

CITY COUNCIL
CITY OF NEW YORK

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TRANSCRIPT OF THE MINUTES

of the

COMMITTEE ON PUBLIC HOUSING

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March 1, 2010
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HELD AT: Council Chambers
City Hall

B E F O R E:
ROSIE MENDEZ
Chairperson

COUNCIL MEMBERS:
Erik Martin Dilan
Melissa Mark-Viverito
Margaret S. Chin
Daniel J. Halloran III
Stephen Levin

A P P E A R A N C E S

John B. Rhea
Chairman
New York City Housing Authority

Margarita Lopez
Commissioner
New York City Housing Authority

Michael P. Kelly
General Manager
New York City Housing Authority

Rosemary Diaz
NYS Senator Daniel Squadron's Office

Beverly Corbin
FUREE

Gregory Bender
United Neighborhood Houses

Reginald Bowman
President
Citywide Council of Presidents
New York City Housing Authority

CHAIRPERSON MENDEZ: Good

afternoon. I am Councilwoman Rosie Mendez, and I am the chair of the Committee on Public Housing. Today's hearing will focus on the New York City Housing Authority's Mixed Finance Modernization plan for the 21 developments originally built by the State and the City of New York. To that end we are also considering a pre-considered resolution introduced by Council Member Steve Levin, calling upon the United States Department of Housing and Urban Development to approve the New York City Housing Authority's Plan to transfer or restructure the ownership of these developments, built by the State and the City, in order to qualify for federal funding. Today's hearing will give NYCHA the opportunity to discuss the Mixed Finance Modernization Plan, including its goals and objectives.

In December of 2009, NYCHA amended its annual plan and announced its intention to implement a plan that would ultimately federalize the 21 developments. While NYCHA's dire financial condition has been well documented, I still have some concerns with this plan, particularly how the

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2 plan would affect the capital needs of the other
3 developments, the federal developments, and what
4 suggested actions NYCHA will take to ensure that
5 residents at these developments not part of the
6 Mixed Finance Modernization Plan will continue to
7 receive the same level of services as those
8 developments part of the plan.

9 I would like to thank Chairman Rhea
10 for being here. I would like to thank Deputy
11 Mayor Dennis Wolcott, who is out in the audience,
12 for being here as well; and the residents and
13 advocates who are going to give testimony today.
14 And I look forward to hearing on this matter.

15 I will then give Council Member
16 Levin to give an opportunity to speak before NYCHA
17 reads their testimony about his resolution. And
18 Councilmember Halloran, from Queens, who is a
19 member of the committee along with Council Member
20 Dilan, is here. Council Member Levin?

21 COUNCIL MEMBER LEVIN: Thank you,
22 Chair Mendez. So I am very excited to be part of
23 this process and I want to thank the New York City
24 Housing Authority and Chairman Rhea for coming up
25 with a plan that I think is going to be to the

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2 benefit of the New York City Housing Authority in
3 general. I think it will be to the benefit of the
4 City and State developments in particular, and it
5 will be to the benefit of the City of New York.

6 As Chair Mendez mentioned, these
7 NYCHA developments that were built by the City and
8 the State for a very long time and for far too
9 long have not been receiving operating subsidies
10 from the City and the State. And that's been a
11 problem as time goes on. These are buildings that
12 need to be kept up, and there's a tremendous need
13 as the buildings grow older that the demands for
14 more financing grow more and more dire. And the
15 challenge has been for the Housing Authority,
16 under your stewardship, Mr. Chairman, to come up
17 with creative solutions to keep public housing
18 public and to ensure that NYCHA residents, for
19 generations, will have the opportunity to live in
20 affordable housing in New York City, and this is a
21 major part of that.

22 One thing that I think is worthy to
23 note is that New York City has the strongest
24 Housing Authority and public housing program in
25 the country, and that's something that we take a

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2 lot of pride in. That's something I think that is
3 important, again, as decades pass and as
4 generations pass, that we hold on to, because it
5 has--the Housing Authority has provided countless
6 individuals and families with an opportunity in
7 this City to make it and to make a good life for
8 themselves and their families. And that is a
9 legacy that continually needs to be protected.

10 And I'm excited, and the reason
11 that I put in to sponsor this resolution was
12 because this is an example of striking when the
13 iron is hot and taking advantage. Too often
14 government becomes--we miss opportunities. And
15 this is an example where creative thinking has put
16 forth a plan that we take advantage of an
17 opportunity--in this case the economic stimulus
18 put forth by President Obama last year.

19 Obviously there are concerns as
20 this issue comes down the pike. We want to make
21 sure that these developments stay public housing.
22 This is a mixed financing model, and so the fear
23 is and the concern is that somehow this is a path
24 towards privatization. I've been assured by NYCHA
25 staff that that's not the case; that these are

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2 going to remain--for residents there will be no
3 noticeable difference other than the increase in
4 services and improvements in their buildings and
5 in their developments.

6 So I look forward to your
7 testimony. I thank Chair Mendez for her
8 leadership on this and with that, I thank you very
9 much.

10 CHAIRPERSON MENDEZ: Chairman?

11 JOHN B. RHEA: Thank you. Good
12 afternoon everyone. Before I start I would just
13 like to, I guess, belatedly wish the Chair a happy
14 birthday. Happy birthday.

15 And thank you Council Member Levin
16 for the resolution that you have put forward in
17 support of our mixed financing federalization
18 effort. We sincerely appreciate it. We can't
19 have too many voices speaking up for what we're
20 trying to accomplish with this plan.

21 Chairwoman Rosie Mendez,
22 distinguished members of the Public Housing
23 Committee, and to all members of City Council,
24 good afternoon. I am John B. Rhea, Chairman of
25 the New York City Housing Authority. And joining

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2 me today is Commissioner Margarita Lopez. I am
3 grateful for the opportunity to address you today.
4 And also, to my left here, is General Manager
5 Michael Kelly.

6 Five months ago NYCHA began a
7 journey that was anything but certain. The Obama
8 administration's American Reinvestment and
9 Recovery Act of 2009, also known as the Stimulus
10 Plan, presented public housing authorities across
11 the country with a one-time opportunity to
12 reinvest in and develop public housing units.
13 NYCHA seized on this opportunity as a chance to
14 secure federal operating and capital subsidies for
15 existing unfunded, non-federal public housing
16 units here in New York City. This permitted NYCHA
17 to seek funding for the authority's 21 State and
18 City developments, which have largely gone
19 unfunded since 1998, by adhering to HUD's required
20 Mixed Financed Modernization Program that we refer
21 to as federalization.

22 To meet the extremely tight
23 stimulus deadline there was a small window in
24 which to pursue this unique Mixed Finance
25 Modernization Plan. And succeeding required the

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2 coordination of multiple agencies and many men and
3 women. Today I am happy to say that we are on the
4 brink of taking a giant step towards securing the
5 long term financial health of NYCHA and the
6 preservation of public housing in New York City.

7 We owe a special debt of gratitude
8 toward Mayor Michael R. Bloomberg for his
9 leadership and tireless efforts throughout this
10 process. We are also grateful to our colleagues
11 at the New York City Housing Development
12 Corporation, HDC; and the Department of Housing
13 Preservation and Development, HPD; to members of
14 the City Council who have supported NYCHA in our
15 efforts; to the New York State Division of Housing
16 and Community Renewal, DHCR; and to United States
17 Senator Charles Schumer and Representative Nydia
18 Velazquez, who have been longtime champions of
19 public housing.

20 I'd especially like to express my
21 appreciation to members of the State Assembly and
22 Senate for last week's passage of enabling
23 legislation. The leadership of Senate Democratic
24 Leader John Sampson, Assembly Speaker Sheldon
25 Silver, Assembly Housing Committee Chairman Vito

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2 Lopez and State Senator Daniel Squadron, was
3 particularly critical to our success.

4 When we began this process to
5 federalize the 21 State and City developments, we
6 made four promises to the 45,428 residents who
7 make these apartments their home. We promised
8 that all tenants' public housing rights would be
9 protected; that the families who lived in these 21
10 developments would not be relocated from their
11 homes and would continue to benefit from public
12 housing rent schedules, protections and programs;
13 and that if anything, their quality of life would
14 improve. Today I can say we have kept that
15 promise.

16 We also promised that NYCHA would
17 secure a private partner who would not only invest
18 in public housing, but would more importantly be
19 committed to preserving public housing. We have
20 kept that promise.

21 We promised that NYCHA would be the
22 managing partner in the ownership of the
23 developments, and also the appointed management
24 agent, ensuring seamless continuity in day to day
25 operations. We have kept that promise.

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2 And we promised that workers at
3 these developments would remain NYCHA employees,
4 that they would keep their union membership and
5 that their seniority rights and benefits would be
6 protected. We have also kept that promise. Four
7 promises made, four promises kept.

8 I am here to walk you through the
9 dynamics of this federalization plan, what it is,
10 what it means to the families we serve, and the
11 steps we have taken to complete this large scale
12 plan. Mixed finance modernization plans are not
13 unprecedented in New York, but this plan is
14 unprecedented in the history of our nation and
15 city, both in its scope and in the number of
16 families it will positively impact.

17 I'd like to now go through a
18 PowerPoint presentation we prepared, to walk
19 through the details of our plan, for those of you
20 who can see the board.

21 [Pause]

22 JOHN B. RHEA: As I stated in our
23 prepared remarks, there are 21 developments that
24 are City and State developments that we refer to
25 as part of this federalization plan. Those

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2 developments have 20,130--

3 CHAIRPERSON MENDEZ: [Interposing]

4 Mr. Chairman, if you'll give me a second?

5 JOHN B. RHEA: Yes.

6 CHAIRPERSON MENDEZ: Can everyone
7 see the screen? Is it easy to see? Can you read
8 it? Can you turn off one of the lights over here
9 just to see? I want to make sure that the public
10 can--is that better for folks? Okay. You can
11 continue, Mr. Chairman. I'm sorry.

12 JOHN B. RHEA: Thank you. There
13 are 21 State and City developments that contain
14 20,139 apartment units in four boroughs. There
15 are no developments in the borough of Queens.
16 They were constructed with City and State
17 assistance over a number of years, beginning in
18 1949 and ending in 1978. These developments have
19 always been owned and managed and maintained by
20 NYCHA.

21 The resident income levels in the
22 City and State developments are comparable to the
23 rest of the public housing that NYCHA maintains
24 throughout the five boroughs. So in many respects
25 they are identical in that nature. The State

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2 provided subsidy for the State developments up
3 until 1998. And the City provided subsidies
4 through 2003. At their peak the State provided
5 about \$60 million and the City over \$30 million.
6 No funds, however, are provided today, from any
7 source, to operate and maintain these public
8 housing units directly.

9 The State, however, does continue
10 to provide annual debt service on \$30 million of
11 bonds that are outstanding that do not retire
12 until 2024. And up until January 1, of this year,
13 the city was also servicing some underlying debt
14 on the City financed development, but that debt
15 retired on January 1, of this year. Other than
16 that we receive no other funding.

17 In 1995, because of a lack of
18 funding, we went to the Feds and asked them for
19 the right to amend the annual contribution
20 contract, which is the funding mechanism for
21 federal public housing, to allow us to take the
22 funding we receive for the 315 federal
23 developments in New York City, in NYCHA's
24 portfolio, to take the funding we received from
25 that and to share that funding source to help care

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2 for and maintain and invest in the City, the 21
3 City and State developments. As part of that
4 agreement, the Feds also made us promise to
5 operate them in accordance with federal public
6 housing requirements, which we have done since
7 that time. Unfortunately we weren't able to get
8 additional funding subsidies, operating or
9 capital, however, to invest and to maintain those
10 developments. So we were literally sharing what
11 we received for the 315 developments with the 21
12 City and State, as opposed to receiving any
13 incremental money to maintain those developments
14 as well. And no additional operating or capital
15 subsidies have been provided for these public
16 housing units from the federal government since
17 the 1995 ACC amendment was passed.

18 Resulting from the lack of funding
19 for these 21 City and State developments, NYCHA
20 has roughly a \$90 million annual operating
21 deficit, meaning it costs us \$90 million more than
22 we receive every year to operate these 21 City and
23 State developments. The only money we receive for
24 these developments are rents from the tenants, and
25 that is insufficient to cover the costs of the

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2 ongoing daily and annual operations, to the tune
3 of \$90 million. We also don't receive \$20 million
4 in capital subsidies that we should receive in
5 order to invest and maintain the buildings in
6 accordance with HUD standards.

7 These deficits impose a significant
8 and adverse impact on the 178,000 families
9 residing in all of NYCHA's public housing, not
10 just in the 21 City and State developments.
11 Obviously having to take the money that is
12 earmarked for the 315 developments and share some
13 of it with the 21 developments means that the
14 178,000 families living throughout NYCHA are not
15 receiving their full share of funding that the
16 federal government provides to them. So this is
17 not just an issue that impacts the 21 City and
18 State developments, it impacts every single
19 resident in NYCHA.

20 The numbers are on the bottom of
21 this page, as I said there are 20,139 total units
22 in these developments. 2,236 of them today have
23 already been converted to Section 8 and are not
24 public housing in the traditional sense, they are
25 Section 8 supported federal low-income housing,

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2 which leaves 17,903 units today that are still
3 qualified as, quote unquote, traditional public
4 housing. Those 17,903 units are the units that we
5 have proposed the federalization plan to affect.

6 If you look at what this has meant
7 to NYCHA and ultimately to our residents and to
8 the City's ability to maintain quality, safe and
9 secure public housing, the chart shows the
10 magnitude of not receiving any subsidies for these
11 20,000 units. Over this ten-year period that we
12 show from 1999 to 2009, the end of last year, you
13 see that it's almost \$700 million in red ink.
14 That's real money. That means it's money that we
15 should have received that we did not receive, and
16 because of it NYCHA's had an operating deficit and
17 we have not been able to make those investments,
18 not only in these 21 developments but in our
19 system as a whole. \$700 million just in
20 operating.

21 So what does that mean? That means
22 we can't hire the number of caretakers and housing
23 assistance that we need in order to maintain the
24 developments. We can't buy the level of supplies.
25 We can't make the regular day to day repairs that

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2 would be required from an operating standpoint in
3 order to maintain the developments in accordance
4 with HUD standards. And in order to kind of make
5 up for this deficit, we've had to allow for
6 significant attrition in our staffing levels in
7 terms of the numbers of employees and NYCHA, and
8 obviously making difficult tradeoffs as it relates
9 to the day to day operation.

10 In addition to this operating
11 deficit, which isn't on this chart, is also the
12 capital deficits that we haven't received as a
13 result of not having a subsidy. I told you it's
14 roughly \$20 million a year, so there's north of
15 another \$200 million that's not showing up on this
16 chart that is in the form of a capital deficit
17 that NYCHA has not received to maintain the
18 developments as well. So this is a billion-dollar
19 problem in the past decade alone, and it's only
20 growing with each passing year, as Council Member
21 Levin mentioned.

22 The Recovery Act is a unique
23 opportunity. It's a one-time opportunity for us
24 to federalize the City and State developments.
25 This is obviously not the first opportunity and

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2 attempt NYCHA has made to federalize the City and
3 State developments. We tried judicially to go
4 after this in the Courts and were unsuccessful.
5 Through the leadership of Congresswoman Velazquez
6 and Senator Schumer, we've been trying
7 legislatively for a number of years. And despite
8 their best efforts, we haven't been successful
9 legislatively. So this is the first time that
10 we're attacking this problem through a structural
11 transactional sense, and that has only been made
12 possible by President Obama's stimulus plan that
13 allows us for the first time to use stimulus
14 dollars to invest in rehabilitating or developing
15 new public housing.

16 Until now there's been an amendment
17 called the Fair Cloth Amendment, which didn't
18 allow housing authorities to add new public
19 housing to the funding formula. The stimulus
20 legislation basically said that the money could be
21 spent to rehabilitate or to develop new public
22 housing and that the Fair Cloth Amendment or
23 prohibitions to the contrary wouldn't apply with
24 respect to stimulus dollars. So it is just a
25 unique, one-time opportunity that will go away

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2 once the stimulus funding has been spent. And
3 that has to be done, as many of you know, like all
4 stimulus money, by March 17th, 2010. So we are
5 now down to just 17 days to complete this
6 transaction or we will have missed the
7 opportunity.

8 It also requires that a HUD
9 mandated mixed financing model be used to bring
10 new public housing into the federal funding
11 formula. And what does that mean? That means it
12 can't be done solely with federal dollars; it must
13 be done with a mix of federal money and private
14 money, money raised in the private markets. It
15 also requires that we, in order to take advantage
16 of tax credits, low income tax credits, that at
17 least \$6,000 per unit be spent on each unit. Now
18 it doesn't have to be spent in the actual
19 apartment, but it has to equate to \$6,000 times
20 the number of units is being spent in order for it
21 to qualify for the federal low income housing tax
22 credit designation.

23 And HUD also required that
24 residents earn less than 60% of AMI. So people
25 who have been worried about somehow this being a

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2 transaction that would make this no longer low
3 income housing and that it would be market rate
4 housing, actually to the contrary--these
5 requirements are stricter than traditional public
6 housing requirements. Traditional public housing
7 requirements say anyone who is 80% of the Area
8 Median Income, the AMI, is eligible for public
9 housing. The low income tax credits actually say
10 that you have to be even less well off than that,
11 that 60% of the AMI is the required level in order
12 to be eligible in the future.

13 HUD has preliminarily advised NYCHA
14 that they will turn on subsidy payments for 11,743
15 units of public housing beginning as early as
16 October 1 of 2010. Obviously we asked for the
17 full, almost 18,000, units. Given budget
18 considerations and other issues, HUD is sending us
19 the signal today that they are planning to turn on
20 11,743 of those 18,000 units, as early as October
21 1, 2010, and we will work with them on a plan for
22 the balance. That equates to \$65 million in
23 annual operating and capital subsidies immediately
24 to begin flowing to NYCHA.

25 An overview of the transaction, in

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2 order to complete a mixed financing modernization
3 plan we have to create Limited Liability
4 Companies, Limited Partnerships. There are going
5 to be two specific partnerships that are created.
6 The first one is the NYCHA Public Housing
7 Preservation 1 Limited Liability Company, which is
8 a tax credit entity that will receive the low
9 income tax credit investment through City
10 community capital. And the second one is the
11 NYCHA Public Housing Preservation 2 LLC, which
12 does not utilize tax credits and is a tax exempt
13 entity.

14 The buildings themselves will be
15 sold to these respective LLCs with NYCHA as the
16 long term--excuse me--yes, with NYCHA being
17 responsible for managing them over the long term,
18 and we will provide a subordinated ground lease to
19 the partnerships.

20 While the final transaction
21 structure remains subject to some changes, at this
22 point we are planning an estimated \$239 million of
23 new money will be invested to rehabilitate the 21
24 State and City developments, and of that money
25 \$212 million of it comes from tax credit equity

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2 that will be received from City community capital.
3 And NYCHA will retain the right to repurchase and
4 reacquire the developments from the Limited
5 Partnerships.

6 Going a little deeper into each of
7 the portfolios, each of the two Limited Liability
8 Company structures--LLC 1, which is the tax credit
9 portfolio, will have 13 of the 21 City and State
10 developments in it; and LLC 2 will have eight of
11 the developments. The money spent to rehabilitate
12 the 13 developments in the tax credit portfolio is
13 \$193 million, of which the stimulus money is \$79
14 million. In the non-tax credit portfolio it's \$46
15 million of rehabilitation work and \$29 million
16 comes from stimulus funding. Total units in the
17 tax credit portfolio is 14,465, and 5,674 units in
18 the non-tax credit portfolio. 12,885 of those
19 units in the tax credit portfolio will be, quote
20 unquote, public housing. The balance, 1,580 will
21 be Section 8 units, and 11,743 of those will
22 receive, as I said, subsidies of operating and
23 capital beginning in October.

24 In the non-tax credit portfolio,
25 public housing units will be 5,018 units. None of

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2 them will receive the HUD funding today. 656 of
3 them will continue to operate as Section 8 units
4 as they are today. And obviously since this is
5 the non-tax credit portfolio, none of the units
6 are low income housing tax credit units.

7 Management in the tax credit
8 portfolio is NYCHA via Housing Development Finance
9 Company. The same is true in the non-tax credit
10 portfolio. And in the tax credit portfolio the
11 partners are NYCHA via the wholly-owned Housing
12 Development Finance Company, and City, via City
13 Community Capital. In the non-tax credit
14 portfolio NYCHA, again via its wholly-owned
15 Housing Development Finance Corporation as a
16 partner, along with the Housing Partnership of New
17 York, which is a non-profit entity.

18 We have benefitted from a very
19 strong partnership with our sister agencies.
20 Both, as I mentioned in my prepared opening
21 remarks, HPD and HDC have been at the table with
22 us from the very beginning. And the benefits of
23 HDC's strong financing capabilities and
24 partnership has really enabled NYCHA to pursue
25 this transaction in a much more efficient way,

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2 first and foremost by allocating \$150 million of
3 volume cap over the next three years. Volume cap
4 is what allows you to take advantage of the low
5 income housing tax credits. Cities only receive a
6 certain amount of it, so it's a precious
7 commodity. And HDC has allocated volume cap to
8 NYCHA for the purposes of this program.

9 We have made a separate request of
10 the State for a one-time allocation of volume cap
11 to support this transaction, but given timing--we
12 believe approval is forthcoming, but given timing,
13 HDC has stepped up to bridge NYCHA's receipt of
14 that incremental volume cap so that this deal is
15 not delayed and we don't miss the March 17th
16 deadline. But we would hope to receive very
17 shortly approval from the State for a specific
18 allocation of volume cap to support this
19 transaction so HDC can continue with many of the
20 other important low income housing investments
21 that the City is making per the Mayor's New
22 Housing Marketplace Plan.

23 They're also providing \$64 million
24 in short term collateral bonds via the stimulus
25 funding. They're providing \$52 million in long

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2 term Section 8 operating income bonds and they're
3 providing \$372 million in bridge financing in
4 order to support the City Community Capital's
5 investment and letter of credit in support of the
6 overall transaction. HDC will also provide an
7 ongoing role in monitoring the tax credit
8 compliance to ensure that NYCHA maintains and
9 operates the buildings in according with the tax
10 credit requirements to that City Community Capital
11 will receive the benefits that are promised as
12 part of their investment.

13 There are number of hurdles that we
14 still have to jump over in order for this to come
15 to fruition. First and foremost, the legislation
16 that was recently passed by the Assembly and the
17 Senate now moves to Governor Paterson's desk for a
18 signature to make it law. Secondly, the State
19 Division of Housing and Community Renewal must
20 approve the transaction. And lastly, HUD must
21 give final approvals, and we've submitted all
22 documentation in support of this transaction, and
23 we would expect those approvals to be shortly
24 forthcoming.

25 Lastly, the benefits to NYCHA

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2 residents and New York City overall are
3 substantial. First and foremost, our commitment
4 to preserve all 21 developments as New York City
5 Public Housing for the long term. We will
6 immediately qualify almost 12,000 units for
7 dedicated annual allocations of operating and
8 capital support from HUD, as I said, thereby
9 substantially reducing NYCHA's structural deficits
10 and providing a direct funding source for these 21
11 City and State developments. We will also have
12 positioned the remaining 5,000 units to receive
13 federal subsidies in the near future.

14 It also protects and preserves the
15 tenancy rights of all existing residents, and no
16 tenant will be displaced during this
17 rehabilitation process. It protects and maintains
18 all of NYCHA's long term regulation and control of
19 these developments so we will not be turning over
20 day to day operation to a third party, and NYCHA
21 and NYCHA employees will continue playing the
22 roles that they have in the past as we go forward.

23 And will invest \$108 million in
24 stimulus money and leverage approximately \$700
25 million of additional debt and equity for the

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2 modernization of the buildings, and to pay for the
3 fair market acquisition cost by the limited
4 partnerships.

5 Lastly, it improves the
6 developments immediately, the physical condition
7 of them, which is so paramount to us ensuring that
8 residents are living in buildings that are
9 maintained to HUD's quality standards.

10 Madam Chairwoman, through NYCHA's
11 collaboration with City, State and federal
12 officials, we are well on the way of making the
13 promise of federalization a reality for NYCHA
14 families. We will have an infusion of new funding
15 for rehabilitation work, and we will have more
16 annual federal funding to support programs and
17 provide services for all New York's public housing
18 developments. As a result of federalization, over
19 time NYCHA will receive billions of dollars in new
20 federal operating and capital subsidies. Although
21 this will bring the Authority closer to achieving
22 fiscal stability, we still have work to do as the
23 State and City developments only account for two-
24 thirds of NYCHA's structural deficit. We will
25 continue to need your support and partnership to

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fully stabilize NYCHA's financial position.

In the next two weeks, NYCHA's board will release a new financial plan which will show federalization's full impact as well as the result of other steps we have taken to restore our financial viability. We look forward to participating in the City Council's upcoming budget hearings to discuss our economic projections. We also look forward to continuing the conversation with the City Council and our colleagues at City Hall and throughout the State and federal government as we enter the next phase of our federalization efforts, to make the promise real for all the families we serve.

Thank you, and I will be happy to answer any questions.

CHAIRPERSON MENDEZ: Thank you, Chairman Rhea. Can you put on the lights, please? Thank you. I'm going to ask a few questions, then I'll turn it over to my colleagues.

Chairman, when you first approached the City Council with this idea, it was certainly a big endeavor and continues to be so. And as we're getting closer to that time, we anxiously

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2 await to see if you could actually get this done
3 in the short time span that was necessary. One of
4 the things that I was looking at today was--that I
5 was not aware of--was this creation of two
6 different LLCs, one with a tax credit entity and
7 one with a non-tax credit entity. Can you talk me
8 through why these two different structures were
9 set up and what is the benefit and how the
10 allocation of developments and units were
11 determined to go into one LLC or the other?

12 JOHN B. RHEA: First of all, the
13 amount of rehabilitation that we are mandated to
14 make at each of these developments in order for
15 them to be eligible for federal funding is
16 determined by what's called PHAS, which is the
17 Public Housing Annual Survey, which HUD performs
18 to rate each development. And through the PHAS
19 scoring, they specifically tell you which
20 components of their criteria you are not meeting
21 and that need to be improved in order for you to
22 receive a passing PHAS score.

23 That process had just recently
24 taken place, and we were told at each of the 21
25 developments what investments needed to be made.

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2 Some developments are passing, some are not and
3 some are substantially underperforming. And
4 because of that, they all have different
5 investment levels that need to be made in order to
6 be up to the standard in which they could receive
7 operating and capital support, via HUD's formula.
8 So that is what drives the required level of
9 investment on one end, and which drives which
10 developments went into which portfolio, and I'll
11 give you more detail on that in a second.

12 The second thing is in order to be
13 eligible for the Mixed Finance Modernization Plan,
14 HUD set a minimum of \$2,000 per unit, on average,
15 had to be invested in order for that unit to be
16 eligible. However, there's another requirement,
17 which I mentioned in my formal presentation, which
18 is the \$6,000 that's required per unit to be
19 eligible for low income housing tax credits. So
20 there's some units or developments that didn't
21 require on average \$6,000, therefore it wouldn't
22 be eligible for the low income housing tax credit
23 portfolio, and we didn't need to invest that much
24 in order to get it up to the PHAS score, or in
25 order for it to be eligible for the mixed

1
2 financing. So that is principally what drove the
3 decision of which developments went into a low
4 income housing tax credit portfolio and which ones
5 went into the non-tax credit portfolio.

6 Additionally we had to look at
7 complexity around the actual work that needed to
8 be done. So in some cases we, for example, where
9 we could do elevator work and roof work, large
10 scale projects that we could get underway quickly,
11 also drove some of the decisions on which
12 portfolio a development went into. Those were the
13 three reasons, and that's why we have two
14 different portfolios.

15 There is a limit, as I mentioned,
16 to the amount of volume cap that's available to
17 NYCHA in order to complete the transaction. So we
18 were playing with a scared resource as well. So
19 we needed to maximize the amount of work that
20 could get done per every dollar of volume cap. So
21 those are the reasons we had to allocate them into
22 different portfolios.

23 All buildings will be receiving
24 rehabilitation.

25 CHAIRPERSON MENDEZ: Can you tell

1

2 me which developments are going into which LLC?

3 Do you have a list of that?

4 JOHN B. RHEA: Yes, I do.

5 [Pause]

6 JOHN B. RHEA: The eight
7 developments that are in the non-tax credit
8 portfolio are 344 E. 28th St., which is a State
9 development; Baychester, which is a State
10 development; Boulevard, which is City development;
11 Independence, which is a State development;
12 Linden, which is a City development; Murphy,
13 Williams and Wise Towers--all State developments.

14 The 13 that will be going into the
15 tax credit portfolio are Amsterdam Addition, a
16 State development; Bayview, a City development;
17 Bushwick, Castle Hill, Chelsea, Drew Hamilton and
18 Manhattanville--all State developments; Marlboro
19 Hill, a City development, Marlboro and Rutgers
20 Houses, both State developments; Samuels, a City
21 development; St. Mary's Park, a City development,
22 and Stapleton Houses, a State development; are the
23 13 developments going in non--excuse me--in the
24 tax credit portfolio.

25 CHAIRPERSON MENDEZ: Thank you very

1
2 much. I'm going to turn it over to my colleague,
3 Melissa Mark-Viverito, to be followed by Council
4 Member Halloran. And I'd like to say we've been
5 joined by Council Member Viverito from Manhattan,
6 and Council Member Margaret Chin, from Manhattan.

7 COUNCIL MEMBER MARK-VIVERITO:

8 Thank you, Madam Chair and thank you all for being
9 here. And I have another hearing simultaneously
10 so if I'm in and out, I apologize.

11 So just to wrap up on that, so the
12 ones that are in the non-tax credit portfolio will
13 get a minimum of \$2,000 repairs per unit. And the
14 ones in the other are \$6,000, just to be clear,
15 right?

16 JOHN B. RHEA: That is correct.

17 COUNCIL MEMBER MARK-VIVERITO:

18 Right, in order apply for the... So then two quick
19 questions additionally. We're saying that in
20 terms for this plan to succeed that the City, that
21 NYCHA has to obligate before March 17th all of the
22 money, in essence--

23 JOHN B. RHEA: [Interposing]

24 Correct.

25 COUNCIL MEMBER MARK-VIVERITO: --

1
2 that is going to be assigned for the
3 rehabilitation. So considering that you still
4 need at some level of State legislation, and I
5 know that just passed these past couple of days
6 and there's still some authorization that has to
7 come at the federal--I'm assuming that in the
8 meantime while all that is happening, you're still
9 moving forward with the plan?

10 JOHN B. RHEA: Yes. We've been
11 working diligently to ensure that all contracts
12 are obligated.

13 COUNCIL MEMBER MARK-VIVERITO: And
14 what percentage of that money would you say is
15 obligated at this point?

16 JOHN B. RHEA: We are pretty much
17 done. We have a board meeting on Wednesday to
18 make some final authorizations to obligate roughly
19 10% I want to say that we still haven't obligated.
20 Correct.

21 COUNCIL MEMBER MARK-VIVERITO: 10%
22 that's still not obligated.

23 JOHN B. RHEA: Right. But which
24 we've already entered, we've already put them out
25 for bid. We've already received the bids, we've

1
2 already selected the lowest bidder, qualified
3 bidder, and we are going to approve those--
4 assuming there's no reason we wouldn't approve
5 them--at our board meeting on Wednesday, so all of
6 them will be obligated this week.

7 COUNCIL MEMBER MARK-VIVERITO: And
8 what's the total figure that you're looking at
9 when it comes to obligation? What's the total
10 figure that you've been working off of?

11 JOHN B. RHEA: There's \$232 million
12 of rehabilitation costs.

13 COUNCIL MEMBER MARK-VIVERITO: So
14 that's what--okay, and then 10% of that is what's
15 not been obligated. Okay. Then the other thing,
16 on one of your pages, the transaction overview,
17 you talk about NYCHA retain purchase option to
18 reacquire the developments. So who determines
19 terms of sale?

20 JOHN B. RHEA: It's in the
21 documents that we've already negotiated.

22 COUNCIL MEMBER MARK-VIVERITO: Sale
23 price?

24 JOHN B. RHEA: Sale price will be
25 determined based upon a formula which deals with

1
2 fair market value. There's a number of ways that
3 you look at it, but it will be determined per the
4 actual agreement as opposed to it being not
5 spelled out. So we will know--we can't tell you
6 the exact dollar amount today, but we know the
7 methodology by which it will be determined.

8 COUNCIL MEMBER MARK-VIVERITO: That
9 agreement that you're talking about is between
10 NYCHA and?

11 JOHN B. RHEA: The partnership.

12 COUNCIL MEMBER MARK-VIVERITO: The
13 Housing Preservation LLCs?

14 JOHN B. RHEA: Correct.

15 COUNCIL MEMBER MARK-VIVERITO:
16 Okay, so you already--right, but I guess the
17 question becomes--that might be a little bit of a
18 sticking point--that when it comes to the time of
19 repurchasing the buildings--

20 JOHN B. RHEA: [Interposing]
21 Correct.

22 COUNCIL MEMBER MARK-VIVERITO: --
23 how is the price being determined? You're not
24 determining the sale price now, but it is a
25 formula. But is there a possibility of--

1

2

JOHN B. RHEA: [Interposing]

3

There's a methodology, a formula is probably--it's

4

not a formula, it's a methodology.

5

COUNCIL MEMBER MARK-VIVERITO:

6

Okay. But is there a possibility, I guess is what

7

I'm trying to get at, is there a possibility that

8

methodology might make the prices of these

9

buildings unobtainable by NYCHA? And then what

10

happens in that case?

11

JOHN B. RHEA: The methodology--so

12

we have a number of protections, first and

13

foremost the fact that the buildings have to be

14

maintained as low income public housing. Right?

15

So that creates a set of cash flows that someone

16

can value the building on. So they can't say,

17

well, our plan is to convert these to high income

18

houses or to tear them down and rebuild, you know,

19

whatever, housing or something else, and therefore

20

it has more value to us than what the cash flows

21

represent. So first of all, they would only be

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able to value the building based upon the rents

23

which tenants pay, which are low income rents

24

obviously.

25

Secondly, in order for it to remain

1
2 eligible for the operating subsidies, which is a
3 significant amount of money--

4 COUNCIL MEMBER MARK-VIVERITO:

5 [Interposing] Money from the federal government,
6 right.

7 JOHN B. RHEA: --you have to
8 maintain them as public housing units and as low
9 income units per all of the protections I
10 described. So someone would have to destroy value
11 to try and buy them. They would basically have to
12 turn off the operating subsidies and they would
13 have to try and operate these buildings as
14 something else, meaning as low income housing only
15 receiving the rents of the tenants, which is
16 obviously not sufficient to cover the cost of
17 operations--because it's costing us \$90 million a
18 year in losses in order to operate the buildings
19 relative to the rents today.

20 So the first protection is just the
21 basic economics that, you know, someone would have
22 to maintain it as low income, only receive rents
23 as 30% of someone's income, and then try to pay a
24 price for it that is more than what NYCHA can pay
25 for it. There's no reason why they would be able

1
2 to pay more than us. We can do the same math.
3 Second thing is there are protections in place
4 that NYCHA has a note against the building.
5 Earlier I mentioned, if you see the bullet point
6 at the bottom where it says \$700 million in
7 additional debt and equity, NYCHA is actually the
8 largest lender into the transaction. We are
9 taking back a note in the value of the buildings.
10 Instead of us taking money out of the transaction
11 when we're, quote unquote, selling the buildings
12 to the partnership, we're taking back a note that
13 we own. And for someone else to buy it they would
14 have to pay us out of that hundreds of millions of
15 dollars of the lien, the mortgage we hold on these
16 assets.

17 So, economically, mathematically it
18 doesn't make sense. Could someone try to do
19 something that makes no sense? Sure, but even
20 there we still have a protection, which is we have
21 a right to repurchase the buildings.

22 So we believe both structurally,
23 legally and financially no one will be able to
24 step in and pay more for the building than NYCHA
25 can.

1

COUNCIL MEMBER MARK-VIVERITO:

2

3 Okay. And are you making--

3

4 JOHN B. RHEA: [Interposing] Oh,

4

5 and lastly the ground lease.

5

6 COUNCIL MEMBER MARK-VIVERITO:

6

7 Right.

7

8 JOHN B. RHEA: We own the land on

8

9 which the buildings sit, and therefore we

9

10 determine what can be put on that land.

10

11 COUNCIL MEMBER MARK-VIVERITO:

11

12 Right. And that's, I saw that distinction, so

12

13 that was good. Okay. So I think that--I mean I'm

13

14 sure that there's more questions. There's a lot

14

15 that was just said in terms of the financing, but

15

16 I understand now in terms of part of the

16

17 methodology. But one last question. By doing

17

18 this, and I know we've thrown a lot of numbers

18

19 around, but by doing this--and I understand that

19

20 it's kind of phased in, in terms of the number of

20

21 units that are going to get the subsidy from NYCHA

21

22 and eventually you're going to want the additional

22

23 units at some point to get that money back--but

23

24 how much do you see NYCHA saving by this action?

24

25 At least with that first phase of those--what was

25

1

2 it 11,000 or 12,000?

3 JOHN B. RHEA: Yeah, 11,000.

4 COUNCIL MEMBER MARK-VIVERITO:

5 Right.

6 JOHN B. RHEA: Immediately we will
7 get \$65 million a year, every year.8 COUNCIL MEMBER MARK-VIVERITO: And
9 then again the shortfall--10 JOHN B. RHEA: [Interposing] As
11 operating and capital support. So that's, you
12 know, what we have today, \$90 million in
13 operating--14 COUNCIL MEMBER MARK-VIVERITO:
15 [Interposing] Right.16 JOHN B. RHEA: Now we will be
17 receiving \$65 million from the federal government
18 to help us reduce that operating capital deficit.
19 Secondly, we will receive \$200 plus million when
20 we close the transaction to immediately do the
21 rehabilitation work to the building. So it's not
22 just the operating money and the capital money
23 that we're going to get beginning in October of
24 2010 on an annual basis going forward every year,
25 but it's actually today we are accessing a couple

1
2 hundred million dollars of money that NYCHA would
3 not receive for capital projects. That is in
4 addition to the money we receive for our normal
5 capital fund from the federal government and in
6 addition to the stimulus money that we would
7 normally receive.

8 COUNCIL MEMBER MARK-VIVERITO: So
9 that \$65 million is effective as of October 1st,
10 you expect to be getting that money in.

11 JOHN B. RHEA: That's correct.

12 COUNCIL MEMBER MARK-VIVERITO: So
13 within this calendar year, which is your fiscal
14 year.

15 JOHN B. RHEA: Well, that's an
16 annual number. It begins in October.

17 COUNCIL MEMBER MARK-VIVERITO: Got
18 you.

19 JOHN B. RHEA: Right.

20 COUNCIL MEMBER MARK-VIVERITO: But
21 then, but that \$65 million begins, how much would
22 you be getting? Is it going to be broken down
23 monthly? Quarterly?

24 JOHN B. RHEA: Yeah, we get our
25 support monthly. You know, it's a monthly per

1
2 apartment unit number that we receive in subsidy
3 from the federal government through HUD.

4 COUNCIL MEMBER MARK-VIVERITO: So
5 then you're basically--sorry--because I know your
6 calendar year is different from ours. I mean your
7 fiscal year is a calendar year as opposed to ours.

8 JOHN B. RHEA: That's correct.

9 COUNCIL MEMBER MARK-VIVERITO: So
10 October 1st you start getting back some of the
11 operating money; it's going to be obviously
12 prorated--

13 JOHN B. RHEA: [Interposing]
14 Correct.

15 COUNCIL MEMBER MARK-VIVERITO: For
16 those last three months.

17 JOHN B. RHEA: Well, actually it's
18 a little different. It's that the federal
19 government's calendar year begins in October,
20 that's why. And they put money in their 2011
21 fiscal budget.

22 COUNCIL MEMBER MARK-VIVERITO:
23 Right.

24 JOHN B. RHEA: Which starts October
25 of 2010, which happens to be still in NYCHA's 2010

1

2 fiscal year, because we're on a calendar year.

3 But it's not prorated. They play to give us the

4 full amount in their 2011 budget.

5 COUNCIL MEMBER MARK-VIVERITO:

6 Right, in their fiscal year.

7 JOHN B. RHEA: That's correct.

8 COUNCIL MEMBER MARK-VIVERITO: But

9 for you, you're not getting \$65 million dollars--

10 JOHN B. RHEA: [Interposing] It's

11 October, November, December.

12 COUNCIL MEMBER MARK-VIVERITO:

13 Right.

14 JOHN B. RHEA: October, November,

15 December of this year, and then obviously--

16 COUNCIL MEMBER MARK-VIVERITO:

17 [Interposing] Okay. Understood. All right.

18 Those are my questions for now. Thank you very

19 much.

20 JOHN B. RHEA: Thank you.

21 CHAIRPERSON MENDEZ: Council Member

22 Halloran, followed by Council Member Dilan.

23 COUNCIL MEMBER HALLORAN: Thank

24 you, Madam Chair. Question, just to start off.

25 These housing units were originally not part of

1
2 federal subsidization. What was the rationale for
3 them not being subsidized? Even though I
4 understand at least 21 of the units were
5 constructed by the State, and I think there's 6
6 from the City. Is that accurate?

7 JOHN B. RHEA: So there's 21 in
8 total.

9 COUNCIL MEMBER HALLORAN: Right.
10 Okay.

11 JOHN B. RHEA: 15.

12 COUNCIL MEMBER HALLORAN: 15 and 6.
13 Right.

14 JOHN B. RHEA: Correct. We live in
15 a great State, that's the rationale. And I mean
16 that sincerely with no tongue in cheek. You know,
17 New York State was the first state to approve the
18 creation of a public housing authority and to plan
19 to tear down its tenements and to build public
20 housing for its low income residents. It's
21 maintained that commitment. And the State and the
22 City, in order to accelerate the number of public
23 housing units that could be built also chipped in
24 and built public housing. Just like the federal
25 housing--so in many cases you can't tell the

1
2 difference, they look identical. But in order to
3 accelerate the pace of developing it and building
4 it, the State and the City got in the game in
5 order to complement what the federal government
6 was doing. Not very many other states across the
7 country did that. So New York and Massachusetts,
8 Connecticut, a few other states, are in a similar
9 place.

10 COUNCIL MEMBER HALLORAN: Okay.

11 The Fair Cloth Amendment, which is how this is
12 going to be snuck through the stimulus package, is
13 granting you an exception. Had this not happened
14 you would be experiencing the shortfalls you're
15 already experiencing in addition to whatever
16 rehabilitation needed to be done to these 21 units
17 to begin with. Is that accurate?

18 JOHN B. RHEA: That is accurate.

19 COUNCIL MEMBER HALLORAN: Okay.

20 And so, but for this exception, which is not
21 normal--you're limited, HUD limits you. That's
22 correct, normally?

23 JOHN B. RHEA: So--ask the question
24 a little differently, because HUD does not limit
25 it. The Fair Cloth Amendment is Congress.

1

2

COUNCIL MEMBER HALLORAN: Right.

3

And Congress would normally not be funding these,

4

but because of an exception which was introduced

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as it relates to another friendly amendment to the

6

stimulus package, we're using an exception to the

7

rule to sneak in. Correct?

8

JOHN B. RHEA: That's correct.

9

COUNCIL MEMBER HALLORAN: Okay.

10

And basically what I'm asking you is, knowing that

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you're requiring this large scale rehabilitation,

12

what happens when we face a similar issue or the

13

loophole gets shut, so to speak, when the stimulus

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money ends, for other projects where I would

15

assume we're similarly in a deficit situation

16

with? Is there any consideration for the long

17

term viability of these programs when things like

18

our stimulus dollars disappear?

19

JOHN B. RHEA: So we, as all

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housing authorities across the country, are

21

subject to annual appropriations. So that

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appropriation risk exists. That's always been

23

inherent in operating public housing. It's

24

obviously been more acute at times in different

25

administrations that have different views on

1
2 whether or not low income public housing should be
3 supported or not supported. The good news is that
4 this current administration, beyond their support
5 of stimulus, supports public housing across the
6 country. And Secretary Donovan, in working with
7 Congress, in working with the administration, has
8 fully funded the public housing operating formula
9 for 2011. So the good news is at least for
10 hopefully the--

11 COUNCIL MEMBER HALLORAN:

12 [Interposing] For 2011 it's okay.

13 JOHN B. RHEA: And hopefully moving
14 forward, you know, in this current administration,
15 that public housing is a priority. Obviously the
16 country has a lot of decisions to make around its
17 budget, but the good news is at least today public
18 housing is being put on equal footing.

19 However, to your point, these
20 developments are now part of the funding formula.
21 So if it goes from \$100 to \$98, you know, then
22 they get prorated just like every other public
23 housing unit across the country.

24 COUNCIL MEMBER HALLORAN: Across
25 the country.

1
2 JOHN B. RHEA: But at least they're
3 in the formula and they get their fair proration.

4 COUNCIL MEMBER HALLORAN: I just
5 have two other areas I wanted to ask you question
6 about. One thing you mentioned is that there are
7 safety provisions that you've built into this
8 process. With regards to the private lender side
9 of this, the banks, do they have similar
10 protections? And I'm not asking that to say that
11 they need them. What I'm saying is, is there any
12 way that they can exercise some sort of rights
13 under these agreements you've drafted to do the
14 same thing you're worried about, which is to
15 appropriate if funding disappears or there's some
16 sort of issue on that front? In other words, is
17 there a backdoor possibility for privatization to
18 occur accidentally through whatever is being done
19 in terms of the relationship you're structuring
20 within the LLCs and the banks?

21 JOHN B. RHEA: So, I want to
22 disaggregate your question.

23 COUNCIL MEMBER HALLORAN: Sure.

24 JOHN B. RHEA: Yes, there are
25 protections in this agreement for the banks, for

1
2 the investors. The good news is that those
3 protections are consistent with the same
4 protections that residents want.

5 COUNCIL MEMBER HALLORAN: Okay.

6 JOHN B. RHEA: Those are
7 protections that will ensure that NYCHA will do
8 what we say we're going to do, which is to operate
9 these as low income public housing units. By
10 operating them per that agreement, that allows the
11 investor to receive the benefit of the low income
12 housing tax credits. So there is alignment. They
13 don't want us to do something that would cause--

14 COUNCIL MEMBER HALLORAN:

15 [Interposing] Jeopardize this.

16 JOHN B. RHEA: --jeopardize the tax
17 credits, which is how they receive their return,
18 and that secondly, that would make it ineligible
19 for the Community Reinvestment Act Credit that
20 they're also receiving.

21 COUNCIL MEMBER HALLORAN: Okay.

22 JOHN B. RHEA: So the good news is
23 those protections have been put in place in
24 alignment with public housing residents'
25 interests. The second thing is that there are

1
2 certain things that we were required to do to
3 ensure that we would continue to operate them
4 accordance with appropriate standards, HUD
5 requirements, the HUD standards, as public housing
6 units. One of the thing we had to do, for
7 example, was to fund a reserve fund, so that if
8 there are substantial reductions in money that HUD
9 appropriates to public housing and therefore these
10 units have to take a proration, there's a reserve
11 fund that's been funded, that's part of this
12 transaction, that will continue to maintain those
13 buildings operationally and capital wise.

14 COUNCIL MEMBER HALLORAN: Is that
15 funding a ratio, a percentage, or some other
16 formula; and if so, do you know what it is?

17 JOHN B. RHEA: I'm not going to
18 give you the exact number right now because I'll
19 get it wrong, but it is a dollar per unit that is
20 kind of industry convention around what's required
21 for capital. And it's kind of a contingency fund
22 on the operating side. And then the last point is
23 that the--I want to disaggregate the question.
24 There are no rights of the investor to, quote
25 unquote, privatize them if, you know, for some

1
2 reason the reserve fund runs out or the capital
3 reserves run out. They don't have the right to
4 privatize these units. They still have to be
5 operated in accordance with the limited
6 partnership agreement. The last point is that
7 from the beginning the investor had to get
8 comfortable with HUD appropriation risk. That's
9 just a fundamental threshold--

10 COUNCIL MEMBER HALLORAN:

11 [Interposing] Issue.

12 JOHN B. RHEA: Question, issue.

13 And they are comfortable with HUD appropriation
14 risk.

15 COUNCIL MEMBER HALLORAN: The last
16 question I had just had to do with the debt. Part
17 of this will be funded by bonds, is that correct?

18 JOHN B. RHEA: That is correct.

19 COUNCIL MEMBER HALLORAN: Okay.

20 What is the real number we're looking at in terms
21 of additional debt the City will be saddled with
22 long term on these bonds? Will they have
23 provisions for short term refinancing if
24 necessary? And will the repayment schedules that
25 you guys have created or that you're working with,

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2

be things that are comparable to the other
municipal bonds that we have in place?

3

4

JOHN B. RHEA: the good news is
that the City will be saddled with zero dollars
and zero cents of incremental debt as it relates
to this transaction.

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COUNCIL MEMBER HALLORAN: Okay.

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JOHN B. RHEA: The bonds that are
being used in this transaction come from two
sources of funding and repayment. The first one
is what we call the ARA Bond, the Stimulus Bond.
So all that bond, the proceeds on those bonds will
be used to invest in these developments will be
amortized and repaid from ARA funds and--point
one. Point two, the other bond is a Section 8
bond. It is a bond that is basically securitizing
Section 8 operating revenues that we don't need
that are above and beyond the cost of maintaining
the building. There's a spread between what we
are receiving in fair market rents and what's the
cost of operating these buildings. That amount
then gets put into a securitized bond structure.
And therefore that extra that we don't need to
continue to operate will go to pay down the bond.

1
2 That bond was used to, again, the proceeds of that
3 bond were used to make the rehabilitation
4 investments.

5 So those are the forms of
6 repayments on the two bonds. None of the form of
7 repayment comes from the City.

8 COUNCIL MEMBER HALLORAN: Okay.
9 Thank you. I appreciate it. No further
10 questions.

11 MARGARITA LOPEZ: Just for the
12 purpose of clarity, I want for the purpose of
13 clarity--

14 CHAIRPERSON MENDEZ: [Interposing]
15 Can you identify yourself for the record?

16 MARGARITA LOPEZ: I'm Commissioner
17 Margarita Lopez. Just for the purpose of history,
18 it was 61 developments. From the 61 developments
19 that were built by the State and the City
20 combined, we were able to federalize before the
21 other amount. And what was remaining without
22 federalization was that 21. New York City did
23 something incredible in the nation when building
24 those 61 developments. The problem was that they
25 were not federalized in totality.

1
2 COUNCIL MEMBER HALLORAN: So this
3 would be the end of it? There are no other
4 facilities that do not get covered already by
5 federal agencies?

6 JOHN B. RHEA: Not in NYCHA's
7 portfolio.

8 COUNCIL MEMBER HALLORAN: Right.

9 JOHN B. RHEA: There are others
10 around the country, but not in NYCHA's portfolio.
11 And to Commissioner Lopez's point, those others
12 were done before the Fair Cloth Amendment
13 prohibited more being added to the federal roles,
14 and that's why we've had this inability to kind of
15 get the balance completed.

16 COUNCIL MEMBER HALLORAN: Okay.

17 MARGARITA LOPEZ: Actually they
18 [off mic] to prohibit it, because we were going in
19 that direction.

20 COUNCIL MEMBER HALLORAN: Because
21 you were headed that way. Thank you very much. I
22 appreciate it.

23 CHAIRPERSON MENDEZ: Council Member
24 Dilan?

25 COUNCIL MEMBER DILAN: Thank you,

1
2 Chair Mendez, and my questions will be a lot
3 shorter because they've been covered by two other
4 members, so I won't restate those. But I just
5 have to ask, just touching on the bond issue for a
6 second, will the State at this point continue the
7 bond structure that it has or will those bonds be
8 refinanced? And if so, is that a hurdle in the
9 approvals process?

10 JOHN B. RHEA: So that was part and
11 parcel of the legislation that passed in Albany
12 last week, was for the State to remain as the
13 servicer of the debt, of the \$30 million that's
14 outstanding.

15 COUNCIL MEMBER DILAN: Okay. So
16 they're going to keep the current structure?

17 JOHN B. RHEA: Not sure whether
18 they will or will not keep the current structure.
19 I mean--

20 COUNCIL MEMBER DILAN:
21 [Interposing] That's up to State?

22 JOHN B. RHEA: That's up to the
23 State. But they will continue to be responsible
24 for the debt service associated with it.

25 COUNCIL MEMBER DILAN: All right.

1

2 So then would that--all right, let me ask it this
3 way. What would DHCR's role in the approval
4 process be? I know you mentioned it, but is it
5 related to the bonds or is it related to some
6 other issue?

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JOHN B. RHEA: They have to approve
the mixed financing--

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COUNCIL MEMBER DILAN:
[Interposing] Plan.

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JOHN B. RHEA: Plan, to
rehabilitate them, which will allow--well, let me
back up. In order for us to move these units out
of, quote unquote, its current form of ownership,
right, we entered this limited partnership form of
ownership. That entire plan has to be approved by
DHCR.

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COUNCIL MEMBER DILAN: Okay. So it
needs the Governor's approval as well as the
DHCR's approval.

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JOHN B. RHEA: That is the entity
that regulates public housing in the State of New
York.

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COUNCIL MEMBER DILAN: Okay.

JOHN B. RHEA: On behalf of the

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2 executive branch.

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4 COUNCIL MEMBER DILAN: No, I understand that, but just--

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6 JOHN B. RHEA: [Interposing] I was just trying to answer you fully. So, yes, it requires their approval and sign off in addition to the governor signing the bill into law.

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8 COUNCIL MEMBER DILAN: Okay. Got that. Now you mentioned that we're going to receive a subsidy payment beginning October 1, on approximately 12,000 units. And your goal was to get the entire 18. Do you have an anticipation that the entire 18,000 units that you seek will be eventually subsidized or do you think there's some chance that may not come to pass?

9

10 JOHN B. RHEA: So there are risks that the balance will not receive subsidy. The reason why I told you we structured this with a position needs to be--to receive federal subsidy, is for two reasons. Number one, we structured them as part of the federalization structure. So they are now federal units, okay, as part of this Mixed Financing Plan. That's a very important distinction for a whole host of reasons legally.

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2 In terms of procedurally, we have been speaking
3 with HUD from the very beginning about a total
4 solution for all 21 City and State developments,
5 for all 18,000 units. They have communicated
6 their commitment to a total solution.

7 As I said, there are challenges,
8 budgetary and otherwise. We have a belief that we
9 will continue to work with them. The third piece
10 of it is the 6,200 units are subject to a
11 voluntary conversion agreement, a Section 8
12 voluntary conversion agreement. That doesn't
13 complete or expire for another two years. And
14 that's obviously part of their overall decision
15 process as well.

16 COUNCIL MEMBER DILAN: Okay. So
17 then to the tenants of the two partnership
18 corporations that will be created, they won't see
19 any operational difference in terms of where they
20 pay their rents or the services? I know you
21 mentioned that in your opening testimony, but I
22 just wanted to--so procedurally they still go to
23 the same management office, they pay their rent,
24 they still write their checks to NYCHA, they still
25 do the same thing.

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JOHN B. RHEA: That is correct.

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COUNCIL MEMBER DILAN: Okay. Got it. No further questions. Madam Chair?

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CHAIRPERSON MENDEZ: Thank you.

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Council Member Levin?

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COUNCIL MEMBER LEVIN: Thank you,

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Madam Chair. I just have a couple of questions.

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In my district, the 33rd District, there are seven

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NYCHA developments; two are State and City, the

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rest are federal. And there's a member of the

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audience here who is a resident of--Beverly Corbin

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of Wyckoff Gardens, which is a federal

14

development, so I want to ask this question and

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make sure that I'm on Beverly's good side.

16

In terms of the other developments,

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the ones that are currently federal, what does

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this mean in terms of diverted resources? One

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things of Whitman and Ingersoll, and things like

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that, where you have major capital projects that

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are in the pipeline. Does this divert resources

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from those? Does this add kind of an ability to,

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you know, invest resources in those developments?

24

JOHN B. RHEA: So there are two

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levels. The first level is because we were

1
2 taking, diverting money from the existing federal
3 developments to support the City and State, that
4 obviously had a negative impact on the non-City
5 and State development. \$65 million of that
6 diversion process will stop. So we've taken a big
7 chunk out of finding a funding source for these
8 City and State developments, that before the
9 funding source was to take it away from its sister
10 federal developments. Today we will be able to
11 get that directly from HUD, which in no way
12 negatively impacts the existing federal
13 developments, only positive. It means they get
14 their fair share. We will still need to take some
15 away from them though to deal with the 5,000 units
16 that are not receiving funding yet, but that's
17 substantially less than having to do it for all
18 18,000. So the short answer is, yes, they will
19 see an immediate benefit, which is getting closer
20 to their full share of their funding.

21 The second point is, we didn't--
22 there's not a single project that we planned to do
23 as part of our prior capital plan in those federal
24 developments that we are now not doing because we
25 are pursuing the Mixed Financing Plan. So we are

1
2 keeping all projects whole, is the way I like to
3 refer to it, that were planned prior to the
4 federalization. And we're doing, obviously, more
5 projects because we have more money.

6 COUNCIL MEMBER LEVIN: Thank you.

7 MARGARITA LOPEZ: [Off mic] --point
8 out to the following thing. The Board of NYCHA
9 made the determination some time ago that we
10 needed to protect those 21 developments. Although
11 the negative impact that the federal ones suffered
12 is a reality, everybody should be very clear that
13 preserving those 21 was the preservation of all of
14 the public housing in New York City, and that it
15 was critical to make that move to protect them and
16 not to begin with the process of privatization
17 that eventually will damage the federal ones.

18 And it's very important for the
19 residents and for the people of New York City to
20 understand that that action was a political action
21 well thought, and with the understanding that
22 public housing should remain public in New York
23 City.

24 COUNCIL MEMBER LEVIN: Thank you,
25 Commissioner. And my second question actually

1
2 kind of follows up a little bit on that in that at
3 the end of the term for these developments, I know
4 that you spoke to kind of the terms that will
5 encourage or lead to NYCHA being able to buy them
6 back, and being--having the right of first
7 refusal. What happens if we are in a situation
8 where NYCHA doesn't have the resources to buy them
9 back?

10 JOHN B. RHEA: So the first thing I
11 want to make clear is there's no requirement for
12 NYCHA to buy them back, and we're not here to tell
13 you today that we will, quote unquote, buy them
14 back. We put a structure in place that protects
15 them as public housing. Okay? So this is--and I
16 think that's fundamentally important to
17 communicate to the Committee. So this is also a
18 very efficient structure for raising money in the
19 future, if we needed to raise additional money to
20 make investments in these 21 developments.

21 So, I don't want to necessarily
22 leave you with, you know, this is a necessary
23 evil, we have to do it this way but the minute we
24 have a chance to buy them back we're going to buy
25 them back. That's not what we've structured here.

1
2 We put a structure in place in which we are the
3 managing agent. We are the operator of these
4 developments. The partnership structure is very
5 sound and it gives us the flexibility to raise
6 capital to invest in these developments today and
7 in the future. So I want to be clear on that.

8 We wanted the right to--it's like
9 any option, option on our side of the table has
10 value. We wanted the option to be able to, quote
11 unquote, buy them back, should we determine at
12 that point in time that the structure is less
13 efficient relative to whatever else we might want
14 to do in the future.

15 COUNCIL MEMBER LEVIN: Sorry, just
16 to clarify. At what point is that?

17 JOHN B. RHEA: 15 years.

18 COUNCIL MEMBER LEVIN: 15 years,
19 okay.

20 JOHN B. RHEA: When the tax credits
21 are fully utilized.

22 MARGARITA LOPEZ: Some people may
23 be concerned about this language of buying back or
24 not buying it. I think that it's important for
25 everybody to put this in perspective, that the

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2 issue here is that these units are protected,
3 solely protected, and that the question of buying
4 them back or not is irrelevant at the end of the
5 day. Because the units are going to be public
6 housing no matter what. They are going to be
7 affordable and they're going to be part of the
8 City of New York.

9 COUNCIL MEMBER LEVIN: Is it that
10 each year that the partnerships take federal
11 subsidies that they are required then for 15 years
12 beyond that? Is that the case?

13 JOHN B. RHEA: Ten years, I think,
14 is the right number.

15 COUNCIL MEMBER LEVIN: But each
16 year it keeps on--it's a self-perpetuating thing.
17 So each year it requires that the ten years
18 subsequent--

19 JOHN B. RHEA: [Interposing] It
20 create a new tail.

21 COUNCIL MEMBER LEVIN: It creates a
22 new tail, exactly.

23 MARGARITA LOPEZ: You can say that
24 this is a new baby that's just born and we're
25 giving a new dress to it; but it's the same baby.

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2 You know.

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COUNCIL MEMBER LEVIN: And then I just have a question then about the structure of the boards of the partnerships. Those are subsidiaries of NYCHA? They then answer to the City Housing Authority Board? Is that correct?

MARGARITA LOPEZ: He's the boss.

JOHN B. RHEA: So, the NYCHA is a partner in both partnerships. And I said that we were a partner via, by way of, the Housing Development Finance Corporation, which is an entity that we created for the sole purpose of this transaction. And it is an entity that we are the 100% sole owner of. So think of it as NYCHA, but we're a government agency, we can't be a partner; we can create an entity that can be a partner that we own 100% of. So that's what we did. And the board of the HDFC is identical to the board of NYCHA. I am the President and the Vice Chairman is the Vice President. And because Commissioner Lopez likes to work a lot, she has two hats. She's Secretary and Treasurer.

MARGARITA LOPEZ: You like that?

COUNCIL MEMBER LEVIN: So the

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2 outside investors do not have a seat on those
3 boards?

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JOHN B. RHEA: On the tax credit entity, they have basically delegated their authority rights, responsibility for managing, governing the partnership to NYCHA, via the HFDC. And in the non-tax credit portfolio, the board is a combination of the partnership and NYCHA, and the partnership has people on the board that you would recognize as people like Rafael Cestero of HPD and Marc Jahr of HDC, as part of that entity's board.

COUNCIL MEMBER LEVIN: And then I just have one last question, Madam Chair. You mentioned towards the end of your testimony that there was additional--that HDC had put upfront additional volume cap, pending additional State volume cap that you expect to come forthwith. When that, or if and when that volume cap from the State comes through, is HDC going to then reclaim for other use the volume cap that they put upfront?

JOHN B. RHEA: Think of it as more of a replacement.

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COUNCIL MEMBER LEVIN: Okay.

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JOHN B. RHEA: I'm saying they won't reclaim. The volume cap that they have provided to us through this for this transaction will continue to be the volume cap that we will use. But because we requested a separate allocation, think of it as kind of replenishing HDC's coffers.

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COUNCIL MEMBER LEVIN: Okay. Okay,

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I see.

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JOHN B. RHEA: Right. So they're bridging us. Right? They're going to give it to us today--

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COUNCIL MEMBER LEVIN:

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[Interposing] Then the stuff that comes in from the State is going to just go right to HDC.

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JOHN B. RHEA: Correct.

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COUNCIL MEMBER LEVIN: Okay. That clarifies that. Thank you very much. I have no further questions.

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CHAIRPERSON MENDEZ: Thank you,

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Council Member Levin. I'm going to turn it over

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again to Council Member Dilan, who has a few quick

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questions. But I want to state on the record

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2 since he was not here for our first hearing,
3 because he was busy having a baby with his wife--
4 congratulations, Council Member Dilan. And at
5 that time I had thanked you for your leadership
6 and--when this was a Subcommittee under your
7 Committee and I am very honored to have you as
8 part of this Committee now that it's a full
9 Committee.

10 COUNCIL MEMBER DILAN: Well, thank
11 you. And I'd just like to, on that note, say
12 congratulations on becoming a Chair of a full
13 Committee, and I think that on behalf of the
14 people of your district and the City that we
15 mutually represent, that you'll do a great job on
16 behalf of public housing tenants and the Agency
17 itself.

18 To get to the questions--and thanks
19 for the congratulations on my daughter--after the
20 plan, I would say that you anticipate approval
21 sometime before the 17th--but after the plan is
22 adopted and goes into effect, what--you mentioned
23 toward the end of your testimony that NYCHA will
24 still have some sort of deficit. What dollar
25 amount, projected, or what projected dollar amount

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do you expect NYCHA to still have on its books to deal with?

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JOHN B. RHEA: So, and the way to think about this is when we refer to it as structurally, meaning, you know, we kind of start every year with this issue and then we have to take actions and measures in each calendar year to get to where, quote unquote, we are in balance. Because like the City, we have to be in balance at the end of the day. So, that is roughly \$150 million. So the goal was obviously to get the full \$90 here, which was when you heard me refer to it as two-thirds of it is related to that. 90 and 150, it's not quite two-thirds, but it's darn close. So, if we had received all of it we'd be down to roughly \$60 million. But because we're only getting partial funding here, we'll still be staring at \$80 plus million or so.

Obviously our hope is that in fairly short order, next 12 to 24 months or so, right, we would begin to deal with those other units that would get a federal funding stream. And then we need to deal with the balance through a whole series of actions that we're currently

1
2 working on at NYCHA to come up with ways to deal
3 with our long term deficit. And that's why I said
4 we'll be coming back to this body to discuss, and
5 the City Council more broadly, to discuss what
6 we're trying to do to address that long term
7 deficit.

8 COUNCIL MEMBER DILAN: Thank you.
9 Thank you, Madam Chair. I think this is an
10 excellent plan. The other board member said it's
11 a new baby, but in some ways I agree. But the
12 difference is it's a new baby with a little bit of
13 financing. That makes it that much more pleasant.
14 Thank you Madam Chair.

15 JOHN B. RHEA: Born into a better
16 financial situation.

17 MARGARITA LOPEZ: For my part,
18 congratulations in the girl. I like that.

19 CHAIRPERSON MENDEZ: Mr. Chair,
20 when NYCHA announced its plan back in December,
21 there was a variety of public forums and other
22 means of informing the public as well as the
23 actual affected residents and the tenants also
24 from the federal developments. Can you tell me
25 what NYCHA did to inform residents about this plan

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and to answer their questions?

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JOHN B. RHEA: I can. So we've done a lot. As I've said in other situations we could always continue to strive to do more. But from the very beginning we had conversations with the Citywide Council of Presidents, which is obviously the duly elected leadership of public housing residents. We had a separate conversation with the RAB, the Resident Advisory Board, particularly the RAB of the 21 developments that were affected. And we met with all of the TA presidents in those affected developments. All of this was before we went, you know, quote unquote, public. So we met with Legal Aid. So a range of public housing advocates, Legal Aid, CSS and others. We met with union leadership, both 237 and DC 37. We also then began to go out to the larger population of the affected residents, both residents at the 21 developments as well as all NYCHA residents, given that this has a positive impact on their life. We held a town hall where we had discussed an amendment to the annual plan that would allow for this Mixed Finance Transaction. We discussed the amendment itself

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2 and we discussed in a similar presentation to this
3 one, at that town hall meeting, what the impact
4 would be. And that was open to not just members
5 of the 21 developments, but all residents of
6 NYCHA.

7 I also put together a
8 video/teleconference in which on one evening all
9 21 developments invited all of their residents to
10 their community centers at that development,
11 locally, where we had NYCHA staff on hand, where
12 the video message that I recorded personally was
13 played, where I walked through the plan; and then
14 where I spent another hour doing Q&A on the
15 telephone, broadcast to all those 21 developments.
16 And there were, you know, 50, 60 questions asked
17 that I answered that evening during that hour Q&A
18 session.

19 Subsequent to that I've been going
20 to many developments, meeting with elected
21 officials and the tenant leadership and residents
22 from that development, like Manhattanville and
23 others, that are affected by this, and had a full
24 two to two and a half hour presentation, with not
25 just me being there but with my entire team being

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2 there, who has been involved in this
3 federalization plan--from General Manager Kelly to
4 Ilene Popkin, the Director of Development, to
5 Sonya Kalonyanides, who is in charge of our legal
6 team, to the team responsible for the actual
7 capital investments under the capital project
8 division that's being currently run by the Acting
9 Director Yana Pavlakos. So we've had the entire
10 team available to help us explain what we're doing
11 and to talk to residents about the impact.

12 And we also have a plan in the next
13 week, ten days, to also have a follow up session,
14 because I committed that I would continue to
15 update residents on progress on which residents of
16 the 21 affected developments will be able to get
17 an update similar to the one that we're doing here
18 today. That's some of what we've done, and
19 there's been more.

20 CHAIRPERSON MENDEZ: Thank you, Mr.
21 Chair. I know that I was at my State development
22 with my residents on the videotape conferencing.
23 And just to say, I've sometimes been critical of
24 NYCHA when I feel or felt that the residents have
25 not gotten enough notice or been given an

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2 opportunity for input. But I think, particularly
3 considering the short time span, that the
4 Authority has really done its part to engage the
5 residents and inform them on something that isn't
6 very easy to grasp. And while I was there at my
7 development and listening to the questions from
8 other developments coming through the phone line,
9 you know, it was just, for me, very heartwarming.
10 Because people were engaged, they asked really
11 tough and intelligent questions, and the Authority
12 tried to really answer those questions.

13 Though I think because of the
14 complexity of this, what we needed was a little
15 bit more plain English. But again, that was
16 because of the complexity of this very difficult--

17 JOHN B. RHEA: [Interposing] Well,
18 if I may, Madam Chair? We agree with you. And we
19 got that feedback after that session as well as
20 after a number of the other sessions. And we put
21 together a plain English document with the help,
22 actually, of Resident Advisory Board members and
23 TA leaders who came down to NYCHA for a separate
24 session that I hosted. And they helped us design
25 and put together the plain English document. And

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we provided that plain English document to all of the TA leaders, who then had that document available for their residents.

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We've also written multiple articles in The Journal that, as you know, goes out monthly to all of our residents. And that has updated them on progress in plain English as well. So we share your observation and feedback and we've tried to address that.

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CHAIRPERSON MENDEZ: Thank you.

Can you--I mean, I've been told some of this outside of here, but can you tell us on the record what capital improvements are expected to be made to these developments and when do you anticipate that this work is going to begin?

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JOHN B. RHEA: Okay. I will try not to go through all of it. But we will begin \$200 million worth of capital improvement work on these 21 City and State developments pretty much immediately. This work will begin later this month, assuming this transaction is approved and we move forward.

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The scope of work is principally in what we call investments to protect the buildings.

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2 So it's in elevators; it's in brickwork; it's in
3 roofs and it's in heating systems. Those are the
4 principal investments. I mean if you want me to
5 go development by development, I mean I can give
6 you some examples. So--

7 CHAIRPERSON MENDEZ: [Interposing]
8 Can you give us a few examples?

9 JOHN B. RHEA: 344 East 28th Street
10 is brickwork for almost \$4 million, and elevator
11 rehab of \$2 million. At Baychester it's brickwork
12 of \$3 and a half million. At Boulevard it's \$15
13 million.

14 CHAIRPERSON MENDEZ: That's great.
15 If you could just submit the rest of it to us, so
16 we could just have it in our records instead of
17 just going through the whole list.

18 JOHN B. RHEA: Sure.

19 CHAIRPERSON MENDEZ: But I
20 certainly appreciate that, because that first one
21 is one of my developments. So that was very
22 informative for me.

23 JOHN B. RHEA: Just the last
24 question, we would expect the end, all work to be
25 completed by December of 2012.

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2 CHAIRPERSON MENDEZ: Well if your
3 staff can tell you how many times I've almost been
4 stuck or stuck in an elevator at 344 East 28th
5 St., and I call every time. So you'll be getting
6 less of those phone calls. Can you tell us, from
7 the stimulus funding that was originally allocated
8 to go to the federal developments, which work has
9 been deferred and when do you anticipate doing it?

10 JOHN B. RHEA: So the--we were, I
11 don't want to say lucky, or we thought
12 strategically about how to deal with that issue.
13 And what we were able to do because of the very
14 large job at Ingersoll Whitman that was being
15 funded through stimulus, and because we were using
16 roughly \$100 million of stimulus money, you know,
17 we were using roughly \$100 million of stimulus
18 money on Ingersoll Whitman. In order to
19 facilitate a smooth kind of repurposing of money,
20 we took the money from Ingersoll Whitman and moved
21 it into the mixed financing, and then we took
22 other money that we had for our federal program
23 and moved it into Whitman Ingersoll. So we were
24 able to basically do a swap.

25 There are a number of projects that

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2 in order to move other federal money to do Whitman
3 Ingersoll, so that it would get done--we didn't
4 discontinue any project we committed under
5 stimulus--we did have to defer a couple projects,
6 not cancel. And when I say defer I mean move it
7 from 2010 to 2011, like something like that. And
8 I can go through those projects with you.

9 Actually we have that information. We thought
10 that might be something we would share as part of
11 our overall capital and budget plan that we
12 discuss with the Council next week I think, or two
13 weeks. The 15th, right? Sorry, two weeks.

14 But much of it actually we were
15 able to fund through savings. Many of our
16 projects have been coming in under budget from our
17 capital projects. And roughly \$40 million of that
18 \$100 million came from more cost-effectively
19 completing projects than we had anticipated. So
20 quite frankly there are very few projects that are
21 actually being, quote unquote, deferred. Not a
22 single project is being cancelled.

23 CHAIRPERSON MENDEZ: Thank you.

24 And I look forward to hearing that--

25 JOHN B. RHEA: [Interposing} Sure.

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2 CHAIRPERSON MENDEZ: At the
3 preliminary budget hearing. You mentioned earlier
4 in your testimony that 12,000 units will
5 immediately be federalized and you'll start
6 getting subsidies for. When will the other 6,000
7 units be federalized?

8 JOHN B. RHEA: So actually all of
9 the units will be immediately federalized, of
10 which only approximately 12,000 will get the
11 funding as of October. We cannot give you a date
12 on the balance. We will continue to work with HUD
13 on a plan and a program that will get the balance
14 funding as well.

15 CHAIRPERSON MENDEZ: Thank you.
16 So, I know I read in the papers that, I think,
17 Massachusetts was looking at doing something under
18 this Mixed Finance Modernization Program. Can you
19 tell me what other States that you know of are
20 also looking to do this plan? And I know none are
21 as ambitious as the Authority's--

22 JOHN B. RHEA: [Interposing] Sure.

23 CHAIRPERSON MENDEZ: But if you
24 know how they compare?

25 JOHN B. RHEA: I just want to

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2 follow up to my last answer. Because, again, of
3 the March 17th deadline, we had to get all of them
4 federalized now or they wouldn't be eligible,
5 quote unquote, for subsidy even a year from now,
6 two years from now, five years from now, because
7 the Fair Cloth Amendment would be back in effect,
8 if we hadn't used this Mixed Financing Plan to
9 even get, you know, each and every unit
10 federalized. I want to be clear, everything is
11 federalized, it's just an issue of how much
12 subsidy we get on day one versus in the future.

13 In terms of your question about
14 other states, Massachusetts and Connecticut are
15 the two States that we're aware is investing a lot
16 of time and energy and effort to federalize their--
17 --some of--their city and state development, but on
18 a much, much smaller scale.

19 MARGARITA LOPEZ: They're copycats.

20 CHAIRPERSON MENDEZ: Can you tell
21 me, you know, and the luck of the Irish be with
22 you on March 17th, but can you tell me what will
23 happen on March 17th if this gets approved, and
24 what will happen if it doesn't get approved? How
25 does that look like?

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2 JOHN B. RHEA: I won't say what
3 happens if it doesn't get approved. If it is
4 approved, we will continue on this path that we're
5 on. Again, this team, with the support of other
6 sister agencies and with City Hall and many of you
7 elected officials, has been something we've been
8 spending a lot of time on. So we are moving
9 forward with the anticipation that it will be
10 approved. A lot of the work then transfers from
11 the legal and financial team that's been
12 structuring the mixed financing plan, to the
13 execution of our capital projects division, and
14 all of the entities that we've contracted with to
15 complete the work. The deadlines don't disappear
16 for us.

17 The second part of stimulus
18 requirement is--the first is that it be obligated
19 by March 17th, 2010. The second part of that
20 stimulus is that 60% of it be spent by March 17th,
21 2011, and 100% of it be spent by March 17th, 2012.
22 The reason why I said the last project will be
23 completed in December, is because as you will
24 recall, there is money in here that is non-
25 stimulus money too. So the stimulus piece has to

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2 be all completed by those deadlines that I just
3 prescribed. And so the challenge, the hurdles
4 will move pretty quickly from the team structuring
5 the deal to the team executing the deal or the
6 rehabilitation.

7 CHAIRPERSON MENDEZ: Thank you.

8 and I just want to be clear, in your testimony you
9 said that the residents that are going to be in
10 the City and State developments that are going to
11 be federalized will have the exact same rights as
12 other public housing?

13 JOHN B. RHEA: Federal public
14 housing residents, correct.

15 CHAIRPERSON MENDEZ: And what I do
16 want to know is about the Section 8 tenants that's
17 been transitioned. And I also want to know about
18 the process for transfers and to get on the
19 waiting list, and if that will continue to be the
20 same process.

21 JOHN B. RHEA: We will continue to
22 treat our public housing waiting list as the
23 waiting list for these developments. The only one
24 wrinkle is that because new residents in the 21
25 City and State developments have to be no more

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2 than 60% of AMI versus the public housing
3 requirement that is 80% of AMI, there could be
4 someone who comes up next on the waiting list that
5 would be over income, and they wouldn't be able to
6 go into this development, but they would be able
7 to go into all the other 315 developments around
8 our federal portfolio. And we've done an analysis
9 to see what percentage of our existing waiting
10 list would be, quote unquote, impacted by that
11 level of income distinction. And it's less than
12 two percent, right? So we're talking about a very
13 small handful of people that may want to move into
14 one of these City and State developments, who
15 makes, you know, 80% of AMI. They would have to
16 pick one of the other 315 developments. And it's
17 a very small percentage of our waiting list
18 population. I think that answered one of your
19 questions. The other question was?

20 CHAIRPERSON MENDEZ: Was about
21 Section 8.

22 JOHN B. RHEA: Right. What was
23 your question about Section 8?

24 CHAIRPERSON MENDEZ: Under your
25 seven point plan to preserve public housing you

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2 were going to transition 8,400 units.

3 JOHN B. RHEA: Correct.

4 CHAIRPERSON MENDEZ: From your
5 presentation it's much less, and I know it was
6 going to be phased in. And so if you can tell us
7 a little bit about that and tell us a little bit
8 about the rights of those Section 8 tenants?

9 JOHN B. RHEA: Okay. So the rights
10 of Section 8 tenants are the same. Whatever they
11 are, they remain the same, whether they are part
12 of a City and State mixed financing portfolio,
13 whether that's LLC 1 or LLC 2, nothing changes as
14 it relates to a Section 8 tenant's rights.
15 Nothing we do here positively or adversely impacts
16 their rights. They remain as they have always
17 been.

18 In terms of the voluntary
19 conversion agreement of the 8,400 units that
20 voluntary conversion agreement is still in effect.
21 We have been able to convert 2,200 of the 8,400 to
22 date, which leaves 6,200. Per HUD's requirements,
23 the voluntary conversion agreement will remain in
24 effect until it, quote unquote, expires. And we
25 will be where we are, we will either be, you know,

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2 2,300 or 3,000 or 4,000 or we'll still be at the
3 2,200 we're at today. That's kind of where we are
4 on that. Obviously if the procedure to, quote
5 unquote, provide them with operating subsidy as
6 traditional public housing came, then our goal
7 would be to turn that subsidy on and to suspend
8 the voluntary conversion agreement. But legally,
9 we have to continue per the agreement that we have
10 with HUD for now.

11 CHAIRPERSON MENDEZ: Can--and I
12 think Council Member Levin has some questions, so
13 I'll turn it over to him in a second. But can you
14 just refresh our recollections in terms of the
15 conversion and how it was supposed to be phased
16 in, and are you on target in your phasing in, and
17 when was the last of the 8,400 apartments supposed
18 to be transitioned?

19 [Pause]

20 JOHN B. RHEA: Okay. So the final
21 date is September of 2011. It was a three-year
22 agreement that we signed in September of 2008.
23 And so it will remain in effect through September
24 of 2011. That's the first part of your question.
25 The second part of your question is are we on

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2 pace. The short answer is no. The expectation is
3 that there would be a large wave of conversions
4 early in the VCA's life. You know, half or more
5 we thought, so 8,400, maybe 4,000 or so would
6 happen kind of within the first year. And then
7 from that point on you would continue to convert
8 for the balance of the two years. We have only
9 converted 2,200 to date, and we are more than a--
10 September of '09 and now we're in February of
11 2010, so we're not quite a year and a half into
12 it, but certainly, you know, 15, 16 months into
13 that plan. So, we're not on track, on pace.
14 However, the 2,200 is roughly \$20,000 a year to
15 the Housing Authority in subsidy operating
16 revenues. So in one respect we're not on pace,
17 but most certainly the conversions that have
18 happened to date have been a significant positive
19 outcome for the housing authority's operating
20 financial situation.

21 Lastly, if--the way it was
22 originally structured is that it would be a
23 voluntary conversion agreement through the three
24 year period and at the end of that time HUD would
25 come back to us and we'd have a conversation on

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2 how to complete the conversion on the remaining
3 units that were, quote unquote, not successfully
4 converted at that time. There's been no
5 conversation with HUD about what happens at the
6 end of it, because we're not at the end of it.

7 CHAIRPERSON MENDEZ: Thank you very
8 much, Mr. Chairman. And then Steve Levin has a
9 few more questions and then we will complete the
10 testimony.

11 COUNCIL MEMBER LEVIN: Thank you,
12 Madam Chair. My first question, very quickly,
13 with regard to the waiting list. You mentioned
14 that people on the waiting list that are over
15 income for these developments, they don't lose
16 their spot in line?

17 JOHN B. RHEA: No.

18 COUNCIL MEMBER LEVIN: So that
19 wouldn't be considered passing up a development,
20 for example?

21 JOHN B. RHEA: No. Absolutely not.

22 COUNCIL MEMBER LEVIN: Okay.
23 That's number one. Number two, just to clarify
24 for my own edification, so these units by this
25 action will be federalized or these developments

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will be federalized. That's permanent, permanent federalization even at the end of then the term of this--

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JOHN B. RHEA: [Interposing]

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Correct.

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COUNCIL MEMBER LEVIN: --of this

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program?

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JOHN B. RHEA: The 15-year tax

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period does not impact. They are federal

11

developments from here on out.

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COUNCIL MEMBER LEVIN: Great. I

13

think that that's a good thing.

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JOHN B. RHEA: Unless the City and

15

State wants them back...

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COUNCIL MEMBER LEVIN: Thank you

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very much. I want to thank Chairperson Mendez for

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welcoming me to the Committee, I thank you very

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much, and for holding this hearing. I think it's

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tremendous, a tremendous hearing that you've held,

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and I appreciate your interest and your

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stewardship of the topic.

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CHAIRPERSON MENDEZ: Thank you

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Council Member Levin and congratulations on your

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intro. We are going to be deferring voting on the

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2 resolution until Wednesday, just prior to the
3 Stated Council meeting. And I think you have
4 perfect attendance at my Committee, even though
5 you're not a member.

6 COUNCIL MEMBER LEVIN: Thank you.

7 CHAIRPERSON MENDEZ: So I want to
8 thank you for that.

9 COUNCIL MEMBER LEVIN: Chairperson,
10 I also want to thank the NYCHA Board and Chairman
11 Rhea. And I also want to acknowledge Assemblyman
12 Vito Lopez for ushering it in and navigating this
13 through the State process.

14 CHAIRPERSON MENDEZ: Thank you.
15 Before I open it up to the public testimony, I
16 just want to say that in years past, many of us
17 have actually referred to the City and State
18 governments as deadbeat dads that haven't provided
19 the adequate funding for the 21 City and State
20 developments. So I don't know about the new baby.
21 I think more it's like it's going to get adopted.
22 And hopefully have its own little trust fund or
23 something to provide for itself in the future.
24 Thank you very much Chairman and Commissioner and
25 General Manager for joining us. And thank you for

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2 answering our questions over and over again, but
3 for doing so today on the record for the benefit
4 of the public.

5 JOHN B. RHEA: Thank you.

6 CHAIRPERSON MENDEZ: And I'd like
7 to invite up Rosemary Diaz from New York State
8 Senator Daniel Squadron's Office

9 [Pause]

10 CHAIRPERSON MENDEZ: It is
11 wonderful to see you. And if you would please
12 identify yourself for the record? Can you please
13 push the button and try that again?

14 ROSEMARY DIAZ: Rosemary Diaz, from
15 Senator Squadron's office.

16 CHAIRPERSON MENDEZ: There we go.
17 Thank you.

18 ROSEMARY DIAZ: Good afternoon.
19 Good afternoon, Chair Mendez and Members of the
20 Committee. Thank you for the opportunity to speak
21 about the plan to federalize 21 State and City
22 built New York City Housing Authority
23 Developments.

24 My name is Daniel Squadron; I
25 represent the 25th Senate District in the New York

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2 State Senate. Among the New Yorkers I represent
3 are 30,000 residents of 24 New York City Housing
4 Authority developments on the Lower East Side of
5 Manhattan and Williamsburg, Brooklyn.

6 This past Wednesday, the State
7 Senate passed my bill that allows the investment
8 of \$400 million of capital funding now, and an
9 additional \$75 million in federal aid annually.
10 Assembly Housing Chair Vito Lopez sponsored the
11 bill in the Assembly, which passed it a week ago
12 today, and I expect it to become law in the coming
13 days. The bill specifically lays out protection
14 for public housing and public housing tenants,
15 ensuring that as NYCHA enters a mixed finance
16 transaction to acquire funds for these
17 developments, the buildings are all guaranteed to
18 remain public housing, and tenants are guaranteed
19 to retain the same protections as all other NYCHA
20 tenants.

21 The massive investment will assist
22 in fixing NYCHA's operating deficit and
23 dramatically improve public housing for more than
24 400,000 tenants of public housing. Every single
25 NYCHA resident will benefit from filling the

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2 funding gap left by the State and City, with the
3 money going towards fixing elevators, avoiding
4 heat outages and addressing the basic maintenance
5 problems that public housing tenants contend with
6 every day.

7 But acquiring those funds is not
8 the final step. As the money is invested in the
9 buildings, we have to use this opportunity to hold
10 NYCHA to a higher standard, and we have to
11 guarantee that the funds are used as intended.
12 That is white the oversight that this Committee is
13 conducting under the leadership of Chair Rosie
14 Mendez is so critical. I thank Council Member
15 Mendez for holding this hearing and I look forward
16 to working with her as a partner to strengthen
17 public housing, protect NYCHA tenants and ensure
18 that the work we are doing truly improves the
19 lives of more than 400,000 NYCHA residents. Thank
20 you.

21 CHAIRPERSON MENDEZ: Thank you for
22 your testimony. And if you can please tell the
23 Senator that it's always a pleasure working with
24 him, and congratulations on his introduction of
25 the Senate bill that successfully passed.

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ROSEMARY DIAZ: I will. Thank you.

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CHAIRPERSON MENDEZ: And we have testimony that has been submitted into the record by the Community Service Society and the Legal Aid Society. And our next and last panel, Beverly Corbin from FUREE, and I can't remember which development your from.

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BEVERLY CORBIN: Wyckoff.

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CHAIRPERSON MENDEZ: From Wyckoff Houses. And we have Reginald Bowman, from the Citywide Council of Presidents, and Gregory Bender, from United Neighborhood Houses.

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[Pause]

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CHAIRPERSON MENDEZ: Gregory, maybe if you guys can come around on this side, since Beverly is already--yes. Make it easier for.. Okay. And whenever you're ready.

16

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18

19

BEVERLY CORBIN: Okay. Mine is more of a question than a statement. And the federally funded money that's coming in and the redistributing of how public housing is going to do, how is it going to affect the youngest people that live in public housing and our kids? And I'm not sure if this would pertain to the issue of the

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2 community centers that were closed in some of the
3 developments being reopened, or money being
4 redistributed to keep--continue programs that are
5 going on to the community center. I'm asking as a
6 question, not even as a statement.

7 CHAIRPERSON MENDEZ: Okay. So this
8 part is to give your testimony regarding what you
9 think about the proposed plan.

10 BEVERLY CORBIN: Yeah.

11 CHAIRPERSON MENDEZ: But I will say
12 this, that part of the reason that the authority
13 had to close some of these community centers was
14 because of their chronic budget deficit. The plan
15 that they're proposing today would alleviate,
16 though not cure, their budget deficit. Because
17 part of the problem is that the federal government
18 doesn't fund the authority dollar for dollar,
19 never mind that the City and State developments
20 aren't funded at all by any level of government.
21 So, I'm not going to be able to answer your
22 question, but in these public forums and town hall
23 meetings and COP and RAB meetings, that is an
24 appropriate place to get a full answer to your
25 question. But I think, you know, that when we

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2 look at what they're trying to do, it's so that
3 they don't have to keep cutting services, and
4 services as these community centers, which while
5 not part of their primary mission, they feel is
6 important to the residents of public housing.

7 BEVERLY CORBIN: Sure. Okay.

8 That's what my question basically was when coming
9 here this afternoon.

10 CHAIRPERSON MENDEZ: Thank you.

11 And if afterward we want to talk some more, and I
12 know there are some people here from NYCHA, we can
13 try to get your answer, you know, your answers
14 more in depth to your satisfaction. So thank you
15 for coming to today's hearing and coming to
16 previous hearings. We certainly appreciate you
17 being here. Next person?

18 GREGORY BENDER: Hi, my name is
19 Gregory Bender, and I'm here on behalf of United
20 Neighborhood Houses, New York City's federation of
21 settlement houses and community centers. Our
22 member agencies provide services in public
23 housing. Over half of the member agencies of UNH
24 operate in NYCHA facilities, and two of our member
25 agencies provide services in the developments that

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2 would be federalized under this plan, Goddard
3 Riverside Community Center, which provides
4 childcare in Wise Towers on the Upper West Side
5 and Lincoln Square Neighborhood Center, which has
6 its entire operations in Amsterdam and Amsterdam
7 Addition, also on the Upper West Side.

8 We support NYCHA's efforts to gain
9 federal funding for these plans. As human service
10 providers operating in these developments, we've
11 seen both in the services we can provide and
12 what's happened to the clients we served because
13 of NYCHA's deficit, and support this plan. And we
14 also hope that as NYCHA does this work it
15 maintains both its commitments to tenants in the
16 apartments, but also to the services provided to
17 tenants. Thank you.

18 REGINALD BOWMAN: Good afternoon.
19 I'm Reginald Bowman. I'm the President of the
20 Citywide Council of Presidents of the New York
21 City Housing Authority. Officially I'm here on
22 behalf of all the residents of public housing, but
23 certainly on behalf of the 21 developments that
24 are a part of this mixed financed modernization
25 plan for the City and State developments.

1
2 First I'd like to comment the
3 Chairperson for her newly established full
4 Committee on Public Housing. I think that it is
5 most certainly a thing that's time has come, and
6 it is certainly evidence of the history of
7 activism of residents of public housing producing
8 the type of political capital and will to make
9 sure that our issues and concerns are heard, and
10 that our issues about financing and preserving
11 public housing continue to stay on the forefront
12 of the City of New York and this nation.

13 One of the things that I wanted to
14 make sure was a part of the record was the fact
15 that in addition to the fact that we support this
16 mixed finance modernization plan for the City and
17 State developments, it is no mystery that in the
18 last 18 months there have been significant changes
19 in the leadership of public housing that have made
20 this possible. And I certainly would like to go
21 on record to make sure that people were aware of
22 the fact that John Rhea being the Chairperson of
23 the New York City Housing Authority and others, as
24 a part of the political and different changes that
25 took place in the last 18 months at NYCHA, are

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2 certainly responsible for heeding the call for
3 there being a solution presented for the type of
4 financing of public housing in the City of New
5 York that has slowly been eroding over the years,
6 with the decline in funding from HUD and certainly
7 with the loss of funding from the City and State
8 for the developments in question.

9 Most of the history of the
10 federalization of these 21 developments have been
11 put into the record not only of this Council, of
12 this Committee, so I won't get into that. I just
13 wanted to make sure that the New York City Housing
14 Authority's official resident body went on record
15 as being in support of this particular type of
16 financial transaction that will more or less
17 guarantee that the public housing of the City of
18 New York will continue to be funded. It will be
19 invested in and will be around for another 75
20 years.

21 Just as a final note, in the last
22 couple of weeks, certainly there's been a lot of
23 wrangling politically about this in the State and
24 the City government. I would like to for the
25 record state that this is a historical

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2 achievement. The vote in the State Senate, I
3 believe, was 58 to nothing. We had the full
4 support of the Assembly, thanks to Chairman of the
5 Housing Committee Vito Lopez and others. And I am
6 sure that the Governor's Office is going to weigh
7 in and sign off on this. I would like to
8 certainly urge the members of this Committee and
9 the members of the City Council to support this
10 legislation and this bill. I think that it is an
11 important step in the right direction. Because at
12 this point it will show the residents of the City
13 of New York that the public housing of this City
14 are certainly on the top of the agenda. And we
15 will reverse a long history of our developments
16 being pitifully neglected by the deadbeat dads of
17 the City and the State of New York.

18 Again, I certainly want to commend
19 this Committee and I want to urge the Council to
20 support this, and support it quickly, so that the
21 deadlines that were mentioned by the Chairman can
22 be met, and the financing that is much needed for
23 these developments are forthcoming, and we can
24 look forward to changing some more of the policy
25 of public housing, so that we can make sure that

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2 it is fully funded in the future. Thank you.

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4 CHAIRPERSON MENDEZ: Thank you. I
5 think the only thing, Mr. Bowman, that I have to
6 say is that the one person you didn't thank who I
7 think made all of this possible, is President
8 Barack Obama with his stimulus package and bill
9 that created the opportunity for the different
10 public housing authorities across the country, but
11 certainly this one, to take advantage and try to
12 federalize these units. I am hopeful that that
13 will happen in a short time span. And I want to
14 thank you for always being present and coming here
15 and partaking in these hearings.

16

17 Mr. Bender, does United
18 Neighborhood Housing have you work with some of
19 the leadership in these City and State
20 developments?

21

22 GREGORY BENDER: Our member
23 agencies, and the two I mentioned--oh yeah. Our
24 member agencies often work with the leadership and
25 their tenants. And yes, the two that I mentioned
where they're in the developments that are being
federalized, they have reached out to the
leadership of--the tenant leadership. And in

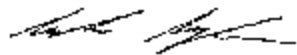
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2 fact, in Amsterdam Houses, the video conference
3 that the Chair held was held in Amsterdam Houses'
4 rec room.

5 CHAIRPERSON MENDEZ: Okay. Thank
6 you. Council Member Levin, any questions for this
7 panel? No? Okay. Well this hearing is recessed
8 until Wednesday, when we will vote on the pre-
9 considered Reso. Adjourned. Adjourned.

10

C E R T I F I C A T E

I, Erika Swyler certify that the foregoing transcript is a true and accurate record of the proceedings. I further certify that I am not related to any of the parties to this action by blood or marriage, and that I am in no way interested in the outcome of this matter.



Signature _____

Date March 25th, 2010