

**TESTIMONY FROM NYCHA CHAIR JOHN RHEA & GENERAL MANAGER CECIL HOUSE
OVERSIGHT - PROPOSED NYCHA ACTIONS TO ADDRESS THE IMPACT OF FEDERAL
SEQUESTRATION
CITY COUNCIL PUBLIC HOUSING AND FINANCE COMMITTEES
THURSDAY, JUNE 13, 2013 – 10:00 AM**

Chairwoman Rosie Mendez, Chairman Dominic Recchia, members of the Public Housing and Finance Committees, and all other distinguished members of the City Council, thank you for this opportunity to discuss the impact of the Budget Control Act of 2011, commonly known as sequestration, to the New York City Housing Authority (NYCHA). I am NYCHA's Chairman, John Rhea, and with me at the dais this morning is General Manager Cecil House. Our testimony this morning will outline the New York City Housing Authority's (NYCHA) response to the budget reductions resulting from sequestration and the related 2013 Continuing Resolution.

Sequestration, which became law on March 1st 2013, coupled with related Continuing Resolution congressional budget actions, will reduce NYCHA's 2013 federal subsidies by \$205 million. This 11% cut affects every part of the work we do: the Authority will receive \$114 million less in public housing Operating funds than planned; \$14 million less for our Capital Program; and \$78 million less to administer our Section 8 Leased Housing program.

During our March 12th Operating Budget Plan testimony before the Council, we estimated that the impact of sequestration would be a \$253 million reduction in subsidy over full eligibility. The \$205 million facing us today is directionally consistent with that earlier estimate.

These reductions follow four years of tireless effort by NYCHA and the Bloomberg Administration to achieve financial stability by pursuing a host of revenue-generating and cost-saving initiatives laid out in *Plan NYCHA*, our roadmap to preserve public housing. These actions have amounted to over \$400 million in additional yearly revenues and reduced expenses.

Over that same four-year period, however, we've seen our capital budget slashed, operating subsidies prorated, public housing and Section 8 reserves recaptured – leaving us well short of HUD's recommended 4-month expense levels – on top of a \$35 million increase in our annual pension obligations.

Through this succession of increasingly painful hits, NYCHA persevered, taking immediate action to minimize the impact of each new challenge, and taking special care to relay the gravity of the ongoing assault on public housing to residents, elected officials, and other stakeholders.

Indeed, we address you this morning with the full knowledge that without our bold management actions – such as finding aggressive ways to cut central office costs; pursuing fair and equitable rent policies; and finding new revenue sources, whether by developing our land or through our innovative Federalization transaction – NYCHA would be here to paint a much different, and even more ominous picture: a structural operating deficit of approximately a half-billion dollars.

So although the \$205 million of sequestration cuts are brutal, and come at a time when we have already asked for incredible fortitude from both residents and employees, we will not waver in our determination to advance sound, if sometimes unpopular, initiatives to secure the future of public housing.

We realize that our actions to mitigate these new reductions will have a tangible and lasting impact on the residents who depend on the services we provide, as well as the employees who provide them. The wellbeing of these families and their communities is what inspires the efforts of NYCHA employees, and we will continue to work devotedly and tirelessly on their behalf every day. However, the realities of the present moment are stark and unavoidable. Without any assurance that these cuts are one-time in nature, we have a responsibility to faithfully steward the resources that we do have and continue to protect our city's great legacy of public housing.

Now, General Manager House will take us further by detailing the development of NYCHA's plan and the specifics of our response.

General Manager Cecil House: NYCHA's Preparatory Efforts

For the past several weeks, NYCHA has been working to build a thoughtful, strategic plan to minimize the impact of sequestration on employees, as well as the public housing and Section 8 families we serve. Other public housing agencies across the country have had to undergo similar exercises: the Philadelphia Housing Authority, for example, has implemented layoffs and a hiring freeze. Homeless families in Washington, D.C. who have been waiting for years on the waiting list for public housing are seeing their chances of placement become slimmer and slimmer. Even the U.S. Department of Housing and Urban Development (HUD), our primary funder and regulator, has had to implement large-scale furloughs and close half of its field offices.

NYCHA's plan includes a series of immediate and long-term actions, many of which we began to implement immediately after sequestration took effect. We dedicated the majority of our focus to identifying items that NYCHA could execute on its own; however, we have also worked in close partnership with City Hall, several of our fellow city agencies, and HUD to explore ways to ensure the continuation of key services for residents and their families. We also worked to coordinate our decision with the City Department of Housing Preservation and Development (HPD), to the extent that the Leased Housing program was impacted.

In every instance, our foremost goal in developing the plan was to minimize the impact of these cuts on NYCHA residents and employees, and to allow us to continue the work of reducing our backlog of maintenance and repair work orders; making critical capital investments for modernization; and ensuring safety and security at our developments. However, NYCHA simply has no choice but to make hard decisions, at every level of our organization.

NYCHA's Plan

Specifically, we expect to save over \$50 million through reductions to our labor costs. We will achieve these reductions through a variety of steps, some of which we have already taken, and others we will take soon. For example, in February, we instituted a hiring freeze and a general limitation on backfilling vacant positions, with the exception of positions that directly provide critical services to residents. We have also begun to significantly reduce overtime costs. As we move forward, we also plan to engage our union leadership on a proposal to furlough certain workers. We will also need to implement targeted staffing reductions in areas where our remaining workforce can effectively carry the load. We know this will present challenges for our remaining workers, but we have confidence that they can get the job done. We have also eliminated our summer seasonal caretaker program. Last year we hired 300 residents in this program. Finally, we will fully convert NYCHA's Resident Watch to an all-volunteer program. In our Leased Housing program we will save an additional \$2 million in labor costs from similar actions.

We will save over \$9 million in operating costs by reducing non-personnel office expenses; limiting outside contractors; eliminating Human Resources programs like our leadership academy; and reducing technology costs. In our Leased Housing program we will save an additional \$800,000 from similar actions.

We have identified \$33 million in other revenue sources within NYCHA, including a transfer from our Capital Fund and the collection of an administrative fee from a Superstorm Sandy-related Community Development Block Grant. In addition, NYCHA will forgo a \$7 million management fee normally paid by our Leased Housing program. We expect that the city will contribute \$24 million to help NYCHA close the remaining gap on the public housing side.

In addition, in Leased Housing, we will manage the reduction in Housing Assistance Payment (HAP) funds by not issuing new vouchers and accumulating savings from attrition (\$22.5 million), not increasing payments upon renewals (\$3 million), requiring cost neutral transfers (\$1.8 million), and finally, exhausting the program's existing

reserves. Even with these measures, we expect to have a \$14 million shortfall in our Section 8 program. Due to this shortfall, NYCHA will not have funds available to pay Section 8 obligations beginning this December, which could result in the permanent removal of 1,200 families from the program. To avoid this kind of action, NYCHA has taken several steps, including submitting a request for HUD shortfall funding and applying for a waiver that would allow us to reduce our Section 8 rent payment standard from the current 110% to 90%. The payment standard is used to determine the level of assistance that a voucher-holding family will receive, taking into account the amount generally needed to rent a moderately-priced apartment in the local housing market.

A reduction in the payment standard will affect roughly 9,600 households, raising each family's portion of their rent by an average of \$57 per month. This action is projected to reduce costs by an additional \$3.3 million this year, assuming HUD acts quickly. We are continuing to work with HUD to close the remaining gap.

Finally, NYCHA will save \$8 million by discontinuing the direct provision of services at the 69 community centers and 37 senior centers that are currently managed directly by the Authority. By using a portion of the contribution from the City that I mentioned earlier, we will be able to keep the facilities open until the end of August, instead of our initial plan of July 1st. Fortunately, programming will continue at the approximately 350 community facilities on NYCHA grounds that are sponsored by our fellow city agencies and a host of high-quality local service providers. It is also our understanding that the NYC Department for Youth and Community Development (DYCD) and Department for the Aging (DFTA) are exploring ways to ensure that residents have access to the services they need most – and they are here today to discuss that further.

Still, the discontinuation of programming at community centers is a devastating result for residents, as well as the approximately 200 employees that would be affected. Despite receiving absolutely no dedicated funds for community activities over the past decade, NYCHA has consistently prioritized this work because we feel a deep responsibility to connect the members of our communities – many of whom are among our city's most vulnerable citizens – to opportunities that can enrich their lives and

empower them for the future. We recognize that the cancellation of crucial programming will have a serious, negative impact on our youth, their families, and senior citizens.

Each of the decisions that I've catalogued comes with real consequences for our staff, as well as the families that we serve – we regret deeply that we've been forced to go down this path in order to continue providing services for New Yorkers. It is an inescapable fact that these actions will cause real harm to the families and local economies that keep this city strong.

Conclusion

As Chairman Rhea mentioned earlier, there is no guarantee – or indication – that the cuts caused by sequestration won't become the new normal for the foreseeable future. If they do, they will become immediately more difficult to deal with. Many of the tools that we are using this year are one-time in nature, and will not be available moving forward. Others – like the complete exhaustion of our Section 8 reserves – are risky, and leave us in a precarious situation.

As we have shared with you on many other occasions, most recently during the hearing relating to our Five Year Capital Plan, this new setback is simply the latest reminder that NYCHA must proactively seek innovative new sources of sustainable revenue. Continuing to depend entirely on the whims of the federal government is a recipe for disaster – in order to preserve the precious resource of public housing for future generations of New Yorkers, we will need the energy and urgency of an entire city.

Thank you. I look forward to your questions.