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Testimony on NYCHA's Capital Spending of City Funds

*Submitted to the City Council Committee on Public Housing and
Subcommittee on Capital Budget*

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Thank you for the opportunity to testify on the New York City Housing Authority's (NYCHA) spending of City capital dollars. I am Sean Campion, Senior Research Associate 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 City and New York State.

I will focus on two topics: first, how additional City capital funding and new policy approaches are helping to address NYCHA's capital needs, and second, the process and procurement reforms needed to ensure that NYCHA spends all—not just City—capital dollars effectively and efficiently.

Capital Funding and Policy Approaches

It is well known that NYCHA faces immense funding and operational challenges. Its capital needs exceed \$40 billion due to years of underinvestment, mismanagement, and cost inflation. In recent years, NYCHA and the City have launched several initiatives to address this capital crisis, most notably by committing additional City capital funding for NYCHA and by supporting NYCHA's efforts to leverage funding for repairs through its Permanent Affordability Commitment Together (PACT) program.

City Capital Funding

City capital funding for NYCHA has increased dramatically. The Fiscal Year 2022 Adopted Capital Commitment Plan contains \$4.6 billion in planned commitments for NYCHA through

fiscal year 2031, of which \$2.9 billion is planned through fiscal year 2025. This comes on top of \$1 billion already committed since fiscal year 2016, when the City began to increase its capital support of the Housing Authority. This level of City capital support is unprecedented. In the decade prior to this increase (fiscal years 2006 through 2015), the City committed a total of just \$257 million to NYCHA's capital needs, mostly through allocations from City Council Members and Borough Presidents.

An increase in capital support was required by a settlement agreement between the City, NYCHA, the U.S. Department of Housing and Urban Development (HUD), and the Southern District of New York (SDNY). It is important to note, however, that the level of City funding in the Adopted Commitment Plan is more than double the \$2.2 billion that the City was required by the agreement to invest through fiscal year 2027.

The Capital Commitment Plan includes \$2.8 billion for building improvements; a portion of this will support comprehensive modernization projects, in which NYCHA will fully renovate some of its highest-need developments, rather than do the work piecemeal by type. (NYCHA has said that it will use any federal funding secured as part of the proposed Build Back Better bill in a similar manner.) Other planned funding will help renovate roofs and combat mold (\$818 million), address general construction needs (\$212 million), upgrade boilers (\$77 million), and install green infrastructure (\$70 million). The remaining funding would be allocated to specific upgrades and replacements at individual developments.

This funding level represents NYCHA being more fully integrated into the City's affordable housing program. CBC's Stabilizing the Foundation report of 2017 called for the City to commit one-third of its capital spending for housing to NYCHA. That goal has been met; NYCHA now represents 33 percent of all planned commitments for housing through 2025.

Permanent Affordability Commitment Together

In addition to City capital funding, NYCHA's primary capital financing effort involves converting public housing properties from the traditional federal Section 9 capital and operating subsidy programs to more flexible alternatives under the federal Rental Assistance Demonstration (RAD) program, which is part of NYCHA's Permanent Affordability Commitment Together initiative (PACT). NYCHA remains on track to reach its goal of renovating 62,000 units under PACT by 2028 in large part due to the City's housing agencies starting to provide financial and administrative support.

The Department of Housing Preservation and Development's (HPD's) capital plan includes \$300 million in City capital funding for PACT projects to help close capital financing gaps, which it

historically has not provided to NYCHA. (This funding is in addition to the \$4.6 billion discussed above.) Additionally, since 2019, the New York City Housing Development Corporation (HDC) has made tax-exempt bond financing available for PACT projects under its Housing Impact Bonds Resolution. Access to tax-exempt bonds offers two benefits: it helps NYCHA's partners secure funding and reduce financing costs, and it allows NYCHA to take advantage of HDC's asset management expertise.

Needed Process and Procurement Reforms

Even if NYCHA were to secure significant capital funding through the City's capital budget or through the federal Build Back Better legislation, NYCHA, City, and State officials would still need to take additional actions to ensure the funding is well-spent. These actions fall into three categories: procurement reform, operating reform, and conversions to Section 8 and related federal voucher programs that promote NYCHA's long-term viability.

Capital Procurement Reform

Several recent developments should help NYCHA improve its capital management processes. NYCHA has begun to procure City- and State-funded capital projects under its recently authorized design-build powers. NYCHA's board also approved a proposal to hire outside construction management firms to augment the Authority's capital planning staff and help it manage upcoming comprehensive modernization projects. If used wisely, these new approaches will help NYCHA speed up project delivery, attract higher quality construction firms to bid on its projects, and keep costs down.

However, NYCHA does not yet have authorization to use construction manager-build or construction manager-at risk procurement methods, which require State legislative approval. NYCHA requested this authorization as part of the bill to create a Preservation Trust, which is discussed in more detail below, that was introduced in last year's State legislative session. State lawmakers should act swiftly to grant NYCHA authorization to use these methods, even if the Trust is not speedily authorized.

In addition, NYCHA's federal monitor, along with NYCHA and the City, should strongly advocate for HUD to grant waivers from restrictive federal public housing procurement rules for both its annual Section 9 subsidies and any additional federal funding NYCHA receives under the Build Back Better bill. In its settlement agreement with the City and NYCHA, HUD pledged to work with NYCHA to grant waivers from the Section 9 program's onerous and outdated procurement rules, which prohibit the use of alternative methods like design-build and require NYCHA to accept the lowest responsible bidder instead of the bidder that offers the best value. HUD's

pledge, which so far has gone unfulfilled, is even more pressing as NYCHA stands to gain a significant share of the \$65 billion in federal capital funding for public housing under the Build Back Better legislation.

Operating Reform

The discussion of capital funding cannot be separated from the need to improve NYCHA's operations. Even if all its buildings are renovated in a timely and cost-efficient manner, NYCHA must manage the renovated properties well. This requires real changes, such as those outlined in NYCHA's Blueprint for Change, which proposed new organizational structures, quality controls, staffing plans, and accountability measures in order to operate like a modern and effective property management organization and reduce per-unit operating costs, which in 2015 were 39 percent higher than private sector costs.

Long-Term Viability

Finally, the receipt of additional capital funding does not negate the benefits of converting units to alternative voucher funding models under RAD/PACT or the Preservation Trust. There are multiple benefits to converting units from Section 9 to Section 8 or other voucher programs. Section 8 is a more stable and predictable funding stream than Section 9 and historically has enjoyed more political support. Section 8 also offers significant financing and procurement advantages: it would allow NYCHA to establish operating and capital reserves, issue debt to finance future repairs, and use alternative procurement methods like design build or construction manager-build, if authorized by the State legislature. All these powers are needed for NYCHA to avoid repeating the current crisis as developments need repairs in the future. The success of NYCHA's PACT program to date also has demonstrated that it can achieve these goals while maintaining affordability, residents' rights, and public control.

NYCHA also has proposed creating a Preservation Trust that, like RAD conversions under PACT, would allow NYCHA to raise revenue for repairs, partner with private construction management firms as beneficial, and allow for reinvestment to avoid future funding crises. CBC urges City and State lawmakers to create the Trust, since it will provide NYCHA with additional options to finance needed capital investment.

Thank you for the opportunity to testify, and we look forward to answering any questions you may have.

FURTHER READING

Stabilizing the Foundation: Transforming NYCHA to Address its Capital Needs (2018)

<https://cbcny.org/research/stabilizing-foundation>

NYCHA's Operating Outlook: More Uncertainty Amid Pandemic and Repair Needs (2021)

<https://cbcny.org/research/nychas-operating-outlook>