

TESTIMONY FOR NYCHA CHAIRMAN JOHN B. RHEA
NYCHA'S FIVE YEAR OPERATING BUDGET
CITY COUNCIL COMMITTEES ON PUBLIC HOUSING AND FINANCE
THURSDAY, JUNE 2, 2011 – 1:00 PM
16th FLOOR COMMITTEE ROOM, 250 BROADWAY, NEW YORK, NY

Chairwoman Rosie Mendez, Chairman Domenic Recchia, Members of their respective Committees, and other distinguished Members of the City Council: it is good to be with you and to have the opportunity to discuss the New York City Housing Authority's (NYCHA) Five Year Operating Budget. I am NYCHA's Chairman, John B. Rhea. And joining me this afternoon are Vice Chair Emily Youssouf, Chief Financial Officer Felix Lam and members of NYCHA's senior management team.

Let me begin by congratulating my colleague, Vice Chair Youssouf, on her appointment. Vice Chair Youssouf has spent a career—in government, academia and the private sector—committed to building the strong, vibrant neighborhoods that every New Yorker deserves. She is familiar with the communities NYCHA serves and we are grateful to have her considerable expertise, energy and talent in our effort to preserve and strengthen public housing in New York.

The Operating Budget I will present today reflects NYCHA's core priorities for strengthening New York City communities and our commitment to improving the quality of life of our residents. I would like to highlight those priorities, as well as some of the major challenges and opportunities we face. I am looking forward to

working even more closely with this Committee because there is an enormous amount that we have to do together.

Just last month, NYCHA organized a series of Community Conversations with residents of public housing and participants in NYCHA's Housing Choice Voucher Program (Section 8) to discuss the Plan to Preserve Public Housing—a strategy to address what our residents, as well as NYCHA's own research have told us are the Authority's most pressing concerns, including maintenance and repair of NYCHA's invaluable yet aging housing stock, the safety and security of NYCHA communities, and the Authority's long term financial strength.

As you may have heard, these community meetings were unique in their approach to engaging residents. Through 10 Community Conversations we sat with more than 800 residents and Section 8 participants of all ages, backgrounds and experiences to share our work and research in developing the Plan to Preserve Public Housing and seek their insight. Community Conversations were held in every borough. NYCHA provided translation services for Spanish speakers at seven of the meetings, and held separate Community Conversations for speakers of Cantonese, Mandarin and Russian. We also held a meeting for young adults ages 18 to 25.

Planning and hosting the Community Conversations involved the direct participation of more than 400 NYCHA employees from every department in our organization. NYCHA employees, including myself, Vice Chair Youssouf and

Commissioner Margarita López, served as meeting coordinators, discussion facilitators, note takers, and team members. We created a Phone Bank and made calls to more than 12,000 NYCHA households. We posted flyers at all developments, placed flyers under apartment doors and directly mailed or e-mailed thousands of residents. And we worked with members of the Citywide Council of Presidents and our Resident Associations to further inform residents of these meetings. While we were engaging our residents and Section 8 participants, we also briefed and sought input from advocates, NYCHA employees and elected officials at all levels of government. This engagement will continue.

The success of these meetings is just the latest example of how important it is that we work together, and the tremendous impact our partnerships can have on resident engagement. Resident leaders, Members of the City Council, and community advocates were invaluable in helping to make the Community Conversations so successful, and we look forward to working with you on similar efforts in the future.

Ensuring that the Authority is a more open and transparent organization attuned to the needs and aspirations of our residents is a commitment that Mayor Michael R. Bloomberg made central to his charges for moving NYCHA forward. We stand by the Mayor's principle that openness is linked to improving the quality of life for residents, because we recognize that through open, constructive partnerships NYCHA can better understand not only how to serve our more than

600,000 customers, but also engage our residents and Section 8 participants in making the tough financial decisions that ultimately impact their quality of life.

NYCHA's Operating Budget is Balanced in 2011

That shared responsibility must be strengthened beginning today. In 2011, because of the support of our leaders in government; the partnership of our residents, sister agencies and community advocates; and the commitment of our employees, NYCHA's operating budget is balanced. Most important, NYCHA balanced its budget through innovation rather than severe cuts. But, as I will discuss, although our budget is balanced this year, NYCHA faces a series of challenges that, without continued support of our leaders in city, state and federal government, will grow ever more serious and hinder NYCHA's ability to serve our residents, Section 8 families and the tens of thousands of New Yorkers whose lives are enriched by NYCHA housing, services and centers.

In 2011, the Authority will administer \$3.059 billion in funding—including prior year surpluses and over \$2.1 billion (70 percent) in federal funding for the Section 8 and public housing programs. And NYCHA will expend \$3.059 billion—including more than \$2 billion in operating expenses (68 percent) and another \$969.4 million (32 percent) that the Authority will pay to private landlords under the Section 8 program.

This achievement was due in large part to the unprecedented federal support of the Obama Administration's first budget, which funded housing authorities

across the country at 103 percent of our eligible subsidy for 2010. This support translated into \$42 million that NYCHA was able to apply to its budget in 2011.

Additionally, as you know NYCHA's signature achievement last year was the successful execution of two mixed finance transactions involving the 21 developments built by the City and State of New York, better known as federalization. In addition to the capital improvements underway as a result of federalization, the 21 developments became eligible for annual federal operating and capital subsidies. For the first time, this created additional federal operating subsidy of approximately \$56 million that further contributed to balancing the Authority's operating budget in 2011.

NYCHA's 2011 operating budget supports a workforce of 11,830 employees and continues to fund priorities at NYCHA developments with no layoffs or reductions in service levels. Specifically \$1.2 billion, or 38 percent of our 2011 operating budget, is allocated for Personal Services; and \$1.9 billion, or 62 percent, is allocated for expenses Other than Personal Services (OTPS).

The \$1.2 billion Personal Services Budget includes salaries and benefits, such as pensions, health care, and workers compensation. Approximately 84 percent of the Personal Services budget is allocated for support of the Authority's core priorities—providing services that include maintenance, elevator modernization, interior apartment repairs, and pest control services. In addition, NYCHA's staffing resources are dedicated to providing community programs and resident

services, administration of the Section 8 program, direct support of the Capital Program, and other administrative functions.

The OTPS budget of \$1.9 billion remains relatively flat over last year's expenses. As I mentioned, this year's budget allocates \$969.4 million (51 percent of the OTPS budget) for payments to landlords who provide housing to Section 8 residents. This amount represents a decrease of \$20.1 million as compared to last year, primarily as a result of the transfer of approximately 2,000 vouchers to HPD in 2010.

Thirty-five percent of NYCHA's OTPS budget—\$669.3 million—can be categorized as non-discretionary. This allocation is primarily driven by \$531 million for utility costs. Rising costs for all commodities is a cause for concern, which only helps to increase the importance of our conservation initiatives. NYCHA's electricity costs increased by \$25 million from 2009 to 2010. This increase was the result of higher than average summer temperatures, which created higher demand for energy. However, NYCHA was able to mitigate against these increased costs because of savings achieved through heating plant efficiency measures. These efficiency initiatives have yielded reductions in heating fuel consumption for three consecutive years and we anticipate additional savings in the future as more developments are fitted with improved energy efficient technology.

The remaining 13 percent, or \$247.4 million, of the OTPS budget can be categorized as discretionary and provides funding for operating expenses, which include supplies, leases, and contracts for resident services such as painting, elevator maintenance, fire safety and private management. Although it is our goal to completely eliminate the need for unplanned fund transfers between the capital and operating budgets, it is important to note that our contracts budget includes \$11 million that was transferred from NYCHA's capital budget that will be used to begin tackling the Authority's backlog of interior apartment repair needs. To put this in historical context, in 2009 NYCHA transferred \$76 million from its capital to operating budget. This reflects an 86 percent decrease from two years ago.

NYCHA's Enduring Funding Challenge

When I was here in March, I discussed the substantial work NYCHA, this Committee and our partners throughout government and the non-profit and private sectors have already done to preserve our communities and support NYCHA's families. Our progress is significant, but our work is ongoing.

As you know, because of the leadership of President Barack Obama, Department of Housing and Urban Development (HUD) Secretary Shaun Donovan and the 111th Congress—including the decisive action of New York's Congressional delegation—public housing communities throughout the United States received unprecedented financial support in 2009 and 2010.

In 2009 alone, NYCHA received the largest single grant made to a public housing authority (PHA) from the *American Reinvestment and Recovery Act*, better known as the Stimulus bill. And as I mentioned earlier, an unprecedented level of federal operating support in 2010 helped NYCHA balance its current year budget—a significant step forward after a decade of reduced funding that resulted in a cumulative loss to the Authority of \$666 million.

But current budget conversations in Washington are very different than they were over the past two years. The President's 2012 budget for public housing recognizes a need of \$4.962 billion to fund public housing authorities at 100 percent of their estimated eligibility for operating subsidies. However, only \$3.962 billion, or 80 percent, is being requested from the 112th Congress. It is proposed that the additional \$1 billion be offset by using local Authorities' operating reserves.

It is unclear how the federal government will recapture operating reserves from housing authorities. If HUD abandons its plan to recapture operating reserves, as NYCHA and industry associations advocate, the \$1 billion funding shortfall would be proportionally distributed among all housing authorities and would result in NYCHA losing \$200 million. As NYCHA's operating reserves are already pledged to cover long term liabilities, including employee accrued leave time and pension obligations, a \$200 million funding loss would have a rippling effect, and would be the equivalent, for example, of 3,000 direct service positions being cut or 69,000 apartments going without even basic repairs.

The potential risks outlined in the President's 2012 budget are not currently reflected in the operating plan I present today. But NYCHA has developed a preliminary contingency plan, which includes a drastic reduction in community programs, agency-wide layoffs, renegotiation of contracts, and large transfers from the capital to operating budget. An unprecedented cut of this magnitude over multiple years would force a more rapid change in NYCHA's business model. To avoid these draconian cuts, NYCHA, residents, community advocates, industry stakeholders and elected leaders alike must work together to increase public support for our communities today and in the future.

NYCHA is ready to act. When we met in March, I said that NYCHA was laying the groundwork for a comprehensive strategy—the Plan to Preserve Public Housing—for fully assessing the Authority's strengths, as well as our challenges; organizing NYCHA's assets to support our priorities; and forging partnerships with residents, elected leaders and stakeholders who share our commitment to fostering strong public housing communities. As we continue to develop and, ultimately, implement our strategy, collaborative decision making concerning the harsh realities of investment and service priority trade-offs with residents, elected leaders and advocates is critical.

NYCHA's Core Priorities

While NYCHA continues to face challenges, it is important that we not lose sight of our core priority: the preservation of our invaluable yet aging housing stock. Preservation does not come without significant cost. Recent inspections of more

than 14,000 apartments conducted at 13 developments generated an average of eight work orders per apartment at a cost of approximately \$2,900 per unit. Based on this data, NYCHA estimates that it would cost approximately \$500 million to make interior repairs to all NYCHA apartments.

To address the most severe conditions, NYCHA has allocated an additional \$31 million of funding over the next five years, \$11 million of which is dedicated in 2011. As part of this budget process, NYCHA is actively seeking matching funding of \$31 million in the City's fiscal year 2012 budget to support this initiative.

Another concern that was voiced at all ten Community Conversations was the safety and security of NYCHA's developments. And early work on the Plan to Preserve Public Housing revealed opportunities to improve upon NYCHA's prior efforts to promote safety and security in our communities. Developed in cooperation with key partners, NYCHA's Safety and Security Task Force Report outlines a new strategy to enhance community safety, including the implementation of a layered access approach to providing building security.

The City Council has remained a steadfast partner to NYCHA, particularly on issues of resident safety. One area where the Council has been particularly helpful is in providing funding for CCTV cameras. Currently, 20 percent of NYCHA developments have some form of CCTV, most of which were made possible by approximately \$21 million in funding from Council Members'

discretionary budgets over the past decade. And currently, NYCHA has an additional \$30 million from the Council's prior allocations, which we plan to invest in additional CCTV and our new layered access control system. We estimate that the layered access system with CCTV will cost \$219 million for all properties. NYCHA's plan is to prioritize the 60 developments with the highest rates of crime, which would cost \$100 million over five years. We ask that the Council work with the Authority to secure the remaining funding for this phase of the initiative.

We have tried to limit our requests to the issues that are most pressing to residents and where the Council has engaged the Authority. Although not comprehensive, these funds would programmatically support the Plan to Preserve Public Housing, which we will present in full to the Council this fall.

Additional Investments to Support NYCHA's Priorities

I also want to discuss some of the other investments NYCHA is making to improve our residents' quality of life.

As you know, in August 2009 NYCHA formed the Office of Resident Economic Empowerment and Sustainability (REES) to create and implement a strategy to expand economic opportunity to our residents. REES, in collaboration with residents, partners and other stakeholders, has spent 2010 redesigning the ways in which NYCHA can support residents to achieve their career and financial goals. REES has already launched several cornerstone initiatives as part of our

new model, including the NYCHA Resident Training Academy, the Financial Independence Today Initiative, and the planning and launch of the third Jobs Plus site, which will be in the South Bronx.

We are already seeing results. NYCHA's overall job placements have increased by more than 200 percent: from 318 in 2008, to 663 in 2009, to 953 in 2010. The number of NYCHA's Section 3 job placements has expanded from 41 in 2008, to 264 in 2009, to 621 last year—an increase of over 1,400 percent in just three years. And in 2011, as we continue to implement our new strategy, we are working to accelerate that growth.

Another REES initiative, the NYCHA Resident Training Academy (RTA), was launched in the fall of 2010 and is a partnership among NYCHA, the Robin Hood Foundation and some of the best employment trainers in New York City. NYCHA set a first year goal of training up to 150 residents for a minimum of 75 jobs as NYCHA caretakers or for construction related jobs with NYCHA contractors. To date, 179 residents have participated in RTA training, 112 have graduated, 27 are currently in training and 87 are currently working. In the second year, NYCHA expects to train more than 400 residents and place 300 of them in jobs with NYCHA and its vendors, including 80 residents who will serve as Commercial Pesticide Technicians. All of this has been achieved through leveraging partner resources and external funding.

Conclusion

If we are to succeed in reinvesting in public housing communities, we will need a renewed focus on the threats to its survival. We ask that the Council and other public officials make the preservation of public housing a budget priority, particularly given the risks we face with the proposed federal budget cuts. In the Plan to Preserve Public Housing, NYCHA has already begun to develop the revenue and expense strategies to evolve our financial model in support of preservation and focused development of additional affordable housing. We are committed to forging partnerships that create value—economic, environmental and social—for our communities and our residents. And we are taking action to empower our residents to be co-owners of the effort to strengthen and secure our communities.

This work will take all of us. NYCHA is grateful to Mayor Bloomberg and to the City Council for standing with us. But there is much more to be done and we look forward to working with each of you to make public housing and all New York City stronger one family at a time.

Thank you and I look forward to your questions.