

TESTIMONY FROM NYCHA GENERAL MANAGER VITO MUSTACIUOLO
EXECUTIVE BUDGET HEARING
COMMITTEE ON FINANCE WITH THE COMMITTEE ON PUBLIC HOUSING AND
SUBCOMMITTEE ON CAPITAL BUDGET
WEDNESDAY, MAY 16, 2018 – 10:00 AM
COUNCIL CHAMBERS, CITY HALL, NEW YORK, NY

Chairs Daniel Dromm, Alicka Ampry-Samuel, and Vanessa Gibson, members of the Committees on Finance and Public Housing and Subcommittee on Capital Budget, and other members of the City Council: good morning. I am Vito Mustaciulo, NYCHA's General Manager. I am pleased to be joined by Deborah Goddard, Executive Vice President for Capital Projects; Tricia Roberts, Vice President for Finance; and other members of NYCHA's executive team.

Thank you for this opportunity to provide an update on the Authority's financial status and the progress we're making to achieve our NextGeneration NYCHA goals. As leadership transitions at the Authority, we continue to build a better organization in line with our NextGen vision. And with support from partners like Mayor Bill de Blasio and the City Council, we are creating safe, clean, and connected communities for this and the next generation of New Yorkers.

Federal Funding Update

Over the past few years, NYCHA leadership has spent countless hours in DC and Albany advocating for quality public housing for the millions of Americans who need it. Our coalition of public housing authorities (PHA) and leaders from the labor, construction, and health sectors have made it clear that public housing is vital infrastructure worth preserving and strengthening.

Our advocacy paid off. For the first time in decades, Congress significantly increased funding for affordable and public housing, including a more than 40 percent increase for public housing capital funding in 2018, compared to 2017. These funds will enable us to continue projects that make a real difference in

residents' lives, addressing conditions such as mold, lead-based paint hazards, and vermin infestation.

Federal funding for operations increased more modestly, by 3.6 percent. It should be noted that that's still nearly \$70 million less than we're eligible to receive, and that it costs approximately \$200 million every month to run the Authority. With the increased operating funds, we plan to focus on three key areas: health and safety, compliance, and training and development.

Our fight is far from over. The public housing program is, for the most part, a federally created program and portfolio. Federal dollars should provide the lion's share of the funding for public housing. Local funding should enhance our ability to deliver capital projects, not absolve the federal government of its responsibility.

So we must continue pressing for the support that PHAs desperately need. NYCHA has been shortchanged \$3 billion in federal operating and capital funding since 2001, compounding the challenges of maintaining and repairing aging infrastructure. The majority of our buildings are more than a half century old, and we're confronting massive capital needs across our portfolio. In terms of operations, even after we combine the federal funding we receive with the rent we collect, there's still an approximately \$47 million annual operating deficit. And the President has recently proposed a reduction in federal operating and capital funding for Fiscal Year 2019.

The Threat of Rent Reform

We are concerned with recent news from Washington about a proposal to raise the rent on most types of federally subsidized housing from 30 percent of adjusted to 35 percent of gross income. Under this formula, deductions for medical and childcare expenses would be eliminated for most families, making it harder for residents to work, take care of their families, and stay healthy.

We know that residents will have a hard time paying higher rents. The average NYCHA household makes just \$24,000 a year. If the proposed rent increase becomes a reality, residents would see their rent go up by a third, or about \$175 a month. Households with non-disabled residents under the age of 65 would be impacted even more – their rent would go up by about 40 percent, or \$240 a month. To put this in perspective, a household of one adult and one child in New York City spends an average of nearly \$33,000 every year on necessities like healthcare, childcare, food, and transportation alone.

Families receiving Section 8 vouchers, whose average incomes are even lower, would see rent increases of about 20 percent.

Since 2014, when mandatory flat rent increases were put in place, nearly 95,000 households have experienced an average rent increase of 46 percent. This has contributed to a rise in the number of residents who are unable to pay their rent on time every month. If this proposal comes to pass, we can expect a negative impact to our rent collection rate, because many residents won't be able to afford a 33 percent rent increase.

We appreciate the Council speaking out about how this proposal would impact New Yorkers. We share your concerns for our residents and the Housing Authority's financial stability.

State Funds

A lot of attention has been focused lately on how the State can help improve the quality of housing at NYCHA, and we appreciate the State's commitment of funds in its prior two annual budgets. However, we remain concerned that the process the Governor has established to distribute and manage that funding will hinder our ability to spend the money quickly and with maximum benefit to our residents.

To date, neither the \$200 million allocated by the State in 2017 nor this year's \$250 million allocation have reached NYCHA or our residents.

As has been reported in recent weeks, the Governor's executive order is far more sweeping than any of us initially understood, based on State budget discussions. There are real areas of concern here, including that it lets the federal government off the hook for committing to providing NYCHA with a long-term and stable funding stream and could interfere with the day-to-day operation of the Authority. Both of these have very real consequences for the well-being of our residents and our ability to deliver services to them.

While acknowledging those concerns, we look forward to working with all of our partners to come up with a successful plan for these funds. We believe the \$250 million committed in this year's State budget should be used immediately to replace 63 poorly rated boilers and to decouple heat and hot water systems at 14 developments, home to 32,000 New Yorkers. The \$200 million not yet released from the State's prior-year budget should be used for much-needed elevator and boiler replacements at NYCHA.

The City's Contributions

Mayor de Blasio continues to demonstrate his commitment to public housing with unprecedented investments in NYCHA. He has committed \$2.1 billion to support NYCHA's capital infrastructure and \$1.6 billion to support operations over the next decade. That includes \$1.3 billion to fix over 900 roofs, more than \$500 million for façade repairs at nearly 400 buildings, \$140 million for security enhancements at 15 developments, \$200 million for long-term heating system upgrades, and \$13 million to improve the immediate response to heating emergencies.

The Mayor recently announced an additional \$20 million commitment to address NYCHA's work order backlog. This will enable us to complete about 50,000 skilled trades work orders at approximately 30 developments with the highest backlogs.

However, while City funds can go a long way toward improving the quality of life for residents, they cannot be – and should not be considered – a replacement for HUD funding.

NextGeneration NYCHA Progress

Three years ago this week, we released NextGeneration NYCHA, our long-term strategic plan to stabilize the Authority's finances, become a better landlord for residents, and ensure that public housing remains a vital resource in our city. Despite the challenges, we're making progress in changing the way we do business and delivering for residents. Here are some highlights of our accomplishments.

Achieving Short-Term Financial Stability

Before the launch of NextGen NYCHA, the Authority was projecting a structural deficit of hundreds of millions of dollars a year. With NextGen as our guide, we have eliminated the deficit, balanced our budget four years in a row, and started right-sizing the agency through more front-line hiring. For instance, we reduced the number of central office staff through attrition and transfers to other agencies while increasing front-line positions to help address our residents' concerns.

Since 2015, NYCHA has achieved more than \$313 million in savings from NextGen initiatives, including the Mayor's relief of payments to the City, reduced central office costs, conversion of formerly unfunded units built by the City and State to a Section 8 funding stream, the Rental Assistance Demonstration (RAD)

at Ocean Bay (Bayside), and our public-private partnerships at six Section 8 developments.

Becoming a More Efficient and Effective Landlord

We've brought the time it takes to respond to basic repairs down from 13 days to 4 days. Property management staff are using smartphones to open and close work orders and get resident sign-off on the work; residents are using the MyNYCHA mobile app to request repairs. We've rolled out our new and more efficient property management model, NextGen Operations, to 151 developments, and expect to have it in place at all of our developments by the middle of next year.

(Re)building Public Housing and Expanding Affordable Housing

More than a billion dollars of construction work is currently underway across the Authority. In the past four years:

- We committed our federal capital grants ahead of HUD's 24-month deadline; we obligated 50 percent of the Fiscal Year 2017 funds in 9 months. We spent the grants an average of 15 months ahead of HUD's 48-month deadline.
- We completed our Bond B work ahead of schedule: about \$500 million of major improvements at 319 buildings.
- We replaced 386 roofs.
- We awarded \$1.9 billion in Sandy recovery projects to date and expect to spend \$2.2 billion of our historic FEMA grant by the end of 2019, providing residents with new roofs, electrical systems, and boilers; backup power; and flood protection.
- With funding from the Mayor and the City Council, we installed more than 6,200 exterior security lights and installed or upgraded nearly 700 CCTV cameras.

- We launched three innovative Energy Performance Contracts (EPC), investing \$167 million to provide a mix of upgraded lighting, heating, and hot water systems; apartment temperature controls; and water-saving devices at nearly 48,000 apartments. A fourth EPC totaling \$103 million that will benefit nearly 15,000 apartments is currently under review by HUD.

We are upgrading our buildings and creating desperately needed affordable housing for our city:

- We closed on the largest single-site RAD transaction in the nation, raising \$325 million to repair and modernize 1,400 apartments at Ocean Bay (Bayside): new kitchens and bathrooms, roofs, and state-of-the-art security and heating systems for residents. Within the next year, we expect to finalize partnerships that will bring similar improvements to 21 developments in the Bronx and Brooklyn.
- We closed six deals for 100 percent affordable housing. Additionally, 10 sites are in pre-development and five are in the RFP process.
- We selected developers for two NextGen Neighborhoods sites at Holmes Towers and Wyckoff Gardens, which will bring approximately \$62 million in revenue for the Authority and more affordable housing for New Yorkers. We released an RFP for a site at La Guardia Houses, and resident engagement is well underway at Cooper Park Houses.
- We are in the process of converting two developments that do not receive direct public housing funding to a Section 8 funding stream: Baychester and Murphy Houses. Resident engagement has begun at two additional sites: Independence Towers and Williams Plaza. Through our Permanent Affordability Commitment Together (PACT) program, we'll be able to raise funds for major renovations and improved operations at these developments.

Engaging Residents

We're connecting residents to life-changing opportunities. Our Office of Resident Economic Empowerment and Sustainability, and partners, have facilitated more than 8,700 resident job placements and 20,000 connections to services. We launched a new Resident Leadership Academy and 14 Youth Leadership Councils. And through our Food Business and Childcare Business Pathways programs, residents have formed more than 160 new businesses.

Moving Forward

This good work must continue. NYC needs NYCHA – 1 in 14 New Yorkers rely on us for home. Thank you for standing with us as we strive to become a better landlord and to ensure that NYCHA is here to serve the next generation of New Yorkers. We are happy to answer any questions you might have.