TESTIMONY FROM NYCHA CHAIR & CEO GREG RUSS
PRELIMINARY BUDGET HEARING – PUBLIC HOUSING
COMMITTEE ON PUBLIC HOUSING
FRIDAY, MARCH 12, 2021 – 1:00 PM
REMOTE HEARING (VIRTUAL ROOM 2)

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 and CEO. I am pleased to be joined by General Manager and Chief Operating Officer Vito Mustaciuolo, Executive Vice President of Finance and Chief Financial Officer Annika Lescott, Executive Vice President of Capital Projects Steven Lovci, 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 30, 2020) and discuss our mission to transform this agency and our residents' homes.

It has been a year of unprecedented adversity, for our city, our nation, and our world. And our budget reflects the difficult realities we face: Although we are changing the structure of NYCHA, our aging, deteriorated structures themselves need to change – and the funding simply isn't there to do that. Yet despite these challenges, we are making progress with our critical work to improve the way NYCHA operates and bring our buildings the investment they desperately need – that is, the top-to-bottom renovations through our NYCHA 2.0 and Blueprint initiatives.

The Impact of COVID-19

Before I go into details about NYCHA's 2021 budget and the progress we've made, I'd like to update you on matters related to the pandemic. COVID-19 has deeply affected all New Yorkers, including NYCHA residents. NYCHA is following guidance from federal, state, and local experts to ensure our policies and procedures are thorough and responsive in a changing environment. This includes health and safety measures and PPE for staff, adjustments to work order guidance, increased communication and outreach efforts, and simplification of the rent hardship process.

Our rent hardship policy is a powerful safety valve for families who lost work or income due to COVID-19, and a core feature of this stabilizing institution. That's because the rent for public housing residents will always be 30 percent of adjusted gross income. As of the end of February, NYCHA decreased rent for over 51,000 families in public housing and nearly 4,400 in Section 8. Rent revenue decreased by about $89 million last year, $66 million of which is attributable to COVID-19. It should be noted, though, that rent revenue is about a third of our budget, and large reductions there means significantly less money to repair and preserve our buildings.

At the same time, the coronavirus has had a significant impact on our expenses: We have spent about $88 million to date on measures such as additional sanitation, personal protective equipment, and safety measures. That's an additional burden of $154 million that we wouldn't otherwise have had.

The HUD Agreement and NYCHA's Transformation Plan

The costs of fulfilling the 2019 HUD Agreement and enacting the Authority's Transformation Plan are also stretching NYCHA's financial resources. While both of these major undertakings drive the work we are doing to improve our organization, the delivery of services to residents, and residents' quality of life, they are costly and come without any additional or dedicated federal funding.

HUD and SDNY formally concurred with our Transformation Plan this past Monday, March 8. The plan envisions potential organizational and operational changes that will improve customer service and responsiveness to conditions at our developments, ensure that large projects are completed in a timely manner, and promote accountability through property management performance metrics. Its initiatives will enable us to manage our properties better and use our limited funding more effectively, all while improving the quality of life for our residents. It is vital to the success of the plan that we invest in our property-related expenses and reduce the cost of our central office functions. The 2021 budget focused on those values and included key additions to the properties, including additional skilled trades, support for the Neighborhood Model

(NYCHA's plan to create smaller property management portfolios and bring more decision making and resources to developments), and a streamlined annual review process for residents. The 2021 budget includes $19 million to support the beginning of the implementation efforts for the Transformation Plan.

The Transformation Plan was created from ideas and feedback that we received directly from residents and staff through virtual town halls, emails, social media, phone calls, and other engagement sessions throughout 2019 and 2020. In fact, the Transformation Plan was the first plan that NYCHA made available for public comment. We will continue to engage with our stakeholders and partners to incorporate feedback as we bring the plan's strategies to life – the next steps are to develop the first part of an Implementation Plan by September 2021 and the second part by June 2022. The Implementation Plans will guide NYCHA's restructuring to become a more responsive and effective organization.

Some of the operational improvements that are already underway include a new Neighborhood Model. The plan also includes ideas for streamlining NYCHA's management structure, improving the Alternative Work Schedule program, improving productivity through technology, enhancing resident partnerships and expanding resident economic opportunities, and empowering employees through learning and development.

While we transform our organization, we also need to transform our buildings into an acceptable and improved state. Our decades-old buildings are in such a deteriorated condition that they need about $40 billion to bring them to a state of good repair – an overwhelming figure that increases by about $1 billion a year. As part of the Transformation Plan, we estimated that we would need to hire an additional 2,800 staff, at an annual cost of about $200 million, to address all the backlogged work orders as well as the work orders that keep surging due to leaks and mold and failing building systems – issues driven by the condition of our buildings.

It is impossible to keep up with the demands of our aging, deteriorated buildings with the current funding levels. Capital needs are chewing through federal, State, and City funding. These sources combined, at present levels, can never meet the needs – *which are currently 20 times the total national appropriation from Congress*. For instance, for each apartment, per month, we receive an average of $538 in tenant rent, $513 in HUD operating subsidy, and $129 in City subsidy – about $1,181 in total. However, it costs us about $1,423 to operate the apartment, a deficit of about $242 per apartment, or roughly $46.4 million across our entire portfolio, per year.

In addition to spending more than we receive for the basic operation and maintenance of our developments, we are also committing large amounts of scarce funding to attack the major issues that result from old buildings missing out on multiple cycles of necessary investment.

Since 2018, we have increased our annual operating budget by $121 million to address lead, mold, heat, elevators, pests/waste, and HUD inspections as part of our obligations under the HUD Agreement. To meet the massive demands of our buildings, we've had to hire additional staff and that, of course, brings considerable costs – there's an allocation of about 1,500 employees in the 2021 budget for the areas I mentioned, compared to roughly 1,000 in 2018. Overall, we're allocating exponentially more to combat these issues than we did just a few years ago: about $44 million, for instance, to address lead this year compared to about $12 million in 2018; $16 million on mold this year, compared to zero three years ago; $36 million on pests and wastes, versus $3 million in 2018.

These expenses have yielded progress; here are some highlights of what we've accomplished so far as part of the HUD Agreement:

- Creating a Waste Management Department and training over 720 staff on the integrated pest management (IPM) approach we've implemented;

- Completing over 91,000 visual lead paint assessments, more than 62,000 XRF apartment inspections, over 30,000 remediations of paint deficiencies, and more than 1,300 apartment abatements;
- Launching the Mold and Leaks Prioritization Initiative to address certain outstanding work orders and installing over 2,200 roof fans at 76 developments;
- Resolving 98 percent of elevator no-service conditions within 18 hours, exceeding the requirement of 75 percent; and
- Restoring heat outages faster (within 7.3 hours this year to date, compared to 7.5 hours last year, exceeding the 12-hour requirement) and decreasing the total number of outages by 34 percent in that same period of time.

However, it must be stressed that mold, lead, and elevator and heating system failures are capital issues, symptomatic of buildings that have not received the regular reinvestment that all buildings require. If we don't bring our buildings this investment through PACT and Blueprint, these issues will continue, and we'll continue to be left with costly, stop-gap repair solutions.

We expect to spend substantially more over the next several years to continue addressing all the major areas of the agreement. For example, we expect that it will cost a minimum of $1.1 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 interim control protocols in this area would cost roughly $230 million annually.

These are, of course, very necessary expenditures, and a top priority for us. But, as I mentioned, we're not receiving any additional federal funding for them.

We are incredibly grateful for the City's investment of at least $2.2 billion over the next decade as part of the HUD Agreement. And we have also signed an agreement with the State for $450 million in State funding to help replace elevators and upgrade heating systems at specific developments. However, this is not enough to cover all our obligations.

I've described the true costs of doing business, and it's not a sustainable situation – for our bottom line or for our residents. What we need to do – what we must do – to bring our residents the homes they deserve is transform our buildings from top to bottom through PACT and Blueprint. These are comprehensive, sustainable, and realistic solutions that I'll discuss later in my testimony.

Budget Outlook

Operating Budget

Our budget outlook stresses the need to take creative approaches to ensuring the longevity of public housing in New York City. The numbers are grim: With $4.06 billion in operating revenues and $4.08 billion in operating expenses projected in the 2021 budget, we anticipate a deficit of $25 million. We are hoping to close this gap as the federal funding picture becomes clear later this year.

NYCHA receives two-thirds of its operating revenues from federal sources. This year, we expect to receive $985 million in federal operating subsidy and $601 million in federal capital funds. This amounts to approximately $9,900 per apartment annually.

The 2021 budget assumes a proration factor of 97 percent for the operating subsidy – about $30 million less than what NYCHA is eligible for. We also expect to receive $248 million in City operating funds. We expect to collect about $1 billion in rent from residents, though the numbers there are declining in general: In 2020, we collected $977 million in rent, $89 million less than 2019.

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 – designated by HUD as a high performer – despite the fact that we are underfunded by HUD's formula.

NYCHA's contract with HUD authorizes us to lease about 104,000 vouchers. But NYCHA currently receives 99.4 percent of the previous year's expenses and a Section 8 administrative fee that is prorated by 80 percent. This funding only supports 86,000 vouchers, roughly 83 percent of the 104,000 vouchers that NYCHA is eligible for.

The $4.08 billion in operating expenses includes $1.2 billion in Section 8 payments to landlords, $1.4 billion in salaries and fringe benefits, $612 million in contracts, $513 million in utility payments, and $330 million in other OTPS (supplies, vehicles, and equipment, for example). A significant portion of our expenses are fixed, such as utilities and employee benefits.

Unfortunately, our buildings are in such a state of disrepair that we must take more and more from our federal capital funding just to maintain them. In the 2021 budget, we had to use 35 percent of our annual capital grant to sustain our basic operations and support increased spending in the pillar areas. Typically, we'd be using 15 to 20 percent of our federal capital funding.

[Presentation slides]

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 $601 million in federal capital funds this year. Our 2021 budget allocates capital funding for building facades and windows, building systems (including heating plant and elevator replacements), and interior renovations. Through the year 2025, we plan to replace 319 boilers and 281 elevators at an estimated cost of $2.1 billion. Since 2019, we've replaced 43 boilers. But looking beyond 2025, we must still replace 103 boilers and 921 elevators throughout the portfolio.

While the federal capital funding we receive is far from enough to meet the $40 billion in 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 an average of $77 million per month on capital projects, and more than a billion dollars of construction work is currently underway across the Authority. NYCHA consistently meets and exceeds HUD's deadlines for obligating and expending federal capital funds – for the past four years, we've exceeded those deadlines by an average of 7 months and 16 months, respectively.

Due to the pandemic, the City instituted a 6-month funding moratorium last year that resulted in delays of 6 to 10 months for City-funded capital projects. Approximately 230 projects were put on hold, though we were able to shift a substantial portion of those to federal funding to keep the work going. Since the moratorium was lifted in November 2020, we've been working with OMB, and other partners such as the Comptroller's office, to assess and restart the projects.

As of the end of 2020, we have completed nearly $2.2 billion worth of Sandy recovery projects, providing residents with new roofs, electrical systems, boilers, exterior lights, CCTV cameras, security systems, backup power, and flood protection – and generating 933 Section 3 jobs in the process. We expect to complete work at 25 developments by the end of this year, have 95 percent of the work complete by the end of 2022, and close out all $3.2 billion of the Sandy recovery work by the end of 2023.

HUD's Energy Performance Contracting (EPC) program has enabled 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). Last year, we finished investing over $300 million at 70 developments through four EPCs, several years ahead of schedule and beyond our initial investment goal.

Since 2014, we have invested more than $212 million in CCTV cameras and other security measures at our developments, and another $101 million on exterior lighting.

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 202 roofs, benefiting nearly 47,000 residents and helping to prevent leaks that can cause mold.

Permanent Affordability Commitment Together (PACT)

Considering the age and massive needs of our buildings – $40 billion and rising – and the dismal state of federal funding, we must use every tool at our disposal to improve our residents' homes, now and for the generations to come. With our PACT preservation initiative, we are bringing comprehensive repairs and upgrades to at least 62,000 apartments by the year 2028 while safeguarding resident rights and protections.

Over 9,500 apartments are currently in construction or have been renovated through PACT at 50 developments across the city – representing nearly $1.8 billion in capital improvements. PACT renovations include brand-new kitchens and bathrooms, upgraded building systems (such as elevators and boilers), and improved grounds and common areas (including playgrounds and security systems). Another nearly 12,000 apartments at 35 additional sites are slated to begin comprehensive repairs and upgrades by the end of the year.

The Way Forward

NYCHA's organizational and operational transformation must happen in tandem with major capital investment and the transformation of our buildings – these are twin paths of progress that support each other, and will alleviate the immense costs of continually making catch-up repairs to aging, deteriorated buildings.

Together with PACT, our *Blueprint for Change* Public Housing Preservation Trust proposal has the potential to be a game-changer – it will ensure that all of our residents have the buildings and apartments they deserve, regardless of the scarcity of funding from DC. These preservation initiatives will enable us to transform half-century-old buildings that have suffered from decades of disinvestment into beautiful, modern homes.

This would be accomplished by transferring developments from HUD Section 9 funding to the more stable HUD project-based Section 8 funding, enabling NYCHA to raise money for renovations and access lucrative HUD Tenant Protection Vouchers. At the same time, NYCHA remains 100 percent public – NYCHA continues to own the land and buildings and NYCHA staff continue to manage and maintain the properties – while residents maintain their full rights and protections permanently. In the process, we'll create jobs and job training opportunities for residents.

We need to provide residents with wholesale, systemic improvements – not just piecemeal fixes. And we cannot delay in making this happen; we cannot wait for a continually grim budget outlook to improve. We need your support to make sure that the Authority will be able to serve the generations of New Yorkers to come.

Thank you. We are happy to answer any questions you may have. And we look forward to keeping you updated on these vital plans to improve the quality of life for our residents.