in private financing for renovations, the transaction will raise $360 million for NYCHA over 15 years. Separately, NYCHA has also transferred control of 36 single family homes to Habitat for Humanity, which will renovate the properties before selling them to qualified low-income households.

NYCHA has also pursued opportunities to develop underutilized land for both 100 percent affordable housing and mixed-income developments. Fetner Properties was selected as the developer for a mixed-income building at Holmes Towers in May 2017. NYCHA expects the Holmes Tower transaction to generate $25 million at closing.[21] Developers for additional mixed-income developments at the LaGuardia Houses and Wyckoff Gardens have not yet been selected, and none of the three deals have closed to date.

CONCLUSION

Increased City support has allowed NYCHA financial breathing room to launch new initiatives, including efforts to tackle long-standing inefficiencies and improve services. However, this grace period may be coming to an end with proposed changes to federal funding on the horizon. President Donald Trump has proposed drastic cuts to public housing in the Federal Fiscal Year 2018 Budget. The federal budget will be modified significantly by Congress, but even partial cuts could undercut the progress NYCHA has made. The budget proposal would cut $80 million to $130 million in annual operating subsidies on top of a $210 million reduction in the federal capital subsidy and the loss of 13,000 Section 8 housing vouchers.

Despite its improved financial position, NYCHA's budget remains precarious and has little room to absorb these cuts on its own. Its 2017 financial plan projects a $19.6 million operating deficit by 2019, growing to $56.8 million by 2021. Operating reserves have fallen from 2.9 months of operating expenses in 2015 to 2.6 months as of March 2017, leaving little margin to absorb the proposed changes.

Given these risks, it is imperative that NYCHA move more forcefully toward implementing NextGen initiatives to improve its finances and operations. While the Authority has made strides on its own, many of the remaining steps will require the cooperation of the Mayor and City Council:

- Ease work rule restrictions in the upcoming collective bargaining negotiations;
- Come to an agreement for rent payment by non-profit tenants in NYCHA buildings;
- Support NYCHA's proposal to raise parking fees to market rates; and
- Lobby the federal government against onerous changes to public housing operating and capital subsidies.

ENDNOTES

[1] See: Rachel Bardin and Maria Doulis, *Cleaning House: How to Close the New York City Housing Authority's Operating Gaps* (Citizens Budget Commission, April 2015), Table 1 and Figure 5, https://cbcny.org/research/cleaning-house.

[2] This report focuses on NYCHA's public housing operating budget. All figures and data exclude spending related to its Section 8 Housing Choice Voucher program where possible.

[3] In fiscal years 2010 and 2011, Congress appropriated the full operating subsidy. Congress appropriated 89 percent in 2012, 82 percent in 2013, 89 percent in 2014, 85 percent in 2015, 90 percent in 2016, and 87 percent in 2017. This is commonly referred to as the "proration rate." For proration rate in prior years, see: Rachel Bardin and Maria Doulis, *Cleaning House: How to Close the New York City Housing Authority's Operating Gaps* (Citizens Budget Commission, April 2015), Table 3, https://cbcny.org/research/cleaning-house.

[4] City of New York, Mayor's Office of Operations, *Mayor's Management Report 2014* (September 2014), p. 271; and. New York City Rent Guidelines Board, *Housing NYC: Rents, Markets & Trends 2014* (2014), pp. 30-31.

[5] City of New York Office of the Comptroller, *Audit Report on Efforts by the New York City Housing Authority to Maximize Federal Funding, Enhance Revenue, and Achieve Cost Savings*, (December 2014), https://comptroller.nyc.gov/reports/audit-report-on-efforts-by-the-new-york-city-housing-authority-to-maximize-federal-funding-enhance-revenue-and-achieve-cost-savings.

[6] New York City Housing Authority, *NextGenerationNYCHA* (May 2015), http://www1.nyc.gov/assets/nycha/downloads/pdf/nextgen-nycha-web.pdf.

[7] Prior to 2015 the City of New York charged NYCHA an annual payment-in-lieu-of-taxes (PILOT). The charges were originally intended to cover the cost of police and sanitation services provided by the City to NYCHA buildings. Later, the City instituted a separate charge for police services in addition to the PILOT after NYCHA's Housing Police force merged with the NYPD in 1995. The public safety charge was cancelled in 2014. Together, the City's decision to forgo these charges saved NYCHA over $100 million annually.

[8] The growth of rental revenue doubled from the previous four-year period covering 2009 to 2013, when revenue grew $57 million, or 7 percent. Some portion of the higher growth rate is due to the improvements in the city's economy during the recovery from the Great Recession.

[9] New York City Housing Authority, *Comprehensive Annual Financial Report for the Years Ended December 31, 2015 and 2014* (October 2016), p. 5, http://www1.nyc.gov/assets/nycha/downloads/pdf/CAFR_2015.pdf.

[10] NYCHA developments previously housed 255 community and senior centers. In recent years, however, the City has agreed to operate or subsidize nearly all of these centers, in many cases combining them with other existing city programs. As of 2014, NYCHA continued to operate 24 community and 33 senior centers.

[11] NYCHA's public housing properties are exempt from property taxes, although the City retains the right to require NYCHA to make PILOTs. If the City had not waived NYCHA's PILOT, the Authority's obligation would have risen to $33 million in City fiscal year 2017.

[12] The Council of the City of New York, *Report of the Finance Division on the Fiscal 2018 Preliminary Budget and the Fiscal 2017 Preliminary Mayor's Management Report for the New York City Housing Authority* (March 13, 2017).

[13] Energy Performance Contracts are renovation projects that integrate efficiency projects. They are designed to improve energy efficiency, reduce water usage, and reduce utility costs. Theoretically, the savings generated by reducing expenses will at least partially offset the upfront capital costs.

[14] Rent and vacancy data for commercial spaces was provided to CBC via email by NYCHA on May 9, 2017. The Authority's financial statements do not break out individual sources of non-rental income.

[15] New York City Housing Authority, *FlexOps FAQs* (March 2017), http://www1.nyc.gov/assets/nycha/downloads/pdf/flexops-faq-20170301.pdf.

[16] In May 2016, NYCHA also selected developers for 100 percent affordable development projects at three developments in the Bronx and Brooklyn. Unlike the mixed-income sites, the 100 percent affordable developments transactions are not expected to generate revenue for NYCHA, but will include new housing and services available to NYCHA residents.

[17] In July 2017 NYCHA announced plans to expand PACT to include project-based Section 8 Housing Choice Voucher conversions, in addition to conversions funded through RAD. See New York City Housing Authority, "NYCHA Announces Expansion of Permanent Affordability Commitment Together (PACT) Program in NYC, Ensuring Permanent Affordability & Bringing $325 Million for Repairs Benefiting over 3,700 Residents" (press release, July 13, 2017), http://www1.nyc.gov/site/nycha/about/press/pr-2017/20170713-pact.page.

[18] New York City Housing Authority, "NYCHA Closes First Agreement Under Permanent Affordability Commitment Together (PACT) Program in NYC, Ensuring Permanent Affordability & Bringing $325 Million for Repairs Benefiting over 3700 Residents" (press release, December 30, 2016), http://www1.nyc.gov/site/nycha/about/press/pr-2016/pact-agreement-20161229.page.

[19] New York City Housing Authority, "NYCHA Releases Request for Proposals for Permanent Affordability Commitment Together (PACT) Program to Raise Funds for Repairs and Protect 1,700 Public Housing Apartments" (press release, May 23, 2017), http://www1.nyc.gov/site/nycha/about/press/pr-2017/pact-rfp-20170523.page.

[20] New York City Housing Authority, *NextGeneration NYCHA* (May 2015), p. 12; "De Blasio Administration Unveils NextGeneration NYCHA: A Comprehensive Plan to Secure The Future Of City Public Housing" (press release, May 19, 2015), http://www1.nyc.gov/site/nycha/about/press/pr-2015/de-blasio-unveils-nextgen.page.

[21] New York City Housing Authority, "Announces Developer Selection at Holmes Towers for NextGen Neighborhoods Program, Raising Critically Needed Funds for Repairs and Creating New Affordable Housing" (press release, May 17, 2017), http://www1.nyc.gov/site/hpd/about/press-releases/2017/05/05-17-17.page.

ROOM TO BREATHE:

Federal and City Actions Help NYCHA Close Operating Gaps, But More Progress Needed on Implementing NextGenNYCHA

Policy Brief ■ July 2017

NYCHA, Rent Stabilization, Affordable Housing

www.cbcny.org

@cbcny

540 Broadway
Fifth Floor
Albany, NY 12207
518-429-2959

Two Penn Plaza
Fifth Floor
New York, NY 10121
212-279-2605