

**TESTIMONY FROM NYCHA CHAIRMAN JOHN B. RHEA  
NEW YORK CITY COUNCIL FISCAL YEAR 2014 EXECUTIVE BUDGET HEARINGS  
CITY COUNCIL PUBLIC HOUSING AND FINANCE COMMITTEES  
MONDAY, JUNE 3, 2013 – 2:00 PM  
CITY HALL – COUNCIL CHAMBERS**

Chairwoman Rosie Mendez, Chairman Dominic Recchia, members of the Public Housing and Finance Committees, and all other distinguished members of the City Council, thank you for this opportunity to discuss the New York City Housing Authority's (NYCHA) Five Year Capital Plan. I am NYCHA's Chairman, John B. Rhea, and with me at the dais today are Raymond Ribeiro, Executive Vice President for Capital Projects, and Tanya Dempsey, Director of the Department of Budget and Financial Planning. The plan that we will share this afternoon is a reflection of our enduring commitment to provide safe, affordable housing for low- and middle-income New Yorkers, and to preserve the precious resource of public housing in this city for generations to come.

### **Partnering with the City Council**

We know that the Council shares this commitment, and before I begin, I want to acknowledge this body's important contributions to NYCHA's work. Over the past 10 years, for example, the Council has provided a total of 148 million dollars in capital funding for public housing. Because of this much-needed assistance, we have completed elevator replacements, renovated community centers, and installed closed-circuit television (CCTV) cameras. We have unveiled or started work on 2,396 new closed circuit television cameras at 38 developments, keeping us on track in our goal to install all council-funded CCTV projects by the end of 2013 and make our developments safer and more secure places to live, do business, and raise families.

Especially in light of the unique and serious challenges that NYCHA has faced over the last decade, and will continue to face in the years to come, this partnership with the City Council – as well as our friends in the public, private, and non-profit sectors – has been indispensable to our efforts on behalf of the more than 600,000 New Yorkers who

depend on us every day. Our future success will depend on our ability to strengthen these ties, and to identify new, innovative ways to work together.

## **2013-2017 Capital Plan Overview**

One of NYCHA's greatest responsibilities – and most pressing challenges – is the preservation of our buildings, many of which are rapidly aging after decades of use. However, as you know, the federal government has steadily disinvested in public housing over the past decade, making it increasingly difficult for us to fulfill this fundamental duty: In 2001, NYCHA received 420 million dollars in federal capital funds – that amount has fallen to 256 million dollars in 2013. This represents a decline in annual federal capital funding of 164 million dollars, or 39%, and a cumulative funding loss of more than a billion dollars.

This year, that downward trend is compounded by the federal Budget Control Act, or sequester. Our new Five Year Capital Plan includes a decrease of fifty-six million dollars in federal funding as compared to the last Adopted Capital Plan, with a 14 million dollar impact in 2013 alone.

These drastic new cuts are yet another blow for many of our most vulnerable neighbors and fellow citizens. Chronic federal underfunding will continue for the foreseeable future, and NYCHA's dedicated employees will work to further the Authority's mission despite woefully inadequate resources for the job at hand.

In order to address these worsening problems in a bold and comprehensive fashion, NYCHA continues to follow through on the agenda we laid out a year and a half ago in *Plan NYCHA*, our five-year roadmap to preserve public housing in New York City. We shared part of this vision in April of this year, when I appeared before the Public Housing Committee to explain our plan to create a new stream of capital funds for the Authority by leasing land at selected NYCHA-owned sites for the development of market-rate and affordable housing and, in some cases, commercial, retail, and community facilities.

The final three years of our Five Year Capital Plan include a total of 68.4 million dollars of revenue that the new ground leases will begin to generate as soon as they are signed, even before a single shovel goes into the ground. This money will be used for capital projects to upgrade resident buildings throughout the entire NYCHA portfolio, with an initial emphasis on the eight developments where development will take place. Once the land lease revenue becomes a consistent and predictable funding stream, it can be leveraged, and enable NYCHA to raise additional money for capital work, yielding hundreds of millions of dollars for residents.

The Capital Plan also includes a 500 million dollar bond issue dedicated to funding brickwork and roof repairs at roughly 25 developments – and potentially up to 38 developments – with deteriorating building facades, as well as a refunding of our 2005 bond deal to reduce debt service costs. This will improve the quality of life for 32,000 households by removing sidewalk sheds and address a significant portion of NYCHA’s Local Law 11 violations. The Capital Plan also includes a structured financing transaction to fund 43.5 million dollars in rehabilitation work at the Authority’s contract-based Section 8 developments for 1,730 households.

NYCHA has also continued to prioritize the maintenance of our housing stock, improvement of resident service levels, investment in energy saving technologies, and compliance with Federal, State, and City regulations and requirements. The Plan includes 77 million dollars for safety and security measures; 136 million dollars for the rehabilitation of apartment interiors, and replacement of appliances and building systems; 148 million dollars for heating and plumbing; and 55 million dollars for information technology investments.

Finally, the Plan includes approximately 1.8 billion dollars that NYCHA has requested for disaster recovery in the wake of Superstorm Sandy. I want to stress that this is only a request – funding for entire categories of work, such as resiliency enhancements for developments in the expanded Zone A that were not damaged by the storm, are unlikely to be awarded in full.

While these investments fall far short of what we need to completely address the challenges that I outlined earlier, they will help us to continue to deliver positive results for residents and build on the successes we achieved in 2012.

## **2012 Summary**

Last year, NYCHA used its scarce funds efficiently and creatively, ensuring that NYCHA families received maximum benefit for every dollar we spent. We spent over 170 million dollars on capital projects, continuing to meet – or beat – every one of our HUD-mandated deadlines to obligate and expend federal capital funds. That trend of faithful stewardship continues into 2013: I am happy to report that we have already successfully reached our obligation milestone for the 2011 grant – a full three months ahead of the HUD mandated deadline. This accomplishment is a clear indication that we will meet our self-imposed commitment to reducing obligation and expenditure timing from 24 to 18 months.

We completed over 50 construction projects for critical systems, including brickwork and roofing, elevator replacements, heating and plumbing repairs, and CCTV installations.

These completed projects improved the quality of life for over 58,000 individual NYCHA families and confirmed our commitment to preserving the public housing asset in New York City – a commitment that will not waver as we move forward.

NYCHA has also renewed our commitment to transparency around our capital program: We committed last year to issue quarterly reports on city capital dollars and have already issued two, one in January and another in April. Additionally, we have already met with – or provided physical needs information to – all council members with public housing in their districts who have expressed interest, and are happy to meet with other members as well.

## Capital Plan Highlights

Now, I'd like to explain a few of the key investments from this year's plan in further detail.

First, the 1.8 billion dollars in disaster recovery funding that I mentioned earlier will come from a combination of insurance coverage, the U.S Federal Emergency Management Agency (FEMA), and Community Development Block Grants-Disaster Recovery. It is proposed that these funds will be used to repair the damage caused by Superstorm Sandy to infrastructure and critical systems at 32 developments and fortify 26 additional developments in the expanded Flood Zone A.

In addition to replacing damaged infrastructure, including mechanical and electrical systems, we have proposed adding back up power to our most vulnerable buildings – a first for NYCHA – at several of the affected developments; enhancing damaged Community Centers at Zone A developments, enabling them to serve as information distribution sites, local command centers, or emergency shelters in the event of future storms; and providing NYCHA with a more resilient Emergency Operations Center (EOC).

FEMA's new draft Advisory Base Flood Elevation maps have nearly doubled the number of NYCHA buildings in Evacuation Zone A, and we must prepare accordingly. This proposed work will include the implementation of basic resiliency measures, such as raised boilers and electrical switch gear, and enhancements for a wider range of community facilities. All of this work, if funded, would take place over the course of the next several years.

While this large, one-time funding source – which, as I mentioned earlier, may not be awarded in full – increases capital dollars by 67% from the 2012-2016 Plan, the majority of it would be used simply to make NYCHA whole after an unprecedented, unforeseeable disaster. This disaster-related revenue increase does nothing to decrease

urgency around an overall downward trend in our capital plan funding. Again, our federal funding for the Annual Capital Program continues to decrease.

As we shared in last year's budget hearing, the Plan also includes a 500 million dollar bond issue through HUD's Capital Fund Financing Program, as well as 200 million dollars to refund the existing bond in order to lower debt service costs. The net proceeds will help to expedite much-needed capital work including building envelope rehabilitations such as brickwork and roof installations. All of this work will aid our compliance with Local Law 11, which addresses the dangers associated with deteriorating facades on buildings that are six or more stories.

We will also continue our effort to rehabilitate developments that consist of contract-based Section 8 units. To fund this work, NYCHA will leverage the predictable income ensured by the long-term nature of the HUD subsidy contract for these properties. We will maximize cash flow from these developments and complete a structured financing to bring them to a state of good repair, helping to preserve them as affordable housing units for years to come.

Additionally, as in previous years, we remain vigilant in our effort to ensure the safety and maintenance of elevators in NYCHA buildings. This Five Year Capital Plan includes 116 million dollars dedicated to the work of continuing our Elevator Service and Safety Plan (ESSP), which we unveiled in 2009, calling for the modernization of 450 elevators over 5 years. We have consistently delivered against this goal, and are ahead of our projected timeline, having completed work on 379 elevators, with work progressing on 140 more, for a total of 519 over the ESSP Plan Period.

Overall, of the approximately 3.9 billion dollars included in this Plan, 34% are from Annual Federal Capital Grants, 45% are from funds related to disaster recovery, 13% are from the Bond issue, 5% come from the City, and 3% come from other sources, including the contract-based Section 8 property initiative and the estimated rent generated from the potential land-lease opportunity.

## **Conclusion**

This plan strives to maximize a funding stream that continues to dwindle at an alarming rate. The facts are clear, and startling: 75 % of NYCHA's 2,596 residential buildings are more than 40 years old, and we have over 6 billion dollars in unfunded capital needs – which, without new revenue, will grow to 13.4 billion over the next five years. Tackling this great challenge, one that threatens the very existence of public housing, will require focus, energy, and creativity from every corner of our city.

As I mentioned earlier, the City Council has been an indispensable partner in this fight – we are grateful for your consistent support. As we go forward, we hope that we can continue to count on your partnership, especially in supporting creative solutions to our funding crisis. Our land-lease proposal is one such solution: given the challenges that I've outlined today, it would be simply irresponsible, and a dereliction of our duty toward NYCHA residents, to turn away from an opportunity to invest up to 50 million dollars a year into capital projects, the equivalent of a 20% increase in our Annual Federal Capital Grants. In an environment where our annual funding allocation is unpredictable, and has been cut almost in half, opportunities of this magnitude are few and far between. The stable and predictable nature of the land lease rent from the new developments, coupled with the fact that it will not be subject to congressional appropriation risk, allows NYCHA to raise additional funds for much needed capital work, a potential value of 700 million dollars beginning in 2017 or 2018.

With your support, we know that we can grasp this once-in-a-generation opportunity in a way that benefits all New Yorkers. We are also eager to explore and develop other revenue-generating ideas that you, or your constituents, may have.

What is abundantly clear is that we can't afford to accept the status quo, or wait for help – from the federal government or elsewhere – to materialize. Now is the time for NYCHA to take its future into its own hands. The only way forward is to reject easy answers, and continue the often difficult work of transformation through pragmatic, market-based solutions. Thank you, again, for joining us in that effort.

I look forward to your questions.