

**TESTIMONY FROM NYCHA CHAIRMAN JOHN B. RHEA
OVERSIGHT – NYCHA’S PLANS TO LEASE LAND FOR DEVELOPMENT
CITY COUNCIL PUBLIC HOUSING COMMITTEE
FRIDAY, APRIL 5, 2013 – 10AM**

Chairwoman Rosie Mendez, members of the Public Housing Committee, and other distinguished members of the City Council, 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 make selected NYCHA land available for developers to build “80/20” market-rate and low-income housing. I will describe the challenges that necessitate action on this front; our unique opportunity to generate new revenue to benefit public housing residents; our engagement of residents, elected officials, and other important stakeholders; and how this engagement has already influenced the direction and execution of the plan.

The Need

As we have shared with the members of this committee – as well as other federal, 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 New Yorkers search for affordable housing.

By definition, the economics of public housing depend on government subsidies – the rents we collect from residents only cover about half of our basic operating costs, and none of the required capital improvements. Unfortunately, in the last ten years, we’ve seen a dramatic change in the assistance received from our partners in government, including the total elimination of city and state funding, and a steady and precipitous decline in funding from the federal government, our principal source of capital and operating dollars. Since 2001, NYCHA has experienced a decline of over 905 million dollars in operating subsidy and 876 million in federal capital program funding. Today NYCHA has 6 billion dollars in unfunded capital improvements, 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 and Continuing Resolution that recently took effect and will reduce NYCHA's federal subsidy revenue by well over 100 million dollars in 2013.

When other cities across the country faced similar challenges, many chose to disinvest, substantially reducing their public housing stock. But despite our financial challenges, preserving public housing in New York City is the only prudent option. There simply aren't enough options for low-income families – NYCHA's mission to provide decent housing for New Yorkers in need is more relevant than ever before.

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 – the path of preservation doesn't come without tradeoffs and hard decisions. 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.

Meanwhile, the costs associated with important employee benefits such as pensions and health care have continued to rise. Unlike our other operating expenses, these costs are beyond NYCHA's direct control. Despite a dramatic decline in headcount, NYCHA's per-employee costs have continued to rise 5% annually since 2002.

This leads us to a need for innovative revenue sources. We've already implemented actions such as the federalization transaction that attached over 70 million dollars of stable revenue to 21 unfunded developments which receive no federal, state, or city support. We are also continuing with our plan to leverage Section 8 assistance in order to convert our remaining unfunded apartments, over two thousand of which have already been converted – this plan will yield over 100 million dollars by 2017. We've also introduced our Rent Equity Initiative to phase out capped rents for higher-income households, which will generate a total of 169 million dollars over the next four years.

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.

Plan NYCHA publicly and transparently identifies the initiatives we needed to pursue – from raising rents for families paying less than 30% of their incomes and cutting Central Office costs to infill development. In each case, we have taken action in that same open spirit, engaging residents, elected officials, and other stakeholders along the way.

One of the imperatives discussed at length in these conversations was to develop new affordable and market-rate, unsubsidized 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 “as-of-right” room to add new buildings. 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.

Since its creation in 1934, NYCHA has been charged with developing 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 seniors, NYCHA

completed LaGuardia Addition. Likewise, after building Baruch Houses in 1959, the Authority finished Baruch Addition in 1977. Regrettably, building new public housing on that scale is no longer permitted by law today; however, new building on NYCHA's campuses can now help preserve the housing that already exists.

As early as 2006, NYCHA began to discuss the possibility of building market-rate and affordable housing on our land – and, in fact, we have already built over 2,000 affordable and moderate-income apartments on NYCHA land across the City, with over 2,000 more in the pipeline. We continued to discuss this approach in more depth during the development of *Plan NYCHA*.

Based on this work, and input from elected officials and other stakeholders, 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 placed paramount importance on potential resident impact – 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 made a deliberate decision to bring these sites forward at the same time, as opposed to one-by-one, because we wanted to be absolutely clear about our objectives and the potential impact on NYCHA residents and their surrounding communities. A comprehensive approach will also maximize the financial benefit for residents and the Authority.

We estimate that this proposal to lease land for development will generate 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 throughout the NYCHA portfolio, with an initial emphasis on the eight developments where infill building will take place.

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 and upgrade the safety and resiliency of NYCHA campuses. The developers will finance, construct, and operate the new buildings, but NYCHA will still own the land on which the new buildings are built, and receive attractive compensation for our valuable asset. At the end of 99 years or any other termination of the lease, NYCHA would have unencumbered ownership of the land and buildings. Apartment or commercial tenants of the building would pay rent directly to NYCHA.

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. Public housing rents are determined solely by household income, household size, and apartment size. In no way will the landlord relationship between NYCHA and the current residents change because of this initiative.

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 and waitlist applicants will be given a preference for the affordable units.

And none of this work will go forward without engagement with residents, elected officials, 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 State Assembly’s Committee on Corporations, Authorities, and Commissions in February, NYCHA – like all other public housing authorities – adheres to the stringent HUD-outlined Section 18 regulation 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.

The Section 18 disposition process calls for NYCHA to consult and engage with residents throughout a process that has five key phases, and will continue for roughly eighteen months. Before a single shovel goes into the ground – even before we can submit an application to HUD – the Authority must issue a Request for Proposals (RFP); receive responses to the RFP from potential developers; evaluate the submissions and interview candidates; conditionally designate developers with authorization from the Board; and, together with the conditionally designated developers, conduct a thorough environmental review for each proposed new building. We must include the proposal in our upcoming Annual Plan, which is compiled with extensive resident input and collaboration. We expect that after we submit our application to HUD, we will receive and respond to several additional queries before final approval is granted.

Before, during, and after each of these important milestones we will seek, encourage, and create opportunities for resident participation. We have already begun the pre-RFP phase of engagement in earnest. Between January and March we completed an initial round of meetings with the Resident Association leaders and elected officials who represent the selected developments.

In addition, an open meeting with the residents of each of the eight selected developments has already occurred – last month, we hosted meetings with over 900 residents from Campos, Carver, LaGuardia, Meltzer, Washington, Baruch, Douglass, and Smith Houses. At each of these meetings, NYCHA was represented by Fred Harris and the Development team, employees from various Departments, including Capital Projects and Property Management, and either a member of our Board or General Manager Cecil House. Our presentation – outlining the same challenges and opportunities which I've shared with you today, as well as site-specific capital needs – was presented in Spanish, Chinese, Russian, and sign language. In addition to residents, the meetings were attended by elected officials and their staffs, members of advocacy groups, and other stakeholders. All of the information shared at these meetings – both the overall plan and the specifics at each selected site – has been made available on the NYCHA website.

Earlier this week – on Tuesday, the 2nd – we continued our engagement efforts by convening a meeting of elected leaders representing the selected areas. Additionally, meetings with the relevant Community Boards are scheduled for next week.

We have also begun a second round of meetings, which will continue over the next two weeks. These meetings will feature roundtable discussions in smaller groups, allowing us to answer more questions, gather more feedback and suggestions, and continue to build the spirit of trust and partnership that we'll need to make this plan a success.

The meetings have already made a substantial impact on our execution of the plan. Because of resident concerns, we have pushed back the release date of our RFP to allow time for more feedback; revised the flyers publicizing our resident meetings; continued

to revise and refine our presentation to make it more concise, clear, and informative; and circulated hard copies of the plan to interested residents of the selected developments. Just this week, we unveiled a comments section on our website, as well as a P.O. Box for physical mail – both of which will give residents yet another way to share their suggestions and concerns about the plan with us.

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. Just yesterday we held the first Annual Plan meeting with our Resident Advisory Board, focusing specifically on the Section 18 Land Disposition Process.

After the RFP is released in late April, a second phase of participation will begin. From early May until proposals are received in late July, we will initiate a collaborative capital planning process by convening more 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. We have also committed to convening a larger Town Hall meeting, where all concerned residents can receive information on the plan and share their concerns.

A third phase of engagement will follow once developers are conditionally designated. We will require every developer to adopt a robust plan for engagement with NYCHA residents that will last throughout the twelve to eighteen month period during which environmental review is carried out and a Section 18 application is submitted to HUD. HUD's rules governing these applications require NYCHA to inform residents of their right to submit comments on the proposal, either directly to HUD or to NYCHA. NYCHA must respond to these comments in writing, and include both the comments and the responses in the final application.

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. And NYCHA won't be the only beneficiary of new development – it will benefit the entire City. The ground rent that NYCHA will collect from developers, along with the money 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 the City Council to ensure that this direly-needed work goes forward in a responsible way that takes into account every important concern.

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 your questions.