Stabilizing the Foundations: Transforming NYCHA to Address Its Capital Needs

EXECUTIVE SUMMARY

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CITIZENS BUDGET COMMISSION

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This is a pivotal moment for the New York City Housing Authority (NYCHA). NYCHA is New York City's primary provider of deeply affordable housing, and the ongoing deterioration of its developments is putting that housing at grave risk. The recently released Physical Needs Assessment quantified its capital needs at an astounding $32 billion over the next five years. Without dramatic changes, by 2027 90 percent of NYCHA's housing units will be at risk of deteriorating past the point at which they are cost-effective to repair—a crisis from which NYCHA and the City will not be able to recover.

NYCHA was once one of the nation's highest-performing public housing authorities; how did it reach this point? The report has three key findings:

1. **Since 2002 capital funding consistently has trailed capital needs.** Most NYCHA units are in buildings constructed during the 1950s and 1960s, and NYCHA has not had the resources necessary to adequately maintain and repair them. Declining federal support, limited State and City support, and the diversion of capital subsidies to address operating budget gaps resulted in funding covering just more than 31 percent of the need for the 2007-2011 period and 11 percent of the need for the 2012-2017 period. These unaddressed needs have grown and resulted in poor building and apartment conditions that reduce tenant quality of life.
2. **Inefficiencies in procurement and management reduced the impact of capital investment.** Federal and state laws and regulations restrict the approaches that can be taken to complete capital work, limit use of debt, and place other administrative burdens on NYCHA. In addition NYCHA's costs of operations are 39 percent higher than those of other landlords operating rent-stabilized buildings. Key cost drivers include inflexible bargaining agreements and overly centralized property management practices that are not in line with industry best practices.
3. **Use of alternative strategies has been limited.** NYCHA's 2015 strategic plan called for increased use of alternative strategies, including public-private partnerships and increased development on NYCHA properties. To date only two public-private partnerships have closed: the Triborough portfolio for 874 units of project-based Section 8 housing and the Ocean Bay development in Far Rockaway for 1,395 units. NYCHA is behind its production goal for units developed on NYCHA land, known as "infill development." In addition 8 of the 10 deals underway are for completely affordable housing, which do not generate additional revenue for NYCHA. The other two deals are for a 50-50 split of market-rate and affordable housing.

Bold action from all levels of government is needed. The NextGeneration NYCHA strategic plan and increased capital and operating support from the City of New York have been important first steps to slow the deterioration of the system. However, the current plan including funds mandated

by the recent federal consent decree totals $8 billion—an amount dwarfed by $32 billion in needs. Despite this investment the portion of NYCHA units at risk of deteriorating past the point at which they are cost-effective to repair will increase fourfold over the next five years. Preserving this stock of deeply affordable housing will require additional and more significant changes.

Rather than continue as the nation's largest landlord, NYCHA should transition to an affordable housing steward employing a full range of strategies to preserve the affordability of its units.

This report's specific recommendations identify critical steps forward on this path and will drive progress toward keeping deterioration in check and improving quality of life for many tenants. But progress will only be achieved if federal, State, City, labor, and tenant leaders, who all have a stake in NYCHA's success, fully participate and make hard choices. The focus should be on a fiscally sustainable future that serves tenants' needs for affordable, decent housing. All participants should commit to improving efficiency, quality, and streamlining processes.

CBC offers four recommendations to improve NYCHA's long-term viability:

1. **Fully integrate NYCHA into the City's affordable housing strategy.** While the City has increased greatly its support to NYCHA, City leaders continue to treat NYCHA as an adjunct to the City's affordable housing strategy. A more holistic approach is required. The majority of New York City's affordable housing need is for those with incomes at or below 50 percent of the area median income—exactly the population that NYCHA serves. Incorporating preservation of NYCHA into the housing plan will appropriately shift the unit distribution more toward the extremely and very low-income households for whom the needs are greatest. Providing NYCHA with one-third of the City's planned capital commitments for affordable housing over the next five years would give NYCHA an additional $1 billion through fiscal year 2022.

2. **Transition to an affordable housing steward that manages fewer buildings.** NYCHA has neither the resources nor capacity to continue managing a housing portfolio of its size. Its core function should be the protection of the affordability and structural integrity of its units; to do so, it should shrink the size of the portfolio it owns and manages.

   NYCHA can advance this goal through two strategies. Increasing the pace of public-private partnerships to convert public housing units to the more stable Section 8 funding stream will deliver immediate benefits to residents and address more than $2 billion in capital needs through 2022. NYCHA also should reduce the number of units it operates by transferring senior housing to qualified nonprofit organizations and sell its small, inefficient buildings with fewer than 200 units. These two steps would address another $2.6 billion in capital needs.

3. **Tap underutilized land assets to fund repairs and facilitate redevelopment.** NYCHA's campuses could accommodate at least 58 million square feet of additional development as-of-right. These development rights are a lucrative asset that can be tapped by selling air rights and allowing infill development. Both approaches generate cash, facilitate cost-effective renovations, and can be used for strategic rebuilding and demolition. To date

NYCHA has not sold any air rights, and its execution of planned infill development has been slow. Selling 10 percent of NYCHA's air rights could raise $1.5 billion. Accelerating the pace of infill development to build an additional 10,000 units could raise an additional $1.4 billion–provided the units are market rate and mixed income.

4. **Improve operations and construction management to lower costs.** Even with successful implementation of the first three recommendations, NYCHA will continue to manage a huge public housing portfolio for the foreseeable future. Improving the management and investment in these remaining buildings will be critical to their viability. NYCHA should decentralize property management, modernize its collective bargaining agreements and staffing structures, increase the use of private maintenance contracts, and work with the City and State to use more flexible procurement arrangements, such as design-build, and to improve construction management.

Together these recommendations could address an additional $7 billion of NYCHA's capital needs over the next five years through a combination of cost savings, new revenue, and reductions in need. Combined with NYCHA's plan, they would slow significantly deteriorating conditions. Even successful implementation of CBC's recommendations, however, will only reduce and not reverse NYCHA's deterioration. Tough choices about resource allocation and the sustainable size of the NYCHA portfolio will be needed ahead.

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