

TESTIMONY FROM NYCHA GENERAL MANAGER MICHAEL KELLY
EXECUTIVE BUDGET HEARING
COMMITTEE ON PUBLIC HOUSING WITH THE COMMITTEE ON FINANCE
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COUNCIL CHAMBERS, CITY HALL, NEW YORK, NY

Introduction (slide 2)

Chairs Ritchie Torres and Julissa Ferreras, members of the Public Housing and Finance Committees, and other distinguished members of the City Council: good afternoon. I am Michael Kelly, General Manager of the New York City Housing Authority. Joining me today are Richard Couch, Executive Vice President and Chief Financial Officer, and Raymond Ribeiro, Executive Vice President for Capital Projects. I served as NYCHA's General Manager from 2009 to 2011, and I was pleased to accept Mayor de Blasio's invitation to return to NYCHA to transform the way it does business and set us on a path toward financial sustainability.

Last month, the Mayor and Chair Olatoye released NextGeneration NYCHA, our 10-year strategic plan to preserve public housing in New York. We appreciate this opportunity to take you through the plan and explain why it is so urgent that we act now to put NYCHA on solid footing for the next generation. NextGeneration NYCHA will chart a pathway to financial health for our organization so that we can address the tremendous capital needs of our aging buildings. Achieving financial stability and diversifying our funding for the long term will enable us to create safe, clean, and connected communities for residents and ensure that NYCHA is here to serve our coming generations. This afternoon, we will also update the Council on our financial statements for NYCHA's first quarter (which is January through March) and present a re-forecasted estimate for 2015.

The Need for NextGeneration NYCHA (slide 3)

For more than 80 years, NYCHA – the nation's largest and oldest public housing authority – has enabled millions of low- and moderate-income families to build a

better life for themselves, with safe, secure, and affordable housing as their foundation. Today, more than 400,000 New Yorkers call NYCHA's 328 developments home, including nearly 200,000 seniors and children. We also administer the country's largest Section 8 program, supporting another 213,000 people with federally subsidized rental vouchers. In a City where the median market rent is nearly \$2,900 a month, there are 270,000 families on our public housing waitlist, drawn to the promise that their rent will never exceed 30 percent of their income.

But as a result of longstanding financial disinvestment, and recognizing that NYCHA is in the worst financial shape of its history, Mayor de Blasio tasked the Chair with two mandates upon her appointment: 1) reset the relationship with all of NYCHA's stakeholders, including residents, employees, elected officials, and community advocates, and 2) create a long-term plan that will enable the Authority to overcome its challenges and ensure its future. So we got to work on what we coined NextGeneration NYCHA, both a stakeholder engagement process and a plan that will bring NYCHA back from the brink. We examined the most pressing issues demanding practical solutions: aging buildings in need of repair; federal funding shortfalls of more than \$2 billion since 2001 – money that should have gone toward regular maintenance as well as major renovations and modernization; a large senior population that's aging in place; and a 270,000-family waitlist for NYCHA housing.

A Cumulative 10-Year Deficit of \$2.5 Billion (slide 4)

At the preliminary budget hearing in March, we projected a \$98 million operating deficit for fiscal year 2015. If we continue on the path of the status quo – and not make the tough choices – we will be confronting an approximately \$425 million annual deficit in 10 years, due to rising expenses and continued government underfunding. Cumulatively, the annual operating deficits would amount to \$2.5 billion.

Depletion of Operating Reserves (slide 5)

Ten years ago, NYCHA had three and a half months of operating reserves, a standard best practice in organizational finance. But to stay afloat and serve residents amid insufficient funding, NYCHA has had to dip into these reserves, steadily depleting them to the point where we have only one month of expenses in reserve today.

Aging Buildings (slide 6)

Compounding a dire fiscal predicament is the fact that 60 percent of our nearly 2,600 buildings were built before 1965.

\$17 Billion in Capital Needs (slide 7)

Decades of funding shortfalls have meant that all elements of our aging infrastructure – roofs, facades, elevators, heating systems, etcetera – have gone without the repairs or replacement they need. These delays increase maintenance needs as well as the costs to accomplish them.

The NextGeneration NYCHA Process (slide 8)

Clearly, the current path we're on – constant tough choices for the use of limited funding and diminished quality of life for residents – is not sustainable, for our organization and for those we serve. Since last March, we've engaged thousands of residents, employees, elected officials, and community advocates as part of the NextGeneration NYCHA process to get their input on what we can do to turn NYCHA around and improve the quality of life for our residents. As part of our process, we made over 100 visits to developments and held over 150 meetings with stakeholders, including with nearly every elected official who represents our communities. We held community visioning sessions at three of our developments: Van Dyke in Brownsville, Brooklyn; Ingersoll in Downtown

Brooklyn; and Mill Brook, in Mott Haven, Bronx. We asked residents about the issues that are important to them and their vision for their community. In committees, residents developed strategies to address their priorities, in collaboration with NYCHA and other community partners. Also, we worked extensively with NYCHA's senior leadership, who formulated ideas for how we can realistically do things differently and better.

The Vision (slide 9)

The result of all that feedback from this enhanced engagement process is the NextGeneration NYCHA plan. And the plan's overarching vision is based on something that we heard everywhere we went: that residents want – and deserve – safe, clean, and connected communities.

The Goals (slide 10)

To realize this vision, NextGeneration NYCHA is organized around four goals:

- Achieve short-term financial stability and diversify funding for the long term;
- Operate as an efficient and effective landlord;
- Rebuild, expand, and preserve public and affordable housing; and
- Engage residents and connect them to quality services.

The Strategies (slide 11)

This is not a kitchen sink plan. We focused on 15 specific strategies that will guide us in accomplishing these goals. I'll highlight a few, particularly those that benefit NYCHA's bottom line and provide vital funds to enhance residents' quality of life. NextGeneration NYCHA is meant to be a holistic approach – its initiatives go hand in hand and we must pursue all of them to become a solvent, 21st century housing authority, even those initiatives that may be difficult and unpopular.

Starting this fiscal year, the City will waive NYCHA’s “payment in lieu of taxes” (PILOT), which it has paid to the City every year since 1949. Along with the relief of payments to the NYPD, this is \$100 million that we can direct toward serving residents every year. I want to thank the Mayor and City Council for this unprecedented level of support, which will help make NextGeneration NYCHA a success. The Mayor also committed \$300 million in capital funds over the next three years for replacing roofs. With these new roofs – starting at 66 buildings this year – we’ll address one of the root causes of mold, protect the health of our residents, and reduce our maintenance workload and operating expenses.

By working closely with residents and changing internal procedures, we will improve the collection of resident rent and fees to yield an additional \$30 million in revenue in total. For instance, we are exploring options to make it easier for residents to pay their rent, such as biweekly payments.

NYCHA will generate up to \$6 million in revenue annually by maximizing the leasing of over two million square feet of non-residential ground floor space and by raising parking lot rates to local market value. NYCHA will ensure that parking lots are better maintained and more secure. We will also continue to provide residents with first priority for parking spots, will cap rates for residents, and will phase in price increases through the end of 2017.

NYCHA will cut expenses by shrinking the central office workforce by nearly 1,000 through attrition and integration of some operations and positions into other City agencies. This will be done without layoffs or impacting service to residents, and is expected to achieve annual savings of approximately \$90 million by 2018.

NYCHA’s extensive portfolio has enormous untapped potential to improve the lives of residents and the Authority’s financial position while contributing to the City’s affordable housing resources. In support of *Housing New York*, the

Mayor's plan to secure 200,000 affordable apartments by 2025, NYCHA will provide underutilized land for the creation of 10,000 new affordable units in buildings that are 100 percent affordable; we will release requests for proposals this summer. We are also exploring opportunities to develop buildings containing a mix of affordable and market-rate housing on a limited number of underutilized NYCHA sites. Fifty percent of the apartments in each of those buildings would be dedicated to families making no more than approximately \$46,600 a year, which is 60 percent of area median income. These initiatives will bring amenities to NYCHA residents and generate revenue for the Authority to stabilize its operations and finances. And the revenue generated will fund critical building and apartment repairs at NYCHA developments. I want to stress that all new development will involve a transparent resident engagement process, an approach that we launched last summer.

HUD preservation strategies used by many public housing authorities nationwide, including the Rental Assistance Demonstration (RAD) program, will also help the Authority attain financial stability. For instance, NYCHA has HUD's approval to convert approximately 1,400 units at Ocean Bay/Bayside Apartments in Far Rockaway to a project-based Section 8 funding stream through RAD. This will enable NYCHA to rehabilitate and preserve these properties and will reduce our overall capital needs by nearly \$90 million. At the same time, residents' rights and affordability will be protected. We are in the early stages of a robust engagement process with local residents and elected officials.

To improve social service delivery to residents, the New York City Department of Youth and Community Development will now operate 24 additional community centers and the Department for the Aging will operate 17 additional senior centers. This will save NYCHA approximately \$16 million a year. These centers lacked a dedicated funding source, and it is not financially sustainable for NYCHA to continue paying for their operation. This transition will be accomplished without layoffs, closures, or disruption in services to residents. By facilitating access to quality services and programs from specialized providers, we

make the greatest impact in helping residents enhance their lives through opportunity. And we will be able to focus on our core mission of providing quality affordable housing.

NYCHA will launch the Fund for Public Housing, an independent, nonprofit organization that will seek to raise 200 million philanthropic dollars in its first three years to provide additional support for residents.

The Impact (slide 12)

The implementation of all of NextGeneration NYCHA's 15 strategies will result in fiscally sound operations, enabling NYCHA to tackle its immense capital needs. And that means serving residents better, by replacing appliances, fixing floors and ceilings, and modernizing common areas.

A Deficit Today (slide 13)

Now I'd like to discuss our 2015 budget. As you know, NYCHA manages two major programs: public housing and the Housing Choice Voucher program (known as Section 8 or the leased housing program). Public housing represents two-thirds of the Authority's overall spending, or about \$2 billion, and the Section 8 program is approximately \$1 billion, or one-third of total spending.

When the Chair testified at the Preliminary Budget hearing in March, she explained that NYCHA's board of directors approved the 2015-2019 budget in November 2014. With expenses of \$3.2 billion exceeding our revenue of \$3.1 billion, this 2015 adopted budget projected a deficit of \$98 million for 2015. This gap is mostly due to federal underfunding and the high costs of operating nearly 5,000 unfunded, non-federal public housing units.

A Better-than-Expected First Quarter (slide 14)

To better understand the current fiscal picture, we'll compare the adopted budget with actual figures from the first quarter of 2015. Although we still have a deficit, the first quarter figures are better than expected due to lower than anticipated expenses.

The adopted budget passed in December projected operating revenues of \$254 million for Quarter 1. From January to March, NYCHA actually received \$252 million.

The adopted budget projected \$476 million from federal operating subsidy and Section 8 Housing Assistance Payments (HAP). NYCHA actually received \$468 million, due to higher-than-expected public housing subsidy and HAP proration (of 101.25 percent). In recent years, Congress has appropriated substantially less than public housing authorities across the country need to maintain their operations. HUD then has to prorate the amount it disburses to every housing authority accordingly.

The adopted budget projected \$803 million for total expenses. For Quarter 1, NYCHA spent \$787 million. The adopted budget projected \$318 million for expenses related to personnel services. For Quarter 1, NYCHA spent \$297 million. This was due to the fact that health insurance and pension charges were delayed until later in the year.

Tackling the 2015 Deficit (slide 15)

The adopted budget projected total revenues of \$3.116 billion for 2015. By continuing the first quarter trend for revenues, we expect to receive \$3.121 billion, an increase of \$5 million. The adopted budget projected total expenses of \$3.214 billion for 2015. We are now projecting \$3.195 billion, a decrease of \$19 million.

With a better-than-expected first quarter and the initial success of three NextGeneration NYCHA initiatives, we are now projecting a lower deficit for 2015, of \$74 million. The specific NextGeneration NYCHA initiatives are: the waiver of the rest of this year's PILOT; improved collection of resident rent and fees; and the leveraging of HUD preservation programs.

NYCHA is working to fully close the 2015 deficit with the following: higher-than-expected federal subsidies; increased insurance reimbursements; higher staff attrition; operating reserves; and utilizing proceeds from last year's innovative public/private partnership that revitalized and preserved six Section 8 developments.

By implementing all of NextGeneration NYCHA's 15 strategies, together with HUD support we will reduce our annual operating deficit by 2017, and begin achieving annual operating surpluses in the tens of millions of dollars.

Addressing Long-term Deficits (slide 16)

Over the next 10 years, NextGeneration NYCHA's initiatives will generate a cumulative \$230 million in operating surpluses. This is the top line of the PowerPoint graph. Doing nothing and sticking with the status quo would mean a cumulative \$2.5 billion deficit in that same time period instead, depicted by the bottom line in the graph. Again, attaining financial stability requires the implementation of all of NextGeneration NYCHA's initiatives. With that financial stability, we can better deal with declining federal funding and can tackle a significant portion of our vast capital needs.

Capital Needs without NextGeneration NYCHA (slide 17)

HUD capital funding for the next five years is \$1.715 billion, which is only a fraction of NYCHA's approximately \$17 billion in capital needs.

Capital Needs with NextGeneration NYCHA (slide 18)

But NextGeneration NYCHA's 15 strategies will reduce this \$17 billion in capital needs by more than 25 percent. Through NextGeneration NYCHA initiatives that include disaster recovery funding and new capital support from the City and State, \$4.6 billion of critical rehabilitation work will be funded over the next five years.

Conclusion (slide 19)

To contend with a dire fiscal reality, NYCHA must make some tough choices and must change. As I mentioned, NYCHA didn't find itself in the state it's in overnight – it's the result of many years of underfunding and continually aging buildings. So we're not going to get out of the crisis overnight.

But with the support of the Mayor and our partners, including Speaker Mark-Viverito and the City Council, we will continue to successfully implement NextGeneration NYCHA. In doing so, we will better serve residents and our city and ensure NYCHA's longevity. As we make progress, the NextGeneration NYCHA engagement process will continue to drive us forward. We will work with our stakeholders every step of the way, gathering feedback and input and refining the plan as needed. We will report out on our progress with NextGeneration NYCHA. And we will continue to provide information about our performance through NYCHA Metrics and NYCHA Alerts on heat and hot water outages.

Thank you for being a crucial part of this new, necessary direction for the Authority. NYCHA is too important for our City for there to be any other way. We look forward to continuing to work together to strengthen and preserve this vital resource for the next generation.

Thank you, again. We're happy to answer any questions that you may have.