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Chairman of the New York City Housing Authority
before the
House Financial Services Committee
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Chairman Frank, Subcommittee Chairwoman Waters, Ranking Committee Member Bachus, Ranking Subcommittee Member Capito and Members of the Committee,

I am John Rhea, Chairman of the New York City Housing Authority (NYCHA). I want to express my appreciation for the opportunity to appear before you to discuss the Administration's Transforming Rental Assistance initiative otherwise known as the Preservation, Enhancement and Transformation of Rental Assistance Act of 2010 (PETRA).

NYCHA is the nation's first and largest housing authority. It is fitting that we are here in May. Seventy-five years ago, in May 1935, Eleanor Roosevelt opened NYCHA's *First Houses*, two years before enactment of the United States Housing Act of 1937. I am proud to report that *First Houses* is still there on New York's Lower East Side, providing decent and affordable public housing and homes to a vibrant community of 126 low-income families. Since the opening of *First Houses*, NYCHA's public housing has grown, serving over 403,000 residents.

Today, NYCHA operates over 178,500 units of public housing in 334 individual developments. The Authority also provides housing assistance through the Section 8 (Housing Choice Voucher) program to an additional 256,882 New Yorkers, in cooperation with more than 33,300 private property owners. A total of nearly 655,000 residents of our City are served by NYCHA's public housing and Section 8 programs. In fact, if the Authority were a city unto itself, it would rank 20th in population size in the United States.

NYCHA is proud not only of its enduring commitment to the long-term viability of affordable housing for current and future residents, but also for including people with special needs in our housing programs, such as seniors, persons with disabilities, formerly homeless families, victims of domestic violence and persons that are under-employed. Our public housing has remained viable for the last 75 years in large part because working families account for a large percentage (47.4%) of our households. In addition, Social Security, SSI, pension or Veteran's benefits support nearly 42% of NYCHA families.

NYCHA has consistently maintained its developments to the best extent feasible because we firmly believe these communities must be here to serve additional generations who require a helping hand. Perhaps that is a factor in the number of families on our waiting lists. The applicant list for public housing stands at nearly 131,000 families. The Section 8 waitlist, which is closed, has almost 128,000 other households waiting for a voucher to become available. There are over 1.2 million New Yorkers who face a rent burden and who meet the qualifying criteria for public housing that we are not able to assist.

NYCHA has been a powerful force and economic engine for the citizens of New York City since its inception. Federal dollars passing through the agency have a multiplier effect on the economy. NYCHA's budget is spent locally in operating programs and maintaining its properties. Through job creation, spending by vendors and suppliers, purchases of goods and services and increased consumer demand, the Authority has stabilized neighborhoods and remained permanently affordable. But perhaps of greater importance, is that by offering rents at no more than 30% of income, residents have the opportunity to enjoy equal access to jobs, civic amenities and community life.

As with prior decades in the last century, we are again in a period of dramatic and deep societal change. Soon we will have the US Census numbers and with them, hard data on what many of us know instinctively – the population is growing, aging and diversifying. As a consequence, there will be greater need for additional affordable housing. There are only two ways to meet this need and we must do both: build new housing and preserve and expand the capacity of existing stock.

Currently, public housing operates in a constricting environment of overregulation, unfunded mandates, increasing energy costs and insufficient funding to address a growing backlog of capital needs. We must have new financial and management tools if we are to continue to evolve, improve and remain committed to our core mission of serving residents by modernizing our operations and systems.

Solutions of the past will not address the challenges we face today. We face both opportunities and risks. We must join together and establish a new preservation strategy that provides sufficient funding under a predictable, stable and rational program structure, and that allows for flexibility to adopt solutions that are locally-based. What is required is a long-term funding structure that recognizes true operating costs, converting some public housing to alternative affordable housing models and access to financing instruments, such as tax credits and debt financing.

That is why I welcome HUD's Transforming Rental Assistance initiative. It represents a first step in achieving these shared goals. Working across programmatic silos, and if TRA is implemented along with other initiatives, such as Choice Neighborhoods, measures contained in SEVRA, Section 3 reform and expanding on the most successful elements of *"Moving-to-Work,"* we can have confidence that our low-income families will have a place to live and raise their families well into the future.

Secretary Shaun Donovan recognizes the challenges faced by public housing agencies to preserve our stock so as to serve a changing and diversifying population, as well as the gauntlet of programs administered by HUD, each with its own separate funding and regulatory criteria. With TRA, he has put forth a relatively modest proposal to allow for up to 300,000 units of public housing to access investments for repair, renovation and development. He has defined the objectives of TRA as streamlining policies across rental assistance programs, simplifying regulatory requirements and leveraging private funding to meet the capital needs backlog.

TRA's preservation goal mirrors New York City Mayor Michael R. Bloomberg's *New Housing Marketplace Plan* and his charge that New York City's housing agencies work together to create or preserve 165,000 affordable housing units by 2014. 100,000 units have already been created or preserved and the City is well on its way to achieving the Mayor's target.

This Authority has already undertaken two transformative initiatives with HUD assistance. The first was a voluntary conversion agreement for up to 8,400 public housing apartments to Section 8 voucher assistance of which 2,200 apartments have converted to date. The second initiative fully federalized 20,000 public housing units, leveraging ARRA funding to access an additional \$300 million of public and private market funding.

I believe these experiences uniquely position NYCHA in recognizing the benefits that can be realized through PETRA, although there are areas where we have concerns and where we believe further discussion is required. NYCHA has participated in several HUD convenings and has studied the proposed PETRA legislation to determine its potential benefits and application to New York City.

Ownership

A major concern to our residents, and to NYCHA, is continuing the public ownership of public housing. That is essential and PETRA specifically authorizes continued public ownership.

Conversion / Preservation

NYCHA strongly supports PETRA's goal to preserve the nation's public housing stock, especially in light of the fact that public housing faces a growing backlog of unmet capital needs estimated between \$20 billion to \$30 billion nationally. NYCHA alone has a backlog of unfunded capital needs conservatively estimated by *Parsons-Brinckerhoff* as exceeding \$6 billion. And although this headline number seems impossibly large, at \$3,520 per unit it is a relatively modest investment in quality housing stock, especially when compared to replacement costs. Over the past several years, as a result of prorated funding and the inability to combine our funding sources, we have significantly reduced staff levels at the developments resulting in reduced or deferred maintenance at the project level that only increases our capital needs going forward.

A typical 100-unit residential property in New York has maintenance and operating standards of \$6,500 per unit per year and would require \$250-300 per unit per year for a replacement reserve. Older buildings would require over \$400 per unit per year on-going. Buildings typically require an overhaul of heating, ventilation and elevator systems after 10 years,

At the end of 30 years, properties must be refinanced to address exterior facelifts/brickwork and roof replacements. Four of our developments are at least 70 years old; 21 developments are at least 60 years old; 64 developments are 50-59 years old and another 80 developments range between 40-49 years of age. By industry standards, NYCHA's annual allocation of capital funding is barely sufficient to cover new accruals and fails to address the Authority's backlog of capital needs.

No matter the prudence of the investment, considering the funding levels for the Public Housing Capital Fund over the past ten years together with other demands on domestic funding, we do not anticipate the Congress providing grant funding or appropriations of the magnitude required to meaningfully address the current backlog, as well as meet future public housing needs.

We agree with and very much support HUD's conclusion that the most effective available source of capital in amounts adequate to address the unmet funding needs of public housing lies in the capital and credit markets. The ability to mortgage assets allows housing authorities to capture the embedded equity in properties commensurate with low-income housing properties. Only by turning to the private markets and using all of our assets, including the physical properties and financial incentives, will housing authorities be able to preserve the national investment that has been made in public housing.

Contract Rent

The setting of contract rent is perhaps the element most critical to the program's success. To achieve its goals PETRA must provide a contract rent adequate to address annually accrued capital needs or deferred maintenance, to cover reasonable operating costs, including a management fee, to address debt service on past and future borrowings and to fund a reserve for replacement.

While NYCHA strongly supports PETRA's provision continuing *Brooke* rent levels for assisted families, we are concerned that under the draft, HUD appears to have sole authority to set contract rents or to make adjustments. Our concerns could be addressed with the clear and specific articulation of the tests and data HUD will rely on in making its determinations. Further, property-specific operating and capital information, submitted by the local housing authorities, should be given appropriate weight, in addition to other independent studies of the local rental

market, and must be fully considered in determining contract rent. Arbitrarily setting contract rents too high or too low, without programmatic input from local market dynamics will only lead to distortions and unsustainable outcomes.

PETRA requires agencies seeking conversion to complete a physical needs assessment and a rent comparability study. That is essential in determining the initial contract rent for the properties involved.

We recommend continuing to rely on FMRs as the best method currently available in establishing rents.

Funding for Social Services

One of the most distinguishing features of public housing that separates it from other housing programs is the commitment to providing a range of social services for residents. NYCHA oversees a network of over 400 community facilities that include community centers, senior centers, health care centers, day care and Head Start educational centers. These are essential in making a true difference in the lives of our residents. If one of the goals is to provide reasonable amenities to make public housing desirable and communities healthy, the cost of operating neighborhood centers and programs should be addressed through a dedicated mechanism and not embedded in the contract rent. Attempts to include these non-housing, but vital, programs in contract rent continues to place housing authorities at a disadvantage relative to other developers of assisted housing. It becomes a Hobson's Choice, asking housing authorities to choose between supporting our residents or investing in the preservation of the properties.

Additionally, NYCHA operates 12 *Naturally Occurring Retirement Communities* (NORCS). More than 35% of all public housing families in New York City are headed by seniors. We need to be able to serve that population and to provide the kinds of social services that would allow for seniors to remain in their community. Therefore, we applaud the provision in Chairman Frank's preservation bill authorizing the conversion of designated housing to assisted living.

Financing Tools

NYCHA recommends that private market leveraging be supported either by FHA insurance or a "full faith and credit" guarantee by the federal government to maximize housing authorities' ability to leverage funding at the lowest cost in the private capital markets. This would be similar to the position set out by Chairman Barney Frank in the draft of the *Public Housing Preservation and Rehabilitation Act of 2010* (PHPRA).

Tax-credits and other enhanced forms of private market financing must be made more accessible to public housing agencies. Each state's annual allocation of low-income housing tax-credits may not be sufficient and therefore incentives should be established for projects involving the preservation of public housing and multi-financed undertakings. In that regard, the Authority supports PHPRA's proposed *grants in lieu of tax credits* provision addressing the rehabilitation of qualifying public housing units.

Waivers – Increased Flexibility

The Administration's FY2011 budget proposal for TRA includes text allowing the Secretary to waive provisions of the Section 8 project-based program as well as provisions in Section 9 of the Housing Act of 1937 (other than fair housing, discrimination, labor standards and the environment), upon a finding that waivers or alternative requirements are necessary for effective conversions. NYCHA urges that this text be retained, as it provides the flexibility that may be required to make the program effective and capable of achieving its stated goals.

One-for-One Replacement of Assisted Units

NYCHA supports the basic concept behind *one-for-one replacement* - - preservation of low-income housing. . PETRA provides greater flexibility in accomplishing that goal than has been seen in other measures addressing the same issue. We support the bill's provisions on allowing replacement units off-site, within the neighborhood or within the metropolitan area taking into consideration the cost of development, fair housing standards and the need to deconcentrate poverty. However, there may be situations where one-for-one replacement may not be appropriate and we support the bill's provision on using tenant-based vouchers in limited circumstances.

However, there is a serious question as to whether housing authorities are capable of raising sufficient funds on the private market to support the costs of all replacement units. PETRA must provide sufficient authority for raising the capital necessary to accomplish the objective of one-for-one replacement. Otherwise, the requirement is only an unfunded mandate.

Right to Return – Temporary Relocation

The Authority supports PETRA's provision authorizing screening of residents who have relocated to temporary housing and seek to return to replacement housing. All members of the returning family should be subject to screening regarding their conduct during the relocation period.

Portability Factor / Funding

NYCHA supports the initiative to provide voucher assistance to families seeking to move following 24 months of residency at a property-based development. We would extend the same 24-month standard to families in units assisted with project-based vouchers.

However, we are seriously concerned with the impact of PETRA's "one-out-of-three" provision. As mentioned earlier, NYCHA's Section 8 waiting list includes nearly 128,000 households. To allow one out of every three turnover vouchers to be held in reserve for families residing in converted facilities that may one day opt to move, would be unfair to the households currently on the waiting list, seriously reducing their chance to obtain a voucher within the reasonable future.

We agree that families electing to move should be entitled to voucher assistance, but that should be drawn either from either an appropriation of incremental vouchers or from the *Tenant Protection* account. One-out-of-three is not the solution.

Employment / Job Training

We are pleased that PETRA incorporates the employment and contracting requirements of Section 3 of the Housing and Urban Development Act of 1968. There is much more that needs to be done to provide a full range of employment and job training opportunities for qualified residents. Towards that objective, NYCHA supports the basic goals of Rep. Velázquez' *Earnings and Living Opportunities Act* reforming the Section 3 program.

Moreover, the *Resident Opportunity and Supportive Services* (ROSS), Section 34, 42 USC §1437z-6, authorizes a full range of job training and employment opportunities. If Congress, HUD and housing authorities are serious about resident employment, it is time for ROSS to no longer be a mere set-aside within the Capital account, but rather to be separately funded at \$1 billion, with the vast majority going to job training and resident employment initiatives.

Discrimination – Source of Funding

NYCHA supports PETRA's provision creating a federal right that bars discrimination based on an applicant's or resident's source of funding. New York has a similar provision in the City's

Administrative Code and it has successfully removed a barrier obstructing the ability of voucher holders to find decent and affordable housing.

Resident Organizing

Central to our success is to have a strong, healthy and active resident body. We are pleased that PETRA maintains the basic recognition of the right of residents to organize and to be formally recognized. The bill also continues the provision for financing resident organizing efforts and NYCHA strongly supports those provisions as well.

Flexibility Now

Recognizing that TRA is a multi-year program that is not currently authorized and that the current public housing and Section 8 programs will continue for years to come, NYCHA urges the Congress to immediately provide housing authorities with the flexibility needed to administer programs in their portfolio, including:

- Full fungibility between capital, operating and Section 8 funding.
- Allow housing authorities with excess cash flow to use these funds to cover debt, address capital needs or to meet operating expenses across their entire portfolio.
- Removing the Section 8 unit cap provision as it affects the tenant-based voucher program. The voucher program is already a budget-based program and administrating agencies can not spend more than the dollars allocated. The unit cap is administratively unnecessary and limits the number of families that can be assisted within budgetary limits. In the FY2011 Budget, the Administration calls for dropping the unit cap.
- NYCHA is very much interested in the concept of regionalization. NYCHA administers vouchers within the same metropolitan jurisdiction as our sister agency, the New York City Department of Housing, Preservation and Development (HPD). An additional voucher program within the City is administered by the New York State Division of Housing and Community Renewal (DHCR). NYCHA encourages coordination amongst the three agencies and seeks the restoration of the ability to move vouchers and associated funding within the three programs to serve residents in the same metropolitan area while achieving the highest levels of voucher utilization.

Thank you again for the opportunity to address these important measures. I welcome such questions as you may have.