

TESTIMONY FROM NYCHA CHAIRMAN JOHN B. RHEA
NEW YORK CITY HOUSING AUTHORITY REAL PROPERTY USE
ASSEMBLY COMMITTEE ON HOUSING
FRIDAY, MARCH 15, 2013 – 11:00AM

Chairman Keith Wright, distinguished members of the Committee, and to all the members of the State Assembly, I am John B. Rhea, Chairman of the New York City Housing Authority (NYCHA). Joining me this morning is Fred Harris, Executive Vice President for Real Estate Development. Thank you for the opportunity to discuss with you our plan to develop new mixed-income housing on NYCHA land. I will describe the challenges that necessitate action on this front; our unique opportunity to reinvest in public housing; and our ongoing engagement of residents, elected officials, and other important stakeholders. Most importantly, I will explain how the plan will benefit NYCHA residents and communities across the City.

The Need

As we have shared with the members of this committee – as well as other state and local elected officials, advocacy groups, concerned non-profits, and the nearly 630,000 New Yorkers we serve – NYCHA faces serious challenges, including an aging housing stock and a waiting list that only grows longer as more striving families come to our City in search of opportunity and affordable housing. As Mayor Bloomberg announced yesterday, the City's population has increased by over 160,000 people since 2010, and NYCHA can be sure that many of these newcomers will look to us as a vital resource to help start their lives here.

In addition, we've seen a dramatic change in the assistance we receive from our partners in government, including the total elimination of state funding and a steady and precipitous decline in funding from the federal government, our principal source of capital and operating dollars. From 2001 to 2012, NYCHA experienced a cumulative funding loss of over 2.3 billion dollars. Today we're met with 6 billion dollars in unmet capital needs, which will grow to 13.4 billion dollars over the next five years. We also

have a structural operating deficit of 60 million dollars, which doesn't take into account the potential impact of the federal budget sequester that recently took effect.

When other cities across the country faced similar challenges, many chose to disinvest, reducing their public housing stock to rubble. This Administration believes that there's a better alternative. In fact, Mayor Bloomberg has undertaken an unprecedented effort to create and preserve 165,000 units of affordable housing by the end of 2014. Even still, there simply aren't enough options for low- and middle-income families – NYCHA's mission to provide decent housing for New Yorkers in need is more relevant than ever before. Preserving public housing is the only prudent option.

But given the unprecedented pressures faced by government at all levels, NYCHA realizes that we must find innovative ways to chart our own path. That's why we've taken extraordinary efforts to manage our costs and do more with less. Today, NYCHA employs 3,000 fewer people than we did ten years ago, and we've dramatically reduced central office costs to redirect funds into critical maintenance and repair and property management activities, realizing over 38 million dollars in savings.

We've done all of this against a strong headwind of rising costs in the form of pension, health care, and other fringe benefits. Unlike our other operating expenses, these costs are beyond NYCHA's control. Despite our declining headcount, funding hasn't kept pace with per-employee costs, which have risen 5% annually since 2002.

This leads us to a need for innovative revenue sources. Already we've implemented actions such as the federalization transaction that attached over 70 million dollars of stable revenue to developments formerly funded by the City and State; our plan to leverage Section 8 assistance in order to convert the remaining unfunded apartments, over two thousand of which have already been converted, yielding approximately 50 million dollars annually; and our Rent Equity Initiative, which will generate another 169 million dollars. All told, these initiatives will bring us hundreds of millions of dollars in incremental revenue.

In order to systematically and sustainably continue this work, we released *Plan NYCHA* over a year ago, affirming the need to reinvest in public housing in creative ways. We developed the plan with the input and participation of residents and other important stakeholders from across the City, and we're proud of, and encouraged by, the results we've already seen.

One of the imperatives discussed at length in these conversations was to develop new affordable and market-rate housing. The affordable component will contribute to the Mayor's New Housing Marketplace Plan and tackle operational issues such as rightsizing apartments and addressing our wait list. Market-rate housing will address our financial needs by leveraging one of our most valuable assets: our land.

The Opportunity

Based on current New York City zoning laws, many NYCHA properties have room to grow. In a city with so much demand for housing, new development is critical, and presents an opportunity to significantly enhance the built environment in our neighborhoods.

It has always been NYCHA's charge to develop new housing in order to address the reality of a dynamic and growing city. The notion that NYCHA's developments should be frozen and closed to new development is inconsistent with history – growth is a part of our heritage. For example, LaGuardia Houses was built in 1957, and in 1965, after recognizing a need to accommodate more families, NYCHA completed LaGuardia Addition. Likewise, after building Baruch Houses in 1959, the Authority finished Baruch Addition in 1977.

As early as 2006, NYCHA began to discuss the possibility of building market-rate and affordable housing on our land. These conversations continued in more depth during the development of *Plan NYCHA*.

Based on this work, we undertook a comprehensive review of the Authority's real-estate footprint, with an eye toward offering NYCHA-owned sites for the development of market-rate and affordable housing and, in some cases, commercial, retail, and community facilities.

This process – which took into account the day-to-day impact on residents – led to the identification of fourteen sites located within eight developments in Manhattan, all south of 110th Street. Development at these sites will yield approximately 4,000 new apartments, of which 20% will be permanently affordable. Each site has substantial unused development rights and the ability to generate new revenue.

We believe that this proposal to lease land for development will generate estimated proceeds of 30 to 50 million dollars per year for NYCHA – an increase of nearly 20% to our capital budget. Every single penny of this money will be used for capital improvements. We'll upgrade apartments, fix roofs, rehabilitate elevators, and restore public housing building facades across our entire portfolio.

Residents at the selected developments will experience the benefit of enhanced security and alternative power for elevators, heat, and hot water service during blackouts and other emergencies. The development will also create new construction and permanent jobs for NYCHA residents.

The Plan

Despite these clear benefits to NYCHA families, we know that there are understandable concerns about the plan. I want to be very clear today about what the plan is – and what it is not.

This is not a plan to privatize NYCHA land, or any other public resource. We will engage in 99-year ground lease agreements with developers, creating a stable and predictable cash flow to NYCHA, so that we can rehabilitate our existing public housing buildings.

The developers will finance, construct, and operate the new buildings, but NYCHA will still own the land on which the new buildings are built.

We will not demolish a single residential building or relocate a single family to make this plan happen. Development will occur only on land where no housing exists.

No NYCHA resident will see a rent increase as a result of the new development. And in no way will the relationship between NYCHA and the current residents change.

No NYCHA employee will be put out of work, or see increased work requirements, because of this plan.

Every building developed on our land will include 20% affordable housing – these affordability restrictions will be permanent. In addition, NYCHA residents will be given a preference for the affordable units, should they choose to apply.

And none of this work will go forward without engagement with residents and other stakeholders, or appropriate guidance and formal approval from our principal regulator, the U.S. Department of Housing and Urban Development (HUD).

Disposition and Stakeholder Engagement Process

As I testified before the Assembly's Committee on Corporations, Authorities, and Commissions in February, NYCHA adheres to the stringent HUD-outlined regulations governing the disposition of a range of real estate interests, including land, buildings, development rights, easements, and leases of more than one year. We have successfully complied with this process many times, as it is a key component of our support for Mayor Bloomberg's New Housing Marketplace Plan.

The disposition process calls for NYCHA to consult and engage with residents, and we are well on our way. We have already completed the first round of meetings with the

Resident Association leaders and elected officials who represent the selected developments.

In addition, open meetings with the residents of the selected developments have already begun – in the past two weeks we have visited with hundreds of residents from Campos, Carver, LaGuardia, Meltzer, and Washington Houses. Meetings with the residents of Baruch, Douglass, and Smith Houses are scheduled for next week. At each of these meetings, NYCHA is represented by Fred Harris, our Executive Vice President for Development, employees from our Capital Projects Department, and a member of our Board. Our presentation – outlining the same challenges and opportunities which I've shared with you today, as well as site-specific capital needs – is presented in Spanish, Chinese, Russian, and sign language. In addition to residents, the meetings have been attended by elected officials and their staffs, members of advocacy groups, and other stakeholders. We will also brief every relevant Community Board before we release a Request for Proposals (RFP) in late April.

NYCHA residents will have an additional opportunity to offer their input and concerns during our Annual Plan process, which has already begun and will continue through mid-October, culminating in a public hearing.

After the RFP is released, a second phase of participation will begin. From early May until proposals are due back from developers, we will initiate a participatory budgeting process by convening meetings between NYCHA staff and the residents of the selected developments. Through this process, residents will have the opportunity to prioritize identified capital needs that will be addressed with the generated revenue. During this period we will also continue to engage local elected officials and other stakeholders.

A third phase of engagement will follow once developers are selected. We will require every chosen developer to adopt a robust plan for engagement with NYCHA residents that will last throughout the twelve to eighteen month pre-development period.

Moving Forward

This plan presents NYCHA's single largest identifiable opportunity to generate millions of dollars to reinvest in public housing – and the time to act is now. The challenges that I've shared with you this morning aren't going anywhere; in fact, they become more urgent with every year that passes by. And NYCHA won't be the only beneficiary of new development – it will be a boon to the entire City. The billion dollars in ground rent that NYCHA will collect from developers, and approximately two billion that the developers will invest in the new buildings, will bring economic activity and new jobs to neighborhoods in need. We look forward to working with our friends in the State Assembly to make sure that this transformative work goes forward in a responsible way that takes every possible concern into account.

I look forward to working with each member of this committee to make this plan a success, and to preserve the precious resource of public housing.

Thank you. I am happy to answer any questions you may have.