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HEARING ON THE FISCAL YEAR 2014 EXECUTIVE BUDGET FOR THE

DEPARTMENT OF HOUSING PRESERVATION AND DEVELOPMENT

May 20, 2013

EXECUTIVE BUDGET EXPENSE HIGHLIGHTS

- **Overview:** The Department of Housing Preservation and Development (HPD or Agency) has a Fiscal 2014 Expense Budget of \$560.4 million, a decrease of approximately \$11.0 million when compared to the Fiscal 2013 Adopted Budget. The \$560.4 million Fiscal 2014 Executive Budget is \$229.9 million less than the Fiscal 2014 Preliminary Budget. This is mainly due to a \$67.6 million decrease in contractual services and a \$126.7 million decrease in Section 8 program expenses due to baselining the Section 8 subsidy.
- **Section 8 Subsidy:** Due to federal funding cuts, approximately \$16.1 million was cut in Section 8 housing voucher subsidy. The Office of Management and Budget (OMB) restored these funds in the Fiscal 2014 Executive budget in order to keep the Section 8 subsidy baselined but these funds were not restored by the federal government. In order to restore this funding HPD will use money from their Section 8 reserve fund to replace the subsidy. The current balance of the Section 8 reserve fund is approximately \$20 million so this will almost completely deplete this fund. If Section 8 subsidy continues to fall, HPD will need to cut program funding.
- **Headcount:** The Fiscal 2014 Executive Budget shows a reduction of five positions when compared to the Fiscal 2013 Adopted budget. This is attributable to two layoffs associated with streamlining contracts, a transfer of five employees to be paid through the Shelter Care Plus program as opposed to Section 8 and two new hires for the New York Housing Authority (NYCHA) environmental work. Through an agreement between NYCHA and HPD, HPD performs some environmental work for NYCHA projects. The five transfers should be netted out through a headcount decrease in Section 8 but the agency might hire new people and wanted to keep funding in this budget line.

FINANCE DIVISION

Preston Niblack, Director
Jeffrey Rodus, First Deputy Director

Nathan Toth, Deputy Director
Amy Stokes, Legislative Financial Analyst

DEPARTMENT OF HOUSING PRESERVATION AND DEVELOPMENT

OVERVIEW

This report provides an overview of the Department of Housing Preservation and Development's Fiscal 2014 Budget and a summary of the Agency's Capital Budget for Fiscal 2013-2017. Appendix 2 reports the changes made to the Fiscal 2013 and Fiscal 2014 Budget since adoption of the Fiscal 2013 Budget. For additional information on HPD's budget and its various programs, please refer to the "Department of Housing Preservation and Development's Preliminary Budget Hearing Report" available at: <http://www.council.nyc.gov>.

FINANCIAL SUMMARY

<i>Dollars in Thousands</i>	2012	2013		2014	*Difference
	Actual	Adopted	Exec. Plan	Exec. Plan	2013 - 2014
Budget by Program Area					
Administration	\$32,584	\$33,632	\$34,722	\$31,225	(\$2,407)
Administration Program	19,878	14,671	17,701	14,120	(551)
Development	58,671	18,003	41,665	16,335	(1,668)
Housing Operations - Section 8 Programs	454,021	347,698	486,624	348,814	1,116
Housing Operations- Emergency Housing	25,162	17,990	23,701	19,504	1,514
Housing Operations- Mgmt & Disposition	43,727	34,039	44,031	33,862	(177)
Preservation - Anti-Abandonment	8,545	6,026	7,748	4,761	(1,265)
Preservation - Code Enforcement	30,773	31,914	31,394	30,606	(1,308)
Preservation - Emergency Repair	24,304	29,705	29,594	26,881	(2,824)
Preservation - Lead Paint	15,109	16,578	18,310	17,702	1,124
Preservation - Other Agency Services	18,570	21,076	54,760	16,555	(4,521)
TOTAL	\$731,343	\$571,332	\$790,250	\$560,366	(\$10,966)
Funding					
City Funds	N/A	62,768	60,628	49,835	(\$12,933)
Other Categorical	N/A	2,221	26,693	1,789	(432)
Capital- IFA	N/A	16,673	14,473	16,673	0
State	N/A	1,968	4,002	1,968	0
Federal - Community Development	N/A	129,450	130,799	123,319	(6,131)
Federal - Other	N/A	357,349	550,265	364,536	7,187
Intra City	N/A	904	3,444	2,248	1,344
TOTAL		\$571,332	\$790,304	\$560,366	(\$10,966)
Positions	2,105	2,353	2,362	2,348	(5)
TOTAL	2,105	2,353	2,362	2,348	(5)

*The difference of Fiscal 2013 Adopted compared to Fiscal 2014 Executive Plan Funding.

NEW IN THE EXECUTIVE BUDGET

HPD has a Fiscal 2014 Expense Budget of \$560.4 million, a decrease of approximately \$11.0 million when compared to the Fiscal 2013 Adopted Budget. The \$560.4 million Fiscal 2014 Executive Budget is \$229.9 million less than the Fiscal 2014 Preliminary Budget. This is mainly due to a \$67.6 million decrease in contractual services and a \$126.7 million decrease in Section 8 program expenses due to baselining the Section 8 subsidy.

- **Mortgage Foreclosure Assistance:** HPD will increase the budget for the Mortgage Foreclosure Assistance Program (MAP) by \$750,000 in Fiscal 2014. MAP uses public and private funds to provide interest-free, deferred repayment loans. Homeowners also work with a non-profit housing counselor or legal services provider to determine eligibility and complete an application.
- **Senior Citizens Rent Increase Exemption Program:** The Senior Citizens Rent Increase Exemption Program (SCRIE) tax benefit will increase HPD's budget by \$450,000 in Fiscal 2014. HPD administers the SCRIE program for Mitchell Lama and some HDFC developments and anticipates higher payments. This will be partially offset by SCRIE recapture. The agency realized that many tenants were receiving both Section 8 and SCRIE benefits, which is illegal. HPD was able to identify these overlaps and stop applying the SCRIE benefits to these units. Since the Section 8 program actually provides greater benefits, residents should not be negatively affected by these changes. The recapture of these taxes is \$99,000 for Fiscal 2013 and 2014.
- **Increased Collections from Waterside/North Waterside.** Once these properties were sold by the owner in 2002, they were no longer under the Mitchell-Lama program. Unfortunately, the New York City tax rolls did not reflect the change in assessed value and HPD negotiated with the Department of Finance to obtain a credit for this miscalculation. The additional revenue will be \$522,000 in Fiscal 2013 and \$585,000 in Fiscal 2014.
- **Heat and Hot Water Compliance Fee.** HPD will generate additional revenue from new violation and inspection fees associated with heat and hot water. In 2011, the New York City Council passed Local Law 65, which charges a property owner \$250 for a first-time violation, \$250 or greater if the owner files a false Notice of Correction, and a \$200 fee if the landlord receives three or more Class C heat or hot water-related violations for the same dwelling within the same calendar year or Heat Season. This allows HPD to better focus its inspectorial and litigation resources on the worst offending landlords. The revenue from this initiative is \$13,000 in Fiscal 2013 and \$25,000 in Fiscal 2014.
- **Mortgage Service Fee Revenue.** The agency is generating additional revenue from a flat fee increase for mortgage refinancing. The fee is increasing from \$200 to \$400 per application. The expected revenue from the increase is \$236,000 for Fiscal 2014.
- **Section 108 Loan Settlement.** HPD was able to settle a Section 108 loan for a property located at 1400 Fifth Avenue and will receive the Purchase Money Mortgage earlier than expected. The total amount is \$151,000 for Fiscal 2013.
- **Additional Principal and Interest.** The agency will receive additional revenue from new financing terms associated with an HPD rehabilitation project. This revenue will be \$21,000 for Fiscal 2013 and Fiscal 2014.
- **Reduction in Tenant Interim Lease and In Rem Foreclosure Work:** A \$5.5 million reduction in contractor services in the Management and Dispositions program area is partially due to the reduction in Tenant Interim Lease (TIL) and In Rem Foreclosure programs.

CAPITAL PROGRAM

The May 2013 Capital Commitment Plan includes \$1.7 billion in Fiscal 2013-2017 for the Department of Housing Preservation and Development (including City and Non-City funds). This represents 3.8 percent of the City's total \$44.5 billion May Plan for Fiscal 2013-2017. The agency's May Commitment Plan for Fiscal 2013-2017 is 21.1 percent less than the \$2.1 billion scheduled in the January Commitment Plan, a decrease of \$450.1 million. This decrease is mainly due to the \$478.7 million decrease in Fiscal 2013, due to the reallocation of \$477 million of Sandy funds to other agencies.

The majority of capital projects span multiple fiscal years, and it is, therefore, common practice for an agency to roll unspent capital funds into future fiscal years. In Fiscal Year 2012, the Department of Housing Preservation and Development committed \$297.7 billion or 50% percent of its annual capital plan. Therefore, it is assumed that a significant portion of the agency's Fiscal 2013 Capital Plan will be rolled into Fiscal 2014. Since adoption last June, the City's total Capital Commitment Plan for Fiscal 2013 has decreased from \$17.9 billion in the September Capital Commitment Plan to \$16.6 billion in the May Capital Commitment Plan, a decrease of \$1.3 billion or 7.3 percent.

Not included in the City's Capital Commitment Plan is Hurricane Sandy related CDBG-Disaster Relief funding of \$648 million that will be administered by the Department of Housing Preservation and Development. The breakdown of this funding which was approved by the Federal Department of Housing and Urban Development on May 10, 2013 is as follows: \$306 million for the reconstruction of one and two family homes; \$225 million for repair and reconstruction projects in multi-family buildings; \$108 million for resiliency improvements to public housing (mainly generators); and \$9 million for up to 24 months of rental assistance for families displaced by Hurricane Sandy. The application process for these funds is scheduled to begin next month.

2013-2017 Commitment Plan: Executive Budget and Preliminary Budget					
<i>Dollars in Thousands</i>					
	FY13	FY14	FY15	FY16	Total
Prelim					
Total Capital Plan	\$1,245,215	\$358,814	\$261,887	\$269,371	\$2,135,287
Exec					
Total Capital Plan	\$766,529	\$384,271	\$269,884	\$264,465	\$1,685,149
Change					
Level	(\$478,686)	\$25,457	\$7,997	(\$4,906)	(\$450,138)
Percentage	-38.4%	7.1%	3.1%	-1.8%	-21.1%

Under the 2014-2017 Capital Plan, the City will invest \$371.5 million (\$357.8 million in City funds) to preserve affordable housing through targeted financial assistant to private owners to prevent abandonment and secure long-term affordability. The 2014-2017 Plan also allocates \$293.3 million (\$270.2 million in City funds) for new construction projects that create rental and homeownership opportunities. Additionally, HPD will allocate a total of \$272.4 million (\$44.3 million in City funds) to supportive housing initiatives, including those to end chronic homelessness through the execution of the New York/New York III agreement with the State. Finally, the City will continue with the rehabilitation and disposition of its remaining in rem residential stock, to return these buildings to responsible private owners. The 2014-2017 Plan allocates a total of \$112.8 million (\$107.6 million in City funds) to fund these tasks.

2013-2017 Capital Commitments: By Program Area*Dollars in Thousands*

	FY13	FY14	FY15	FY16	FY17	Total
New Construction	\$325,568	\$69,705	\$64,565	\$74,617	\$84,364	\$618,819
Preservation	218,940	125,623	81,882	82,866	81,166	590,477
Supportive Housing	59,490	77,655	59,378	67,400	68,000	331,923
Disposition	61,093	42,544	21,090	24,134	25,000	173,861
Other Housing Support	101,438	68,744	42,969	15,448	34,538	263,137
Total	\$766,529	\$384,271	\$269,884	\$264,465	\$293,068	\$1,978,217

MAJOR CAPITAL PROJECTS & EXECUTIVE BUDGET HIGHLIGHTS

- Storm Recovery Loan Program:** The Fiscal 2014 Executive budget also includes \$800,000 for Sandy related loans under HPD's Storm Recovery Loan Program. The Agency partnered with the Community Preservation Corporation (CPC) to provide loans to rehabilitate multifamily housing (5 or more units) damaged by Superstorm Sandy. The eligible uses are for moderate or substantial rehabilitation of multiple dwellings damaged by the storm that provide housing for New York City working families. This includes refinancing of existing debt or repairing damage and mitigating future storm impacts. The Fiscal 2014 Preliminary budget had a Sandy allocation of \$477 million, but this has since been reallocated by OMB to other agencies.
- Gateway Estates:** Gateway Estates is a 227-acre new neighborhood near Spring Creek in East New York, Brooklyn. HPD is working to implement plans for a new mixed-use community on the site. The proposed development includes a 625,000 square-foot regional retail center, affordable housing for nearly 7,000 people, more than 100 units of housing for seniors and a public school. The Related Companies and Blackacre Capital Partners completed the development of the retail center, Gateway Center, in the Fall of 2002. HPD negotiated the land sale with Related where the company will pay the City \$35 million, which will offset the cost of construction of infrastructure needed to support the new housing construction. HPD received \$30 million in February 2013 and expect to receive the remaining \$5 million in Fiscal 2017. The additional \$5 million has not been added to the Capital Plan. In the Fiscal 2014 Executive budget, HPD has added \$7.1 million in Associated Costs-Production for on-site critical infrastructure work on Gateway Estates 3B, which will consist of 81 single family homes for Fiscal 2013. These infrastructure costs include soil remediation, piles and methane venting systems for each home. The agency expects to close Phase 3B in Fiscal 2013 or early Fiscal 2014. Additionally, \$16.5 million is needed in Fiscal 2013 for Department of Design and Construction (DDC) Gateway Infrastructure, which includes streets, sidewalks, storm drains and sewers. Of this \$16.5 million, \$5.8 million for Phase 3B has been approved by OMB. The remaining \$10.7 million is for Phase 4, which will consist of 94 single family homes. Phase 4 is still under review at OMB and is expected to close in Fiscal 2015.
- Affordable Neighborhood Cooperative Program.** This program is funded by taxable bonds financed under the HDC Multi-Family Secured Mortgage Revenue Bonds Resolution. HDC financed the development of affordable cooperatives by providing a construction loan and a permanent mortgage for the cooperative. HDC also provided subordinate financing for a second mortgage during construction; the low-interest rate on the subordinate loan was blended with the first mortgage to reduce the overall interest rate paid by the developer. In exchange for this funding, HDC required the developer to build at least 50 affordable units and to sell a maximum of 25 percent of the units in the building at market price. Though income requirements varied, most affordable apartments went to households with incomes up to 175 percent of AMI. The 2013-2017 Executive Plan allocates \$86.6 million for this program, up from

\$82.5 million in the 2013-2017 Preliminary Plan. This \$4.1 million increase is due to HPD budgeting for the program. Initially, the agency budgeted for \$90,000 per unit subsidy. However, after completing the first few projects, the subsidy required is closer to \$110,000 per unit.

APPENDIX 1: BUDGET ACTIONS IN THE EXECUTIVE PLAN

<i>Dollars in Thousands</i>	FY 2013			FY 2014		
	City	Non-City	Total	City	Non-City	Total
Agency Budget as of January 2014 Plan	\$60,750	\$599,128	\$659,878	\$49,371	\$510,380	\$559,751
Other Adjustments						
14 EXEC Restore HOME Sequester			\$0		\$300	\$300
14 Jan Member Items Post Plan	60		60			0
Bring Up Funds for HCV (Housing Choice Vouchers)		125,000	125,000			0
Bring up Funds for Research		87	87			0
Bring up Funds for S8 FSS Fund		500	500			0
CD Rollover		1,350	1,350			0
Exec 14 IFA Surplus Reduction		(2,200)	(2,200)			0
Fed State SNA Shelter funds		2,048	2,048			0
Financial Headcount Mods		460	460			0
FY14 Exec Sequester HOME			0		(300)	(300)
Heat, Light and Power	(182)		(182)	(736)		(736)
Mortgage Foreclosure Assistance			0	750		750
MOU with HPD		61	61			0
New York Mortgage Coalition		701	701			0
Senior Citizens Rent Increase Exemption Program (SCRIE)			0	450		450
TIL Contracts		533	533			0
To Allocate Funds for DTR		222	222			0
To Allocate Funds for NSP2		24	24			0
To Schedule funds for NSP3		25	25			0
To Schedule funds for NSP3		1,574	1,574			0
To Schedule NYCHA Env Funds		113	113		151	151
TOTAL, Other Adjustments	(\$122)	\$130,499	\$130,377	\$464	\$151	\$615
TOTAL, All Changes	(\$122)	\$130,499	\$130,377	\$464	\$151	\$615
Agency Budget as of June 2014 Plan	\$60,628	\$729,627	\$790,255	\$49,835	\$510,531	\$560,366

APPENDIX 2: BUDGET ACTIONS IN THE NOVEMBER, JANUARY AND JUNE PLANS

<i>Dollars in Thousands</i>	FY 2013			FY 2014		
	City	Non-City	Total	City	Non-City	Total
Agency Budget as of June 2013 Plan	\$62,768	\$508,565	\$571,333	\$53,037	\$501,881	\$554,918
PEGs						
CDBG Cost Allocation	(\$613)		(\$613)			\$0
Consolidation of FMS Unit	(69)		(69)	(176)		(176)
Contract Administration	(63)		(63)	(171)		(171)
Demolition Reduction	(1,500)		(1,500)	(1,500)		(1,500)
Future Year Attrition			0	(509)		(509)
Housing Litigation Division Restructuring			0	(106)		(106)
HPD Fringe Contribution	(300)		(300)	(600)		(600)
Neighborhood Restore			0	(700)		(700)
Vacate 94 Old Broadway Site Office			0	(153)		(153)
Intra City with HPD			0		(16)	(16)
VOIP Implementation			0	(593)		(593)
TOTAL, PEGs	(\$2,546)	\$0	(\$2,546)	(\$4,509)	(\$16)	(\$4,525)
Other Adjustments						
Consolidation of FMS Unit	\$2		\$2	\$41		\$41
Contract Administration	(2)		(2)	41		41
DOI Audit	200		200			0
Housing Litigation Division Restructuring			0	25		25
HPD Fringe Dummy Initiative-SPC & Mod/SRO PEG	300		300	600		600
FY14 Nov Plan Member Items	28		28			0
Admin Fees		57	57			0
Allocate funds for Hudson Yard		3,670	3,670			0
Bring up funds for Willets Point		733	733			0
Family Self Sufficiency (FSS)		431	431			0
Future Year Attrition			0	136		136
HODAG SORP		1,158	1,158			0
HOME NPS3		110	110			0
HOME Roll		2,250	2,250			0
HOMEFIRST		3,000	3,000			0
Homeless Prevention Program		798	798		798	798
HPD I/C Emergency Vacate Program		1,360	1,360		1,360	1,360
HPD Intracity		1,000	1,000			0
MOU with HPD		120	120			0
PLP 582-588 Union Avenue Roll		806	806			0
PROMESA		756	756			0
Realign P-Code UA004 ARRA		27	27			0
Realign P-Code UA004 SPC			0			0
ROLL BPCA UNSPENT FUNDS		11,661	11,661			0
ROLL NSP2 GRANT FUNDS		3,977	3,977			0

<i>Dollars in Thousands</i>	FY 2013			FY 2014		
	City	Non-City	Total	City	Non-City	Total
Scheduling of S+C Funds		\$1,765	\$1,765			\$0
Section 8 Admin Fees IT/TSD		1,796	1,796			0
Section 8 DTR Admin Funds		100	100			0
Section 8 HCV PORT-OUT ADMIN FEES		170	170			0
To roll NSP2 grant funds		32	32			0
To roll NSP3 grant funds		1,678	1,678			0
To Schedule Federal Funds NSP3		75	75		75	75
To Schedule Funds- NYCHA HQS		87	87			0
To Schedule funds for Demo '12		760	760		896	896
To Schedule funds for NYCHA HQS		125	125			0
To Schedule S8 funds		4,616	4,616		4,616	4,616
To Schedule SPC funds		350	350		350	350
TPT and SMS		705	705			0
Villa Maria Project		526	526			0
Bring Up Funds for Prospect Pl		7,000	7,000			0
Bring up S8 Funds for Security		297	297			0
Federal Shelter Budget		1,439	1,439			0
Financial Plan Headcount Mods			0			0
FSS		65	65			0
HOME TRBA		450	450			0
Hurricane Sandy		3,700	3,700			0
Sandy Budget Authority		25,971	25,971			0
Section 8 Funds FSS		61	61			0
Section 8 Funds Homeless Prevention		149	149			0
To Bring up Funds for SPC		331	331		397	397
to schedule additional construction		969	969			0
to schedule federal funds NSP1		60	60			0
to schedule funds for EHUR		5,100	5,100			0
to schedule funds for EHUR DPM		210	210			0
to schedule NIH Grant		23	23		23	23
to schedule NSP1 funding		39	39			0
14 EXEC Restore HOME Sequester			0		300	\$300
14 Jan Member Items Post Plan	60		60			\$0
Bring Up Funds for HCV (Housing Choice Vouchers)		125,000	125,000			0
Bring up Funds for Research		87	87			0
Bring up Funds for S8 FSS Fund		500	500			0
CD Rollover		1,350	1,350			0
Exec 14 IFA Surplus Reduction		(2,200)	(2,200)			0
Fed State SNA Shelter funds		2,048	2,048			0
Financial Headcount Mods		460	460			0
FY14 Exec Sequester HOME			0		(300)	(300)

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<i>Dollars in Thousands</i>	FY 2013			FY 2014		
	City	Non-City	Total	City	Non-City	Total
Heat, Light and Power	(\$182)		(\$182)	(\$736)		(\$736)
Mortgage Foreclosure Assistance			0	750		750
MOU with HPD		61	61			0
New York Mortgage Coalition		701	701			0
Senior Citizens Rent Increase Exemption Program (SCRIE)			0	450		450
TIL Contracts		533	533			0
To Allocate Funds for DTR		222	222			0
To Allocate Funds for NSP2		24	24			0
To Schedule funds for NSP3		25	25			0
To Schedule funds for NSP3		1,574	1,574			0
To Schedule NYCHA Env Funds		113	113		151	151
TOTAL, Other Adjustments	\$406	\$221,062	\$221,468	\$1,307	\$8,667	\$9,974
TOTAL, All Changes	(\$2,140)	\$221,062	\$218,922	(\$3,202)	\$8,651	\$5,449
Agency Budget as of June 2014 Plan	\$60,628	\$729,627	\$790,255	\$49,835	\$510,532	\$560,367

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