Restore Housing Budget Cuts

$1 billion cuts to HPD budget are penny-wise but pound-foolish
#NoCapitalCuts

NEW YORK HOUSING CONFERENCE

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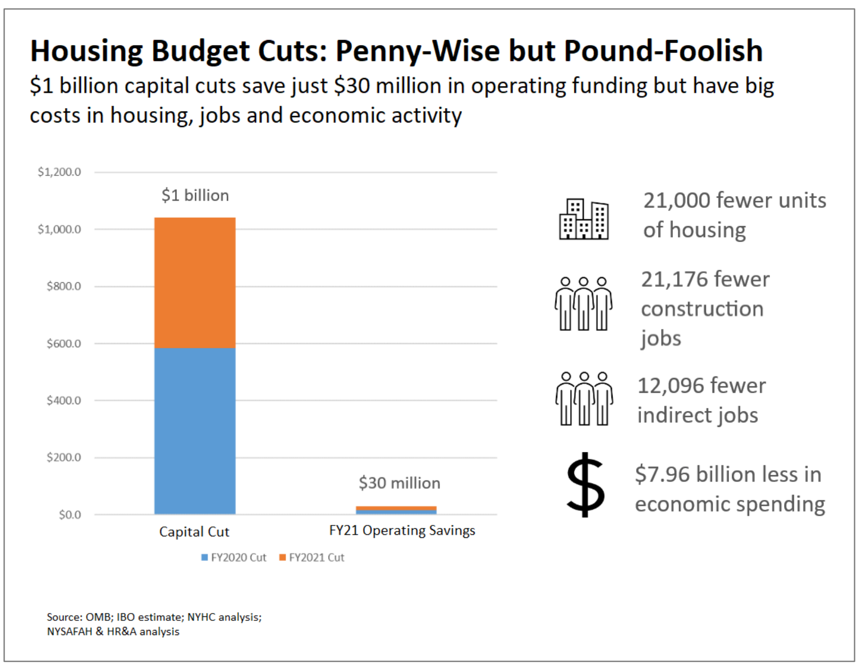
Mayor Bill de Blasio's proposed $1 billion in capital cuts for affordable housing, which slashed FY 2020 and FY 2021 by 40%, are unnecessary and unwise. The cuts for 2020 resulted in a large decrease in affordable housing production.[1] We all know we need housing now more than ever; the need is a given. But an economic analysis shows that the cuts provide very little savings while there are strong reasons for spending money on housing right now.

The Mayor will release the adopted capital commitment plan this fall and so he has the opportunity to reverse the cuts for fiscal year 2021 and make housing investment part of New York City's recovery from the COVID health and economic crisis. We hope the City Council will join us in calling for the mayor to restore the cuts. If the Mayor restores the housing capital budget, he will deliver more affordable housing, give a boost to our struggling economy and take advantage of historically low interest rates.

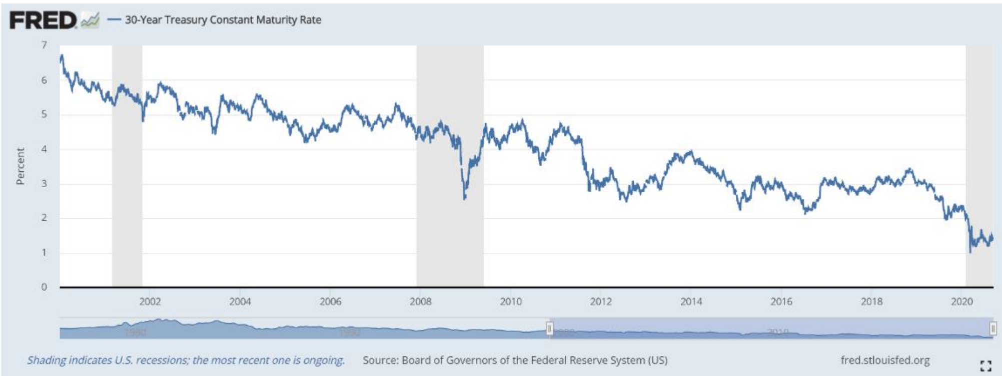
$1 Billion cuts save at most $30 million but have big costs: Mayor de Blasio's $1 billion cuts to the capital budget lead to minimal savings to the operating budget in the current fiscal year – at most $30 million this year. The city's capital budget is funded with bonds, which are paid back through the operating budget through debt service payments over 30 years. Since the bonds are paid back over time, the capital cuts save very little money in the current budget. Cutting the capital budget $583 million in FY 2020, as HPD did, saved just an estimated $16.8 million in the FY 2021 operating budget. The $457 million cut to FY 2021 will save at most $13.2 million FY 2021, but only if the money would have been spent in the first half of the fiscal year.[2] The city has real shortfalls in their operating budget, but massive cuts to the capital budget provide little relief.



While the savings are small, the costs of the cuts are large. We project that the budget cuts would mean 21,000 fewer units of affordable housing[3] produced over the next two years. The decreased production will mean 22,176 fewer construction jobs, 12,096 fewer jobs in related industries and $7.98 billion less in total economic spending.[4]

Also, interrupting the housing pipeline has real costs for affordable housing development. It costs nonprofit and for-profit developers money to hold properties longer before construction. In addition, developers will be less likely to build or preserve affordable housing in the future if they are not sure the city will come through on deals. The cuts could also mean that the city will not be in a position to take advantage of opportunities that are likely to come up, including preserving rent regulated housing or converting hotels into housing.

Now is the time to invest. Interest rates are near historic lows, which means that borrowing is cheap.[5] [6] The 30-year Treasury Rate is 1.42 percent, the lowest it's been since at least 2000.[7] If we wait to invest until the economy has improved, rates may increase making it more expensive to borrow. We should be taking advantage of the low costs and increase borrowing, not decrease borrowing. It is foolish to waste this opportunity.



City's bond rating remains strong. Although some of New York City's bond ratings have downgraded one level recently, they remain high investment grade even in the face of the pandemic-caused recession. New York City's General Obligation bonds have an AA rating from Fitch Ratings and Standard and Poor's[8] and an Aa2 rating from Moody's Investors Service.[9] The New York City Transitional Finance Authority has AAA ratings from Fitch and S&P [10] and Aa1 from Moody's.[11]

City's cash balance is secure. When the city funds capital programs, it will temporarily utilize the city's operating cash and then reimburse through the next sale of bonds. The city's cash balances fluctuate because revenue collection during the year is inconsistent, with big increases coming when major items like property taxes are received, [12] but Comptroller Scott Stringer said the city's cash position remains strong, "and we expect to have enough cash-on-hand during the leanest part of the year." Furthermore, in May in a letter to Mayor Bill de Blasio opposing the capital cuts, he said, "[T]here is little justification for stopping the capital program on the basis of our current cash position. The City's cash balances are below the level they were a year ago, but there is no immediate danger of a cash crunch."[13]

City is able to sell bonds. The City has been able to sell bonds during the pandemic and economic recession. For example, New York City successfully sold $1.4 billion of general obligation bonds at the end of August,[14] $1.3 billion of Transitional Finance Authority bonds in September,[15] and $1 billion of TFA bonds in May.[16]

The City economy needs stimulus spending. The housing market and the overall economy needs stimulus spending to fill in some of the gap in the economy and private real estate market from the pandemic-driven recession. During a recession, prudent macroeconomic theory says that government should spend money to provide stimulus, which can prevent the economy from contracting further and help it recover. The city's capital budget, which is funded through borrowing, is the one of the city's only tools for stimulus.

Conclusion

Mayor de Blasio's decision to cut the housing capital plan is unnecessary and unwise. The current economic conditions show that more spending is prudent and would help the city recover from the recession. Borrowing rates are historically low, the city's bond ratings are strong, the bond market is functioning well, and the city's cash balance is secure. Leaving the cuts in place will save comparatively little in the current operating budget and will hurt the city — depriving the city of affordable housing and jobs when both are desperately needed.

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[1] New York Housing Conference analysis of HPD production numbers. HPD Production Slows Due to Budget Cuts. Sep. 24, 2020. https://thenyhc.org/2020/09/24/hpd-production-slows-due-to-budget-cuts/

[2] New York City Independent Budget Office analysis shared with NYHC.

[3] New York Housing Conference analysis

[4] HR&A Advisors and NYSAFAH analysis

[5] 10-Year Treasury Constant Maturity Rate, Federal Reserve Bank of St. Louis. https://fred.stlouisfed.org/series/DGS10. Retrieved Sep. 16, 2020.

[6] 30-Year Treasure Constant Maturity Rate, Federal Reserve Bank of St. Louis. https://fred.stlouisfed.org/series/DGS30. Retrieved Sep. 16, 2020.

[7] Daily Treasury Yield Curve Rates, U.S. Department of the Treasury. https://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/TextView.aspx?data=yield Retrieved on Sep. 16, 2020.

[8] Ratings Reports, New York City Comptroller Scott Stringer. https://comptroller.nyc.gov/services/financial-matters/nyc-bonds/new-york-city-debt/ratings-reports/ Retrieved Sep. 16, 2020.

[9] Moody's Downgrades New York State, New York City Credit Ratings, by Heather Gillers, Katie Honan and Jimmy Vielkind. Wall Street Journal, Oct. 1, 2020. https://www.wsj.com/articles/moodys-downgrades-new-york-state-new-york-city-credit-ratings-11601606598

[10] supra note 8

[11] TFA Ratings, NYC Office of Management and Budget, Investor Relations. https://www1.nyc.gov/site/investorrelations/tfa/tfa-ratings.page. Accessed Sep. 30, 2020.

[12] New York City Cash Balance Projection, New York City Comptroller Scott Stringer. https://comptroller.nyc.gov/reports/new-york-city-cash-balance-projection/ Retrieved Sep. 16, 2020.

[13] Letter from New York City Comptroller Scott Stringer to New York City Mayor Bill de Blasio, re: Capital Program. May 21, 2020. https://comptroller.nyc.gov/wp-content/uploads/2020/05/5.21.20-Letter-to-Mayor-de-Blasio-1.pdf

[14] The City Of New York Announces Successful Sale of $1.4 Billion General Obligation Refunding Bonds, New York City Comptroller Scott Stringer. Aug. 27, 2020. https://comptroller.nyc.gov/nyc-bonds/the-city-of-new-york-announces-successful-sale-of-1-4-billion-general-obligation-refunding-bonds/ Retrieved Sep. 16, 2020.

[15] New York City Transitional Finance Authority Announces Successful Sale Of $1.3 Billion Future Tax Secured Subordinate Bonds, New York City Comptroller Scott Stringer. Sep. 16, 2020. https://comptroller.nyc.gov/nyc-bonds/new-york-city-transitional-finance-authority-announces-successful-sale-of-1-3-billion-future-tax-secured-subordinate-bonds/ Retrieved Sep. 16, 2020.

[16] New York City Transitional Finance Authority Announces Sale Of $1.08 Billion Future Tax Secured Subordinate Bonds, New York City Comptroller Scott Stringer. May 13, 2020. https://comptroller.nyc.gov/nyc-bonds/new-york-city-transitional-finance-authority-announces-sale-of-1-08-billion-future-tax-secured-subordinate-bonds/ Retrieved Sep. 17, 2020.