

TESTIMONY FROM NYCHA CHAIR & CEO SHOLA OLATOYE
PRELIMINARY BUDGET HEARING
COMMITTEE ON PUBLIC HOUSING
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COMMITTEE ROOM, CITY HALL, NEW YORK, NY

Chairman Ritchie Torres, members of the Committee on Public Housing, and other distinguished members of the City Council: good morning. I am Shola Olatoye, Chair and Chief Executive Officer of the New York City Housing Authority. Joining me today is Richard Couch, Executive Vice President and Chief Financial Officer. We appreciate the opportunity to present the Authority's adopted budget for the years 2015 through 2019, which was approved by the Board of Directors on time in December. Today you will hear about the dire challenges confronting NYCHA, including continued underfunding from the federal and state government and aging infrastructure in need of significant investment. We will also discuss the proactive and innovative steps we're taking to address these issues.

Since it was established more than 80 years ago, NYCHA has provided a pathway to stability and a better life for countless New Yorkers. We are the city's largest landlord and affordable housing resource – managing 178,000 apartments in 328 developments in every borough – and we are, by far, the nation's largest public housing authority (PHA).

As you know, NYCHA's operating budget comprises two major programs: public housing and the Housing Choice Voucher Program, also known as Section 8. Public housing represents two-thirds of the Authority's overall spending, about \$2 billion, and Section 8 represents one-third, slightly over \$1 billion. Please note that unlike the City of New York, NYCHA's fiscal year follows the calendar year.

As our budgets indicate, we have serious fiscal challenges ahead. Years of diminished support for public housing at every level of government has severely challenged the ability of PHAs across the country to fulfill their promise of safe,

decent housing for residents. NYCHA, due to its size, has been greatly impacted by the continued funding cuts, suffering a more than \$2 billion cumulative loss in operating and capital funding since 2001.

In recent years, Congress has appropriated substantially less than needed. HUD then prorates every PHA's funding accordingly, resulting in shortfalls. I will first tell you about the public housing program's operating deficit and then the considerable needs of our capital program.

Addressing the Deficits

Operations

As I mentioned, federal funding for NYCHA's operations has diminished steadily over the past decade and a half. At the same time, costs continue to rise, especially for employee fringe benefits, which comprise about a quarter of our expenditures. At this rate, we expect a \$287 million deficit by 2019. And with buildings only getting older, expenses climbing, and revenues remaining flat or falling, we will see a more than \$400 million deficit by the year 2025.

Just over a year ago, when I was appointed NYCHA's Chair and CEO, the Authority had a \$281 million deficit for fiscal year 2014. I am pleased to report that we closed last year's massive shortfall by the year's end, the first time NYCHA closed its budget in 10 years without tapping into reserves or excessive shifting of capital dollars to operations. This was made possible by generous and historic support from Mayor de Blasio and the City Council, as well as concerted actions related to our vision for a more sustainable, next generation housing authority. The Mayor's comprehensive \$210 million plan to make neighborhoods safer included \$122 million in relief of NYCHA's payments to the NYPD for 2014 and 2015, money that we are putting toward repairs and maintenance and reducing response time. In 2014, we budgeted \$40 million to complete about 32,000 work orders and actually completed 70,000 outstanding work orders

(primarily painting and tiling apartments). We also used \$3.6 million for new, energy-efficient ranges and refrigerators and \$4 million to begin the assessment of every apartment in NYCHA's portfolio. I want to thank the Mayor for recently making the relief of NYPD payments perpetual, which will contribute greatly to our progress.

The Mayor's assistance also enabled us to install 150 temporary light towers at 15 developments with the highest crime rates. The administration has pledged an additional \$1.5 million to keep these temporary towers in place through August 2015.

Seventeen million dollars from the City Council and the de Blasio administration kept 57 NYCHA community and senior centers open in 2014, to benefit some 5,000 New Yorkers. I want to again thank City Hall and the City Council for the new and effective ways you are supporting public housing in New York.

The measures we took to close NYCHA's 2014 operating deficit also look ahead to reduce future deficits. We worked with HUD to negotiate lower energy rates while garnering \$13.2 million in additional subsidies. At our last hearing, I informed you about the innovative public/private partnership that will revitalize and preserve six Section 8 developments outside of our traditional public housing portfolio – developments that were long underfunded and required significant capital work. The one-time \$158 million closing payment to NYCHA that immediately resulted from this partnership was a large component of solving the 2014 budget gap. As well as ensuring that these developments will remain an affordable housing asset, the partnership expects to bring a total of \$360 million in revenue to NYCHA over the next 15 years, starting with approximately \$114 million in 2016, that will fund capital repairs at our public housing developments.

In taking actions to eliminate the deficit, we did have to make some hard choices. In mid-2014, we developed increased controls to rein in overtime spending, instituting additional approvals for overtime requests and reducing non-

emergency overtime. While we kept overtime spending in check, which in 2014 was largely in response to 11 snowstorms and 60 gas outages (compared to 28 in 2013), it took us longer to respond to work orders.

Capital

Our capital deficit is even bleaker, because NYCHA's infrastructure requires significant investment. About 80 percent of our 2,500 buildings are more than 40 years old, and the entire portfolio has over \$16 billion in unfunded capital needs. NYCHA has been shortchanged more than a billion dollars in federal capital funding since 2001, and delaying necessary repairs and upgrades makes our properties more expensive to maintain. For budgetary reasons, we talk about operating and capital expenses as if they are separate. But in reality, they are related. For example, we saw that maintenance work orders went down by 49 percent after we invested \$33 million in significant capital repairs at Marlboro Houses. There were similar results at Johnson and Armstrong Houses.

Despite the challenges, our Capital Projects Division accomplished quite a lot in 2014, obligating three times as much money in one-third the time on higher quality projects. We successfully obligated over \$740 million on major modernization projects, including the entire proceeds of a \$500 million bond issued under HUD's Capital Fund Financing Program (which was obligated about a year under deadline). HUD's annual capital grant was obligated in only eight months, well ahead of the 24-month deadline. And NYCHA spent \$330 million on critical infrastructure, including facades and roofs, elevators, and heating and plumbing systems, improving quality of life for about 48,000 families while beating HUD's expenditure deadline.

The Mayor, the City Council, and residents have spoken extensively about the impact of sidewalk shedding on quality of life. I'm pleased to say that we removed just over 34,000 feet of sidewalk shedding since May 2014, contributing to a

safer, cleaner environment for residents. We are still on target to complete the removal of all sidewalk sheds that are not part of active construction this spring.

NYCHA fulfilled its promise to complete all 49 FY2014 Council-funded CCTV projects by the end of the year. Installing 1,973 cameras at 393 buildings across 54 developments is bringing greater safety and security to nearly 94,000 residents. I again want to thank the Council for providing much-needed funds that benefit residents, including funding for permanent exterior lighting projects. Using Council dollars to install security cameras is, surprisingly, a lengthy, complicated process involving a variety of stakeholders. But we were successful in finishing these projects on time thanks to the Mayor's assistance coordinating all parties. This focus on NYCHA's needs is yet another example of the Mayor's unprecedented commitment to public housing.

Historically, NYCHA has not been as successful spending non-security related City capital dollars as our federal capital funds. To facilitate completion of City capital projects, NYCHA created a City Capital Unit last year. The unit is working closely with Councilmembers to repurpose \$17.5 million of a total of \$105 million in City capital funding. NYCHA also works closely with the City Council to bring these investments to fruition, sharing progress via quarterly reports and discussing any necessary project refinements. That's because City capital funding does not always sufficiently fund projects, and approval from the elected official and the Office of Management and Budget is required to repurpose the funds.

Section 8

NYCHA operates the largest Section 8 program in the country. At the beginning of 2014, we had a funding gap of \$12 million. We applied for and received federal shortfall funding to ensure no Section 8 program deficit for the year. However, receiving shortfall funding meant that we could not issue new vouchers in 2014, resulting in an overall decrease in the number of families served. While we projected a 94 percent proration of federal Section 8 funding for 2014, we

ultimately received 99.7 percent of the Section 8 payments for which we were eligible.

In October, to address this uncertain funding picture, NYCHA took steps to lower its Section 8 payment standard – the amount of a voucher holder’s rent that NYCHA pays to the landlord. We did this for two reasons: to shore up the program fiscally so it can expand in the future, and to make NYCHA’s payment standard consistent with the NYC Department of Housing Preservation and Development’s Section 8 program. This change will not go into effect until 2016. While a limited number of residents may have to pay increased rent, NYCHA will be able to serve more Section 8 families, issuing perhaps another one thousand vouchers in 2016.

Looking Ahead in 2015

Now I’d to tell you about 2015, for which the funding outlook is not much more favorable.

Operating

With anticipated total revenues of \$2.059 billion and total expenses of \$2.157 billion, we project an operating deficit of \$98 million for 2015. The gap is due to: 1) federal underfunding, 2) nearly 5,000 unfunded public housing units, and 3) increased employee costs such as pensions and benefits. We are working with the Administration to solve this projected deficit. Some remedies may include the proceeds from last year’s public/private partnership, potential energy rebates, and attrition, as well as some of the NextGeneration NYCHA initiatives I’ll discuss later.

We are projecting an 89 percent proration of federal operating funds in 2015, which translates to a loss of about \$115 million in funding. This is the same

proration rate as 2014, so we are keeping our spending projections constant with last year.

Capital

NYCHA is receiving \$305 million in federal capital funding in 2015. Although this is about \$10 million more than 2014 funding, it's still woefully insufficient to address NYCHA's mounting capital needs.

NYCHA has been allocated about \$105 million in City capital funding for 2015, for work such as exterior permanent lighting and roof replacement. This also funds the 29 CCTV projects that we recently announced with the Mayor, which we will complete by the year's end.

Section 8

The number of Section 8 families that NYCHA can serve depends on renewal funding. HUD provides NYCHA with Housing Assistance Payments to subsidize the portion of tenants' rent that exceeds their contribution of 30 percent of their income. HUD also provides NYCHA an administrative fee to administer the program. HUD is providing Section 8 renewal funding at 101.25 percent proration for 2015 (\$1.017 billion). This is in contrast to the public housing program, which continues to experience funding cuts. This higher than expected funding enables NYCHA to maintain our 88,577 existing vouchers and to potentially support about 2,000 new vouchers over the next two years.

Initiatives for a Next Generation Housing Authority

Public housing relies on federal subsidies. They comprise about half of NYCHA's public housing revenues (with tenant rent making up most of the balance) and all of the Section 8 program revenue. For that reason, year after year of federal underfunding of public housing compels us to take a good, hard look today at

NYCHA's finances. Clearly, NYCHA's fiscal challenges are immense, and our current operating model is unsustainable. But NYCHA is too important to the vitality and success of New York City for there to be any way but transformation.

That is why we have developed NextGeneration NYCHA, a long-term strategic plan that will guide us in changing the way we do business as a landlord to create safe, clean, and connected communities for residents. To do this, we must achieve short-term financial stability and diversify funding for the long term; operate more efficiently and effectively; rehabilitate and harness NYCHA's real estate assets; and develop sustainable resident services and engagement models.

As part of our work to reset relationships with all of NYCHA's stakeholders, I have been talking and listening extensively this past year with residents, employees, elected officials, and community advocates. We are using their input to draft the NextGeneration NYCHA plan, which we'll release later this spring.

As part of the NextGeneration NYCHA initiative, we've helped residents develop and begin to implement action plans for their communities based on "visioning" workshops at Ingersoll, Mill Brook, and Van Dyke Houses. At monthly committee meetings, residents are tackling topics like affordable housing, safety and security, maintenance and repairs, jobs, neighborhood services, and issues concerning our children and seniors. But this is just the beginning, and only one piece of what NextGeneration NYCHA means for a new and sustainable housing authority.

As part of the Mayor's initiative to address the homelessness crisis, NYCHA provided homes to more than 1,000 families in 2014 (865 in public housing and more than 280 through Section 8). We expect to house twice that number over the next three years.

We did our part to tackle the pervasive issue of domestic violence, providing homes or emergency transfers to over 700 domestic violence victims last year.

We modified our policies to help domestic violence victims get greater priority for admissions and transfers. And with the Mayor's Office to Combat Domestic Violence, we trained over 650 development staff to recognize domestic violence.

And NYCHA, along with our partners, connected more than 2,000 residents to good jobs in 2014. We also signed an agreement in 2014 with the Building and Construction Trades Council that began helping residents get good union jobs this year while promoting higher quality construction work.

On January 18, we launched the Optimal Property Management Operating Model, known as OPMOM, at 18 developments – home to nearly 53,000 residents – to improve customer service and response time. By shifting decision-making on budgeting and purchasing to development property managers, we expect that OPMOM will streamline operations and enhance communication between staff and residents. With employees becoming more empowered to make good management decisions for their developments, residents will also see more accountability. We look forward to updating you as this work continues.

Recycling is another way we are making our developments more sustainable while improving quality of life for residents. We're working with the Department of Sanitation and GrowNYC to launch recycling programs, starting with two locations this spring. We'll continue to roll out the program to all our developments throughout 2015 and 2016. NYCHA represents more than eight percent of the City's rental housing stock, so we can make a big impact on the City's sustainable waste management efforts.

We will use the Manhattan DA's generous 2014 contribution of \$101 million in asset forfeiture funds to install security upgrades at select developments.

NYCHA is complying with federal law and HUD's mandate that all PHAs ensure that their public housing flat rent or maximum ceiling rent is not less than 80 percent of fair market rent. Federal law makes sure that no family pays more than

30 percent of their income in rent, and for this reason, most of our families (80 percent) will not be affected by this requirement. Again, every housing authority across the country has been mandated by HUD to do this. Although this may be a difficult adjustment for the approximately 25,000 affected households, the increased revenue will enable NYCHA to do better for residents. And the rent increase will be phased in over three years, starting this November, to ensure the least impact possible. NYCHA has met with many resident associations to inform them of the upcoming changes to the rent schedules. We are also holding town hall meetings in every borough to discuss this with residents, in addition to April's public hearing on the Amendment to the FY2015 Annual Plan. And we met with various elected officials to keep them informed.

An important element of NextGeneration NYCHA's path forward is increased economic opportunity for residents through improved workforce programs. I'd like to highlight one example for you: the Food Business Pathways Program. In collaboration with NYC Small Business Services, the New York City Economic Development Corporation, and Citi Community Development, NYCHA is providing a free training program to "NYCHApreneurs" who want to start their own food business. One participant said that the program gave her the confidence and courage to open her own food business, something she has always wanted to do but didn't think would ever become possible.

Conclusion

The existing financial model for public housing is unsustainable. And as the funding figures suggest, there is no easy solution in sight for NYCHA's grave fiscal predicament. In light of the issues at hand, we will keep working to responsibly maintain and preserve this vital resource, which positively affects so many lives. At every development I visit, I hear from residents about how much NYCHA means to them and the good it has done for their families. But invariably, they also say that NYCHA must change in order to deliver on its promise of safe, decent, affordable housing.

The Council has been a generous ally as we work toward this transformation. We want to thank Speaker Mark-Viverito for pledging \$25 million for roof and brick repairs in every borough. We look forward to working with the Council to identify the developments most in need of these investments that will reduce NYCHA's costs for today and tomorrow. Thank you also to the Speaker for contributing additional participatory budgeting funds for select developments.

Thank you to Chairman Torres, the Public Housing Committee, and the Council for being part of this very important conversation about NYCHA's future. This is a preliminary budget hearing, and we look forward to coming back in June with our plans for a more sustainable NYCHA.

We are happy to answer any questions you may have.