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Budget Vise Tightening on Housing Providers

Affordable housing professionals are bracing themselves for what may be the most severe period of retrenchment since government became an active participant in urban development. While neither the federal, state nor city budgets for the coming fiscal year have yet been finalized, deep cuts appear to be on the horizon at all levels of government. At the same time, fundamental changes in state and federal welfare programs portend greater financial stress on both for-profit and not-for-profit providers of low-income housing.

Federal Recisions Reveal The Future

On March 16 the House of Representatives passed legislation making mid-year cuts in federal spending that fell heavily on housing programs. Department of Housing and Urban Development programs absorbed $7.2 billion of the $17 billion in total proposed recisions.

Budget recisions of almost $3 billion would be made to public housing programs. Recisions would also be made in funding for programs thought to have broader bipartisan support. Community Development Block Grants would be cut by $350 million and Section 8 rental subsidies would be cut by $2.7 billion, thereby eliminating all "incremental" rent certificates and vouchers budgeted for the year. The Senate's version of the spending bill stalled on March 30 over the issue of Mexican loan guarantees. Although not as severe as the House measure, the cuts of $4.6 billion are still unprecedented for a fiscal year that is already half over. Congress is expected to vote on a conference bill before the end of April.

The President has threatened to veto such severe spending recisions but many political analysts consider that unlikely because of the $7 billion in emergency disaster assistance for California also included in the bills. The Clinton Administration has requested an increase of only 0.4 percent in HUD's budget authority for fiscal 1996, but Senate Republicans have disputed the Administration's analysis of what the budget request implies for future outlays. Senator Dole's March 10 comments, suggesting that HUD be eliminated entirely, punctured hopes that the Senate would take a more benign view of housing programs.

Comparison of House and Senate Recisions ($ millions)

Program	House Bill	Senate Bill
Pub Hsg Development	690.1	451.0
Pub Hsg Modernization	1,157.0	835.0
Pub Hsg Operating Subsidies	404.0	0.0
Severely Distressed PH	523.0	0.0
Incremental Rental Assist	2,694.0	2,400.0
Sec 8 Amendments/Reserves	6.0	500.0
Housing for PWAs	186.0	0.0
Lead Paint Remediation	90.0	90.0
Special Purpose Grants	70.0	106.0
Low-Income Hsg Preservation	465.1	465.1*
Homeless Assistance Grants	297.0*	0.0
CDBG	349.2	0.0
Other	596.7	265.1
Total Recisions	**7,231.6**	**4,647.1**

* Deferred

State Pulls Homeless Support

The proposed state budget presented by Governor Pataki on February 1 leaves funding for most conventional state housing programs intact, including the Affordable Housing Corporation, the Low Income Housing Trust Fund, the Housing Development Fiduciary Fund and public housing modernization. However, appropriations for the Homeless Housing Assistance Program, which supports the development of transitional and permanent housing for homeless individuals, would be slashed from $30 million to $17.5 million.

New development of community-based beds for the homeless mentally ill would be frozen under the Governor's proposal. The state's Office of Mental Health has notified sponsors of at least three SRO projects with a total of more than 200 units already in development that capital funding has been "deferred." The units were to be developed pursuant to the New York/New York agreement signed by the state and city in 1990. The state has also informed the sponsors of nine other projects, of which three are already in construction, that funding for on-site supportive services for a total of 497 homeless mentally ill people would not be made available. Housing providers claim that the cuts in five of the

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PLANNING WATCH

City Unveils Plan For Big Box Retail

A Giuliani Administration plan to bolster the city's retail sector would remove a 21-year-old restriction against large-scale retail development in manufacturing zones.

The centerpiece of the Administration's *Comprehensive Retail Strategy for New York City*, the proposal would allow as-of-right development of retail outlets as large as 200,000 square feet on wide streets in light (M1) and medium (M2) manufacturing zones. Other elements of the strategy would relax regulatory and tax burdens on small retail businesses, shift the Industrial and Commercial Incentive Program's (ICIP) property tax benefits toward smaller and existing operations and adapt zoning provisions to facilitate retail expansion.

The existing restrictions against large-scale — or "Big Box" — retail were enacted though a 1974 amendment to the zoning resolution aimed at stemming the flow of industrial jobs from New York City. In an effort to reduce competition for — and costs of — manufacturing-zoned land, the amendments prohibited certain commercial and community facility uses from manufacturing zones, while allowing others only by special permit. Not all big box outlets were affected by these amendments, however. In M1 districts, supermarkets, department stores, variety stores, apparel, appliance and floor covering stores all must obtain a special permit for stores larger than 10,000 square feet. Yet toy stores, hardware stores, book, office supply and drug stores — as well as shopping centers anchored by any of these store types — face no such restrictions.

Tracking Retail Decline

Many observers view the restrictions against big box retail as contributing to a general decline in the strength of the city's retail sector. Between 1960 and 1990, New York City's share of the metropolitan region's retail sales (excluding auto-related and eating establishments) fell from 51 percent to 38 percent. Although both the city and its suburbs experienced retail employment increases during the 1980s, growth in the suburbs outpaced that of New York City by nearly 17 percent.

While part of this shift can be explained by the expansion of suburban population centers and the subsequent redistribution of retail establishments, there is evidence that New York City residents are increasingly underserved by the city's retail base. This is particularly true for residents of the outer boroughs where, in 1990, there were 2,213 retail jobs (excluding auto-related and eating establishments) for each $1 billion in personal income. By comparison, the suburbs surrounding New York City boasted 3,519 such jobs per $1 billion, while that figure for the nation as a whole was 4,939. The figure for Manhattan was a relatively high 4,836 jobs per $1 billion.

Employment data suggest that the restrictions established by the 1974 amendments have contributed to the city's retail decline. During the 1980s, New York City, its surrounding suburbs and the nation as a whole each increased their total retail employment. Each of these divisions also increased employment in four combined unrestricted retail industries (hardware, drug, book and toy stores). By comparison, combined employment for six store types requiring special permits (department stores, variety stores, food, apparel, floor covering and appliance stores) declined by 9 percent in New York City, even as it increased by 14.4 percent in the suburbs and by 23.5 percent nation-wide.

Percentage Change in Employment 1980 - 1990

	Total Retail*	Unrestricted Outlets	Restricted Outlets
NYC	8.12%	37.06%	-9.04%
Outer Boroughs	6.58%	52.54%	-8.89%
NY/NJ Suburbs	25.04%	37.58%	14.42%
USA	33.16%	24.03%	23.50%

Source: County Business Patterns, Bureau of the Census
* Excluding auto-related and eating establishments

A growing concentration on large-scale outlets as the instrument of retail growth offers one explanation for the impact of the zoning restrictions. Between 1977 and 1987, while nationwide retail sales grew in real terms by 13 percent, large stores (meaning establishments with 100 or more employees) increased their sales by 60 percent. In some sectors affected by the restrictions the shift toward large stores was even more pronounced. For example, total food-store sales increased by 4.5 percent between 1977 and 1987, while for large food stores the increase was 228 percent.

Whatever their impact on the city's retail sector, the 1974 amendments have apparently done little to preserve manufacturing employment. In fact, industrial job losses accelerated in the years following the amendments. Between 1974 and 1992, the city lost an average of 20,483 manufacturing jobs per year, compared to average losses of 13,070 jobs per year between 1958 and 1974. Rather than demonstrating the success or failure of any particular land use strategy, however, nationwide employment data suggest that New York's industrial decline resulted from sweeping changes in the U.S. economy, beyond the effective

reach of local policies. (This issue is addressed in greater detail in *Manufacturing Decline and the Land Use Debate*, a CHPC Research Report.)

Contours of a New Approach

As outlined in the *Comprehensive Retail Strategy*, the city's proposal would make retail developments of up to 200,000 square feet as-of-right on wide streets. A special permit would still be required for larger buildings and for buildings over 20,000 square feet on narrow streets. Any development larger than 45,000 square feet or providing more than 150 parking spaces would be required to prepare a Traffic Control Plan as part of its building permit application. Such a plan would address parking lot layout, circulation and ingress and egress of traffic adjoining the development. Unlike the special permit currently required, approval of the Traffic Control Plan would be a matter for administrative action subject to neither CEQR nor ULURP review.

In its 1993 *Citywide Industry Study*, the Department of City Planning (DCP) estimated that removing all manufacturing-zone retail restrictions would result in a maximum of 99 new large stores being developed citywide. It based that figure on the amount of development necessary to bring the number of large stores found in the outer boroughs per $1 billion of income to within 75 percent of that of Manhattan. The *Comprehensive Retail Strategy* offers a more modest estimate, predicting approximately 50 large stores would be developed over 10 years if the restrictions were lifted. If each store were developed to 200,000 square feet, that would mean a maximum of between 10 million and 19.8 million square feet of new retail development. That would account for between 7 and 14 percent of the 140 million square feet of vacant or potentially new industrial floor area identified in the *Citywide Industry Study*.

Other existing programs and new proposals contained in the *Comprehensive Retail Strategy* would: reduce the unincorporated business income, commercial occupancy and vault taxes; eliminate the city's 4 percent portion of the sales tax on clothing sold for less than $100; make seed money available for establishing new Business Improvement Districts; establish a one-stop shopping system for obtaining licenses and permits; and create an early warning system to inform businesses of violations before issuing fines. Proposed changes to the Industrial and Commercial Incentive Program would eliminate that program's property tax benefits for as-of-right retail developments located in non-economically distressed manufacturing zones, though benefits would still be available for projects requiring public review.

The *Strategy* also includes a range of zoning proposals to facilitate retail expansion by: eliminating ground floor retail restrictions in SoHo, NoHo and Tribeca, as well as restrictions on the reactivation of retail buildings in the Ladies' Mile district; modifying zoning and Board of Standards and Appeals special permit provisions for some districts to allow expansion of retail uses into required rear yards; liberalizing roof-top accessory parking restrictions; and reducing the parking-to-square-footage ratio for supermarkets, which is higher than that faced by other types of stores.

Debate and Review

The Department of City Planning plans to produce and circulate draft zoning text amendments for its proposals within the next few months. The environmental and public review process that follows is expected to be highly contentious, but to offer few surprises. Since 1974, DCP has reviewed more than 20 special permit applications for big box projects in manufacturing zones. Officials anticipate the review process for the proposed zoning change will address at a generic level the same arguments raised in each of those individual cases.

One recurring issue, and perhaps the most politically sensitive question, will focus on the impact of big box stores on neighborhood retail centers. Advocates for small merchants, who fear the larger outlets will draw away customers, have already begun to organize opposition to the proposal among City Council members. The traffic impacts of big box stores, which opponents view as basically suburban, auto-dependent entities, will present another key issue, particularly as the focus shifts from individual sites to citywide development. Opposition will also come from planners and advocates who believe that restrictions on non-industrial development are necessary to preserve existing manufacturing jobs and promote new industrial development. These groups charge that, even if the amount of land used for retail development is limited, the increased demand for manufacturing-zoned sites will promote speculation and drive up operating costs for manufacturers.

Taking into account the expected opposition, DCP anticipates the environmental assessment process will take a year to complete, with a draft Environmental Impact Statement certified by the Chairman of the City Planning Commission by early-1996. The public review process — including approval by the Planning Commission and the City Council — is expected to take an additional year, with the changes reaching Mayor Giuliani's desk in early-1997. ■

Budget Vise Tightening

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projects are a breach of the New York/New York agreement, which commits the state to funding support services when federal help is not available.

If the budget cuts are not reversed, sponsors will be faced with the choice of eliminating units for the mentally ill (to which they are bound under city contracts) or providing them without the necessary support services. Either way, homeless housing developers are concerned that their projects will become unmanageable, discrediting what has been an extremely successful housing model.

The City Hits Its Limits

New York's City's funding for new housing development from its own capital budget, which has already fallen from $389 million in 1991 to $171 million in 1995, will be decreasing further. The state constitution sets a limit on the amount of general obligation debt each municipality may have outstanding at a level equal to 10 percent of the five-year average of its full value of real property. Declining property values have reduced this cap, and the city has determined that it needs to correspondingly reduce its four-year capital spending plan by 25 percent. The Mayor has ordered that each agency prepare to cut up to 30 percent of its capital spending funded from city general obligation debt, which accounts for about 75 percent of HPD's capital budget. How the cutbacks are allocated among agencies and programs will be revealed in the Mayor's Executive Budget, due April 26.

Welfare Worries

Preoccupied by HUD's reinvention and the severe funding cuts impending at every level of government, housing providers have scarcely had time to express alarm at the dramatic changes to the welfare system now under consideration in Washington and Albany. Nevertheless, many housing professionals believe that welfare reform may have a devastating impact on the existing not-for-profit and for-profit low-income housing stock. Approximately 19 percent of households in rent-stabilized apartments in New York City receive public assistance; in a number of neighborhoods the proportion is over 40 percent.

In the welfare bills now before Congress responsibility for public assistance will devolve to the states in the form of block grants, which will effectively end the federal entitlement status of welfare benefits. Although public assistance could still be treated as an entitlement by the states, a fixed block grant allocation would make it more difficult for them to maintain benefit levels during economic downturns, jeopardizing the rent-paying ability of the cyclically unemployed. Furthermore, cash benefits would be limited to five years, a provision that could abruptly reduce the ability of some recipients to pay rent and consequently make housing providers less willing to rent to public assistance recipients. Other elements of federal welfare reform that could have housing repercussions include restrictions on benefits to unwed mothers under 18 years of age and to legal aliens.

Whatever happens in Congress, Governor Pataki has proposed a series of changes in New York State's public assistance system that could be enacted under current federal law. Low-income housing providers have long complained that the state's welfare shelter allowance, set at $286 per month for a family of three in New York City, is well below the cost of maintaining and operating the average apartment. Seventy-seven percent of public assistance households in private housing already pay rents equal to or above the shelter allowance.

Although the Governor's welfare proposals would leave the shelter grant unchanged, they would reduce the non-shelter portion of the grant from $291 to $253 per month, reducing the ability of households to supplement their shelter allowance. The Governor proposes to offset that cut by liberalizing rules regarding part-time earnings of welfare recipients.

The Governor also proposes to add the shelter grant levels — currently an administrative matter — to the statutory language of the state's Social Services Law. That would effectively remove the legal basis on which some 17,000 city households receive supplemental rent payments pursuant to the on-going *Jiggets v. Grinker* litigation. New restrictions would also be placed on emergency assistance rental payments.

Under the Home Relief program over 200,000 single individuals (and 20,000 couples) in the city receive public assistance grants, including a shelter portion of $215 per month. Approximately 40 percent of those individuals are considered employable, and the Governor's proposals would limit their grants to three months in any 12-month period. (Senate Republicans want a two-month limit.) More than half of all residents of not-for-profit SROs receive Home Relief, as do a large proportion of those in commercial SRO hotels and in other low-income housing. Providers fear that program changes could have a devastating effect on rent collections in these establishments.

More restrictive eligibility rules for food stamps, social security for the disabled (SSI) and Medicaid benefits are also under consideration in Washington and Albany. Even low-income housing providers who support the goals of welfare reform question the wisdom of implementing so many dramatic changes without fully considering their cumulative effects. They fear that housing court judges, faced with a surge of eviction orders, will shift the public assistance burden to the housing industry, further endangering a low-income stock that is already in serious jeopardy. ■

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