New York City Independent Budget Office Fiscal Brief

February 2023

Money for NYCHA?

Examining the Public Housing Preservation Trust & Other Strategies in NYCHA's Blueprint for Change

Summary

The state of the New York City Housing Authority (NYCHA) is most often described in one word: beleaguered. With crumbling infrastructure, the result of years of federal underfunding and chronic mismanagement, few other descriptors seem to capture the depth of issues faced by the nation's largest public housing authority.

Last summer, however, the state approved a new financing model for the authority, the Public Housing Preservation Trust, that could, if the stars align, make a real difference in allowing NYCHA to address its capital needs. The Trust is just one aspect of NYCHA's greater reform plan, *A Blueprint for Change*, which IBO examines in this brief. We explore the potential roadblocks to the Trust's success, and its benefits and risks, as well as other operational reforms contained in the Blueprint. Among our findings:

- The Public Housing Preservation Trust, the key strategy in the Blueprint, passed its first hurdle in June 2022, when the state authorized the Trust and allowed for the transfer of 25,000 units. Under this strategy, NYCHA would transfer developments to the Trust, which can borrow against rent revenues and federal funding in a way that NYCHA presently cannot. According to NYCHA, the Trust could borrow $3.4 billion for repairs and capital improvements for these 25,000 units.
- In the Blueprint, NYCHA originally proposed the transfer of 110,000 units, and likely will pursue approval for transfers up to this figure. NYCHA expects the Trust could raise about $15 billion of the $18 billion still needed to address the full scope of capital need for the total 110,000 units.
- With one roadblock cleared, others remain. Residents in the impacted developments must vote to approve the transfer to the Trust. While NYCHA is working to improve engagement efforts, gaining residents' trust to approve the move from traditional public housing to the Trust is far from given.
- A long-term obstacle is the need for increases in federal funding for the Tenant Protection Voucher program, which NYCHA would use to obtain the increased federal funding stream necessary to back borrowing for capital repairs. IBO estimates NYCHA will need $500 million in tenant protection vouchers over the Trust's implementation to support the transfer of 25,000 units to the Trust, and $2.2 billion for all 110,000 units—much more than Congress has historically appropriated for that program. However, the Omnibus bill passed in December included a total of $337 million for the Tenant Protection Voucher program nationwide—more than triple recent appropriations. While it remains to be seen how Washington will allocate this funding, it is a positive sign for the Trust.

Perhaps the largest risk to the success of the Trust, and the other strategies around management reforms and reorganization outlined in the Blueprint, is NYCHA itself. The authority may struggle as an organization to implement the changes outlined in the plan—particularly the Trust, which is a complex and untested model that will take many years to implement. However, keeping the status quo is not a viable option for NYCHA or its residents.

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Introduction

The Adams administration inherited the problem of capital shortfalls at the New York City Housing Authority (NYCHA) that has vexed many previous mayors. Past administrations have offered many proposals for how to stabilize NYCHA's future without additional federal infrastructure funding. The housing authority's capital shortfalls led the de Blasio administration to release the strategic plans *NextGeneration NYCHA* in 2015 and *NYCHA 2.0* in 2018. *NextGeneration NYCHA* touted mixed-rate infill development and operational efficiencies. *NYCHA 2.0* continued with the idea of infill development and added selling off air rights; however, its largest contribution was the use of public-private partnerships to generate funding for capital repairs through the Permanent Affordability Commitment Together (PACT) program. But each of these plans faced substantial pushback from a vocal collection of stakeholders including NYCHA residents, advocates, and elected officials. Additionally, infill development and air rights rely heavily on unpredictable aspects outside of the city's control—real estate market conditions, developer interest, and location. No infill projects have been completed yet, and the public-private partnerships were heavily criticized for what some saw as the privatization of public housing.

Near the end of Mayor de Blasio's last term, in November 2020, NYCHA released yet another new plan for addressing the authority's capital needs and organizational restructuring titled *A Blueprint for Change* (hereafter referred to as "the Blueprint"). Notably, the Blueprint is the first plan NYCHA released under the Trump administration, following a NYCHA cover-up of lead paint violations, imposed a federal monitor and bound NYCHA to a federal monitor agreement. The Blueprint largely serves as a response to the federal monitor agreement. The plan has two main components—the stabilization strategy and the transformation plan—which together aim to address the vast capital needs and the administrative issues that brought about the federal monitor's oversight in the first place. The stabilization strategy proposed a new method through which NYCHA can raise capital, a Public Housing Preservation Trust, and along with previous strategies, are intended to address NYCHA's estimated $40 billion in capital needs. The transformation plan also includes a reorganization of NYCHA and implements various efficiency strategies that the authority hopes will improve conditions for tenants.

In the months that followed the Blueprint's release, the transformation plan was approved by the federal Department of Housing and Urban Development (HUD) and NYCHA began to reorganize and implement efficiency programs. Meanwhile, NYCHA advocated for the state legislature to pass the bill that would create the Public Housing Preservation Trust. Upon taking office, Mayor Adams embraced the Blueprint, calling on Albany to pass the Trust bill.[1] The state legislature passed the bill creating the Trust and it was signed into law in June 2022.

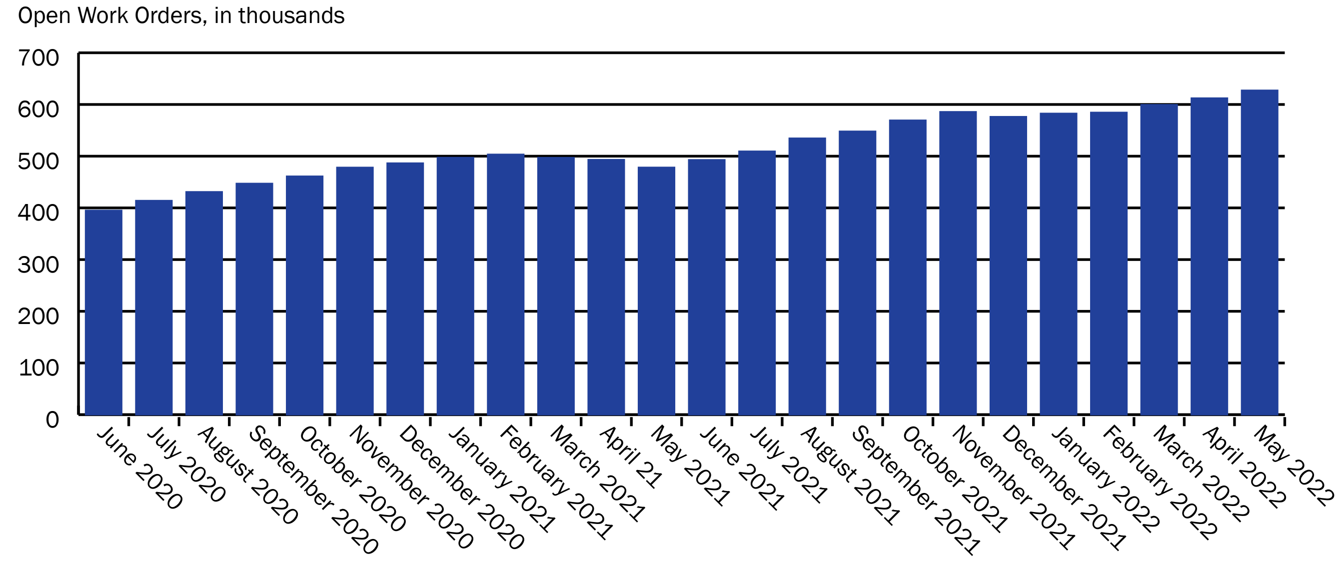
On the heels of the Trust's creation, the Adams administration released its housing plan, *Housing Our Neighbors*, which placed the Public Housing Preservation Trust and the transformation plan laid out in NYCHA's Blueprint at the center of the administration's NYCHA strategy. In this brief, IBO examines both the stabilization strategy and transformation plan in the *Blueprint for Change*. The Blueprint sets forth changes to how NYCHA will operate, but also provides what NYCHA hopes will be a solution to the problem of its aging infrastructure.

Background

Today, many NYCHA developments are in disrepair. As of May 2022, the number of unaddressed repair requests from NYCHA residents—called open work orders—stands at over 600,000; that means there are more open work orders than the roughly 340,000 people living in NYCHA buildings. At the same time, NYCHA workers routinely close or cancel over 200,000 work orders every month. From June 2021 through May 2022, NYCHA workers resolved or cancelled over 2.6 million work orders. According to NYCHA—lacking the money, time, or staffing to make long-term systems upgrades and gut apartment renovations—workers are often forced to make short-term repairs on issues like fixing appliances, leaky plumbing, or mold growth. When problems inevitably resurface, residents must once again make a repair request and wait the 312 days, on average, that it takes NYCHA to return to fix the issue.[2] Furthermore, mechanical system breakdowns such as elevators or boiler systems going offline, can impact hundreds of residents at a time. Long-term solutions—replacing boilers or elevators, fully replacing old plumbing, gutting apartments to get at underlying mold, lead, and pest problems, and installing new roofs and drainage—would not only lower NYCHA's workload, but, more importantly, would improve the living conditions of NYCHA residents. The difficulty, however, is how to pay for these long-term fixes.

NYCHA's Federal Capital Funding Fell Short for Years. For years, underfunding from Congress and mismanagement has limited NYCHA's ability to invest in its infrastructure,

NYCHA Open Work Orders Reach New Highs as Authority Struggles to Keep Up with Deteriorating Infrastructure



SOURCE: NYCHA Metrics, 2020-2022

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leaving its developments to fall further and further from a state of good repair. As a public housing authority, NYCHA largely depends on the federal government to pay for capital improvements. To maintain and renew its infrastructure, NYCHA relies on a yearly capital subsidy from HUD's federal Public Housing Capital Fund. For many years, the capital funding provided by Congress fell year-over-year. NYCHA's capital grant progressively declined from $701 million in 2001 to $416 million in 2017, in 2022 inflation-adjusted dollars. Capital funding then reversed direction, increasing beginning in 2018, and by 2021, NYCHA's capital grant was $601 million.[3] With a smaller yearly capital subsidy, NYCHA put off certain capital improvements, contributing to current issues of heat system failures, equipment deterioration, and higher long-term maintenance costs.

Cost of Capital Needs Continues to Grow. Now, the bill is coming due for building repair, replacement, and renovation. That bill, referred to as "capital needs," represents what it would cost NYCHA to replace infrastructure that has now reached and, in many cases, surpassed the projected end of its useful life. To take stock of its capital needs, the federal government requires NYCHA to undertake a process called a physical needs assessment, which is an accounting of the needed repairs and improvements in NYCHA developments. In 2006, during the Bloomberg administration, NYCHA's five-year capital need—the amount needed to complete necessary repairs over the following five years—totaled $10.2 billion in 2022 dollars. (All capital needs assessment figures hereafter have been converted to 2022 dollars for ease of interpretation.) Five years later, near the end of Bloomberg's third term, NYCHA's five-year capital need totaled $22.4 billion. In 2017, NYCHA's five-year need grew to $38.3 billion.[4] While some of this growth was caused by additional needs coming due, NYCHA estimated that $6.3 billion was because infrastructure that needed investment in 2011 was left to continue to deteriorate until 2017.[5]

In November 2020, NYCHA re-estimated its five-year capital need at $40 billion, citing that the authority underestimated costs related to the federal monitor agreement.[6] (Adjusting for inflation alone, that figure would be around $45 billion in May 2022.) The next public housing physical needs assessment, to be released in 2023, is likely to find NYCHA's needs to have grown even further.[7] As developments have deteriorated due to deferred capital projects, over the past decade NYCHA largely took a wait-and-see approach to its long-term capital needs issue, hoping that Congress would finally appropriate funding to support large-scale capital repairs. This funding has yet to materialize, and in the meantime, NYCHA came under new pressure, especially with the oversight from the federal monitor, to resolve its capital needs and to find a way to do so without waiting for large grants from the federal government.

Federal Monitor. In 2018, a lawsuit filed by the U.S. District Court for the Southern District of New York and the federal Department of Housing and Urban Development alleged that NYCHA had "violated and was continuing to violate basic federal health and health and safety regulations." The suit stemmed from an investigation into whether NYCHA had deceived federal inspectors and falsely certified it was in compliance with lead paint regulations.[8] Narrowly avoiding a federal takeover, NYCHA and New York City signed an agreement in 2019 with the federal court and HUD that would place NYCHA under a federal monitor and force NYCHA to reorganize itself. The monitor agreement binds the authority to strict performance metrics that concern lead paint, mold, pests and waste, elevators, heat, and inspections. If the underlying root causes of these issues are not addressed through capital repairs, NYCHA will continue to struggle to meet these performance goals, yet the federal government has provided no additional funding to resolve the issues detailed in the monitor agreement. The federal monitor means that on top of the looming threat of deterioration, there is additional pressure from Washington for NYCHA to resolve its capital need deficit.

City and State Funding. NYCHA has few places to look outside of Washington for funding. For years, the state has contributed little funding to NYCHA. While NYCHA's 2022 capital plan includes $538 million in rolled-over state funds, NYCHA does not anticipate the state to contribute any additional funds to NYCHA's capital budget over the next five years.[9] Historically, the city's subsidies for NYCHA's capital and operating budgets were small or nonexistent. But during the de Blasio administration, the mayor increased the amount the city contributed to NYCHA to levels far above those seen during the Bloomberg or Giuliani administrations. The Adams administration elected to continue to provide significant capital and operating subsidies to NYCHA and, furthermore, added an additional $1.2 billion to HPD's capital budget to subsidize NYCHA real estate deals under its Permanent Affordability Commitment Together (PACT) program. (See IBO's report on NYCHA's budget and city subsidies.) Over the next five years, the city is set to provide $3.5 billion in capital funding to NYCHA—about 80 percent of what the federal government would provide over the same period if it continued its 2023 capital appropriation to NYCHA.[10] NYCHA's total five-year capital need is about half of New York City's entire capital budget from 2023 through 2027, meaning it would be difficult for the city to take the authority's capital needs onto its own balance sheet.

Blueprint: Stabilization Strategy

Because NYCHA so far has had little success obtaining additional funding from Congress, in *A Blueprint for Change,* NYCHA details what it calls its "stabilization strategy" to raise the funds NYCHA needs to stabilize developments and prevent further deterioration. Instead relying on additional government funding to pay for repairs, the stabilization strategy would address NYCHA's capital need through borrowing from private markets. Borrowing by governments and public entities through private markets for capital projects is common. New York City borrows for capital projects through the regular issuance of bonds. NYCHA itself already borrows from private markets to fund capital projects; however, in NYCHA's case, it is severely limited by HUD in what it can borrow against and how much.[11] This means that unlike New York City's housing program through the Department of Housing Preservation and Development, which is primarily funded through city-issued debt, most of NYCHA's rehabilitation and improvements have historically been paid for not through its own borrowing but through grants from other levels of government.

The stabilization strategy relies on two approaches to raise funds. Each approach aims to expand the amount that NYCHA can borrow for capital projects. In the first approach, NYCHA would continue the PACT program, a strategy announced in 2018 through the *NYCHA 2.0* plan. PACT aims to address capital needs for 62,000 apartments. The second approach—the Public Housing Preservation Trust model—was proposed by NYCHA to address the capital needs for the remaining 110,000 units in its portfolio. The creation of the Public Housing Preservation Trust was approved by the New York State Legislature in June 2022. The version passed in Albany caps the number of units NYCHA can transfer to the Trust at 25,000, although the authority hopes this cap will be revisited in the future.

Both approaches amount to creating a new entity and then transferring NYCHA developments to this entity along with the associated subsidies, which then allows the new entity to borrow capital funds against the development's subsidies in a way that NYCHA itself cannot under HUD rules. In the case of PACT, the entity created is a public-private partnership owned by NYCHA, private companies, and nonprofits. This partnership manages the property and handles the capital repairs. In the case of the Trust, the entity created would be the Public Housing Preservation Trust—a public benefit corporation—controlled by a board composed of mayoral and NYCHA appointees. In this model, the Trust contracts management of the developments to NYCHA, while NYCHA and the Trust handle the capital repairs. According to NYCHA, the stabilization strategy laid out in the Blueprint would address $27.8 billion in capital needs through these two parallel programs: $12.8 billion would be addressed by the PACT strategy while about $15.0 billion would be addressed by the Trust approach, if all 110,000 units not planned for PACT are ultimately converted to the Trust model.

Stabilization Strategy Will Continue PACT Program as Planned. PACT takes advantage of an Obama-era federal program called the Rental Assistance Demonstration (RAD) program. In this program, NYCHA creates a public-private partnership between itself and private developers, property management companies, community-based organizations, and affordable housing nonprofits. NYCHA then leases the developments to the partnership through a 99-year lease and converts the developments from their current status under the federal Section 9 Public Housing program to the Section 8 Housing Choice Voucher program.

In a PACT conversion, HUD pays the same amount to the public-private partnership under Section 8 as NYCHA received for the units prior to the PACT conversion in Section 9 public housing operating and capital subsidies, in the form of special project-based Section 8 vouchers. The PACT partnership borrows by issuing bonds through the New York City Housing Development Corporation (HDC) to fund capital repairs at NYCHA developments. The partnership uses its operating surplus—what is left over from the funding it receives from HUD and the rents it collects from tenants, after operating expenses are accounted for—to pay back what it borrowed. The property management partner manages the developments day-to-day instead of NYCHA. Under PACT, households pay 30 percent of their household income in rent, the same as what households pay for public housing. NYCHA plans to ultimately convert 62,000 units via PACT and expects to address $13 billion in capital needs through the program. As of June 2022, around 15,000 units have transitioned under the program, with a further 19,000 units in active pre-development.[12]

NYCHA's ability to use PACT more broadly than currently planned is limited. The number of units that can be converted under the RAD program is limited by a federal cap set by Congress. PACT conversions beyond the 62,000 units originally proposed in 2018 would likely face pushback and would also require approval from HUD. Furthermore, a group of vocal residents and advocates have been skeptical of the PACT strategy and have pushed back against PACT conversions at their developments.

Public Housing Preservation Trust Is New Capital Strategy. The Blueprint proposed a new model that would potentially allow NYCHA to address the capital needs for the remaining 110,000 units in its portfolio, without involving private partners like in PACT. Under the Trust model, New York State creates a public benefit corporation, a type of public entity, called the "Public Housing Preservation Trust." NYCHA will then transfer developments to the Trust through the use of 99-year leases, which can borrow funds to pay for capital repairs. Unlike NYCHA, the Trust has much greater access to the private credit markets. In June, the state legislature approved the creation of the Public Housing Preservation Trust. In the original approach proposed in the Blueprint, NYCHA had sought to transfer 110,000 units to the Trust—the number of units remaining in its portfolio not slated for PACT. However, the recently enacted state legislation caps the number of units NYCHA can convert and transfer to the Trust at 25,000 units. NYCHA hopes that if the Trust model succeeds, this cap would be raised or lifted by the legislature. The number of units that NYCHA can transfer to the Trust will also be determined by whether the authority can gain the consent of residents. Under the legislation that created the Trust, NYCHA will need to hold a resident vote over whether to transfer a given development to the Trust before the transfer can move forward.

At the heart of NYCHA's Trust strategy is a type of Section 8 voucher called a Tenant Protection Voucher. The Tenant Protection Voucher is available through a process called Section 18 Disposition, which NYCHA units qualify for when they cost more to repair than to replace. If NYCHA transfers the units to the Trust using the disposition process, units would move from the Section 9 Public Housing program to the Section 8 Housing Choice Voucher program. The Trust would then become eligible to receive these enhanced vouchers, which provide more money per unit than NYCHA receives currently. According to a July 2020 presentation, NYCHA received about $800 per unit per month from HUD in capital and operating subsidies.[13] In contrast, NYCHA estimated that the Trust would receive about $1,450 per unit per month from HUD for every unit with a tenant protection voucher.[14] NYCHA would seek a tenant protection voucher from HUD for every unit transferred to the Trust. For NYCHA to obtain the tenant protection vouchers needed for the Trust, Congress must vastly increase HUD's funding for the Tenant Protection Vouchers compared with historical levels. Whether NYCHA and its partners can convince Congress to appropriate enough funding for the Tenant Protection Voucher program to support the initial transfer of 25,000 units, or the ultimate goal of transferring 110,000 units, is a major area of uncertainty that the Trust hinges upon, although a recent increase in funding for the tenant protection voucher program passed as part of the federal Omnibus bill in late December is an encouraging sign.

Similar to the PACT public-private partnership, the Trust would then borrow against the revenue generated by the property to pay for capital repairs. With HUD's approval, the Trust would use the vouchers together as a revenue stream that it could borrow against. Then, either the Trust or HDC would issue bonds backed by the voucher revenue, raising funds for capital improvements for the developments under the Trust's control. The Trust would contract back to NYCHA for property management and capital improvement work, which would maintain a portion of NYCHA's public workforce.

According to a July 2020 presentation (the most recent figures available), NYCHA reported it could raise $3.4 billion if it transferred 25,000 units under the Trust and each unit were to receive a tenant protection voucher from HUD. Ultimately, though, NYCHA intends to use the Trust to address the capital needs of the remaining 110,000 units not slated for PACT. NYCHA has secured about $7 billion through reserves and city, state, and federal funds for these 110,000 units. To meet the terms of the HUD agreement, meet HUD's Housing Quality Standards, and prevent developments from deteriorating further, the authority estimated it would need an additional $11 billion on top of the funds already secured. To fully address the capital needs of these 110,000 units, NYCHA estimated it would need an additional $18 billion. Using NYCHA's 2020 estimate for 25,000 tenant protection vouchers, were the Trust to receive 110,000 tenant protection vouchers, it could potentially raise about $15 billion for capital needs.[15]

Under the Trust model, NYCHA residents would still pay 30 percent of their income in rent. The Section 8 tenant protection vouchers would be project-based, meaning they would be attached to the unit, not the resident, so the unit's affordability would be preserved in perpetuity. In contrast to PACT conversions, NYCHA and the city would entirely control the Trust. NYCHA's CEO would chair the Trust's board and appoint four members of the Trust's board and the mayor would appoint the other four seats;

Comparing NYCHA's Current Model to Housing Preservation Trust Model and PACT Model: Operational Comparison

	Proposed Number of Units	Transfer of Units	Method of Addressing Capital Need	Tenant Rent	Property Manager	Oversees Construction and Procurement
Traditional NYCHA Public Housing	172,000	None	Paying for capital needs directly using federal capital subsidy, state subsidy, and city subsidy.	30 Percent of Household Income	New York City Housing Authority	New York City Housing Authority
Public Housing Preservation Trust Model	25,000 units is the maximum NYCHA could currently transfer to the Trust. Overall goal would be to transfer 110,000 units.	NYCHA transfers units to Public Housing Preservation Trust through 99-year ground lease. NYCHA owns buildings and land, but Trust has leasehold interest.	Trust borrows against operating surplus from developments under its control.	30 Percent of Household Income	New York City Housing Authority	Public Housing Preservation Trust
Permanent Affordability Together Program (PACT)	62,000 Units. (15,000 Units have already converted through PACT.)	NYCHA transfers units to public-private partnerships through 99-year ground lease. NYCHA owns buildings and land, but partnerships have leasehold interest.	Public-private partnerships borrow against operating surplus from developments under their control.	30 Percent of Household Income	Private Management Partner	Private Developer Partner

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of the nine members of the board, four would be required to be NYCHA residents. The Trust's board will select the president of the Trust, who will manage the Trust itself; NYCHA's CEO cannot serve as the Trust's president, and no member of the Trust's board may do so. Because NYCHA would still manage the developments under the Trust, developments transferred to the Trust would still fall under the purview of NYCHA's federal monitor. Furthermore, due to historical mismanagement, NYCHA is not only overseen by a federal monitor, as previously discussed, but also by a federal judge, a court-appointed mold analyst, and an ombudsperson, all as part of the Baez consent decree that came about after NYCHA was sued for pervasive, unabated mold and moisture problems in its developments. As set down in the legislation that created it, the Trust is required to comply with Baez to fix mold and leak conditions within 30 days of a complaint and submit to the same oversight as NYCHA under the consent decree. While public housing units are exempt from the city's housing code enforced by the Department of Housing Preservation and Development, units transferred to the Trust would be covered by the code.

Potential Roadblocks to Trust Model's Success

NYCHA Will Need to Earn Residents Consent to Transfer Developments to the Trust. NYCHA residents living in a development must vote to approve a conversion before the authority may transfer that development to the Trust. According to the final rules published in December 2022, NYCHA residents will be given a choice between the Trust, PACT, and remaining in the Section 9 public housing program. The option that receives the most votes would be implemented. The vote would be limited to NYCHA residents 18 and older who have permanent written permission from NYCHA to reside in the apartment, and the vote would only be considered valid if at least 20 percent of head of households in the development participated in the vote. Residents will have 30 days to vote either online or by mail, or 10 days to vote in person, following an engagement period of at least 100 days.

To implement the Trust, NYCHA will need to earn the backing of residents in many developments, and whether residents will support transferring their developments to the Trust remains to be seen. During the legislative process to create the Trust that stretched from November 2020 to June 2022, there was substantial tenant opposition. NYCHA is the first public housing authority to propose a Public Housing Preservation Trust, making the Trust model untested. During the legislative process, residents raised concerns about the protections they would receive under the Trust and whether their rights as residents of the Trust would be the same as under Section 9 Public Housing. Tenant opposition has sunk NYCHA's plans in the past; one notable example is the blocking of the Bloomberg administration's proposal to generate funding for NYCHA through infill development of NYCHA properties. NYCHA has struggled with public engagement in the past, and mistrust and skepticism among NYCHA residents for the authority may make it difficult to obtain buy-in.

Comparing NYCHA's Current Model to Housing Preservation Trust Model and PACT Model: Financial Comparison

	Recipient of Federal Funding	Source of Federal Funding	Share of Capital Need Addressed	IBO Estimate of Additional Net Federal Appropriation Required In May 2022 dollars
NYCHA Public Housing (Current Model)	New York City Housing Authority	Section 9 Public Housing Operating Fund and Public Housing Capital Fund	Reserves and city funds pledged under the monitor agreement plus pledged state and federal funds sum to about 17 percent of capital need	None
Public Housing Preservation Trust Model (25,000 Unit Cap on Transfer)	Public Housing Preservation Trust	Tenant Protection Voucher Program, under Section 8 Housing Choice Voucher Program	9 percent of capital need	$220 million per year
Public Housing Preservation Trust Model (No Cap on Transfer)	Public Housing Preservation Trust	Tenant Protection Voucher Program, under Section 8 Housing Choice Voucher Program	38 percent of capital need	$1 billion per year
Permanent Affordability Together Program (PACT)	Public-Private Partnership	Section 8 Housing Choice Voucher Program	32 percent of capital need	None

NOTE: Percentage of capital need was calculated based on $40 billion in capital needs and NYCHA's estimates for capital needs addressed in the July 2020 presentation on the Housing Preservation Trust.

Trust Would Require More Federal Funding from Congress and Cooperation from HUD. At present, Congressional funding for the Tenant Protection Voucher program is too low to support the additional 25,000 vouchers needed to transfer 25,000 units from NYCHA to the Trust. IBO estimates Congress would need to appropriate nearly $500 million in funding for the Tenant Protection Voucher program to support the vouchers necessary for the transfer of 25,000 NYCHA units to the Trust, and about $2.2 billion in funding to transfer the full 110,000 units not slated for PACT to the Trust.[16] (Estimates are in 2022 dollars.)

Importantly, NYCHA only needs to secure tenant protection vouchers from HUD in the year when NYCHA developments are initially transferred to the Trust. Since NYCHA will almost certainly spread transfers to the Trust over multiple years, the necessary tenant protection vouchers could also be spread out over the same period, assuming funding is available. The Trust's tenant protection vouchers would be renewed as regular Section 8 project-based vouchers after the first year, meaning yearly funding for the Trust's Section 8 vouchers will come from funding for nationwide Section 8 voucher renewals, not from the Tenant Protection Voucher program. Funding for Section 8 renewals is far larger than the Tenant Protection Voucher program and has historically been insulated from federal budget cuts.

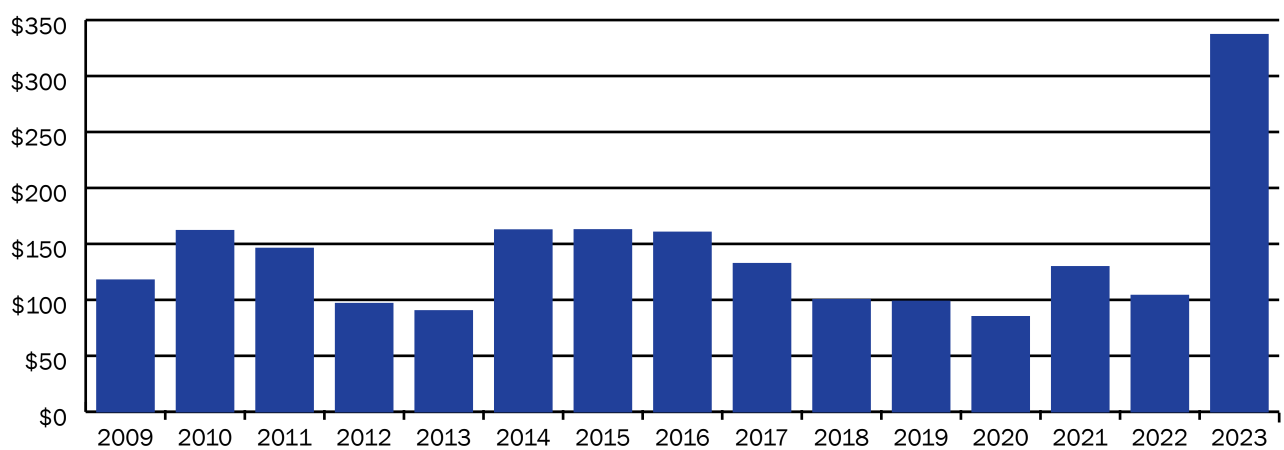
Once implemented, the Trust plan will increase the federal government's spending on NYCHA, however. IBO estimates that, after accounting for savings from the Section 9 Public Housing program, the federal government's additional yearly spending after the transfer of 25,000 units would be about $220 million more than current spending levels, while after the transfer of 110,000 units, additional yearly spending would be about $1 billion more.

In the federal Omnibus bill passed in late December, Congress appropriated a total of $337 million for the Tenant Protection Voucher program nationally for 2023 federal fiscal year, an amount more than three times what has been authorized in recent years ($100 million authorized in the 2022 federal fiscal year, for example). While that funding is insufficient to support 25,000 tenant protection vouchers for the Trust, were HUD to allocate a large portion of that funding to NYCHA, it would be enough to transfer an initial bundle of developments and begin work. This year's allocation for the Tenant Protection Voucher program is encouraging, given historical funding levels for the program, but whether NYCHA can obtain all the tenant protection vouchers necessary for the Trust's implementation will likely remain a source of uncertainty in the years to come.

NYCHA not only needs Congress to appropriate funding for tenant protection vouchers but will also need HUD to allocate the vouchers to NYCHA specifically, in contrast to other HUD programs that distribute funding through a broad nationally applied formula. NYCHA has received substantial support from HUD for its Trust proposal, with HUD going so far as to send letters to both branches of the New York State Legislature in support of the Trust legislation while it was being considered, so it seems unlikely that HUD policy under the Biden administration will prove to be an obstacle to the Trust's implementation.

NYCHA Will Need $500 million in Tenant Protection Vouchers to Support Transfer of 25,000 Units To the Trust and $2.2 Billion for 110,000 Units

Nationwide Tenant Protection Voucher Funding, May 2022 dollars in millions



SOURCES: IBO Analysis of NYCHA documents and HUD Funding Provisions for the Housing Choice Voucher Program, 2009-2022.

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Potential Benefits of the Trust Model

Stabilization Strategy Could Potentially Resolve NYCHA's Capital Issues. If the Trust works as described on paper, the Trust and NYCHA would be able to make a long-term investment in capital projects at NYCHA developments. This would include replacing boilers, resolving the consistent issue of heating outages in the winter, replacing pipes, resolving the endemic mold problem in many NYCHA developments, and abating lead to address the risk of lead poisoning for those who live in NYCHA developments. Furthermore, once capital projects are completed, NYCHA's open work order backlog would likely decline substantially, potentially improving NYCHA's response time for repairs. This in turn would free up workers for other tasks that have been deferred, and possibly allow NYCHA to reduce the size of its workforce. In the long run, once the Trust's debt is paid and assuming funding is uninterrupted, the Trust could continue to be able to leverage the Section 8 vouchers to maintain the properties and prevent them from again falling into a state of disrepair.

Trust's Borrowing Ability Could Reduce Pressure on City Budget to Pay for NYCHA. At present, NYCHA's capital woes are a substantial drag on city resources. Over the course of the last mayoral administration, the then-Mayor de Blasio directed huge sums from city taxpayers as well as funding from the city's pot of federal Community Development Block Grant funding to NYCHA. The Adams administration's budget proposals, now adopted by City Council, will continue to provide substantial subsidies for NYCHA. On top of this funding from the city expense budget, the city has also taken NYCHA's capital needs onto its own capital budget. While some of this funding is required under the city's agreement with NYCHA's federal monitor, the city contributes more than it is required to on a regular basis. At its root, many of NYCHA's woes stem from unaddressed capital needs. If well implemented, the stabilization strategy—with both PACT and the full implementation of the Trust—would free up the city to direct resources toward other priorities.

Trust Model Would Maintain More Public Control. In contrast to PACT, which privatizes the day-to-day management and repairs of NYCHA developments, the Trust model would keep control of these developments entirely in public hands. NYCHA's CEO will serve as the Chair of the Trust's nine-member board and would appoint four board members. (NYCHA's CEO, after the proposed reorganization of NYCHA leadership, would be appointed by NYCHA's board, which is entirely appointed by the mayor.) The mayor would appoint four seats on the Trust's board. Between members appointed by the mayor and NYCHA CEO, four seats on the Trust's board would be held by NYCHA residents. Furthermore, because NYCHA oversees the property management role under the Trust model, unlike PACT, the Trust would maintain a portion of NYCHA's public sector, unionized workforce.

NYCHA Residents Must Vote to Opt-In to Trust Model and Select Contractors. The legislation that creates the Public Housing Preservation Trust requires NYCHA to hold a vote at each development before the development to the Trust, although the draft voting procedures are still under review. Giving residents the power to opt in or out of a NYCHA capital program represents a shift toward resident self-determination, and is a substantial departure from past policies. The Trust also requires that residents participate in the selection process for the contractors that will carry out the capital repairs at their developments, although specific details on how this will work have yet to be specified.

Stabilization Strategy Might Be Easier Sell in Washington. Today, as the result of federal policies over the past two decades, the number of units of public housing in the United States has been greatly reduced. Furthermore, much of the nation's remaining public housing is concentrated in large cities, which makes it difficult for public housing to garner broad federal support for bills that would fund the capital needs of public housing authorities. One such bill, the Public Housing Emergency Response Act, would provide $32 billion to NYCHA as part of a broader $70 billion aid package for public housing, but the bill has stalled in committee since late 2019. The stabilization strategy that NYCHA has proposed, using Section 8 and Tenant Protection Vouchers, may be more likely to receive federal support than large appropriations for public housing because it requires a smaller increase in federal funding, albeit on a yearly basis. Because the funding would be provided through the Section 8 program, rather than as funding for public housing, it may bypass political concerns around increasing funding for public housing programs; funding for Section 8 programs is historically more stable than the Section 9 public housing program.[17] The PACT component of the stabilization strategy requires no increase in federal funding to move forward, while the Trust component requires an additional $1 billion in funding from Congress per year over the lifetime of the Trust's debt.

Trust Allows for Changes to NYCHA's Procurement. According to the authority, the Trust model would streamline NYCHA's procurement process through which

NYCHA selects contractors to make capital improvements. For much of its history, as required under law, NYCHA has used the design-bid-build procurement model, where NYCHA first contracts the design of the project to one firm before soliciting bids from other firms to construct the project. As of 2018, the legislature began to allow NYCHA to use design-build procurement instead of design-bid-build for certain critical capital projects.[18] In design-build, the design of the project and its construction are conducted by the same firm or collective of firms, which is selected via one initial bidding process. Proponents of design-build argue it allows projects to be completed more quickly and at a lower cost, although research on any benefits to design-build, particularly in the context of housing rehabilitation, is limited and inconclusive. Under the authorizing legislation, the Trust will be able to freely use design-build procurement, among other additional procurement methods. The legislation allows the Trust to use the "best value" method, which allows it to select the winning bid based on factors beyond just cost, compared to the current method of selecting the lowest-cost bid. By streamlining procurement, the Trust model may mean that capital projects would be completed at a lower cost and more quickly than at present.

Potential Risks of the Trust Model

Residents and Advocates Raise Concerns over Protections in Trust Model. A substantial concern among NYCHA residents regarding the Blueprint is whether residents living in developments transferred to the Trust would maintain the same rights and protections as they currently possess. Generally, residents under the regular Section 8 Housing Choice Voucher program have different and fewer rights and protections than residents under Section 9 Public Housing. To address this, in the state legislation that created the Trust, NYCHA has opted to use broad language in an attempt to maintain the rights and protections residents currently hold as public housing residents when their units are transferred to the Trust. The legislation states that "the protections afforded to a resident of a housing facility [held by the Trust] shall be consistent with those afforded to a public housing resident, to the extent permitted in accordance with federal law, and subject to and with the approval of [HUD]."[1] Then, the legislation lays out the specific protections residents would have under the Trust, such as ensuring the housing facility remains affordable in perpetuity under Section 8, the guaranteed right to return without rescreening after construction work is completed, resident council funding and right to organize, automatic renewal of leases, grievance hearings, and lease succession.

NYCHA has also said that leases signed with the Trust would be the same leases as tenants sign currently with NYCHA, with an additional rider. Critics have said this broad approach is too vague and incomplete, and fear how these protections would be subject to change or interpreted if brought to the courts. In response, NYCHA introduced a revised version of the legislation in May 2021, which strengthened the language in the section on tenant protections; these protections were embedded in the legislation that created the Trust in June, although the legal protections for Trust tenants compared to NYCHA tenants remains a subject of discussion.

In a Foreclosure, Creditors Could Gain Leasehold Interest in Developments, though Developments Would Remain Affordable. If NYCHA receives the needed tenant protection vouchers and transfers developments to the Trust, the Trust would then take on debt for capital repairs; to service that debt, the Trust would rely on federal funding through Section 8 and tenant rental revenue. While federal payments through Section 8 would likely be stable, the same cannot be said for NYCHA's tenant rental revenue, which has collapsed since the pandemic began; the authority's rent collection rate has plummeted to just 65 percent as of December 2022. Furthermore, since the Trust would contract back to NYCHA for its workforce, the Trust would bear NYCHA's high labor costs. In a scenario where the Trust falls behind on debt service and is at risk of default, the Trust legislation gives the city and the state the option to bail out the Trust before a default, although neither the city nor state are obligated to do so.

In a situation where the Trust defaults and is foreclosed upon, the Trust's creditors could potentially gain leasehold interest in the developments under the Trust, meaning a share in the right to operate the developments. But state law forbids the Trust from pledging fee ownership of the developments as collateral to its bonds. That means that even in the case of a default, ownership of NYCHA developments cannot pass into private hands; developments could not be demolished or converted to market-rate apartments. The legislation that creates the Trust also requires that, even in a foreclosure, the developments would maintain all resident rights and protections as well as Section 8 affordable status, meaning resident rents would be unchanged.

There is reason to believe that creditors would be disincentivized from seeking to gain leasehold interest in the Trust's developments. In a foreclosure proceeding, creditors seek the resolution they want against the party that defaulted. In this situation, because the Trust's creditors would be required to continue to operate the buildings as Section 8 affordable housing—an unprofitable endeavor, especially since the buildings in question have historically been in such a bad state of disrepair—they would be unlikely to seek this resolution. It is more likely, although not assured, that in the case of a default, creditors would seek to restructure the Trust's debt with little change for the tenants living there.

Blueprint: Transformation Plan

Although the stabilization strategy component has received an outsized amount of the attention, the Blueprint also includes a second component: The Transformation Plan. This section lays out the ways in which NYCHA is reorganizing itself to improve its operations and to comply with the federal monitor agreement. The 2019 HUD monitor agreement has already brought about substantial changes at NYCHA. In 2020, the agreement forced NYCHA to create three new departments: Compliance, Environmental Health & Safety, and Quality Assurance. While these departments are already in operation, the monitor agreement requires NYCHA to undergo more structural change in the form of a large-scale reorganization. The federal monitor agreement binds NYCHA to submit an "organizational plan" to its monitor for approval that details how the housing authority would reform itself. The transformation plan within the Blueprint serves this function.

Blueprint Proposes Changes to NYCHA's Board and Executive Functions. The transformation plan detailed in the Blueprint proposed substantial organizational changes to NYCHA's management structure. The largest of these changes is at the top. NYCHA's Board of Directors has seven members, with three members of the Board required to be NYCHA residents. Historically, the Chair of the Board of Directors, chosen out of the board members, has also served in the role of NYCHA's Chief Executive Officer (CEO). In most organizations, a board plays an oversight role over the executives who manage the organization. But in NYCHA's case, the head of NYCHA's board was the same person as the chief executive, meaning the oversight role of the board has likely been limited.

In the Blueprint, NYCHA proposed to split the role of Board Chair from the role of Chief Executive Officer—a move the board approved in June and was made official in September when Lisa Bova-Hiatt was appointed interim CEO of NYCHA. Under the proposed changes, NYCHA's Chair and board members would continue to be appointed by the mayor. The CEO will be chosen by the board, however, rather than that position being selected by the mayor. These changes mean that NYCHA's board, which approves NYCHA's operating and capital budgets as well as contracts, will have more independence from NYCHA management going forward. This change also shifts the power to select NYCHA's CEO from the mayor to NYCHA's board. The Blueprint would also make changes that reorganize NYCHA's executive team.

Decentralization of Property Management. While NYCHA will make changes at the top, the broader thrust of the transformation plan is to change NYCHA from a centralized, top-down organization—where much of NYCHA's staff and operations are centralized in Manhattan offices—to a more decentralized organization allowing for more flexibility across locations. In the past, NYCHA has been administered in a decentralized way, but the authority shifted to a centralized administrative model in response to budget cuts in the early 2000s.[20] Before the Transformation Plan, NYCHA developments were organized under 21 Regional Asset Managers. According to NYCHA, this system was inefficient because developments within an asset manager's portfolio were often far apart, making it difficult to oversee what was happening on the ground. (One example cited in the Blueprint is a case where one manager oversaw disparate developments in Manhattan, Brooklyn, and Staten Island.[21])

Under the new arrangement, called the Neighborhood Model, management staff and operations are to be spread out to geographically compact groups of developments NYCHA called "neighborhoods." As part of the Blueprint, NYCHA would move to a "Neighborhood Model," where supervisors oversee developments that are geographically near to one another. NYCHA is also moving away from its current administrative system, where human resources, supply management, and finance are overseen from NYCHA's central Manhattan offices, to a system where some of these staff are based at the neighborhood level. According to the Transformation Implementation Plan, released in February of this year, NYCHA is currently transitioning to the Neighborhood Model, with plans to complete this transition by 2024.[22]

NYCHA is also decentralizing its budgeting process to the property level, again to increase flexibility across developments. In the past, property managers submitted requests for funding to a borough-level office, which approves requests before sending them to the central office. As part of the Blueprint transformation plan, NYCHA is strengthening "Property-Based Budgeting," where the central office receives requests directly from neighborhood-level property managers. NYCHA has already completed first phase of implementing reforms to Property-Based Budgeting, with property managers already participating in the yearly budget process and is in the process making additional changes.[23]

Work Order Reform Will See Skilled Trades Based Out of Developments. As part of the transformation plan, NYCHA will change how it deploys its skilled trades staff as part of plans for Work Order Reform. NYCHA's developments are in disrepair and require constant upkeep, with hundreds of thousands of open work order sitting unaddressed, but many of these work orders can only be resolved by skilled tradespeople. As of June 2022, it takes 269 days for NYCHA's plumbers to complete a repair, 265 days for NYCHA's electricians, and 414 days for NYCHA's carpenters. Currently, these tradespeople are deployed at the borough level, meaning tradespeople may be covering repairs across large swaths of geography even within a borough. As part of the transformation plan, NYCHA hopes to embed these tradespeople in NYCHA Neighborhoods, which will ideally mean that NYCHA will be able to respond more quickly to resident repair requests and hold individual workers accountable for unaddressed work. This change will dovetail with other administrative strategies NYCHA plans to implement to improve its work order system. According to the Transformation Implementation Plan, NYCHA anticipates fully implementing its Work Order Reform program by the end of 2022.[24] Whether these changes will mean NYCHA staff will address repairs more quickly and reduce the authority's work order backlog is yet to be seen.

NYCHA's transformation plan lays out numerous other strategies that the housing authority hopes will make its organization more efficient. Among them, changes to the central office to support the Neighborhood Model, adjustments to supply chain management, improvements to NYCHA's onerous and slow procurement process, janitorial reform, better use of data, and a Memorandum of Understanding with the Citywide Council of Presidents, which is the main tenant representative body. All told, according to the Implementation Plan, released in February, NYCHA has 38 Transformation programs it plans to carry out to change the organization, with 21 of these programs in the implementation phase and 7 programs already completed.[25] It remains to be seen whether NYCHA will successfully implement these changes and in what timeframe. Past plans, including NextGeneration NYCHA, also touted changes to property management and other organization reforms to improve NYCHA as an organization, but have struggled with implementation.[26] Much of the proposed organizational changes will come down to the ability of current and future NYCHA leadership to successfully implement these proposals.

Conclusion

The creation of the Public Housing Preservation Trust this past June was the cause for much celebration. Past plans to stabilize NYCHA's housing stock for future generations were limited in scope, and now with the combination of the Trust and the PACT program, NYCHA has a plan to address most of its staggering capital needs. At a public discussion in July, former CEO and Chair of NYCHA, Gregory Russ, spoke about the timeline for implementing the Trust; Russ said that elections at developments could be held in early 2023, with the developments bundled for financing by the end of 2023 or early 2024. But while NYCHA's capital strategy has the backing of both the mayor and state legislators, difficulties remain ahead for its implementation.

At this crucial juncture in its history, NYCHA is without a permanent chief executive and is likely to remain so for some time. The Trust was the brainchild of NYCHA's previous CEO Gregory Russ, but in September, Russ stepped down from his post as NYCHA's chief executive following the arsenic water-testing scandal at Jacob Riis Houses. The role of interim CEO of the authority has passed to Lisa Bova-Hiatt, formerly NYCHA's general counsel since 2020. The role of NYCHA CEO

NYCHA Hopes Transformation Plan Will Improve Slow Repair Times

Trade	Average Days to Complete Repair
Bricklayer	102
Carpenter	414
Electrician	265
Exterminator	53
Glazier	141
Maintenance	12
Painter	387
Plaster	317
Plumber	269
Roofer	46
Vendor	507
Welder	127

SOURCE: NYCHA Metrics, June 2022

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is a difficult position to fill; after Mayor Bill de Blasio forced out then-CEO Shola Olatoye following the lead paint cover-up, it took nearly one and a half years to replace her. NYCHA will need an effective leader to obtain the necessary federal funding and successfully implement the untried and complex Trust plan.

To succeed, NYCHA will also need friendly federal partners: a friendly Congress to carve out hundreds of millions in additional tenant protection voucher funding and a friendly HUD to allocate them to New York City. While President Biden's HUD has been supportive of the Trust, the timeline for implementing the Trust stretches out past the end of his first term. The passage of the Omnibus bill in December increased funding for tenant protection vouchers, perhaps providing NYCHA with vouchers for an initial transfer of developments to the Trust. But because tenant protection voucher funding changes from year to year based on Congressional appropriations, whether NYCHA will obtain the vouchers necessary to fully implement the Trust will continue to be a source of uncertainty in the years to come.

Crucially, NYCHA will need to earn the support of NYCHA residents for the Trust and PACT programs and maintain that support in the coming years, a daunting task. NYCHA has improved its engagement efforts in recent years, but the scars left on residents by NYCHA from regular scandals and poor living conditions remain. In the past, the authority's capital repairs schemes were imposed upon residents with little input. For Ocean Bay (Bayside), NYCHA's first PACT deal, residents were given little choice but to accept the new program or attempt to transfer to another development. But NYCHA is now shifting to a model where residents at a development vote on whether to implement capital programs there. Consequently, community engagement and trust building will be more important than ever. Now that residents can block the implementation of these programs through this voting process, NYCHA will need to tread carefully. Poor initial results or new scandal could breed mistrust in residents and potentially limit NYCHA's ability to implement these programs across its portfolio.

Even if NYCHA gains the support of residents and the federal dollars necessary to implement the Trust, NYCHA itself may struggle as an organization to implement such a complex and untested plan, especially over such a long time scale. NYCHA's operational difficulties are well known, and whether the authority is up to the task is far from certain. NYCHA's reorganization and implementation of efficiency programs, as laid out in the Transformation Plan, began in early 2021 following the plan's approval by HUD. But whether the transformation plan will result in improved operations at NYCHA remains to be seen.

If NYCHA can resolve its capital shortfalls and make the needed repairs and infrastructure upgrades across its portfolio of 335 developments, the benefits would be innumerable. For years, living conditions at NYCHA developments have been intolerable, and now the level of deterioration at NYCHA developments threatens the very existence of the city's public housing. Not only would capital improvements result in marked improvements in the lives of NYCHA residents, but the stabilization of NYCHA's housing stock would also free up city resources currently propping up the beleaguered authority, while ensuring that the largest source of affordable housing in the city remains available to future generations. While risks and difficulties remain for the authority, under the historical pattern of federal disinvestment in public housing and the current state of NYCHA developments, keeping the status quo is not a viable option in the long run for the authority or its residents.

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Endnotes

[1]Mayor Adams, NYCHA Tenants, Elected and Community Leaders Unite in Support of NYCHA Public Housing Preservation Trust (Press release), May 23, 2022.
[2]312 days is the average number of days for May 2022, per NYCHA Metrics.
[3]New York City Housing Authority 2022-2026 Capital Plan, pg. 6.
[4]New York City Housing Authority 2017 Physical Needs Assessment, pg. 10.
[5]New York City Housing Authority 2017 Physical Needs Assessment, pg. 11.
[6]Testimony from NYCHA Chair & CEO Gregory Russ on NYCHA's Blueprint For Change, Assembly Committee On Housing, December 8, 2021.
[7]A 2018 IBO report found that NYCHA's capital needs have grown so much that the cost to rehabilitate a unit was about 60 percent of the cost of building an entirely new unit, for the 15 Brooklyn developments studied.
[8]Manhattan U.S. Attorney Announces New Agreement For Fundamental Reform At NYCHA (Press release), January 31, 2019.
[9]New York City Housing Authority Board Meeting Minutes for December 21, 2022, pg. 11.
[10]New York City Housing Authority Board Meeting Minutes for December 21, 2022, pg. 11.
[11]New York City also faces limits on how much it can borrow, but these constraints are substantially looser for the city.
[12]NYCHA PACT Projects Details, retrieved June 29, 2022.
[13]Slides for presentation given by NYCHA CEO Gregory Russ to the New York Housing Conference on July 28, 2020.
[14]Slides for presentation given by NYCHA CEO Gregory Russ to the New York Housing Conference on July 28, 2020.
[15]These figures likely have changed due to inflation and other factors since July 2020 when the Trust was first introduced, but NYCHA has not released an update to its financial estimates since that time.
[16]Slides for presentation given by NYCHA CEO Gregory Russ to the New York Housing Conference on July 28, 2020.
[17]A Guide to Public Housing Repositioning, HUD, pg. 4.
[18]Assembly Passes Legislation To Expedite Critical NYCHA Repairs (Press Release), March 18, 2018.
[19]NY State Senate Bill S9409A
[20]NYCHA Transformation: Phase 1 Implementation Plan, February 2022, pg. 8.
[21]NYCHA's Blueprint for Change: Transformation Plan, March 2, 2021, pg. 27.
[22]NYCHA Transformation: Phase 1 Implementation Plan, February 2022, pg. 25.
[23]NYCHA Transformation: Phase 1 Implementation Plan, February 2022, pg. 17.
[24]NYCHA Transformation: Phase 1 Implementation Plan, February 2022, pg. 42.
[25]NYCHA Transformation: Phase 1 Implementation Plan, February 2022, pg. 17-19.
[26]NextGeneration NYCHA, May 2015.