Stabilizing the Foundation:
Transforming NYCHA to Address Its Capital Needs

July 2018

CITIZENS BUDGET COMMISSION

FOREWORD

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All research is overseen by a committee of trustees. This report was prepared under the auspices of the Economic Development and Housing Committee, which we co-chair. The other members of the Committee are John Banks, Kenneth Bond, John Breit, Thomas Brodsky, Lawrence Buttenwieser, Vishaan Chakrabarti, Brooke Cianfichi, Peter D'Arcy, Helena Durst, Jake Elghanayan, Leecia Eve, Harold Fetner, Pepe Finn, Winston Fisher, William Floyd, Yale Fox, Bud Gibbs, Kenneth Gibbs, William Gilbane, III, Martin Grant, H. Dale Hemmerdinger, Maureen Henegan, Kent Hiteshew, William Hubbard, Karim Hutson, David Javdan, Peter Joseph, Elias Kefalidis, Michael Kuh, James Lipscomb, Anthony Mannarino, Katherine McManus, Frances Milberg, Ryan Monell, James Normile, Edward Piccinich, Geoff Proulx, Richard Roberts, Carol Rosenthal, Brian Sanvidge, Monica Slater Stokes, Alair Townsend, Jim Tozer, and Edward Skyler, ex-officio.

This is the second in a two-part series examining the New York City Housing Authority's (NYCHA) capital needs. A report released in December 2017 examined NYCHA's previous physical needs assessment and identified the root causes of its growing capital needs.

This report was researched by Sean Campion, Senior Research Associate, and written by Sean Campion under the direction of Andrew Rein, Research Consultant. Maria Doulis, Vice President, provided research and editorial guidance. Timothy Sullivan, Senior Research Advisor, and Ana Champeny, Director of City Studies, provided additional research and editorial support. Laura Colacurcio edited the document and Kevin Medina designed the graphics and publication.

A draft of this report was reviewed by NYCHA staff. We are grateful for their comments and suggestions; their willingness to help in the preparation of this report reflects their commitment to the public goals the agency serves but does not necessarily indicate their endorsement of any views or recommendations contained within it.

Sheila Davidson, Co-Chair

Mark Willis, Co-Chair

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EXECUTIVE SUMMARY

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.

INTRODUCTION

This is a pivotal moment for the New York City Housing Authority (NYCHA): the recently released Physical Needs Assessment quantified the severity of the deterioration in building conditions that has captured public attention for months at an astounding $32 billion.

Policy makers at all levels of government have proposed changes at NYCHA. Some have focused on imposing controls on its management and others on increasing the resources available; the U.S. District Court consent decree signed by the City of New York establishes a federal monitor and obligates the City to allocate $1 billion over the next four years to improve building conditions.[1]

Neither the decree nor other proposals go far enough. 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. Without dramatic changes within 10 years nearly 90 percent of NYCHA's housing units could be at risk of deteriorating past the point at which it is cost-effective to repair — a crisis from which NYCHA and the City might well not be able to recover.

Bold action is necessary. To preserve its deeply affordable housing NYCHA needs to undergo a fundamental transformation into a more effective landlord with a more manageable portfolio. This will require partnership with federal, state, local, tenant, and labor stakeholders, significant management reforms, and greater use of public-private partnerships to improve and manage developments. In addition the City administration needs to integrate NYCHA into its affordable housing strategy, making preservation of NYCHA units an explicit goal and shifting capital funding and tax-exempt bond volume from this and future affordable housing plans to NYCHA.

NYCHA'S CAPITAL NEEDS

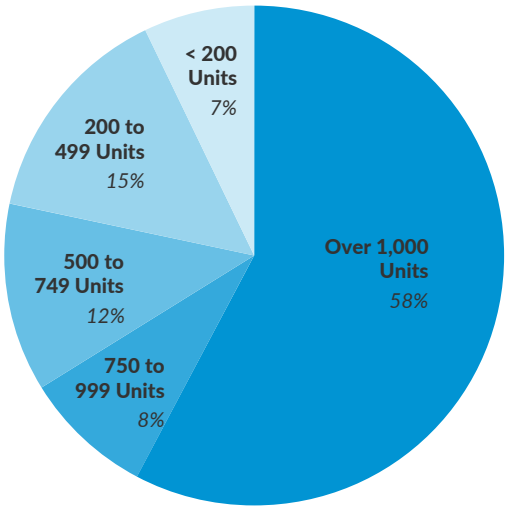
NYCHA owns more than 176,000 subsidized housing units, making it New York City's largest landlord and the nation's largest affordable housing provider. Nearly 90 percent of these units are subsidized and regulated under federal public housing laws, which restrict rents charged to tenants, set the terms and conditions under which NYCHA operates, and provide operating and capital subsidies. NYCHA also manages a number of small buildings that the City repossessed for failure to pay property taxes and then transferred to NYCHA to manage; these later joined the federal public housing program.

The average family living in public housing in New York City earns $24,336 per year, or one-third of the citywide median family income, and pays $509 per month in rent. According to the 2014 Housing and Vacancy Survey, public housing units made up two-thirds of all units citywide that rented for $500 or less per month.[2] Thus, NYCHA is the primary source of permanently affordable housing for the city's lowest-income renters.

NYCHA housing includes a wide range of building types and layouts. The majority of units are in developments of 1,000 or more units, as shown in Figure 1, comprised of a mix of low-, mid-, and high-rise buildings generally set back from the street in parklike campuses that span multiple blocks. NYCHA also owns a variety of smaller properties. More than 20 percent of the apartments are in developments with less than 500 units, many of which are standalone buildings.

The U.S. Department of Housing and Urban Development (HUD) encourages public housing authorities to assess the capital needs of their housing units at least once every five years. Housing authorities use this Physical Needs Assessment (PNA) to prioritize capital investments and develop

Figure 1. Number of NYCHA Units by Size of Development, 2017

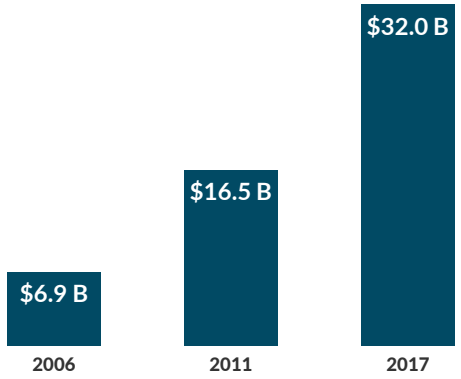


Source: New York City Housing Authority, *Development Data Book, 2017* (December 2017).

long-range capital plans. The PNA rates the condition of buildings, systems, and grounds; projects when components will need to be repaired or replaced; and estimates the total cost of bringing the components to a state of good repair. Needs are divided into short term, to be addressed within 5 years, and long term, to be addressed from 6 to 20 years into the future.

NYCHA enlisted two engineering firms, STV and AECOM, to conduct its most recent PNA, and the results were released in July 2018. The total cost to bring the system to a state of good repair is $32 billion over five years, with an additional $13 billion in needs projected in years 6 through 20. The five-year need has grown nearly fivefold from the $7 billion need identified in 2006.[3]

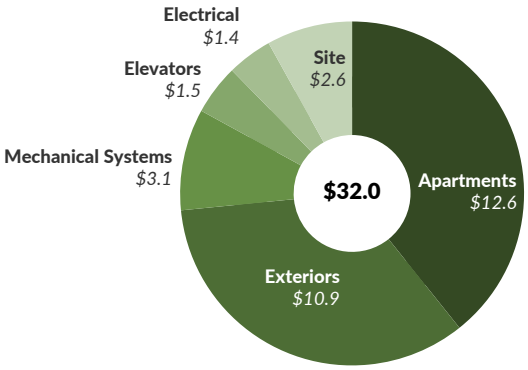
Figure 2: NYCHA's Five-Year Capital Needs as Reported in the 2006, 2011, and 2017 PNAs
(dollars in billions)



Sources: New York City Housing Authority, *2006 Physical Needs Assessment*, *2011 Physical Needs Assessment*, and *2017 Physical Needs Assessment*.

The largest share of capital work needed (39 percent or $12.6 billion) is for Apartments, which includes kitchens, bathrooms and their associated piping, walls, ceilings, and floors. The next largest category is Exteriors (34 percent or $10.9 billion), which includes roofs, windows, and brickwork. The remaining needs are for mechanical systems including boilers and heating plants ($3.1 billion), site work ($2.6 billion), elevators ($1.5 billion), and electrical ($1.4 billion).

Figure 3: NYCHA's Five-Year Capital Needs by Category, 2017
(dollars in billions)

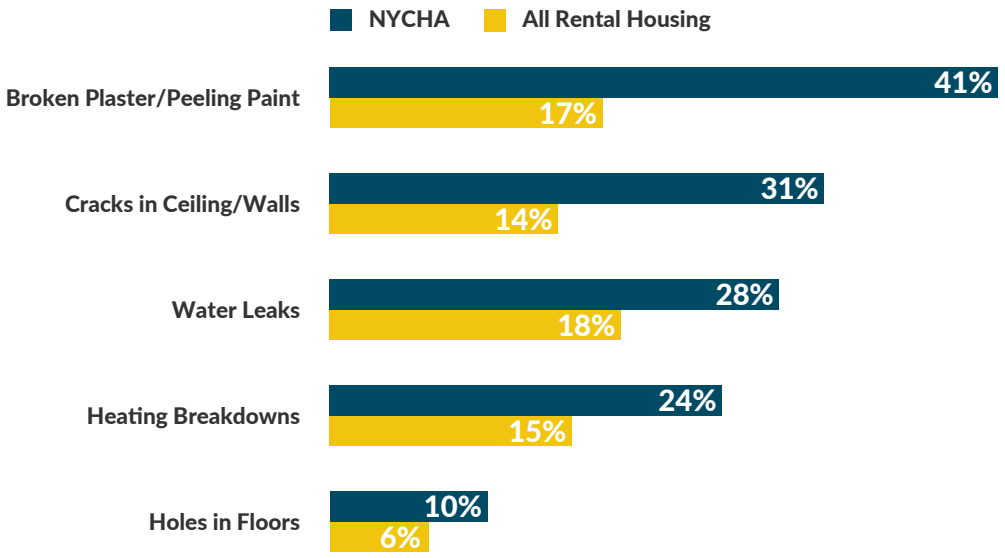


Note: Additional $13.4 billion in capital needs reported in later years

Sources: New York City Housing Authority, *2017 Physical Needs Assessment.*

The poor condition of buildings and apartments negatively affects tenants' quality of life. The 2014 Housing and Vacancy Survey found NYCHA tenants reported deficiencies at rates two to three times those reported for other rental properties. Fully 41 percent of NYCHA tenants reported broken plaster and peeling paint, 28 percent reported water leaks, and 24 percent reported heating breakdowns. These conditions lead to or exacerbate other underlying conditions like lead paint and mold that contribute to health conditions like asthma and lead poisoning.[4]

Figure 4: Share of Renter Households Reporting Housing Deficiencies, NYCHA vs. All Rental Housing, 2014



Source: CBC staff analysis of data available from the U.S. Census Bureau, *New York City Housing and Vacancy Survey, 2014 Data Files, Renter Occupied Housing Units by Rent Regulation Status, Series 1A*, Tables 48, 49, 50, 52.

While needs vary across NYCHA's portfolio, nearly all its properties require substantial rehabilitation. More than 98 percent of the portfolio has per-unit needs of $100,000 or more, and the systemwide average is approximately $181,000. Needs are greatest in developments with fewer than 100 units ($209,000 per unit). These are predominantly walk-up multifamily buildings, townhouses, and single family homes, many of which were tax delinquent properties transferred to NYCHA after foreclosure which had already suffered from disinvestment before coming under NYCHA's control and are among the most inefficient buildings to operate in the portfolio. Most NYCHA units (98,837) are in large developments with an average need of $185,000 per unit. These properties tend to have larger average unit sizes and complex custom mechanical systems that are costly to repair or replace.

In contrast, NYCHA's developments exclusively for seniors have comparatively lower capital needs, approximately $132,000 per unit. Senior housing receives less wear-and-tear than other apartment buildings and has received more investment over the years than traditional public housing.[5]

Figure 5: NYCHA Average Per-Unit Five-Year Capital Needs by Size and Type of Building, 2017

	Average Per-Unit Need	Number Of Units
By Size		
Under 100 Units	$209,000	2,961
100-500 Units	$171,000	35,266
500-1000 Units	$179,000	36,318
Over 1,000 Units	$185,000	101,913
By Type		
Conventional Public Housing	$182,000	162,919
Senior Housing	$132,000	7,700
Acquired through *In Rem*	$240,000	5,837

Sources: New York City Housing Authority, *2017 Physical Needs Assessment and Development Data Book 2017* (December 2017).

An important benchmark for evaluating capital needs is the cost to rebuild a comparable structure—replacement cost. Without adequate maintenance and repair, apartments and properties eventually deteriorate to such poor condition that replacement becomes more cost-effective than repair. Based on third-party construction cost estimates for multifamily residential development in New York City; HUD's standards for total development costs; consultation with industry professionals; and a review of the impact of federal regulations on labor costs, the Citizens Budget Commission (CBC) conservatively estimates the replacement cost for a NYCHA unit to be $450,000. This includes both hard costs for construction; soft costs for design fees, professional services, and financing; developer fees; and reserves. This estimate does not include the cost of land or any costs for demolition or tenant relocation.[6]

CBC grouped NYCHA developments into four categories of per-unit need: economical to fix (less than $250,000 per unit); very high cost ($250,000 to $350,000 per unit); near replacement cost ($350,000 to $450,000 per unit); and greater than replacement cost (≥$450,000). Currently no developments are greater than replacement cost though many are close. (See Figure 6.) Eight hundred twenty three units are near replacement cost, needing between $350,000 and $450,000 per unit, and another 7,320 units are very high cost, with needs of $250,000 to $350,000 per unit.

Given the current rate of deterioration, the long-term viability of many NYCHA units is uncertain; at many developments renovation needs could soon exceed replacement cost. If needs continue to grow at the 2011-2017 rate, the next PNA in 2023 is likely to identify more than half of the NYCHA portfolio as very high cost or worse. By 2027 more than 90 percent of the system could hit this threshold, including 8,000 units that are likely to be greater than replacement cost.

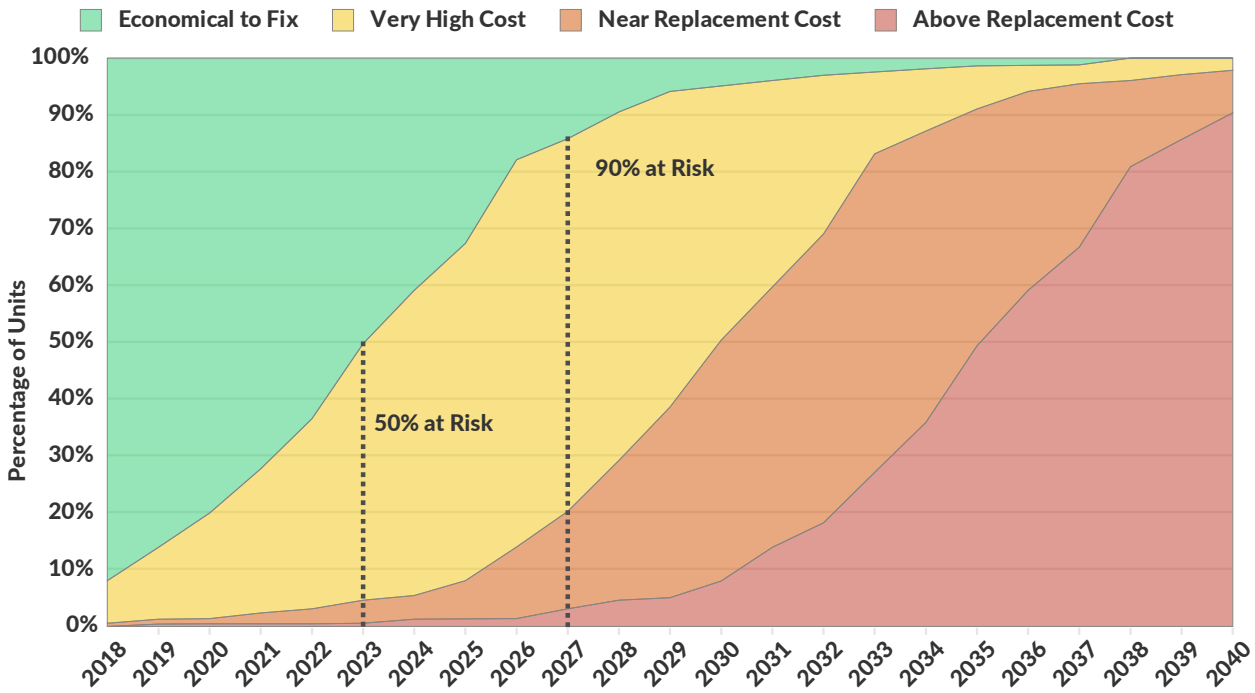
Figure 6: Level of Average Per-Unit Capital Needs at NYCHA Developments and Number of Units versus Replacement Cost, 2017

Average Per-Unit Need	Number of Developments	Number of Units
Economical to Fix		
< $150k	78	26,712
$150-200k	153	106,807
$200-250k	65	34,671
Very High Cost		
$250-350k	23	7,320
Near Replacement Cost		
$350-450k	5	823
Above Replacement Cost		
$450k +	0	0

Note: Replacement cost is based on CBC's analysis of third-party construction cost estimates for multifamily residential development in New York City and consultation with industry professionals and CBC calculations of average per-unit needs and on PNA reported by development.

Sources: CBC staff analysis of New York City Housing Authority, *2017 Physical Needs Assessment*, and *Development Data Book 2017* (December 2017); New York City Housing Development Corporation, "Market and Financial Study NYC Mandatory Inclusionary Housing," (September 2015); U.S. Department of Housing and Urban Development, *TDC for all building types: 2017 Unit Total Development Cost (TDC) Limits* (February 2017).

Figure 7: CBC Projection of NYCHA Capital Needs if They Continue to Grow at Current Rate, 2018-2040



Note: Assumes construction costs and replacement costs grow at 4 percent annually and capital needs grow at an average annual rate of 10.6 percent, which was the annualized rate of growth between the 2011 and 2017 physical needs assessments.

Sources: CBC staff analysis of New York City Housing Authority, *2017 Physical Needs Assessment* and *Development Data Book 2017* (December 2017).

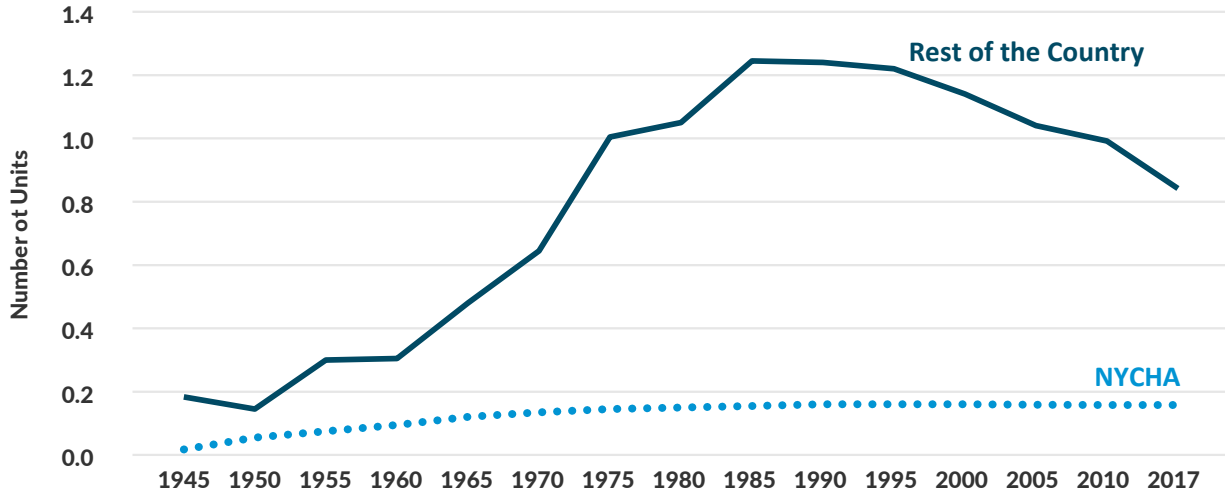
CAUSES OF ONGOING DETERIORATION

NYCHA's large public housing portfolio has become an outlier as housing authorities in other cities have reduced their public housing stock. The number of public housing units nationwide peaked in the late 1980s at nearly 1.5 million and fell to less than 1 million in 2017.[7]

After the rapid expansion of public housing in the decades following World War II, funding and political support began to decline and public housing authorities began to divest. The loss of units began in the early 1990s and accelerated over the last two decades. The HOPE VI program, which provided funding for housing authorities to replace public housing with a combination of mixed-income development and Section 8 rental housing vouchers, spurred the largest reduction: a net loss of more than 400,000 public housing units across the country.[8] In recent years the decline has continued as housing authorities have taken advantage of federal initiatives such as Moving to Work and the Rental Assistance Demonstration (RAD) that support the conversion of public housing to other subsidies or allow demolition and redevelopment.[9]

Figure 8: Public Housing Units by Year, New York City Housing Authority vs the Rest of the Country, 1945-2017

(units in millions)



Sources: Lawrence J. Vale and Yonah Freemark, "From Public Housing to Public-Private Housing: 75 Years of American Social Experimentation," *Journal of American Planning Association*, vol. 78, no. 4, Autumn 2012, pp. 379-402.

NYCHA was prohibited from participating in many of these programs, partly because through the late 1990s it was among the country's highest-performing housing authorities. With one exception, HUD barred NYCHA from participating in HOPE VI because of its strong financial position, decent physical conditions, and high occupancy rate.[10] Similarly, NYCHA is among the few large public housing authorities HUD has not allowed to participate in Moving to Work. Had it been allowed to

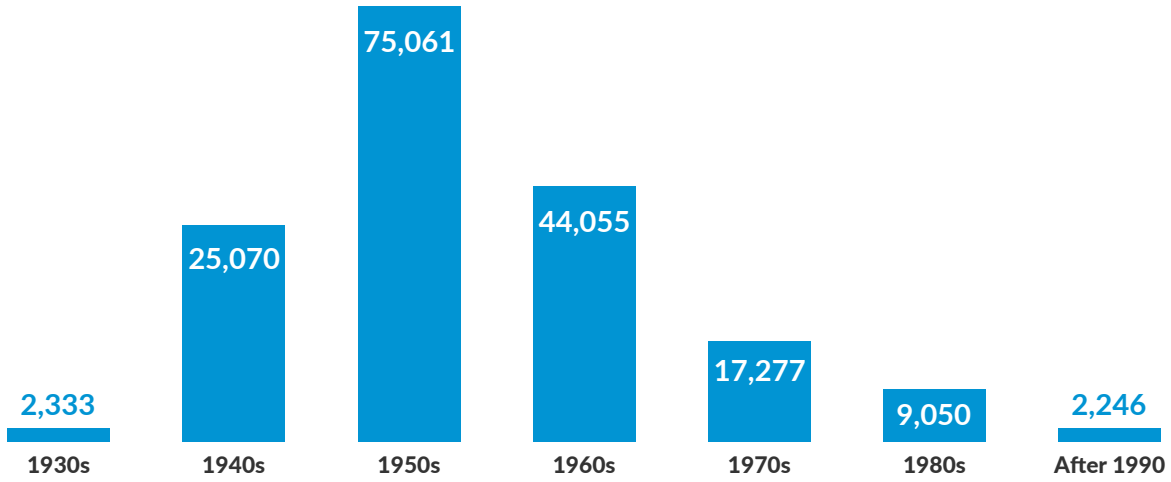
participate, NYCHA still might not have taken advantage of these programs to the same extent as other cities given the support for public housing among New York City's elected officials.

While most other public housing authorities took advantage of these federal programs to demolish their oldest and highest-need developments, NYCHA retained nearly all its units and now must address the needs of buildings reaching the end of their useful lives. More than 90 percent of NYCHA units were built before 1980, and the majority were constructed before 1960.

In addition to age, the deterioration of NYCHA's stock and its growing capital needs are the result of three factors:

- Funding consistently trailed needs, leaving unaddressed needs to grow;
- Inefficiencies reduced the impact of capital investment; and
- Use of alternative strategies was limited.

Figure 9: NYCHA Units by Decade Constructed, 1930s-1990s



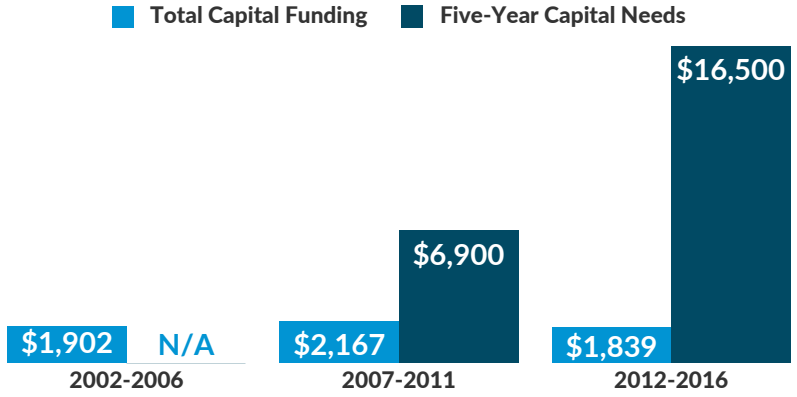
Sources: New York City Housing Authority, *Development Data Book 2017* (December 2017)

Funding Consistently Trailed Need Leaving Unaddressed Needs to Grow

Since 2002, while deterioration in NYCHA's buildings accelerated, annual capital funding declined in real dollar terms, particularly in the 2012 to 2016 period. NYCHA received approximately $400 million annually or $2 billion over each of the three previous five-year capital planning periods, a fraction of what was needed.

Declining federal support, limited City and State support, and the diversion of capital subsidies to address operating needs resulted in funding covering just more than 31 percent of the need for the 2007-2011 period and 11 percent for the 2012-2016 period. (NYCHA did not release a physical needs assessment for the 2002-2006 period.)

Figure 10: NYCHA Capital Funds from All Sources vs Capital Needs, 2002-2016
(dollars in billions)



Sources: New York City Housing Authority, *2006 Physical Needs Assessment*, *2011 Physical Needs Assessment*, and *Comprehensive Annual Financial Report*, fiscal year 2002 to 2016 editions; New York City Mayor's Office of Operations, *Mayor's Management Report*, fiscal year 2002 to 2017 editions.

Federal Funding Declined

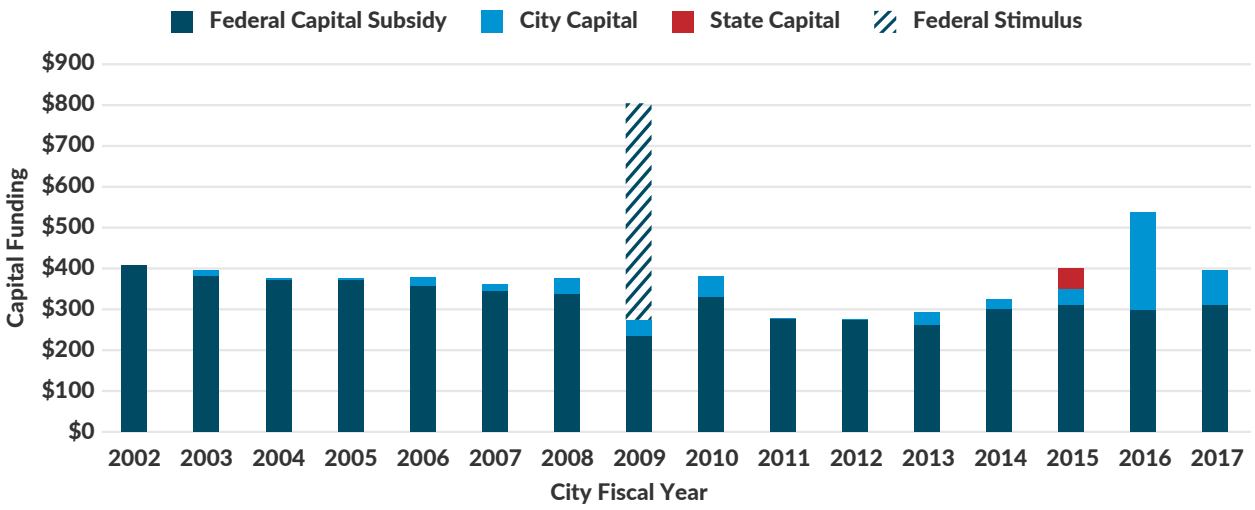
Most of NYCHA's capital funding comes from the federal government, and this funding has declined as federal support for public housing has waned. The federal government originally subsidized construction of public housing with the expectation that housing authorities would generate enough rental income to cover operating expenses. Over time, however, federal actions limited housing authorities' ability to fund their operations. In 1969, by which time NYCHA's portfolio totaled roughly 150,000 units, Congress capped public housing rents at 25 percent of a tenant's income under legislation widely known as the Brooke Amendment. (Congress later increased the cap to 30 percent.) Beginning in 1981 federal guidelines required housing authorities to give priority to the lowest-income households, which resulted in a significant decline in the share of low- and moderate-income households who paid higher rents.

To compensate the federal government began providing operating and capital subsidies to cover the shortfall between rents and operating costs and capital needs. In the ensuing years, however, subsidy increases did not keep pace with the growth of housing authorities' needs, as federal support shifted to funding other affordable housing programs such as Section 8 Housing Choice Vouchers and Low-Income Housing Tax Credits (LIHTC).

NYCHA collected $306 million in federal capital subsidies in 2017, $100 million less than it collected in 2002, even though its capital needs grew nearly fivefold in just over a decade.[11] This represents a 66 percent decline when adjusted for construction cost inflation. Had NYCHA's capital subsidy over that period increased at the inflation rate for building costs, it would have received an additional $1.5 billion.[12]

Nor has the federal operating subsidy kept pace with NYCHA's needs. In recent decades Congress has regularly appropriated less than HUD's calculation of housing authorities' operating needs, resulting in a nearly $1.5 billion loss to NYCHA since 2001.[13]

Figure 11: NYCHA Capital Funding by Source, 2002-2017
(dollars in millions)



Sources: New York City Housing Authority, *Comprehensive Annual Financial Report*, fiscal year 2002 to 2016 editions; New York City Mayor's Office of Operations, *Mayor's Management Report*, fiscal year 2002 to 2017 editions.

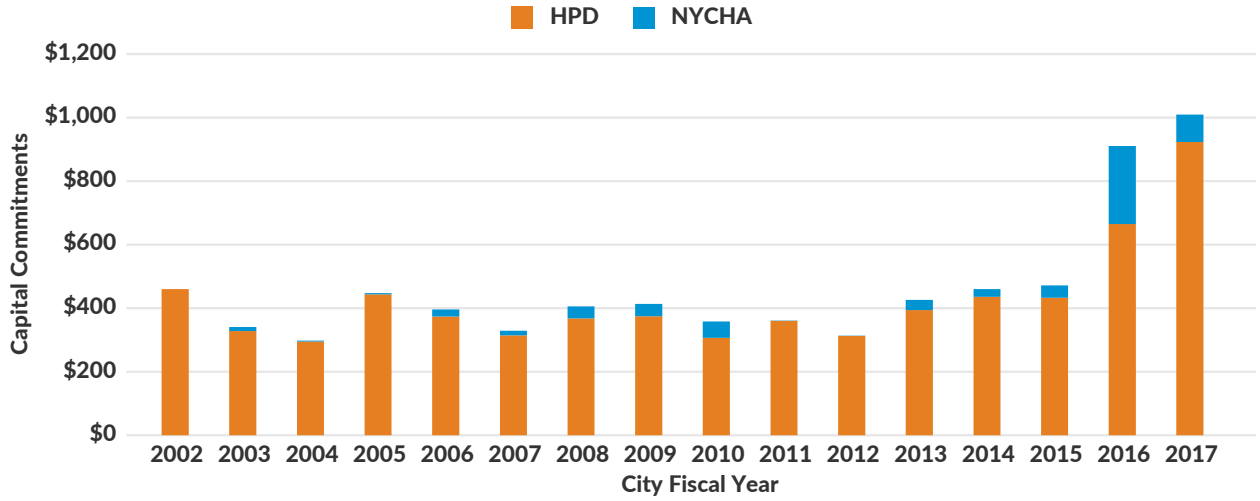
Limited City and State Support

The City and State have historically provided little support for NYCHA's capital budget, particularly after the federal government began subsidizing its capital needs. Between 2002 and 2014 the City committed $232 million to NYCHA's capital needs while the State did not commit any funding. In recognition of the accumulated impact of federal disinvestment, the City and the State recently increased their support. The City committed $354 million from 2015 through 2017. Since the 2015 Adopted Budget the State has pledged $550 million for repair work at NYCHA but has spent just $57 million to date, largely allocated by State Assembly members to non-building projects like appliances, playgrounds, and lighting.[14]

Even with these increases funding for NYCHA accounts for only a small portion of the City's investment in affordable housing. NYCHA received just 5 percent of the City's $4.7 billion total affordable housing capital funds from fiscal years 2002 to 2014. The de Blasio administration has increased the City's capital investment in affordable housing, but still only 16 percent of the City's $2.3 billion investment from fiscal years 2015 to 2017 went to NYCHA.

Other City and State actions imposed costs on NYCHA that exacerbated the funding shortfall. Like many local governments with large housing authorities, the City imposed charges on NYCHA for police services, garbage collection, payments in lieu of property taxes, and the operation of senior and community centers since these costs could be reimbursed from NYCHA's federal operating subsidy.[15] However, the City was slow to reverse these charges after the federal government began to lower NYCHA's operating subsidy in the early 2000s. By 2015, when the City ceased requiring payments, NYCHA was paying the City $100 million annually even though it was operating at a deficit. (See CBC's 2015 and 2017 reports for more details on these charges.)[16]

Figure 12: New York City Capital Commitments for Housing, FY 2002 to FY 2017
(dollars in millions)



Sources: New York City Mayor's Office of Operations, *Mayor's Management Report*, fiscal year 2002 to 2017 editions.

The State and City also stopped subsidizing public housing developments they built without federal subsidies. After the passage of the Brooke Amendment in 1969, the City and the State pushed NYCHA to transfer many of these developments to the federal program but continued to subsidize the developments that had yet to be federalized. By 1995 NYCHA had federalized 64 of the original 85 City and State developments. The remaining 21 developments, totaling nearly 20,000 units, continued to be subsidized. New York State stopped subsidizing those remaining units in 1998, which cost NYCHA $60 million annually.[17] Beginning in 1999 federal law blocked NYCHA from bringing additional units onto the federal subsidy program.[18] The City halted its subsidy in 2003, costing NYCHA an additional $40 million.[19]

Capital Funding Diverted to Cover Operating Shortfalls

Over the last two decades NYCHA diverted a portion of its capital subsidies to cover its operating budget shortfalls. Federal rules allow housing authorities to use up to 20 percent of capital grants to pay for operating expenses.

Between 2002 and 2016 more than $600 million in federal capital funding was diverted to close structural operating deficits. Most of this occurred during two time periods: approximately $200 million was diverted between 2004 and 2006, and $291 million was diverted between 2013 and 2016, primarily to address a backlog of 420,000 work orders.[20]

In the last two years improvements in NYCHA's fiscal outlook have eliminated the need to divert capital funding. This improvement was due in part to increased City operating support, including payments to fund collectively bargained wage increases, and the elimination of payments in lieu of property taxes and for supplemental police and sanitation services. The City has also taken over the operation of most of NYCHA's senior and community centers or provided funding to cover their operating costs.

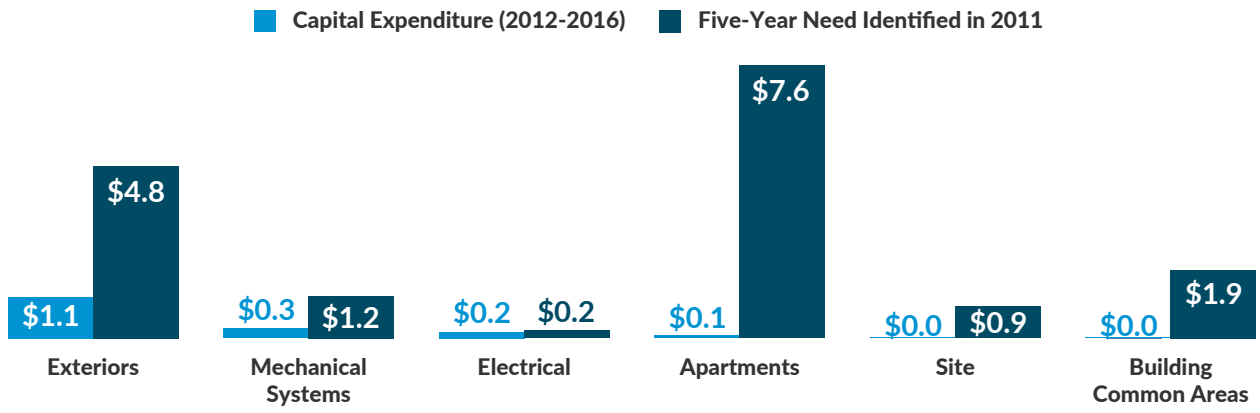
Unaddressed Needs Grew

Given its limited funding, NYCHA's recent capital strategy has focused investment in roofs, windows, and exteriors before building interiors or mechanical systems. Sealing buildings limits water infiltration and prevents further deterioration.[21] (For more details on NYCHA's recent capital spending, see our 2017 report on NYCHA's capital program.)

Between 2012 and 2016 two-thirds of NYCHA's capital spending ($1.1 billion) went to exteriors, with the majority spent on roofs. This only met one-quarter of NYCHA's exterior needs, which increased 35 percent between 2011 and 2017. The focused investment kept roof needs from increasing even further over the period.

The significant underinvestment in other areas resulted in even greater needs growth. The remaining one-third of NYCHA's capital spending ($600 million) addressed just 5 percent of the $12 billion needed to rehabilitate building interiors, mechanical systems, and other areas. These non-exterior needs grew 115 percent between 2011 and 2017; two-thirds of that growth was attributable to the continued deterioration of previously identified needs and rising citywide construction costs, which are estimated to have grown at approximately 4 percent per year.[22] The remaining one-third of growth is due to needs that were projected as beyond the five-year time frame of the 2011 PNA but now require investment within the next five years, primarily in mechanical systems such as boilers, heating plants, and elevators, and utilities like water, sewer, and gas lines.[23]

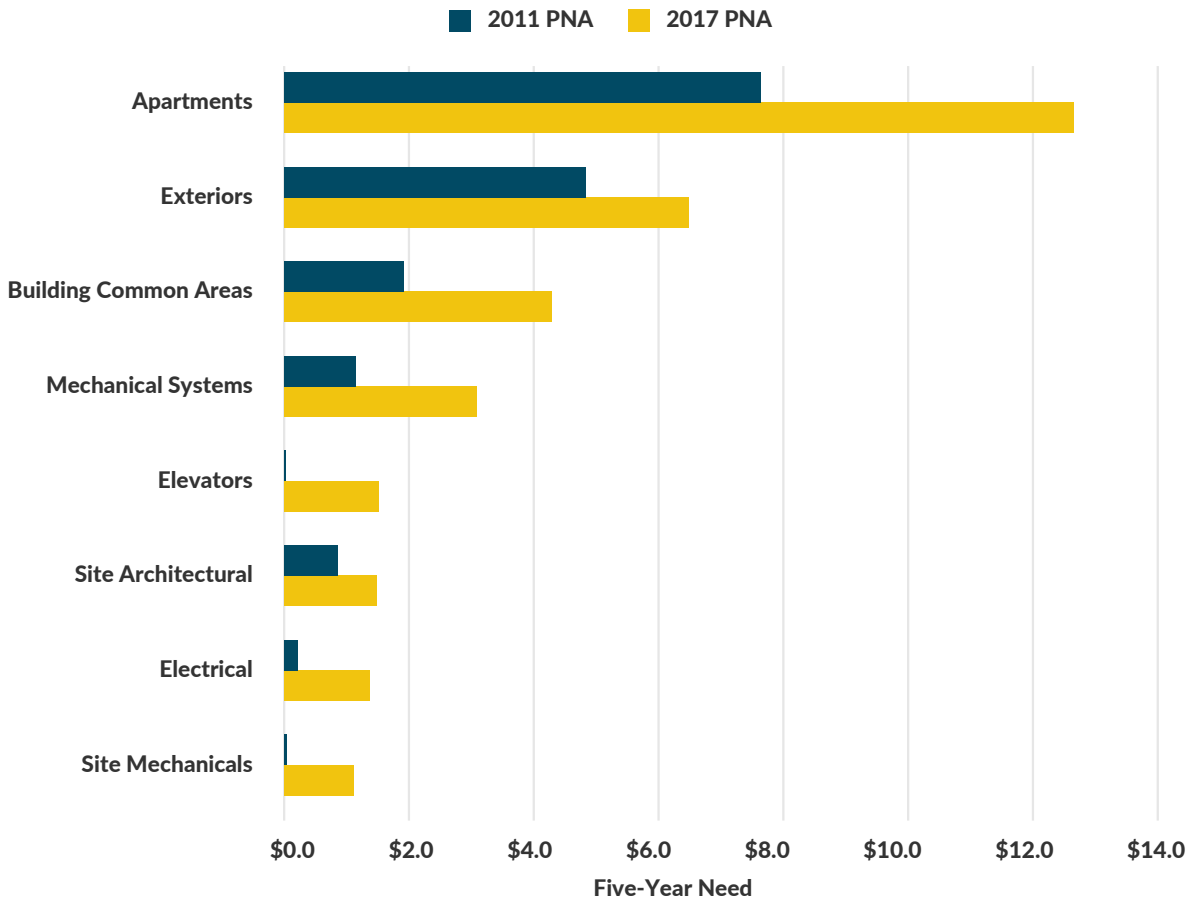
Figure 13: NYCHA's Five-Year Capital Needs and Expenditures by Category, 2012-2016
(dollars in billions)



Sources: Data provided to CBC by New York City Housing Authority.

> The deterioration of NYCHA's buildings are the result of funding consistently trailing needs, leaving unaddressed needs to grow; inefficiences which reduce the impact of capital investment; and limited use of alternative strategies

Figure 14: NYCHA's Five-Year Capital Needs by Category, 2011 and 2017 PNAs
(dollars in billions)



Source: New York City Housing Authority, *2017 Physical Needs Assessment* and *2011 Physical Needs Assessment*.

Inefficiencies Reduce Impact of Capital Investment

Restrictive federally mandated procurement rules and NYCHA's inefficient, high-cost operations have increased the time and cost of capital projects and reduced the impact of investments.

Inefficient Capital Procurement Process

NYCHA's federally funded procurements are governed by restrictive regulations that increase the time and cost of capital work and discourage many qualified firms from bidding on NYCHA projects. One example is that public housing authorities are required to use a "two-step" sealed bidding process: authorities must solicit separate bids for design and construction work and accept the lowest price responsible bidder at each stage. This precludes the selection of a bid that would deliver the most value, perhaps at higher quality, rather than the lowest price. It also blocks the use of procurement methods increasingly used in both private and public sectors, such as design-build contracting and "construction manager at risk."

The two-step process creates gaps between pre-design, design, and construction phases while each

next stage is scoped, bid, and contracted. In addition to lengthening project timelines, separating design from construction results in high rates of change orders, as construction managers and contractors modify initial scopes of work developed during the design phase.

Other federal administrative burdens also limit the effectiveness of NYCHA's capital planning. Federal law limits housing authorities' ability to take on debt backed by its real property assets and blocks them from taking advantage of many other commonly used federal affordable housing subsidy programs.[24] Contractors working on federally funded public housing work must develop resident hiring plans, known as the Section 3 requirement. To comply with Section 3, NYCHA requires that 15 percent of the labor amount on contracts greater than $500,000 go toward resident hiring.[25] NYCHA's federally funded work is also subject to Davis-Bacon prevailing wage requirements.

State law includes similar restrictions for State- and City-funded projects, though recent State procurement reforms have sought to address these issues. The State Legislature recently granted NYCHA the ability to use design-build contracting, but only on State-funded projects approved by a yet-to-be-appointed Emergency Manager.[26] The law also prohibits NYCHA from using private workers to maintain systems that were built or repaired under a design-build contract.[27]

New York City negotiated a project labor agreement (PLA) on NYCHA's behalf in 2014. The PLA was intended to speed up construction work, reduce costs, and help place NYCHA residents in union apprenticeship programs in exchange for offering certain job guarantees to the signatory union locals. It is not clear if there have been cost savings since no review has been conducted or made public by the Mayor's Office of Contract Services, nor any indication given that the requisite numbers of NYCHA residents have been accepted into apprenticeships.[28]

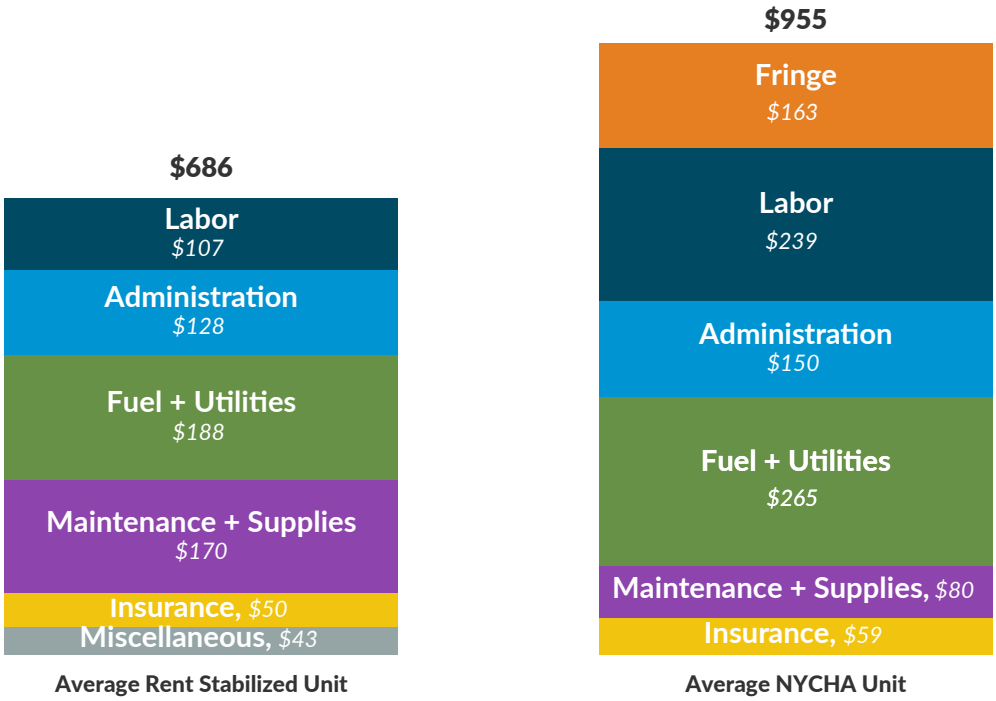
High Cost Operations

NYCHA should be able to leverage its scale for operational efficiencies, but its operating costs consistently exceed industry standards and do not yield better services or building conditions. Its high costs—in part due to rigid staffing rules and centralized property management—sap resources that could support routine maintenance to keep facilities in a better state of repair.

In 2015 NYCHA's cost to operate a public housing unit was just under $1,000 per month, 39 percent higher than a private owner's cost to operate a comparable rent-stabilized unit, excluding property taxes.[29] The most significant driver of the difference is staffing costs.[30] NYCHA spends twice as much, $551 per unit per month, on administrative functions, frontline labor, and fringe benefits, as compared to $278 for rent-stabilized landlords (including miscellaneous expenses).[31] Private landlords spend more on contracting out maintenance and on supplies, and NYCHA performs more of this work in house.

Most of NYCHA's personnel are covered by collective bargaining agreements between Teamsters Local 237 and the City of New York. The standard work week (8:00 a.m. to 4:30 p.m., Monday to Friday) specified in these agreements makes it difficult to do basic maintenance, schedule repair work, or respond to work orders in apartments in a timely fashion. Morning, evening, or weekend

Figure 15: Average Monthly Operating Costs, Rent Stabilized Property and NYCHA, 2015



Sources: New York City Housing Authority, *Comprehensive Annual Financial Report for the Years Ended December 31, 2015 and 2014* (October 2016); New York City Rent Guidelines Board, *2017 Income and Expense Study* (March 2017).

work requires NYCHA to pay overtime or a significant shift differential and may only be undertaken when the tenant is at home, a challenging constraint given limited working hours and the multiple skilled trades that may be involved in a repair job.

The work rules combined with staffing shortages may be a source of NYCHA's high operating costs.

NYCHA Executive Vice President for Operations Cathy Pennington discussed these issues in testimony before the City Council: "[I]t often takes a number of weeks before a skilled trades repair can be scheduled, due to a shortage of staffing and an extensive backlog of work orders.... For example, repair of a leak in the wall requires coordination with a number of different staff: a maintenance worker to confirm the leak and identify the source; a plumber to fix the leak; a plasterer to repair the wall; and a painter to paint the newly plastered wall. To put this problem in perspective, right now we have a backlog of 32,000 paint jobs [and] 24,000 carpentry jobs. Put another way, each month... an average of 16,200 work orders requiring plumbers, plasterers, and carpenters are created, but due to our staffing levels, we are only able to complete approximately... 15,600 of those."[32]

Headcount in many skilled trade titles has declined in recent years. Between 2014 and 2017 NYCHA employed 55 fewer painters and plasterers, 32 fewer plumbers, and 18 fewer heating plant workers. Most of the losses have been concentrated in lower paying job titles, including helpers, heating plant technicians, and exterminators.[33] Thus, NYCHA has relied on a small number of higher paid workers, often with high rates of overtime, to clear work orders in a timely fashion. NYCHA paid $88 million in overtime in 2017 according to City payroll data, and a disproportionate share of

the overtime was concentrated in specific skilled trades. The average Plumber's Helper active for all of City fiscal year 2017 worked 549 hours of overtime, while the average Plumber worked 677 hours, and the average Supervising Plumber worked 800 hours. Plumbers and supervisors earn 45 percent more per day than helpers, and overtime work pays at least time and a half.[34]

NYCHA's property management is largely centralized with budgeting, staffing assignments, and procurement handled from the central or borough offices. Development-based property managers have limited authority over maintenance budgets, staffing levels, or assignments at their properties and face little internal accountability for conditions. Many of the skilled trade workers are based at the borough level or are assigned to roving work crews, spreading them thinly across the system. This lack of accountability and responsiveness to development needs likely increases cost and decreases timeliness and quality.[35]

The time and cost to conduct basic repairs demonstrates these challenges. In 2017 NYCHA took 17 days to resolve routine work orders and 12 hours to resolve emergency work orders. Multiple infusions of City resources have helped reduce the back log of work orders and improve response times, though both remain high. NYCHA reduced outstanding work orders from a high of 420,000 in 2012 to 150,000 in May 2018, but this remained nearly 67 percent higher than its target of 90,000.[36]

A report by the Boston Consulting Group (BCG) in 2012 found that best-in-class public housing authorities and private managers use on-site maintenance staff to handle preventative maintenance and basic repairs. While NYCHA's on-site maintenance workers also do some maintenance and repair work, it is limited by restrictive job descriptions and work rules. Additionally, unlike NYCHA, the best-in-class managers were more likely to contract out more complex repair work. The study also found NYCHA had duplicative procurement processes and poor supply chain management. It paid higher prices for supplies and managed them inefficiently, further hindering its ability to complete basic repairs and maintenance work.[37]

NYCHA has made limited progress adopting BCG's recommendations. It has reduced duplicative headcount at the borough and central office levels, implemented new technology to track work orders and repairs, developed a publicly available capital projects tracking system, and launched pilot programs to test private sector best practices for property management. Still it has not yet been able to address many of the core operational and procurement issues. Many of the reforms that have not been implemented must be collectively bargained and have been met with resistance by Local 237.[38]

Use of Alternative Strategies Has Been Limited

In 2015 NYCHA released NextGeneration NYCHA, a 10-year strategic plan to put itself on firmer financial footing by implementing labor reforms, making underutilized land available for "infill" development, and pursuing funding swaps and public-private partnerships that would allow it to leverage private capital for repairs and management. However, limited progress has been made toward implementing the strategies announced in the plan.[39]

Staffing and Work Rule Changes

NYCHA launched several promising pilot programs to boost labor productivity. FlexOps allow more work outside of the standard workday by offering incentives to frontline maintenance workers and caretakers to adjust their standard work shifts to include morning and evening hours. NextGen Operations (NGO) is intended to devolve some authority over budgets and staffing levels to property managers and increase accountability for building conditions. NYCHA has also begun using job order contracts to keep private construction companies on call for recurring routine construction needs. It is increasingly entering into contracts for private companies to handle specific skilled trades like boiler maintenance or to address one-time needs like lead remediation and the work order backlog.[40]

Positive results from these limited reform efforts show that adopting property management industry best practices can improve NYCHA's operational efficiency and effectiveness. The conditions of FlexOps developments' buildings and grounds have significantly improved and NGO developments were able to cut the time to address basic repairs by more than half.[41] The ability to expand these successful models, however, depends on support from the City and the State, and many actions require changes in collective bargaining agreements with its labor unions, which have opposed making the pilot programs permanent.

Monetizing Unused Development Rights

One of NYCHA's most valuable assets is its land. Original design choices to create open spaces, parking lots, and playgrounds mean the majority of developments are underbuilt relative to the maximum densities allowed under the City's zoning code. NYCHA's campuses could accommodate at least 58 million square feet of additional development as-of-right.[42]

NYCHA can take advantage of the underutilized land by allowing housing construction on the properties, commonly referred to as infill development, or by transferring development rights to adjacent property owners through the sale of air rights. To date NYCHA has not sold any air rights, and its execution of planned infill development has been slow.

The NextGen NYCHA plan calls for building 10,000 units of affordable housing on NYCHA land over 10 years. It also calls for development of an unspecified number of mixed-income units expected to raise between $300 million and $600 million for use toward NYCHA expenses. The 100 percent affordable housing will not generate revenue.

Decisions about the affordability mix of new developments and how new resources will be utilized have been contentious; tenant opposition to some plans had been vehement. Thus far, developers have been selected for 10 infill projects, 2 of which are mixed-income buildings (830 units split 50-50 between market rate and affordable) expected to generate $62 million in revenue. The other eight infill projects are to be 100 percent affordable (1,269 units). To keep pace with the original production plan NYCHA would have had to close on at least 3,000 affordable units and raise at least $90 million from mixed-income development by May 2018. An additional six projects are

in the predevelopment or request for proposal (RFP) phases, including two mixed-income sites (approximately 400 units) and four 100 percent affordable sites (511 units).

Subsidy Stream Swaps and Public-Private Partnerships

NYCHA's strategies for increasing public-private partnerships have been consolidated under what's known as the Permanent Affordability Commitment Together (PACT) initiative. It relies primarily on swapping the source of subsidy from the public housing program to project-based rental vouchers under Section 8. Section 8 funding has been more stable; even as public housing subsidies have declined, Section 8 voucher funding has grown approximately 2 percent per year.[43] In addition Section 8 does not have restrictions on the issuance of debt or accessing such other housing subsidies as private activity bonds and Low-Income Housing Tax Credits (LIHTCs).

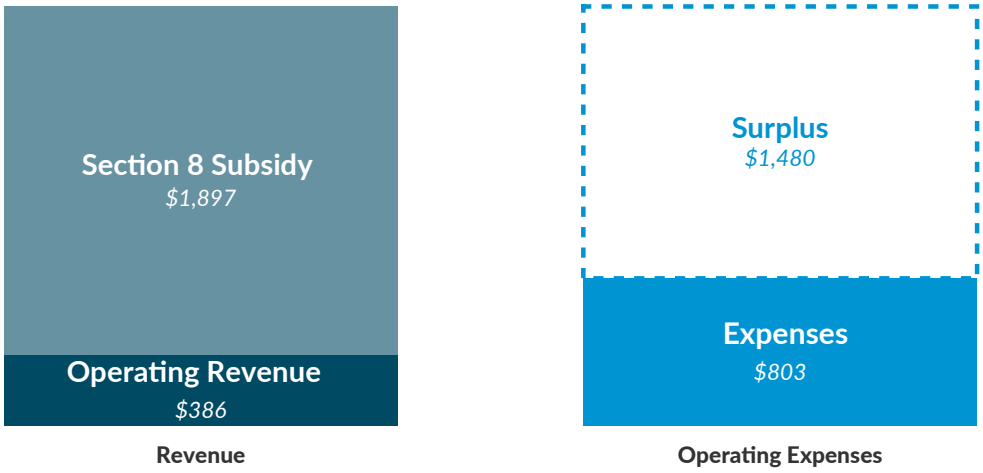
Project-Based Section 8 Contracts

Historically NYCHA has managed a small number of properties under project-based Section 8 contracts with HUD. Eligible tenants pay 30 percent of their income in rent, and the federal government pays the difference between what tenants can afford and the Fair Market Rent for apartments in the surrounding area.[44] With project-based vouchers, rental assistance is tied to the unit, not the individual, and guarantees the unit remains affordable for the length of the contract term.

Under PACT, NYCHA has sought to enter into partnerships with private property managers to manage its project-based Section 8 portfolio and to secure subsidies for its currently unfunded City- and State-built units. This strategy was used recently for six developments collectively referred to as the Triborough Portfolio. In 2014 NYCHA entered into a partnership with L+M Development and BFC Partners for 874 units of project-based Section 8 housing. As part of the transaction, NYCHA ground leases the land and retains control of the tenant selection process while its partners manage the day-to-day operations at the developments and collect a management fee.

Figure 16 illustrates how this project generated resources for repair work that NYCHA otherwise would not have been able to access. In 2016 Triborough tenants paid an average of $386 per month in rent. Under Section 8 the partnership collected nearly $1,900 in subsidy per unit per month and was able to generate a surplus of $1,480 per unit after paying operating expenses.[45] That surplus allowed the partnership to issue tax-exempt bonds through the City's Housing Development Corporation and raise equity through the sale of LIHTCs, neither of which would have been available to NYCHA. The partnership invested $119 million of the proceeds, or $138,000 per unit, into repair work at the six developments and raised $140 million in cash for NYCHA. NYCHA also retains ownership of land and maintains an ownership stake in the units to ensure they remain permanently affordable.[46]

Figure 16: Average Monthly Rental Revenue, Subsidies, and Expenses, Triborough Portfolio, 2016



Sources: Triborough Preservation LLC, Financial Statements (With Supplementary Information) and Independent Auditor's Report (December 2016).

Rental Assistance Demonstration Program

The larger component of PACT is the RAD program. Congress created RAD in 2012 as a pilot program to encourage housing authorities to convert properties to a new form of project-based rental vouchers. Under RAD housing authorities are allowed to enter into partnerships with private management companies or developers–similar to the model used in the Triborough transaction–and access private capital markets.

RAD has several notable limitations, however, that make it less valuable than the traditional project-based rental vouchers used in the Triborough deal. Congress designed RAD to be revenue neutral to the federal government. As a result the RAD subsidy swaps the existing level of operating and capital subsidies for a Section 8 subsidy of an equivalent amount. Given the inadequate public housing subsidy level, this limits a property's net operating surplus and the amount of bonds and tax credits that a project can support. Figure 17 illustrates this challenge using NYCHA's average monthly per-unit rents, subsidies, and expenses. Since nearly every NYCHA development needs substantial rehabilitation work, properties converted under RAD will need additional subsidies in the form of low-interest loans, capital grants, or additional Section 8 vouchers to make the deals financially feasible.

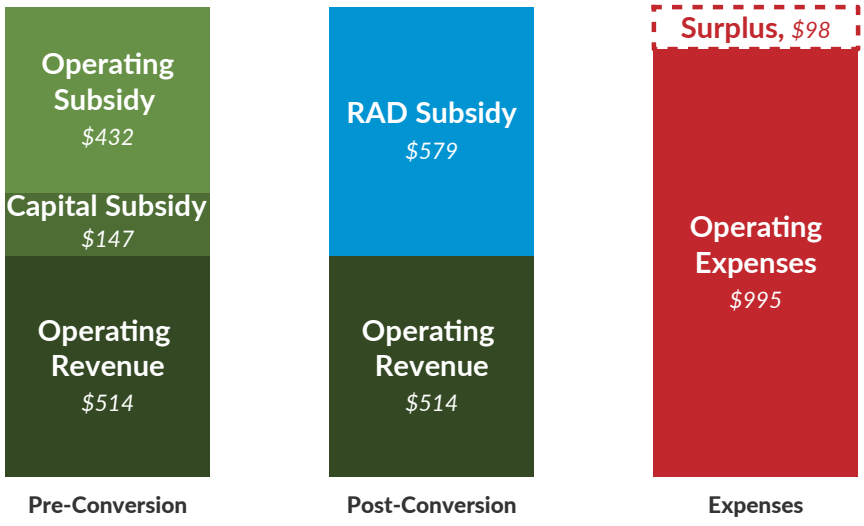
To date NYCHA has closed on one RAD conversion: the 1,395-unit Ocean Bay (Bayside) development in Far Rockaway, Queens, a partnership between NYCHA and Wavecrest Management and MDG Design + Construction. Similar to the Triborough transaction, NYCHA controls the underlying land and tenant selection while the partners manage operations and collect management and developer fees. The partnership also includes nonprofit social service providers to deliver additional services to residents. In total the partnership invested $318 million, or $228,000 per unit, into renovating Ocean Bay's 1,395 units, including hard costs, soft costs, and contingencies and reserves.

To make the transaction financially feasible, the Ocean Bay deal used $105 million in Federal Emergency Management Agency (FEMA) funding available for repairs of damage sustained after Superstorm Sandy. Unlike the Triborough transaction in which the traditional Section 8 subsidy created an operating surplus large enough to back sufficient tax-exempt bonds and tax credit equity to fund the renovation and generate cash for NYCHA, the Ocean Bay transaction could fund only a fraction of its repair needs using bonds and tax credits. If NYCHA had not been able to tap its Sandy recovery funds, additional funding (City subsidy or shift of other capital funds) would have been needed to make the initiative viable. The limited funding that RAD projects generate means that these projects compete with other affordable housing projects funded by the City and the State for a limited pool of subsidies.

Other deals currently in NYCHA's RAD pipeline are similarly structured to avoid the need for City subsidies and to minimize the use of the City's limited supply of tax-exempt private activity bonds and LIHTCs. A pending transaction to convert the Betances cluster of scattered-site developments in the Bronx will fund the repairs primarily using a HUD loan instead of bonds and tax credits.[47]

The renovations of Ocean Bay and the Triborough properties has significantly improved building conditions and have been well-received by tenants. At Ocean Bay Wavecrest and MDG began construction as soon as the deal closed. Within 14 months work on apartment interiors had been nearly finished on all 1,395 units.[48] Residents now enjoy newly renovated apartments, clean hallways, and safer common areas and public spaces. Mechanical systems have been overhauled and modernized, and the development is now protected from the impact of future storms.[49] No tenants were displaced–even temporarily–during the construction process.[50] NYCHA's RAD partners were also able to complete construction at a faster rate and for less than NYCHA would have been able to do on its own.

Figure 17: NYCHA Average Monthly Per-Unit Rents, Subsidies, and Expenses, Pre- and Post-Conversion Under RAD, 2016



Source: New York City Housing Authority, *Comprehensive Annual Financial Report, for the Years Ended December 31, 2016 and 2015* (October 2017)

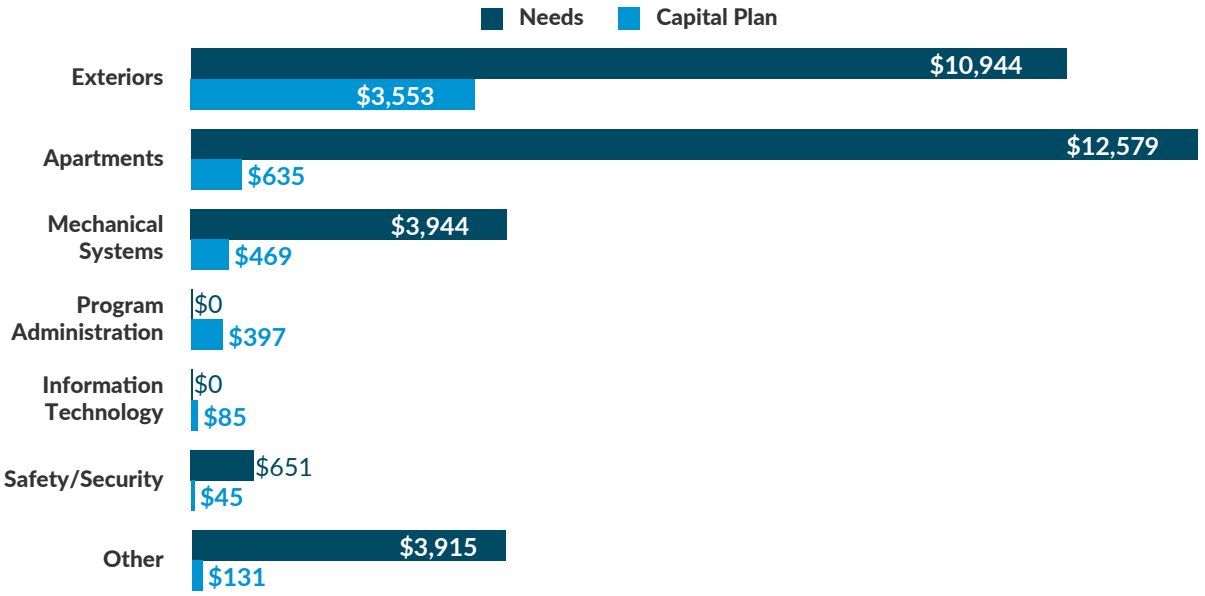
NYCHA'S PLAN TO ADDRESS THE CRISIS

The level and growth trajectory of NYCHA's capital needs have led to the current crisis. Current plans to spend more and make greater use of private partnerships will slow the rate of growth of the needs but will not reverse the decline of NYCHA housing.

NYCHA's current five-year capital plan anticipates committing $5.3 billion. The majority ($4 billion) is federal funds, including $1.9 billion from the traditional public housing subsidy and $2.2 billion in disaster relief funds. Only $875 million of the disaster recovery funding will address unmet capital needs; the rest will be used for resiliency projects to protect against future storms. Another $1.1 billion comes from City capital subsidy. The plan does not yet reflect additional funds in the City's capital commitment plan for Fiscal Year 2019 ($300 million), $1.0 billion in City funding required by the federal consent decree, and $500 million in State funding approved by the Legislature but not released.[51]

Figure 18 compares how NYCHA's planned capital spending compares to the five-year needs identified in the PNA. The majority of the plan ($3.5 billion) will again focus on building exteriors, though for the first time in recent years substantial resources will be invested in renovating apartment interiors ($635 million) and upgrading heating and plumbing systems ($469 million). However, these funding levels still fall well short of needs in every category.

Figure 18: NYCHA's 2018-2022 Capital Plan, Projected Five-Year Spending vs. Five-Year Need by Type of Need Identified in 2017 PNA
(dollars in millions)



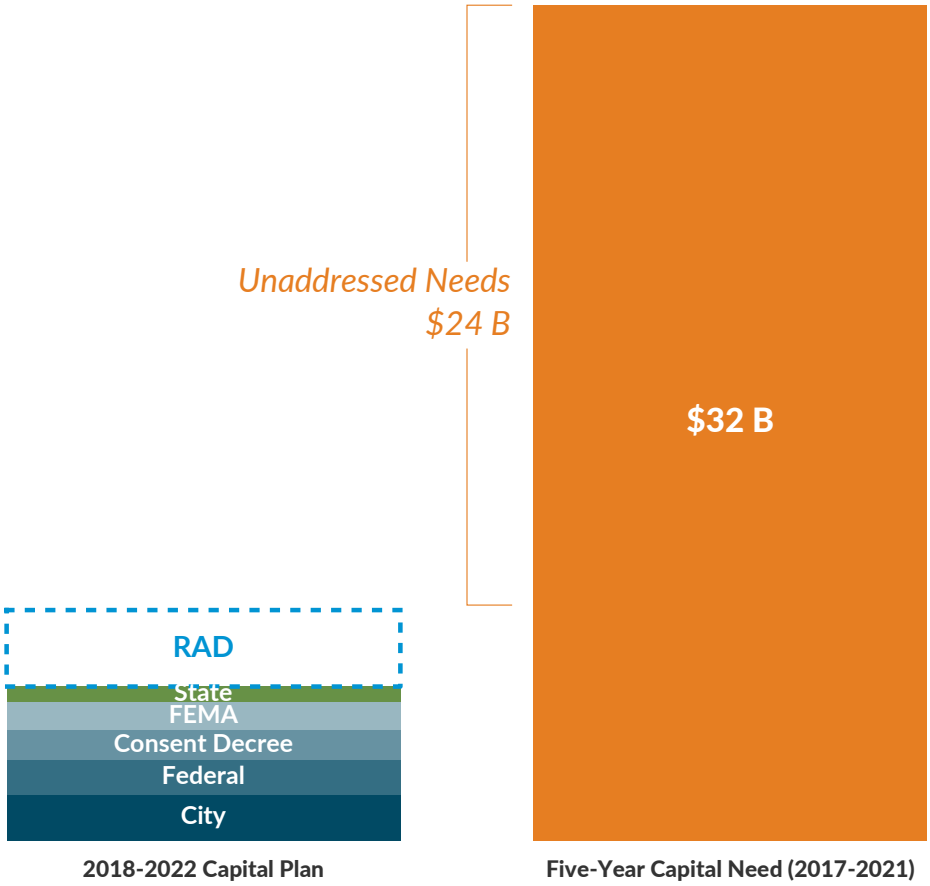
Sources: New York City Housing Authority, *2018-2022 Capital Plan* and *2017 Physical Needs Assessment*.

Additional PACT conversions and infill developments not yet reflected in NYCHA's capital plan will address more than $2 billion in capital needs by converting 6,900 units under RAD and negotiating private management deals for 4,000 units of project-based Section 8 housing through 2022. These projects are contingent on securing HUD approvals, allocating bonds, obtaining tax credits and other subsidies, and attracting private partners.

Combining all the resources identified in the 2018-2022 capital plan and the further use of alternative strategies outlined in NextGen NYCHA will likely address just $8 billion of its $32 billion need. This will leave $24 billion in needs unaddressed even in the best case scenario in which NYCHA is able to take full advantage of its resources and planned initiatives.

While the funding available in this five-year period exceeds the resources NYCHA has had in the past, the cost of both unaddressed and new needs will continue to rise and buildings in already poor condition will worsen. Assuming all obstacles are cleared to implement alternative strategies, between 2017 and 2023 the number of units with needs of $250,000 or more will still grow more than fourfold, from approximately 5 percent of the system to 20 percent.

Figure 19: Comparison of NYCHA's 2018-2022 Available Capital Funding to 2017 Five-Year Capital Need (2017-2021)



Note: Funding available as of June 16, 2018.

Sources: New York City Housing Authority, *2018-2022 Capital Plan* and *2017 Physical Needs Assessment*.

Figure 20: Share of Units At-Risk under Existing Conditions and with NYCHA's Plan, 2017 vs. 2023 Projection

	2017 Existing Conditions	2023 With Capital Spending	2023 With Capital Spending + PACT
Very High Cost *($250-$350k)*	4%	30%	19%
Near Replacement Cost *($350-$450k)*	<1%	3%	1%
Above Replacement Cost *($450k+)*	0%	<1%	<1%

Note: The analysis assumes that construction costs and replacement costs grow at 4 percent annually and capital needs grow at an average annual rate of 10.6 percent, which was the annualized rate of growth between the 2011 and 2017 PNAs.

Sources: CBC staff analysis of New York City Housing Authority, 2017 Physical Needs Assessment; New York City Housing Authority, *Development Data Book 2017*.

RECOMMENDATIONS

The current model for financing and operating public housing is fundamentally broken. The federal government no longer provides a sufficient level of funding for public housing, and NYCHA's buildings are old and rapidly deteriorating. NYCHA has insufficient resources, and its organizational structure, labor challenges, and other constraints hinder its ability to maintain adequately 176,000 units at a reasonable cost. Significant changes must be made in order to preserve this stock of deeply affordable housing.

The NextGen NYCHA plan and increased City and State capital support are important to slowing the deterioration of the NYCHA system, but the current plan and funding levels will yield only incremental improvements. Rather than continue as the nation's largest landlord, NYCHA should transition to become an affordable housing steward employing a full range of strategies to maximize the ability to preserve the affordability of its units. This will be a challenge, in no small part because successful transformation will depend on the full participation of its City, State, federal, and labor partners and tenant leaders.

CBC offers four recommendations:

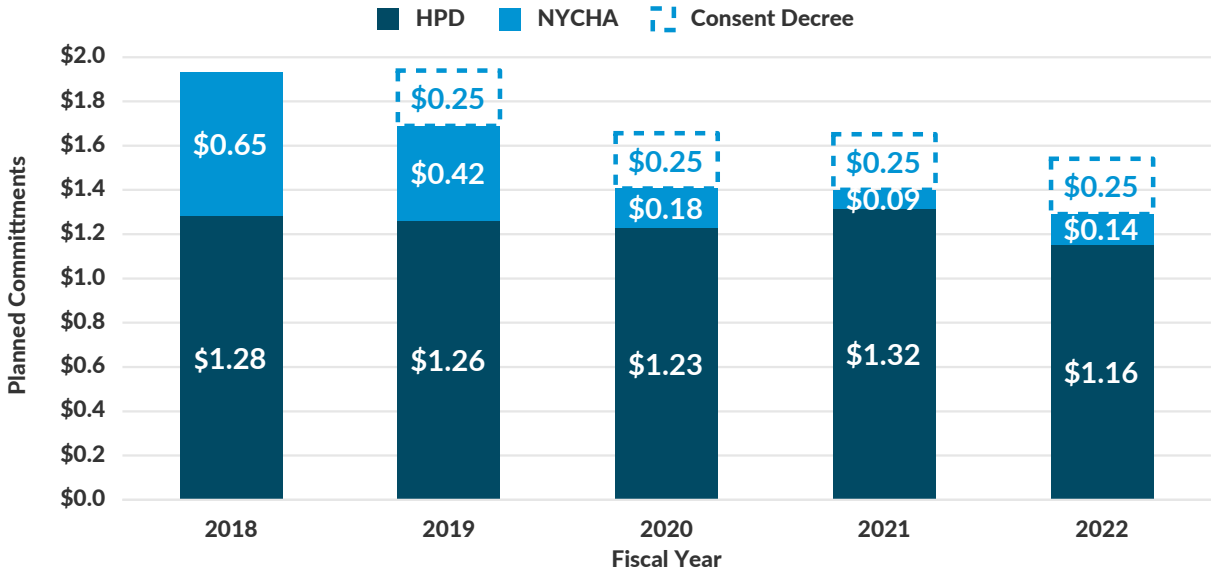
1. Fully integrate NYCHA into the City's affordable housing strategy;
2. Transition NYCHA from a landlord to an affordable housing steward that manages fewer buildings;
3. Leverage underutilized land assets to fund repairs and facilitate development; and
4. Improve operations and construction management.

1. Fully Integrate NYCHA into the City's Affordable Housing Strategy

New York's leaders generally have treated NYCHA as an adjunct to the City's affordable housing agenda even though it represents a significant share of the City's affordable housing stock. More than percent of NYCHA tenants pay less than $1,000 per month in rent, which would qualify them at the deepest levels of affordability targeted in the Mayor's housing plan.[52] The Bloomberg and de Blasio administrations' housing plans both referenced NYCHA's importance but failed to devote a significant share of the City's housing resources to preserve its developments. While the de Blasio administration did ultimately increase funding for NYCHA's capital and operating budgets, it treats its support for NYCHA as separate from its 300,000-unit Housing New York plan.

As of April 2018 the City's Capital Commitment Plan anticipates committing $7.7 billion in City capital proceeds for affordable housing through fiscal year 2022. (See Figure 21.) NYCHA is scheduled to receive only $1.5 billion, or 19 percent of that total. The City will fund an additional $1 billion in improvements under the consent decree, though this funding has not yet been reflected in the City's capital plan.

Figure 21: City of New York Planned Capital Commitments for Affordable Housing, FY2018-FY2022
(dollars in billions)



Sources: City of New York, *Fiscal Year 2019 Executive Budget Capital Commitment Plan* (April 2018); *United States of America v. New York City Housing Authority, 18 Civ. 5213* (United States District Court Southern District of New York 2018).

The City's affordable housing strategy should allocate resources to this pressing need to maintain NYCHA's deeply affordable units and restore them to a state of good repair. 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.[53] Incorporating NYCHA into the housing plan will shift appropriately the unit distribution more toward the extremely and very low-income households for whom the needs are greatest. According to the 2014 Housing and Vacancy Survey, NYCHA owns one-third of New York City's housing units that rent for less than $1,000 per month, which are affordable to extremely low- and very low-income households. Providing NYCHA with one-third of the City's planned capital commitments for affordable housing would give NYCHA $2.5 billion through 2022, which amounts to an additional $1 billion over five years or an increase of 67 percent over current funding.[54] This additional funding does not absolve the federal government of the responsibility for adequately funding public housing, nor will it make up for decades of federal disinvestment. It should not be offset by the consent decree funds which primarily will be used to remediate lead and mold problems and will not to the address the primary causes of deterioration.

2. Transition NYCHA from a landlord to an affordable housing steward that directly 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.

A. Maximize PACT

The pace of RAD and project-based Section 8 conversions under PACT must be accelerated. Section 8 is a more stable funding stream, and partnering with private companies allows access to additional sources of capital and takes advantage of more efficient private sector management practices. NYCHA should ensure the successful conversion of the 11,000 units in the PACT pipeline over the next five years, comprised of 6,900 units through RAD and 4,000 units through Section 8 conversions, to deliver immediate benefits to residents and address more than$2 billion in capital needs. As of May 2018, NYCHA has received initial approvals from HUD to convert 1,688 units under RAD and has submitted letters of intent to HUD to convert an additional 34,926 units.[55] Given current federal policies, up to 60,000 units may be converted if funding is made available and private entities have the capacity and willingness to partner with NYCHA.[56]

To be feasible RAD and project-based Section 8 deals will require additional tax-exempt private activity bonds, LIHTCs, and low-interest loans and grants. In the future, the new federal Opportunity Zone program may provide an additional source of private capital. For now this funding must come from New York City and New York State's existing housing resources. Adding City or State capital dollars to RAD projects would also leverage an even greater amount of private financing for repairs.

Moreover, the federal government could make more RAD deals feasible by providing additional funding for these transactions. Increasing the supply of tax-exempt bonds by increasing bond volume cap or creating tax credits specifically for RAD transactions would allow New York City to complete more RAD transactions without needing to divert funding from other affordable housing needs.[57] Exempting RAD transactions from the private activity bond volume cap, allowing for more liberal recycling of bond cap, reallocating unused volume across state lines, and increasing funding for 9 percent LIHTCs, Section 8, HOME Investment Partnerships, and other federal housing programs would support more conversions.[58] Additional federal funding for traditional public housing capital and operating subsidies would also increase the financial feasibility of planned and future conversions.

These measures would require Congressional action. NYCHA, the City, and the State should advocate for additional federal funds for public housing and for RAD in particular. While challenging, recent lobbying by the City and affordable housing advocates led in part to Congress passing a 42 percent increase in funding for the Public Housing Capital Fund in the federal 2018 omnibus spending bill.[59] This success suggests there may be political support for increasing funding for RAD and Section 8 conversions.

B. NYCHA Should Reduce the Size of its Portfolio

NYCHA should reduce the number of units it operates. Two sections of its portfolio should be prioritized:

(1) Senior housing should be transferred to nonprofit organizations specializing in affordable senior housing. NYCHA's 7,700 exclusively senior housing units are in relatively good shape, and engaging the City's robust network of providers to privately manage them is likely to be financially

feasible. Specialized senior housing nonprofits also may be able to deliver a richer level of services to residents. Transferring these developments to nonprofit management would reduce NYCHA's capital needs by almost $1.0 billion, excluding projects already in the PACT pipeline.

(2) Small and inefficient buildings, which have the greatest per-unit capital needs, should be sold. While some of these properties have been transferred to private management in recent years, NYCHA still retains more than 3,000 units. Transferring control of properties with fewer than 200 units not currently in the PACT pipeline would reduce NYCHA's capital needs by $1.6 billion.

This effort could be modeled on existing City housing programs, such as the Third Party Transfer program or the Neighborhood Redevelopment Program. For decades, the City has used these programs and others like them to transfer control of tens of thousands of distressed multifamily properties to qualified nonprofit or for-profit developers, which make necessary repairs and preserve the units as affordable housing. These programs date back to the Koch administration and have a proven record of success. While NYCHA's dispositions may not necessarily happen through the Third Party Transfer itself, the existing resources of the Department of Housing Preservation and Development could be relied on to facilitate these transactions.

3. Tap Underutilized Land Assets to Fund Repair Work and Facilitate Redevelopment

The development rights associated with NYCHA's land are a lucrative asset that can be tapped by selling air rights, allowing infill development, or both. The approaches can generate cash, facilitate cost-effective renovations, and enable strategic rebuilding and demolition. In light of NYCHA's significant capital needs the resources generated by employing these strategies should not be diverted to operations.

A. Sell a Portion of NYCHA's Air Rights

The sale of transferrable air rights can potentially yield more per square foot than other types of development. For example, if NYCHA sells 10 percent of its 58 million square feet of development rights at an average price of $250 per square foot, it would raise $1.5 billion for capital needs.[60]

Currently a property owner can transfer unused development rights to an adjacent property through an as-of-right zoning lot merger. The City should encourage NYCHA to enter into these as-of-right agreements where feasible.

Since this mechanism limits the market of potential buyers, the City has periodically created special purpose districts that allow property owners to sell air rights across a broader area.[61] Precedent includes districts created to benefit Broadway theater owners, landmarked properties in East Midtown, and property owners with land under the High Line. As part of the preservation agreement at Stuyvesant Town and Peter Cooper Village the City also agreed to support the purchasers' efforts to transfer the properties' unused development rights. The City should make any changes necessary to broaden the market for NYCHA's air rights.

B. Accelerate Pace and Maximize Benefits of Infill Development

NextGen NYCHA set a goal to raise $300 million to $600 million through mixed income infill development, but the pace has been slow due to issues raised by residents, interest groups, and elected officials. Developers have been selected for two mixed-income infill development projects that are expected to raise $62 million, with another two mixed-income projects in the RFP process–well behind the pace needed to reach its goal.

NYCHA should endeavor to build an additional 10,000 units of mixed-income and market-rate infill development over the next five years, which would raise at least $1.4 billion to address capital needs. The City's significant need for affordable housing generates pressure to build exclusively affordable developments on underutilized NYCHA land. However, where viable, market-rate and mixed-income development can generate significant resources that may be able to support both NYCHA building needs and help create new affordable units. Transactions should be evaluated for their aggregate impact, considering both preserved NYCHA units and additional affordable units supported.

The City's market study for the Mandatory Inclusionary Housing (MIH) program found that the 421-a program's property tax incentives make it possible to set aside 20 to 30 percent of units in strong markets as affordable without additional public subsidies. Affordability requirements higher than 30 percent, particularly in rental buildings and in weaker real estate submarkets, would require additional public subsidies and would significantly reduce the amount a developer is willing to pay up front for the right to build a project.[62]

This analysis has been reinforced by NYCHA's experience with 50-50 projects to date. NYCHA's 50-50 infill project at Holmes Towers on the Upper East Side, for example, generated $25 million, or $71 per square foot of development rights. By contrast, the 2015 MIH study estimated that a developer in a very strong market like the Upper East Side would pay $550 per square foot for development rights to build a market-rate high-rise development or $276 per square foot for an 80-20 rental building.[63] At those values the Holmes Tower infill project would have generated $192 million as a market-rate condominium or $96 million and 66 affordable units as an 80-20 development. Either amount would be enough to address both the Holmes Towers' $59 million in capital needs with tens of millions of dollars left to address the needs of other NYCHA developments.

C. Consider phased redevelopment plans

In large developments with unused air rights and buildings approaching replacement costs, phased redevelopment of some or all of the NYCHA buildings may be appropriate. Under a phased redevelopment plan, NYCHA would partner with a developer to build new affordable units on currently vacant land. This could be done in conjunction with RAD, as has been done in other cities. After the new buildings are completed, tenants from one or more NYCHA buildings would relocate to the new units. The developer would then demolish the vacated NYCHA buildings and replace them with new buildings. At the end of the process NYCHA would have an ownership interest in the same number of deeply affordable units, and no tenants would be displaced. In some cases

redeveloping NYCHA's superblocks could be used to increase the supply of affordable housing, restore the street grid, and provide space for ground floor retail and community facilities.

4. Improve Operations and Construction Management

Even with successful implementation of the first three recommendations, NYCHA would 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. The consent decree empowers the federal monitor to assist NYCHA in making some of these changes.

A. Decentralize Property Management

The NGO pilot demonstrated that devolving accountability to property managers leads to better building conditions and faster response times to routine work orders. NGO is on track to be rolled out to all NYCHA developments by 2019. However, the NGO pilot did not address the many reforms needed to adopt best-in-class property management identified by the BCG report, including empowering property managers to develop budgets and staffing levels for frontline staff, outsourcing repair work, hiring live-in superintendents, and holding frontline staff directly accountable for conditions at their developments.[64] Some of these changes will need to be collectively bargained.

B. Modernize Work Schedules and Job Responsibilities

NYCHA should align its work schedules with private sector standards for scheduling shifts during evenings and weekends and to reduce the burden on tenants who otherwise would have to miss work to be home for repairs. Shifts should be staggered to reduce the need for overtime, and differential pay for morning and evening work should be eliminated.

Additionally, civil service changes should be pursued to expand job responsibilities for frontline maintenance workers and caretakers to allow them to be more effective and accelerate the rate at which NYCHA addresses work orders. NYCHA had 4,353 active caretakers and maintenance workers as of June 2017, and less than 2,000 workers in all of its skilled trade titles combined. For example, job descriptions could be amended to allow maintenance workers to do basic maintenance or preventative repair work that today can only be done by the skilled trades.

C. Increase Use of Private Maintenance Contracts

Private maintenance contracts should be used to provide additional capacity as needed. This will reduce overtime and allow skilled trades staff to be assigned to specific developments where they are needed instead of spreading them too thinly among roving work crews. NYCHA has not been able to save money by performing maintenance and repair work in-house due to overly restrictive job titles, inefficient staffing plans, and shortages in key skilled trade titles. The low rates of pay in hard to hire entry-level titles lead workers to seek promotions to higher paying positions, which leads to high overtime rates and an inefficient deployment of staff.[65] Given the magnitude of its needs, NYCHA could use private contractors for specific tasks that would allow it to boost

productivity without displacing its current workforce.

Combined, decentralized property management, modernized work schedules and job responsibilities, and increased use of private maintenance contracts should allow NYCHA to reduce its operating expenses. If this reduction is 10 percent, it would save more than $200 million annually and support the ability to issue an additional $120 million in debt for RAD and Section 8 conversions over the five-year capital plan.

D. Implement Design-Build and Improve Construction Management

Construction would be less costly and faster if the federal, State, and City governments reduced constraints on NYCHA's procurement process. Federal officials should loosen procurement rules to allow for design-build contracting and other more efficient procurement methods. The State Legislature should approve full design-build authority for both City- and State-funded work and encourage construction manager at risk and other flexible forms of contracting. City officials have estimated that using design-build contracting would reduce the cost of capital projects by at least 6 percent simply by reducing the number of change orders.[66] Shortening project timelines will generate additional labor, construction management, and inflation savings. The City should also expedite the permitting and land use review processes for all NYCHA projects, including infill development. Approving design-build for all City- and State-funded work and expediting approvals would save at least 10 percent, or $290 million, on the cost of repair projects.

Impact

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 significantly slow deteriorating conditions. Under NYCHA's plan between 2017 and 2023 the portion of units with very high cost needs or worse would grow from 5 percent to 34 percent. These recommendations would reduce the percentage of the portfolio with very high cost or worse needs to 8 percent by 2023.Note: Estimates based on CBC staff analysis.

Figure 22: Impact of CBC Recommendations on NYCHA's Five-Year Capital Needs

(dollars in millions)

Recommendation	Savings/ Need Reduction
Cost Savings	
10% Savings from Design-Build on City/State Funded Projects	$290
New Revenue	
Sell 10% of Air Rights (at $250/sf)	$1,450
Increase City Capital Commitments for NYCHA	$1,000
Add 5,000 Units of Market-Rate Infill Development (at $200/sf)	$1,000
Add 5,000 Units of Mixed-Income Infill Development (at $75/sf)	$375
Additional Debt Supported by 10% Reduction in Operating Expenses	$120
Convert Half of 100% Affordable Pipeline to Mixed-Income (at $75/sf)	$38
Maximizing PACT (depending on capacity)	**To Be Determined**
Reducing Need	
Sell Developments w/ <200 Units	$1,642
Sell Senior Developments	$978
TOTAL	**$6,893**

Note: Estimates based on CBC staff analysis.

Figure 23: Impact of CBC Recommendations on Units at Risk

		2023		
	2017	With Capital Spending	With Capital Spending + PACT	With CBC Plan
Very High Cost *($250-$350k)*	4%	30%	21%	7%
Near Replacement Cost *($350-$450k)*	<1%	3%	1%	1%
Above Replacement Cost *($450k+)*	0%	<1%	<1%	<1%

Source: CBC staff analysis.

CONCLUSION

NYCHA's needs are staggering. Without transformative change tenants will be relegated to living in substandard conditions, and the city ultimately will lose some of its deeply affordable housing stock. The incremental changes currently being implemented will help, but they are not enough. While this crisis has been decades in the making, it must be addressed quickly. Delays will only hasten the decline.

This report's recommendations should serve as a guide on the path forward. Transforming NYCHA into a steward of deeply affordable housing and integrating it fully into the City's housing strategy would set the stage for a sustainable future–one in which NYCHA is more efficient, leverages its resources to tap private funds, and manages fewer properties.

The 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. Being freed from constraints while enhancing transparency and accountability will be more helpful than adding layers of control.

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.

ENDNOTES

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2 This figure is based on the contract rents for housing units. When including Housing Choice Voucher recipients, who receive rental subsidies for privately owned units, NYCHA is home to one-third of households that pay less than $500 out of pocket on rent each month. CBC staff analysis of data from the U.S. Census Bureau, *New York City Housing and Vacancy Survey: 2014 Data Files* (Accessed March 2018), www.census.gov/data/tables/time-series/demo/nychvs/series-1a.html.

3 New York City Housing Authority, "2011 Physical Needs Assessment (PNA) Summary" (accessed July 10, 2017), www1.nyc.gov/assets/nycha/downloads/pdf/transparency-pna-2011.pdf, and "NYCHA Development Data Book 2016" (accessed August 28, 2017), www1.nyc.gov/assets/nycha/downloads/pdf/pdb2016.pdf.

4 CBC staff analysis of data from the U.S. Census Bureau, *New York City Housing and Vacancy Survey: 2014 Data Files* (Accessed March 2018), Series 1A - Tables 35, 101, www.census.gov/data/tables/time-series/demo/nychvs/series-1a.html.

5 New York City Housing Authority staff correspondence with CBC staff.

6 This replacement cost standard is in line with outside estimates of construction costs. HUD's Total Development Cost (TDC) limits for New York City, which are based on construction cost indices for average construction quality and adjusted for local market conditions, estimate construction costs in New York County to be $365 per square foot for an elevator apartment building, which translates to $329,000 for a 900 square foot 2 bedroom unit and $438,000 for a 1,200 square foot 3 bedroom unit. The TDC limits do not reflect the cost of other program elements that NYCHA would likely include in a new building such as ground floor retail or community facilities, energy efficient building systems, and other upgrades that would reduce long-term operating expenses. See: U.S. Department of Housing and Urban Development, *TDC for all building types: 2017 Unit Total Development Cost (TDC) Limits* (February 2017), p. 11, https://www.hud.gov/sites/documents/TDCS_2017.PDF. The New York City Independent Budget Office found prevailing wage requirements increased the cost of affordable housing projects in New York City by 23 percent. See: Sarah Stefanski, *The Impact of Prevailing Wage Requirements on Affordable Housing Construction in New York City* (New York City Independent Budget Office, February 2016), http://www.ibo.nyc.ny.us/iboreports/the-impact-of-prevailing-wage-requirement-on-affordable-housing-construction-in-new-york-city.pdf.

7 Lawrence J. Vale and Yonah Freemark, "From Public Housing to Public-Private Housing: 75 Years of American Social Experimentation," *Journal of American Planning Association*, vol. 78, no. 4 (Autumn 2012), pp. 379-402, https://www.tandfonline.com/doi/abs/10.1080/01944363.2012.737985?journalCode=rjpa20.

8 Many though not all of the lost public housing units were replaced by Section 8 rental housing

vouchers or units created through the LIHTC program. See: Lawrence J. Vale and Yonah Freemark, "From Public Housing to Public-Private Housing: 75 Years of American Social Experimentation," *Journal of American Planning Association*, vol. 78, no. 4 (Autumn 2012), pp. 379-402, https://www.tandfonline.com/doi/abs/10.1080/01944363.2012.737985?journalCode=rjpa20.

9 Moving to Work (MTW) is a federal demonstration program that gives housing authorities exemptions from regulations on the use of federal funds and other rules. Some public housing authorities used MTW to demolish and rebuild public housing developments or to offer residents Housing Choice Vouchers. The Rental Assistance Demonstration (RAD) program allows housing authorities to convert traditional federal public housing subsidies, known as Section 9, to a new project-based subsidy of an equivalent value under Section 8 of the housing code.

10 With several exceptions, the vast majority of NYCHA developments did not meet the federal standard of severely distressed public housing that would allow housing authorities to participate in HOPE VI. The definition is based on a combination of physical conditions, occupancy rates, crime rates, and rates of families on welfare. NYCHA stood out among large public housing authorities for maintaining consistently high occupancy rates and low rates of households on public assistance, and until recent years its physical plant was in relatively good condition. NYCHA's one HOPE VI project was the redevelopment of Prospect Plaza in Brownsville, Brooklyn. See: U.S. Department of Housing and Urban Development, *Working Papers on Identifying and Addressing Severely Distressed Public Housing* (December 1992), http://www.huduser.gov/portal/Publications/pdf/HUD-11659.pdf.

11 NYCHA also received $522 million in stimulus funding as part of the American Recovery and Reinvestment Act of 2009, which it used primarily to subsidize the operations of its unfunded State and City-built developments.

12 The growth in construction costs is based on the Engineering News-Record's New York City cost index, which reflects local prices for building materials and local union wage and benefit rates. Changes in the cost of public housing renovation work may be higher due to federal procurement and hiring requirements. See: Engineering News-Record, *City Building Cost Index – New York – As of June 2018* (accessed June 28, 2018), https://www.enr.com/economics/historical_indices/NewYork?.

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14 Cindy Rodriguez, "Despite Claims of Better Oversight, New York State Falls Short on Housing Repairs," *WNYC News* (June 20, 2018), https://www.wnyc.org/story/new-york-state-completes-less-half-nyc-public-housing-repairs/.

15 Manny Fernandez, "City Criticized for Fees Paid by its Agency," *New York Times* (July 7, 2008), https://www.nytimes.com/2008/07/07/nyregion/07housing.html.

16 Rachel Bardin and Maria Doulis, *Cleaning House: How to Close the New York City Housing Authority's Operating Gaps* (Citizens Budget Commission, April 2015), https://cbcny.org/research/cleaning-house; and Sean Campion, *Room to Breathe: Federal and City Actions Help NYCHA Close Operating Gaps, But More*

Progress Needed on Implementing NextGenNYCHA (Citizens Budget Commission, July 2017), https://cbcny.org/research/room-breathe.

17 Rachel Silberstein, "What's the State Role in NYCHA Oversight?" *Gotham Gazette* (November 28, 2017), http://www.gothamgazette.com/state/7332-what-s-the-state-role-in-nycha-oversight.

18 A 1998 amendment to the Housing Act of 1937, also known as the Faircloth Amendment, prohibited the HUD from subsidizing additional public housing units if the subsidy would increase the total number of subsidized units managed by a public housing authority greater than the number it managed on October 1, 1999. This figure is referred to as a housing authority's Faircloth Limit. As of November 2017 NYCHA's Faircloth Limit was 178,948. See: U.S. Department of Housing and Urban Development, *Maximum Number of Units Eligible for Capital and Operating Subsidy As of November 30, 2017* (November 2017), https://www.hud.gov/sites/dfiles/PIH/documents/Faircloth_List_11-30-2017.pdf.

19 New York City Independent Budget Office, *Examining NYCHA's plan to Preserve Public Housing* (June 2006), http://www.ibo.nyc.ny.us/iboreports/NYCHAjune06.pdf.

20 Rachel Bardin and Maria Doulis, *Cleaning House: How to Close the New York City Housing Authority's Operating Gaps* (Citizens Budget Commission, April 2015), https://cbcny.org/research/cleaning-house; and Sean Campion, *Room to Breathe: Federal and City Actions Help NYCHA Close Operating Gaps, But More Progress Needed on Implementing NextGenNYCHA* (Citizens Budget Commission, July 2017), https://cbcny.org/research/room-breathe.

21 This strategy could not effectively be applied to all NYCHA resources since political leaders generally directed that City and State funding be spread thinly throughout the system: directed to fund playgrounds, community centers, or security measures or in response to specific scandals.

22 New York Building Congress, "New York City construction costs increased by approximately four percent in 2016; roughly in line with rate of increase nationally," (February 2017), https://www.buildingcongress.com/advocacy-and-reports/reports-and-analysis/construction-outlook-update/New-york-city-construction-costs-increased-by-approximately-four-percent-in-2016-roughly-in-line-with-rate-of-increase-nationally.html.

23 The future needs now due largely include mechanical and site mechanical systems, including boilers and heating plants, elevators, and gas, water, and sewer systems. The 2017 PNA also included a more extensive evaluation of elevator conditions than was conducted during the 2011 needs assessment. As a result some of the 2017 elevator needs may include those that date back to the 2011 to 2016 period.

24 Federal regulations allow housing authorities to issue bonds backed by a portion of their federal capital subsidy but do not allow them to incur debt secured by their real property assets.

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26 The executive order called on the Mayor, Speaker of the City Council, and President of the Citywide Council of Tenant Presidents to unanimously select the Emergency Manager. If they failed to act, the authority to select the manager would fall to the Comptroller of the City of New York. Both

groups ultimately declined to appoint a manager. As of this report, the Governor has not reissued the executive order or appointed a manager himself.

27 Section 1 of Part LLL of the FY 2019 Revenue Article VII Bill, S7509-C /A9509-C.

28 Carol Kellermann, President, Citizens Budget Commission, letter to Bill de Blasio, Mayor of the City of New York, and Shola Olatoye, Chair and Chief Executive Officer, New York City Housing Authority (March 5, 2018), https://cbcny.org/advocacy/nychas-project-labor-agreement-needs-evaluation.

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30 Some of the cost difference is due to the fact that NYCHA provides resident services and pays for tenants' utilities.

31 New York City Housing Authority, *Comprehensive Annual Financial Report for the Years Ended December 31, 2015 and 2014* (October 2016); New York City Rent Guidelines Board*, 2017 Income and Expense Study,* p. 7 (March 2017).

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35 New York City Housing Authority, *Reshaping NYCHA support functions: BCG Engagement: key findings and recommendations* (prepared by Boston Consulting Group, August 2012), https://www1.nyc.gov/assets/nycha/downloads/pdf/BCG-report-NYCHA-Key-Findings-and-Recommendations-8-15-12vFinal.pdf.

36 Testimony of Vito Mustaciuolo, General Manager, New York City Housing Authority, before the New York City Council Committee on Finance with the Committee on Public Housing and Subcommittee on Capital Budget, *Executive Budget Hearing* (May 16, 2018), http://legistar.council.nyc.gov/View.ashx?M=F&ID=6284183&GUID=F848F1AA-85E3-47D9-A6F7-2093769FAA28.

37 New York City Housing Authority, *Reshaping NYCHA support functions: BCG Engagement: key findings and recommendations* (prepared by Boston Consulting Group, August 2012), https://www1.nyc.gov/assets/nycha/downloads/pdf/BCG-report-NYCHA-Key-Findings-and-Recommendations-8-15-12vFinal.pdf.

38 Abigail Savitch-Lew, "NYCHA Sees New Efforts Offering Less Fiscal Salvation," *City Limits* (March 29, 2016), https://citylimits.org/2016/03/29/nycha-sees-new-efforts-offering-less-fiscal-salvation/.

39 Sean Campion, *Room to Breathe: Federal and City Actions Help NYCHA Close Operating Gaps, But More*

Progress Needed on Implementing NextGenNYCHA (Citizens Budget Commission, July 2017), https://cbcny.org/research/room-breathe.

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41 Sean Campion, *Room to Breathe: Federal and City Actions Help NYCHA Close Operating Gaps, But More Progress Needed on Implementing NextGenNYCHA* (Citizens Budget Commission, July 2017), https://cbcny.org/research/room-breathe; and New York City Housing Authority, "NYCHA Expands Successful NextGen Operations Program Manhattan-Wide" (press release, October 20, 2017), http://www1.nyc.gov/site/nycha/about/press/pr-2017/nextgen-op-20171023.page.

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51 The State budget made its NYCHA funding subject to approval from an Emergency Manager who has not and likely will not be appointed. It does not include Energy Performance Contracts, revenue

from infill development, and other similar funding programs that NYCHA may utilize in the future.

52 Approximately 54 percent of units fall less than $500 per month, which is equivalent to HUD's Extremely Low Income category for households earning 30 percent of the area median income (AMI) for the New York region. Another 36 percent of households paid between $500 and $1000 per month, which is the equivalent of the Very Low Income category for households earning up to 50 percent of the AMI.

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Stabilizing the Foundation:

Transforming NYCHA to Address Its Capital Needs

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