

**TESTIMONY FROM NYCHA CHAIR & CEO GREG RUSS**  
***PRELIMINARY BUDGET HEARING***  
**COMMITTEE ON PUBLIC HOUSING**  
**FRIDAY, MARCH 13, 2020 – 1:00 PM**  
**COMMITTEE ROOM, CITY HALL, NEW YORK, NY**

Chair Alicka Ampry-Samuel, members of the Committee on Public Housing, other distinguished members of the City Council, NYCHA residents, and members of the public: good afternoon. I am Greg Russ, NYCHA's Chair & CEO. I am pleased to be joined by General Manager & Chief Operating Officer Vito Mustaciuolo, Vice President for Finance & Chief Financial Officer Annika Lescott, and other members of NYCHA's team. Thank you for this opportunity to present the Authority's adopted budget, which was approved by NYCHA's Board of Directors on December 18, 2019.

Before I get into details about NYCHA's budget and our recent progress, I'd like to update you on how the Authority is addressing coronavirus, in relation to our residents, staff, and properties. We are working in concert with the Health Department, NYC Emergency Management, and other City agencies to provide New Yorkers, including our residents and staff, with consistent, real-time information about the coronavirus. We are informing residents of best practices for staying healthy and stopping the spread of germs, through direct outreach in multiple languages, notifications at our developments, and digital communications. We created an internal task force that is planning our response to coronavirus and are disseminating specific guidance to staff; for instance, we directed staff to focus their daily cleaning on high-trafficked areas, such as building entrance doors, elevator controls, mailboxes, and trash chute doors. We engaged a federal government-approved vendor to conduct deep cleanings and apply an additional product that prevents germs from spreading on surfaces – these treatments started on Wednesday at seniors-only buildings. And we are bringing on additional vendors for daily cleanings. We are also participating in regular interagency planning meetings, updating our agency-wide Continuity of Operations plans, and maintaining our inventory of personal protective equipment for staff. We will continue to keep residents, staff, and our partners, including Council Members, up to date in the weeks ahead.

## **The Groundwork for Transformation: Moving the Authority Forward**

NYCHA is at a time and place that will define its future. In this pivotal moment, we are working with the monitor, Bart Schwartz and his team, to develop action plans in critical areas to improve residents' quality of life, in accordance with the HUD agreement. This is the framework for building a new NYCHA for tomorrow, while benefitting our hundreds of thousands of residents today.

This work of transformation also involves developing an organizational plan to improve how the agency operates, which we'll release this summer. It's a collaborative effort, and we've already begun to engage our partners, including the monitor, Council Members, advocates, residents, and staff.

There is no way but transformation – a new, stronger NYCHA that delivers better for residents – and all the hard work that entails. However, while the HUD agreement, including the organizational transformation, requires massive expenditures, it does not come with additional federal funding for NYCHA. We rely on the support of our City and State government partners to help address the shortfalls, along with the programs outlined in our long-term real estate plan, *NYCHA 2.0*.

NYCHA's budget is a reflection of our priorities in this time of transformation – it acknowledges that we must invest in our buildings while we achieve appropriate staffing levels. As you've heard, central office staffing has been reduced in recent years, largely through attrition. To better serve residents, we are moving resources from the central offices to the front line (consolidating our central offices in the process); we are hiring 632 new staff to work at our developments and on our agreement compliance efforts, increasing last year's total budgeted headcount of 10,707 to 11,339 this year.

At the same time, we're planning major capital improvements across the portfolio. Our total headcount has gone down by nearly 2,100 staff in the past 16 years, impacting NYCHA's ability to provide residents the level of service they deserve. We estimate it would cost about \$220 million annually to restore those 2,100 employees. But when we

rehabilitate our buildings through programs like PACT, we reduce their maintenance needs and can make more efficient use of the staff we do have.

In addition to moving resources to the developments and investing in our buildings, our focus is on managing at the property level – and managing better – to improve residents’ quality of life and use our limited funds more effectively.

### **NYCHA’s Budget Outlook**

We’d like to thank our congressional delegation for advocating on behalf of public housing, and for their role in securing \$1 billion in federal operating funding and \$552 million in capital funding for 2019, money that has allowed us to carry out work that’s vital for our residents and for the future of public housing in New York City. Thanks to their advocacy, we received more capital and operating funding than we expected when we adopted the budget last year. We applied some of this money toward the operating expenses required by the agreement – investments that will benefit residents today and tomorrow. We must continue fighting for the funding our buildings need and residents deserve – the president has again proposed significant funding cuts for public housing authorities nationwide in 2021.

#### *Operating Budget*

With \$3.84 billion in operating revenues and \$3.75 billion in operating expenses projected in the budget, we anticipate a modest \$91-million surplus in 2020, which will help mitigate modest deficits in the out-years beginning in 2022.

NYCHA receives two-thirds of its operating revenues from federal sources. This year, we expect to receive \$984 million in federal operating subsidy, which amounts to approximately \$6,000 per apartment annually. The 2020 budget assumes a proration factor of 95 percent for the operating subsidy – about \$50 million less than what NYCHA is eligible for. We also expect to receive \$262 million in City operating funds.

We expect to collect about \$1 billion in rent from residents, which is a bit more than our anticipated federal operating subsidy.

We expect to receive \$1.3 billion for Section 8 vouchers, and the associated administrative fee, this year. Our Section 8 program is well managed despite the fact that we are underfunded by HUD's formula. NYCHA currently receives 99.5 percent of the previous year's expenses and a Section 8 administrative fee that is prorated by 79 percent. This funding only supports 84 percent of the 120,000 vouchers that NYCHA is eligible for.

The \$3.75 billion in operating expenses includes \$1.1 billion in Section 8 payments to landlords, \$1.4 billion in salaries and fringe benefits, \$377 million in contracts, and \$269 million in other OTPS (supplies, vehicles, and equipment, for example). As you know, a significant portion of our expenses are uncontrollable, such as utilities and employee benefits.

### *Capital Investments*

NYCHA's capital budget comprises federal funding from HUD, FEMA funding for Sandy recovery and resiliency efforts, City funding, and State funding. We received an initial allocation of \$582 million in federal capital funds this year. Our 2020 budget allocates capital funding for building envelopes, building systems (including heating plant and elevator replacements), and interior renovations. Over the next five years, we plan to replace 310 boilers and 281 elevators. Since 2018, we've replaced 77 boilers.

While the federal capital funding we receive is far from enough to meet the tens of billions of dollars' worth of capital needs across our portfolio (and has declined by a total of \$1.2 billion since 2001), we are using the money we do receive wisely and efficiently. We expend roughly \$67 million per month on capital projects, and more than a billion dollars of construction work is currently underway across the Authority. Last year, we obligated the prior year's capital funding in 15 months, ahead of HUD's 24-

month obligation deadline, and we expended the last three capital grants within an average of 17 months, ahead of HUD's 48-month expenditure deadline.

To facilitate the investment of City capital dollars, we're going to create a new position devoted to the management of these projects.

As of the end of 2019, we awarded \$2.98 billion in Sandy recovery projects, almost 92 percent of our FEMA funding, and have completed \$1.74 billion of work, providing residents with new roofs, electrical systems, and boilers; backup power; and flood protection – hiring 440 NYCHA residents in the process. In 2020, over \$700 million is scheduled to be spent.

HUD's Energy Performance Contracting (EPC) program is enabling us to replace boilers and modernize heating systems with assistance from energy service companies, without spending capital dollars upfront (the improvements are funded by the cost savings from reduced energy consumption). Four EPCs are currently investing over \$271 million at 70 developments, and we are on track to exceed our total investment goal of \$300 million by the end of this year, several years ahead of schedule.

Mayor de Blasio has committed an unprecedented level of resources to the Authority: a total of \$6.4 billion, including \$1.3 billion to repair nearly 1,000 roofs and \$200 million to replace boilers and upgrade heating systems. To date, we have replaced 177 roofs, benefiting more than 28,000 residents and helping to prevent leaks that can cause mold.

I would again like to thank our elected official partners at all levels of government for advocating for increased funding for public housing's urgent capital needs.

### **The HUD Agreement: The Cost of Progress**

The HUD agreement is our roadmap for progress, for improving the delivery of services to our residents. It requires firm deadlines and goals – both immediate and several

years out – which, as I mentioned, involve significant expenditures for which there is no dedicated or additional federal funding. To date, we have spent approximately \$201 million on staff and \$93 million on vendors to fulfill our obligations under the agreement. For instance, we have spent \$14 million, hiring 153 staff, for our Healthy Homes Department, which manages our efforts on lead, mold, and pests. We created three new departments that are essential to carrying out the agreement’s action plans – Compliance, Environmental Health and Safety, and Quality Assurance – budgeting \$18 million to hire 96 staff for this critical work.

And we anticipate substantial expenses over the next several years to address all the major areas of the agreement. For example, we expect that it will cost over \$2.2 billion to fully abate lead-based paint across the portfolio. We are currently spending about \$101 million to complete XRF tests in over 134,000 apartments. We estimate that it would cost roughly \$230 million annually to achieve compliance with interim control protocols in this area.

### *Our Progress So Far*

The City is providing NYCHA at least \$2.2 billion in capital funding over a minimum of 10 years as part of the agreement. We are discussing with the monitor our plans to use these funds to address lead, mold, heating, elevators, and pests through comprehensive modernizations as well as component replacements.

We’re working on a plan for the use of \$100 million in Fiscal Year 2020 State capital funding to also address areas outlined in the agreement; we will update you once a plan has been approved by the State. In November, the monitor approved our plan to invest \$450 million in State funding to replace 108 boilers at 25 developments and 148 elevators at 10 developments, benefitting more than 79,000 residents and reducing maintenance demands at these buildings.

As we discussed in January, the monitor approved our heating action plan, and through operational improvements, increased staffing, and strategic investments we have further

reduced the time it takes to restore heat outages by 22 percent (from 9 hours last season to 7 hours this season) and brought down the number of heat outages by 23 percent (from 935 last season to 720 this season). In addition, the number of residents impacted dropped by 21 percent.

On January 30, the monitor approved our action plan to improve elevator service for residents. The plan outlines how we will replace 281 elevators by 2024; reduce the frequency and duration of elevator outages; and improve our communication and outreach to residents, especially seniors and people with mobility disabilities, in the event of outages.

We are in the process of submitting our lead action plan to the monitor for his review. We created a Lead Compliance Assurance Program to oversee lead projects and records and have trained over 3,000 staff to become EPA-certified renovators. As of March 9, 2020, we've conducted XRF tests in 38,615 apartments to identify the presence of lead-based paint. Of those, 17,500 apartments had positive results, 14,754 were negative, and the remainder of the results are forthcoming. Based on initial results, many units that tested positive had only one or two apartment components where lead is present, such as baseboards, window sills, or walls.

The monitor approved our mold action plan on Wednesday. We finished rolling out our Mold Busters program citywide in September, and have provided all applicable staff with hands-on training on the updated mold inspection and remediation protocols, including the new tools we're using to effectively and efficiently combat mold.

To tackle pests and waste, we adopted an integrated pest management (IPM) approach Authority-wide, training 800 staff on its protocols. To date, we've provided targeted relief to more than 3,500 apartments with recurring pest complaints and have completed more than 1,200 inspections across the city as part of our work to identify infestation hot spots. We are establishing a new Waste Management Department, are installing new trash compactors and other waste disposal infrastructure, and are working with the Sanitation Department to improve bulk waste pick-up.

The monitor approved our action plan for ensuring the integrity of HUD inspections (known as PHAS inspections) in October. We've trained more than 900 staff on PHAS and HUD's Uniform Physical Condition Standards, making staff aware of the consistent, daily maintenance that is needed to improve the conditions of our properties year-round. We are now validating PHAS work orders through our Compliance Department, and these efforts also involve our other newly created departments, Quality Assurance and Environmental Health and Safety.

### **Permanent Affordability Commitment Together (PACT)**

The majority of NYCHA's buildings are over a half century old, and their massive capital needs – tens of billions of dollars and rising – is the single greatest issue impacting the Authority's future. Addressing this is an absolute imperative. But it can't be done with business as usual. Through our PACT preservation initiative, a key and innovative part of *NYCHA 2.0*, we are bringing substantial renovations and repairs to at least 62,000 apartments by 2028, significantly improving the quality of life for residents. We are on track to achieve this goal – by this spring, nearly 21,000 apartments will be somewhere in the conversion pipeline.

To date, we have converted nearly 7,800 apartments across 30 developments to the more stable Section 8 funding stream through PACT, addressing \$1.1 billion in hard costs for the capital needs of these properties. Last month, we closed our seventh PACT transaction, which will bring more than \$370 million in major repairs and renovations to 2,625 apartments throughout Brooklyn, home to over 6,300 New Yorkers. Last month, we also selected five development teams that will work with us to preserve over 5,900 apartments in Brooklyn and Manhattan, benefitting more than 11,000 residents. We will soon release a Request for Expressions of Interest to convert and renovate an additional 5,400 apartments.

### **Investing in NYCHA's Future**

We are using every tool and resource at our disposal to improve the quality of life for our residents. A key focus of our work, and the catalyst for change, is fulfilling the obligations of the HUD agreement in collaboration with the monitor. As noted, the federal government is not providing additional funding to meet these substantial obligations, and so we must continue advocating for the funding that public housing residents deserve.

Our partnership with stakeholders – including Council Members – is vital to accomplishing all that we must accomplish, and we thank you for your support.

At this critical moment, as we strive to invest in the Authority and ensure that it can serve New Yorkers for another 85 years, we look forward to keeping you updated on our progress.

Thank you. We are happy to answer any questions you may have.