

**TESTIMONY FOR NYCHA CHAIRMAN JOHN B. RHEA
NYCHA'S BUDGET**

CITY COUNCIL COMMITTEE ON PUBLIC HOUSING

MONDAY, MARCH 15, 2010 – 1:30 PM

250 BROADWAY – 16TH FLOOR

Chairwoman Rosie Mendez, distinguished members of the Public Housing Committee, and to all the members of the City Council — it is a pleasure to be with you today. I am John B. Rhea, Chairman of the New York City Housing Authority (NYCHA). And joining me this afternoon are Vice Chairman Earl Andrews, Jr., Commissioner Margarita López, General Manager Michael Kelly, and NYCHA's senior management team.

I am here to present NYCHA's 2009 unaudited financial plan, which will detail what we budgeted versus where NYCHA ended last year; our 2010 Board approved Capital Plan; and last year's adopted Five Year Operating Plan updated to reflect our current 2010 forecast.

As you know, NYCHA is an important partner in fulfilling Mayor Michael Bloomberg's New Housing Marketplace Plan, a comprehensive and ambitious strategy for preserving and developing housing for the next generation of New Yorkers. We are committed to the Mayor's vision and we are encouraged by his support. Our operating and capital budgets reflect those priorities.

Fortunately, New York City and NYCHA are not alone in this effort to preserve, strengthen and secure public and affordable housing for low income families.

President Barack Obama came into office with a renewed commitment to support the nation's public housing authorities. Early in 2009, The Obama White

House—through the Department of Housing and Urban Development (HUD)—announced its National Urban Policy Agenda, which included a proposal to fully fund the federal operating subsidy formula for public housing authorities. This is undoubtedly good news as we plan for outgoing years; but it is important to point out that the federal funding formula officials use falls short by leaving out important variables, not the least of which are employee health care benefits. This year alone we spent \$98 million, representing a more than 50 percent increase from 2002.

At the same time the Obama Administration has renewed its commitment to public housing on the operating side, they have unfortunately proposed capital budget reductions for 2011 by 18 percent nationally, or \$456 million—clear evidence of the delicate balance officials in Washington must strike in order to fund priorities like ARRA, which delivered \$4 billion nationally to public housing authorities for capital projects.

So against this backdrop—renewed and energized commitment during changing economic times—we have approached budget planning with a new perspective.

Capital versus Operating Budgets

Every budget is a roadmap—a plan for the way forward and a strategy to get there. Budgets are also records, of priorities set and accomplishments met. But not all budgets are equal—either in design or ambition. The budget plans I will take you through today are dynamic—in their structure, their funding sources, and their reach. Given the long-term nature of capital planning capital budgets

are, for the most part, fixed. On the other hand, operating budgets are more fluid—presenting opportunities, as well as risks.

Review of the 2009 Unaudited Financial Plan

When we were here a year ago, the 2009 financial plan reflected NYCHA's core priorities.

Because the safety of NYCHA families is a top priority the Authority first made a commitment to invest in elevator modernization and safety. Since that time NYCHA adopted its Elevator Service and Safety Plan. As part of that plan, we hired new elevator mechanics and authorized overtime for existing service staff; we contracted with third-party inspectors and had our mechanics undergo Qualified Elevator Inspector Training; and we installed door zone locks on all 3,300 NYCHA elevators.

NYCHA has committed \$88 million from Stimulus funds and the 2009 Capital Grant to modernize 251 elevators at 25 different developments. To date, we have bid contracts for 23 of the 25 developments and awarded 21. Physical construction work has started at seven of our developments.

Second, NYCHA made a commitment to preserve community centers and program services. Due to budget cuts in 2009, the City Council allocated \$18 million for the operational transition to the Department of Youth and Community Development (DYCD), Administration for Children Services (ACS), and Human Resources Administration (HRA) to immediately allow 19 community centers slated for closure to remain open. \$12.25 million of the Council's allotment was awarded to DYCD to manage operations for 25

community centers. All 25 community centers are open, operating and serving their communities as part of the Cornerstone Initiative.

And, finally, we pledged to develop underutilized land to generate revenue for the Authority. In the current property market, meeting this commitment required us to be even more enterprising. A year later NYCHA has met its goals and continues to meet the Mayor's New Housing Marketplace challenge.

NYCHA's Metro North land lease agreement, for example, will bring in \$750,000 per year to the Authority; and we expect to yield \$22 million in cash and mortgage revenue over the next 15 years from the sale of property at UAC – Arista, UAC – Bronx Pro, and East 173rd Street/ Vyse Avenue.

Ended 2009 with a Balanced Budget

But as you may recall, we had a significant deficit during the course of the year that resulted largely from challenges to the Section 8 Program.

As I will discuss, we took significant and, sometimes, unsustainable steps to keep Section 8 families in their homes, including using Section 8 reserves to cover the budget shortfall and fund existing and new vouchers. Those measures, along with an increase in federal operating subsidy and our implementation of spending controls have resulted in a 2009 balanced budget, but left us vulnerable in 2010.

2010: Meeting the Mayor's Charges to NYCHA

When Mayor Bloomberg asked me to serve the Authority as chairman, he charged me with four mandates: Achieve Financial Stability; Foster Partnerships

with Sister Agencies and External Philanthropies; Increase Transparency and Communication; and Improve Resident Services. The Mayor's charges have been our guideposts as we chart a course to preserve, strengthen and secure public housing in our City.

NYCHA's overall budget for 2010 presents several opportunities: new project funding from federalization; an increase in federal operating subsidy; an increase in dwelling rent income; and a new commitment to forging public-private partnerships. But it also presents several risks: a \$45 million Section 8 subsidy shortfall; the stalled transition of apartments to Section 8; insufficient funding for frontline staff; underfunding of community and senior centers; and insufficient resources to meet the long term modernization needs of aging NYCHA assets.

However, as NYCHA's Board approved Capital Plan makes clear, despite these risks we are committed to fulfilling the mayor's vision.

NYCHA'S FIVE YEAR PLAN

One of the greatest challenges facing housing authorities is the preservation of our buildings. In 2005, NYCHA's Comprehensive Needs Assessment (CNA) identified a five-year, \$7.5 billion need; our need over the next 15 years is \$25 billion.

Our approved Five Year Capital Plan—a \$2.6 billion funding strategy for major modernization projects—while significant, is only a third of what we require to fully address the Authority's five-year infrastructure investment needs. Our funding limitations also mean we must focus on the most critical repairs and

upgrades to preserve the structural integrity of our buildings and provide for our residents' basic safety. The restoration and modernization of individual residential units—the work that would have the most visible impact on our families' day-to-day quality of life—we will have to address in the future. We must develop a plan to address and fund upgrades to residential units.

But today, our Capital Plan tells a story of collaboration and innovation to ensure public housing endures for the families of New York. We knew that to achieve our ambitious targets for this year—and raise the bar over the next five years—we would have to maximize existing funding and seek or create new ones. To that end, the Plan uses traditional funding sources such as Federal, State and City capital grants and leverages private market funding for modernization of the Authority's aging housing stock.

So as I mentioned, the Plan reflects the Authority's ongoing commitment to invest in our residential buildings. NYCHA will devote approximately \$1 billion over the next five years to critical brickwork, roof and elevator projects to preserve housing for future generations. The remaining \$1.5 billion will be spent on plumbing, major renovations and building system upgrades.

The Five Year Plan includes several key initiatives, which I would like to highlight:

Federalization

The first is our federalization plan. NYCHA identified and seized an opportunity to take what looked to be a one-time funding infusion—Stimulus—and has leveraged it to provide ongoing capital and operating subsidies for the Authority.

Because the Stimulus legislation temporarily suspended the Faircloth Amendment, which prevents housing units from being added to the federal program, NYCHA moved aggressively to “federalize” the 21 state and city developments. This Federalization process, referred to as mixed-finance modernization, was a collaborative effort, merging the expertise of NYCHA managers with our colleagues at City Hall and in state and federal government, and at the New York City Housing Development Corporation (HDC) and the Department of Housing Preservation and Development (HPD).

Through Federalization the Authority will spend \$250 million in public and private funds for capital improvements at the 21 previously unfunded state and city developments through 2012. The Authority will also establish critical operating reserves to ensure long-term maintenance of these units. The modernization will be funded through Stimulus dollars, tax credit equity and, of special significance, state modernization grants. At a time when Albany is pressed with historic deficits, NYCHA took advantage of an opportunity to pool and spend state modernization grants that were due to expire, totaling approximately \$42 million. Taken together, 77 percent of these funds will be devoted to brickwork and roof projects. Work will begin immediately and over the next two years NYCHA families will see real improvements in their buildings.

Commitment to Stimulus Funded Projects

We were also able to expand the number of Stimulus funded projects obligated for the Authority from 70 to 75 because bids were more competitive than anticipated. The first phase of Federalization will be completed on March 17, and

at that time I am proud to report we will have not only obligated the federalization funding, but also the full \$423 million dollars we received in support from the 2009 Stimulus Act.

The completion of previously identified priority projects is a central part of our Capital Plan, so while we are identifying new building needs, we remain committed to construction projects already underway. Whitman Ingersoll Houses is just one example of a project we will continue and complete on-time. The work at Whitman Ingersoll will conclude by 2012 and bring an estimated 603 apartments back onto the rent roll.

Using a mix of public and private funding is a bold new path for NYCHA and we will continue to seek creative, yet sound funding options for the Authority.

Proposed \$300 Million Bond Offering

And NYCHA is going even further. Through a bond offering the Authority will raise an additional \$300 million to support a systematic, comprehensive strategy to comply with Local Law 11 requirements, thereby ensuring our residents' safety and the integrity of our buildings in the long term.

Five Year Investment in Infrastructure

Over the next five years NYCHA will devote \$245 million to modernize 581 elevators at 65 developments. As I said, the safety of NYCHA families is our first priority and, despite our financial challenges, we are committed to improving elevator service and safety. We will continue to support current staffing levels,

safety initiatives—including installing door zone restrictors in all elevators—and installing remote monitoring technology where feasible.

Adopted Five Year Operating Plan and 2010 Forecast

While we have made huge strides in addressing our long-term infrastructure needs and moving the Authority toward financial health, ultimately reducing our consolidated Section 8 and public housing operating forecasted deficit from \$137 million to \$103 million, we still have work to do.

Since this is just a current forecast, we will come back to you in May with a Board approved 2010 Operating Budget. And the Plan which is currently in development will demonstrate that we are moving in the right direction. NYCHA is taking advantage of increased federal operating support, increasing our revenue through improved collection practices, and strengthening our fraud detection efforts. We are also taking steps to better leverage our assets, including continuing to repurpose underutilized property or using property to create long-term revenue streams. We are also shifting direct costs for community programming to philanthropic funders and developing greater coordination with sister agencies to provide better and more cost effective delivery of services to residents. And we will continue working with HUD to develop a long term funding solution for the remaining 6,100 recently federalized units that lack dedicated operating and capital subsidies.

We are laying the groundwork for a new Plan to Preserve Public Housing, the details of which will be shared with the Council in early 2011.

As I mentioned, we still have a significant operating deficit—\$103 million—driven in part by the Section 8 budget gap.

We have several outstanding challenges to Section 8. First, we have exhausted our resources. In addition to \$58 million that was recaptured from Section 8, to keep families in their homes NYCHA exhausted \$120 million in remaining reserves and used \$8 million of funds designated for administering the Program. As a result, the current Section 8 shortfall is projected to be \$45 million.

We have also been unable to meet the forecasts of our Voluntary Conversion Agreement—to date NYCHA has converted only 2,236 apartments of the 8,400 we have scheduled to convert—due to families having more private market options, residents' reluctance to relinquish public housing for the portability of Section 8, and the fact that NYCHA has exceeded its voucher cap. Had we met our forecasts and converted all 8,400 units, we anticipated receiving Section 8 funding of approximately \$75 million. However, the 2,236 that we have converted represent only \$25 million.

NYCHA has limited tools to address this problem. First, we continue to seek additional funding. This year, Congress authorized \$150 million of Section 8 subsidy as a national competitive set-aside for authorities that qualify as a result of the nation-wide challenges confronting Section 8. Based on HUD's criteria, NYCHA has submitted a request for a portion of those funds. Also, Representative Nydia Velázquez and Representative Jerrold Nadler, with support from Senator Charles Schumer, a tireless champion of New York's low-income residents, have submitted letters to their colleagues requesting that Congress

fully fund the Section 8 Program, as well as fund 250,000 additional tenant-based vouchers.

Second, NYCHA looks forward to working more closely with local electeds to find a solution.

Should we not receive additional funding, NYCHA has two options at its disposal to reduce costs: 1) to reduce the Section 8 payment standard, thereby lowering the amount of subsidy we provide to tenants; or 2) terminating recipients from the Section 8 Program, which would affect almost ten thousand New York families.

Conclusion

We have accomplished a lot, but more remains to be done. NYCHA's Budget Plan for 2010 will serve as an ambitious roadmap to address construction, repair and safety concerns so that we ensure that public housing not only survives in our City, but thrives.

To that end, we have better leveraged federal funding while pursuing alternate revenue sources to increase our resiliency during times of uncertainty. We have strengthened existing partnerships and formed new alliances to emphasize the value of collaboration. And we have refocused our efforts on leveraging NYCHA assets to create more value for the Authority. We accomplished it all the old fashioned, New York way—by working together. And we will continue to work together to meet the challenges of tomorrow.

We remain as committed today as at any time in our history to preserve, strengthen and secure public housing in New York City. We know that is the

commitment Mayor Bloomberg has made; it is the commitment this City Council has made; and it is the commitment NYCHA makes, every day, to the families we serve. Thank you and I look forward to taking your questions.