240 West 35th Street ■ Suite 302 ■ New York, New York 10001

Testimony on the New York City Housing Authority's 2023 Physical Needs Assessment

Submitted to the New York City Council Committee on Public Housing

September 22, 2023

Sean Campion, Director of Housing and Economic Development Studies, Citizens Budget Commission

Thank you for the opportunity to testify on the New York Housing Authority's (NYCHA) 2023 Physical Needs Assessment (PNA). I am Sean Campion, Director of Housing and Economic Development Studies at the Citizens Budget Commission (CBC), a nonpartisan, nonprofit think tank and watchdog devoted to constructive change in the finances, services, and policies of New York State and City governments.

NYCHA's PNA provides the information needed to identify what has happened to NYCHA's housing stock over the past five years and to help plan for its future. CBC's analysis of the 2023 PNA finds that:

- Since 2017, NYCHA's actions addressed $10 billion of its capital needs, up from less than $2 billion over the 2012-2016 period;
  - Most of this was through the Permanent Affordability Commitment Together (PACT) program; over 30,000 residents will enjoy renovated units and improved quality of life thanks to PACT.
- Conditions at the 161,000 Section 9 public housing units NYCHA manages have deteriorated so precipitously while inflation increased so significantly that the required investment needed to rehabilitate units has doubled;
  - NYCHA's investment needs over the next five years now total $60 billion, or $373,000 per unit, more than double the $29 billion, or $180,000 per unit, as estimated in 2017.
  - Twenty-year investment needs have reached $78 billion, or $483,000 per unit, up from $45 billion, or $255,000 per unit, estimated in 2017.
- Almost one-third of NYCHA's apartments are at or very close to the point at which they cost more to repair than to build new (replacement cost):

    - 29 percent are nearing CBC's estimate of replacement cost ($400,000 to $500,000 per unit); and
    - 2 percent are above replacement cost (over $500,000 per unit).
- Another 57 percent of apartments are at risk of being above replacement cost very soon, with five-year needs of $300,000 to $400,000 per unit.

Some Investment Was Made Since the 2017 PNA

The previous PNA, conducted in 2017, found that conditions at NYCHA developments were dire and worsening at a rapid rate. NYCHA's five-year capital needs had increased four-fold over the previous decade, from $7 billion to $32 billion. The PNA also made it clear that NYCHA's Section 9 public housing program funds were woefully insufficient to address NYCHA's needs. CBC warned that without more investment and better management, 90 percent of NYCHA's portfolio would be close to costing more to repair than to rebuild by 2027.

Fortunately, NYCHA did act. NYCHA secured financing to address $10 billion in long-term capital needs over the past five years, up from less than $2 billion over the previous five-year cycle from 2012 to 2016. Two-thirds of those resources came via the PACT program, under which NYCHA converts funding from Section 9 to Section 8. PACT unlocks the ability to issue debt to fund rehabilitation and to partner with private affordable housing managers to oversee construction and day-to-day operations while maintaining NYCHA ownership and existing resident rights and affordability. Over 30,000 NYCHA residents now benefit from improved living conditions and quality of life thanks to these PACT renovations.

The Cost of Repairing NYCHA's Already Deteriorated Housing Stock Doubled Since 2017

Despite that investment, the 2023 PNA shows that conditions have become even more dire for the 161,000 public housing units in NYCHA's Section 9 program. Five-year needs now total $60 billion, or $373,000 per unit, more than double the $180,000 per unit for those same properties in 2017. Twenty-year needs have reached $78 billion, or $483,000 per unit, up from $255,000 per unit in 2017.

This increase in NYCHA's twenty-year needs is not due to unexpected deterioration, but rather to high inflation and the insight—gained from having renovated thousands of units—that the 2017 PNA underestimated both the scale and scope of repairs needed. The PNA shows that:

- **Inflation accounts for two-thirds of the increase:** Higher than expected inflation increased the twenty-year needs $27.8 billion. Since 2017, inflation for unaddressed needs increased at an average annual rate of 10 percent.
- **Scope additions and modifications account for one-third of the increase:** A more accurate and appropriate scope of work increased the twenty-year need $15.5 billion. Cost assumptions going

forward were increased based on the actual costs of repair work done through PACT and NYCHA's capital program. To more accurately project the cost of repairs, NYCHA also included additional needs in the 2023 PNA that had not been included in previous iterations. These additions were intended to better reflect the work that NYCHA would do if it were to rehabilitate buildings, such as decarbonizing its buildings by electrifying heating and hot water systems instead of replacing existing gas or steam fired systems. The estimate also reflects the higher number of units that need lead paint abatement.

NYCHA's updated analysis shows that the number of units at risk of not being cost-effective to repair—meaning the cost to repair them is close to or above the cost to build new units— increased much faster than CBC had forecasted.

In 2018, CBC estimated that by 2023, based on the historic rate of deterioration, 5 percent of units would be at or very close to the point at which they cost more to repair than to build new. Now, in 2023, with the increase in costs, almost one-third are at or close to the point at which they cost less to build new than to repair—a six-fold increase from 2017. Based on CBC's updated estimated replacement cost thresholds:

- 29 percent are nearing replacement cost (five-year need of $400,000 to $500,000 per unit);
- 2 percent are above replacement cost (over $500,000 per unit); and
- Another 57 percent of units are at risk of being above replacement cost in the near future ($300,000 to $400,000 per unit).

The situation appears even worse based on the U.S. Department of Housing and Urban Development (HUD) definition of obsolescence—rehabilitation costs at or above 62.5 percent of the total cost to develop a new building. Based on five-year needs, 95 percent of NYCHA's portfolio is obsolete under the HUD standard, and 9 percent exceeds HUD's replacement cost estimate. Based on twenty-year needs, 100 percent of the portfolio is obsolete, and 71 percent exceeds replacement cost.

Exceeding the HUD thresholds makes most NYCHA properties eligible for more valuable tenant protection vouchers (TPVs), which provide higher levels of subsidy than provided under the Rental Assistance Demonstration program. TPVs can fund more extensive renovations, like the PACT projects completed to date, or redevelopment, such as the project that has been proposed for the Fulton, Chelsea, and Elliott Houses.

What is Next, Given NYCHA's Plan Meets Less than Half the Remaining Needs?

NYCHA addressed $10 billion in capital needs over the last five years largely through the success of PACT. Switching to Section 8 funding allowed NYCHA to leverage private capital to renovate significantly more units than it would have otherwise, often without spending City capital dollars, and while retaining public ownership and resident rights.

However, even if PACT and the newly created Preservation Trust proceed as expected in the PNA, NYCHA's plan will meet less than half the five-year need going forward.

In reality, the plan does not yet account for the fact that future PACT deals will be more expensive than earlier deals and will require additional public subsidy. Interest rates on the loans that fund PACT projects increased nearly 50 percent since 2020, from approximately 4.5 percent to 6.5 percent, while construction costs have increased 25 to 30 percent since 2021. As a result, loans that typically fund PACT projects now fund a much smaller share of the total cost of renovations than in the past, requiring NYCHA and the City to identify additional subsidy sources to make projects financially feasible.

To address its immense capital needs, NYCHA needs both funding and the flexibility to execute. This raises two big questions:

1. Can NYCHA ensure the process is as fast as possible?

Every month of delay increases costs. The longer you wait, the more expensive renovations become, and delays increase the chances that unexpected events—like the recent spike in inflation and interest rates—will derail plans.

While resident engagement and input is part of the PACT and Preservation Trust process, its impact on overall project speed can become a risk to projects' fiscal feasibility by increasing costs. NYCHA's current engagement strategy seeks to balance engagement with expediency. The State and City should seek to streamline the process as much as possible and not introduce additional steps that could delay the renovation process.

2. Can NYCHA raise enough capital to execute its plans?

The City and State will need to tap additional sources of financing to help close future PACT and Preservation Trust deals. This likely will require both levels of government to make hard choices about how to allocate finite housing resources, potentially including Low Income Housing Tax Credits or New York's tax-exempt bond volume cap, between NYCHA projects and other needs. The City's Fiscal Year 2024 Executive Budget Capital Commitment Plan already includes $1.5 billion in City capital subsidies for future PACT projects through fiscal year 2026. NYCHA will need to raise additional sources of capital through infill development and phased redevelopment, where feasible, to support its capital program.

Thank you.