

**TESTIMONY FOR NYCHA CHAIR & CEO SHOLA OLATOYE  
NYCHA'S FIVE-YEAR OPERATING AND CAPITAL PLANS  
CITY COUNCIL COMMITTEE ON PUBLIC HOUSING  
FRIDAY, MARCH 21, 2014 – 10:00 AM  
COMMITTEE ROOM, CITY HALL**

Chairman Ritchie Torres, Members of the Public Housing Committee, and distinguished Members of the City Council: good morning. I am Shola Olatoye, Chair and Chief Executive Officer of the New York City Housing Authority (NYCHA). Joining me today are General Manager Cecil House and Executive Vice President and Chief Financial Officer Richard Couch. I appreciate the opportunity to present NYCHA's Adopted Budget for the years 2014 through 2018, which was passed on time in December 2013. I am also eager to share with the Committee the Authority's accomplishments of 2013 and future outlook.

**NYCHA at a Glance**

NYCHA is the largest public housing authority in North America, committed to serving 630,000 low- and moderate-income New Yorkers with safe, affordable housing and access to critical social services. NYCHA administers two distinct programs, the first of which is public housing, where NYCHA acts as the property manager. The second is the Housing Choice Voucher program, more commonly known as Section 8, where, in most cases, NYCHA provides a cash subsidy to private landlords on behalf of voucher holders. While NYCHA operates the two major platforms, we receive funding from four different and distinct streams: first, public housing operating funds for maintenance work; second, public housing capital funds for modernization; third, Housing Assistance Payments for Section 8 vouchers; and finally, an administrative fee for managing the Section 8 program.

Unlike the City of New York, NYCHA's financial fiscal year follows the calendar year, beginning on January 1<sup>st</sup> and ending on December 31<sup>st</sup>. For this fiscal year, NYCHA's federal subsidies account for more than 60 percent of the Authority's total revenues. These subsidies make up about 50 percent of revenues supporting the NYCHA-owned

public housing portfolio, and 100 percent of the Section 8 program. We receive federal operating funding for public housing based on an eligibility formula that is intended to reflect the costs of operating public housing. Congress determines the level of funding eligibility annually. If Congress appropriates less than 100 percent of eligibility, the U.S. Department of Housing and Urban Development (HUD) will prorate each public housing authority (PHA) accordingly. While the average proration for the past five years has been 90 percent, 2013 saw the lowest proration rate PHAs have experienced in more than a decade – just 82 percent.

In conjunction with the existing strain on the operating funding stream, NYCHA is further challenged by a rapidly aging housing stock. This challenge is not dissimilar to many other City agencies. In fact, the Center for an Urban Future recently released a report highlighting the City's dire infrastructure deficiencies, demonstrating that public systems remain a relic of the early 20<sup>th</sup> century. Specifically, more than 75 percent of NYCHA's residential buildings are over 40 years old and are therefore in need of significant capital investment. Unfortunately, NYCHA has seen a consistent decrease in capital subsidies, from \$420 million dollars in 2001 to \$258 million dollars in 2013.

In spite of the decreased level of funding, NYCHA has employed new strategies to expedite repair work and invest in our aging housing infrastructure. We look forward to working with the Administration on its new housing plan. We are confident that it will offer a meaningful commitment to improving the quality of life for public housing residents. The noticeable cultural shift in New York City government ensures that NYCHA's residents will continue to have access to safe and quality housing in the years to come. Moreover, NYCHA appreciates all the contributions that the Council and Mayor have made this year so far. The Mayor's forgiveness of \$52.5 million dollars in New York City Police Department payments will allow the Authority to create a new assessment unit and address critical maintenance and repair work orders. We also greatly appreciate the Council's investment in our capital and maintenance program, as well as community centers. These partnerships are down payments on our future and signal a unified commitment to public housing.

## **2014-2018 Operating Plan Assumptions**

Now, let me take you through some of our Operating budget assumptions for the 2014 through 2018 Budget.

### *Section 8*

For the Plan that was adopted in December, we projected a Section 8 program deficit of \$90 million dollars. The Authority assumed that this program would only receive \$927 million dollars from HUD for Housing Assistance Payments, which is 94 percent of total eligibility. In addition, we expected to receive \$62 million dollars of the \$90 million dollars required to administer the program.

We were just advised that funding for the Section 8 program will increase to 99 percent of eligibility for Housing Assistance Payments and 75 percent of eligibility for the Section 8 administrative fee. This welcomed revenue increase reduces the deficit by approximately \$68 million dollars, leaving a \$13 million dollar deficit. NYCHA is hopeful that HUD will provide shortfall funding to completely eliminate the deficit. The availability of shortfall funding was part of the federal government's response to sequester cuts, where HUD held funds for PHAs in dire need of additional subsidy. If NYCHA cannot obtain this funding, the Authority will need to reduce our expenditures or look for other sources of income.

In order to fully fund NYCHA's Section 8 program in 2013, the Authority exhausted all reserves, as well as received \$21 million dollars in shortfall funding from HUD. It is because of this additional subsidy that the Authority did not have to cut the number of voucher holders or reduce payments to property owners.

### *Public Housing*

The Adopted 2014 Operating Budget assumes a deficit of \$191 million dollars for public housing due to continued reductions in federal funding. On the expense side, approximately 55 percent is attributable to personal services and 45 percent to other expenditures. The main components of personal services are full-time salary and fringe,

which includes benefits for both current employees and retirees. These costs make up a total of \$1.1 billion dollars. Specifically, the budget assumes that fringe has risen three percentage points, from 70 percent to 73 percent of total compensation costs. Another major expense component is utilities, projected to be \$576 million dollars in 2014, an increase of \$32 million dollars from the prior budget. Insurance premiums are an important factor of budgeted expenses and have increased 28 percent from the previous budget. Like many property owners in New York City, NYCHA is seeing a rise in insurance costs due to the impact of Superstorm Sandy and higher payments for buildings that are in the expanded Zone A flood area.

Through attrition, the 2014 Plan assumes the elimination of 426 positions, saving the Authority \$37 million dollars in full-time salaries and \$185 million dollars cumulatively through 2018. These eliminations will primarily affect central office positions, while front-line headcount will benefit from an increase.

Furthermore, NYCHA has requested funding and support from our partner agencies for the 57 NYCHA-operated community and senior centers. Our Adopted Plan assumes funding for these centers through June 30<sup>th</sup>, 2014, leaving a \$17 million dollar shortfall for the rest of the year. These centers provide critical services for approximately 5,000 people annually. I am confident that an agreement can be reached so that we can continue to operate quality programs and keep these centers functioning at full capacity.

The majority of public housing revenues consist of tenant rent and HUD operating subsidy. Specifically, \$973 million dollars is revenue from our residents, of which \$955 million dollars is rent and \$18 million dollars is revenue from other fees. It is important to note that NYCHA bears the costs of utilities provided to each unit. Federal subsidies in the Adopted Plan total \$784 million dollars, which assumes a 77 percent proration from HUD. Fortunately, the budget outlook in Washington, D.C., has become more favorable since NYCHA adopted the budget in December of 2013. As of March 1, 2014, NYCHA is currently being disbursed at 89 percent of its eligibility. If this level remains constant, the Authority will receive an additional \$120 million dollars in revenue. Although the appropriation for public housing is at higher levels, these increases are still

expected to be insufficient and will not allow us to fully fund our commitments. It is important to note that the Authority also operates 5,100 units that receive no dedicated federal, state, or local government funding.

## **2014-2018 Capital Plan**

Now I would like to share details on the 2014-2018 Capital Plan.

Capital funds received by the federal government can only be used on major modernization efforts for our existing infrastructure. In recent years, this funding has decreased dramatically. This gap has not only jeopardized the preservation of our public housing stock and the safety of our residents but also increased NYCHA's operating costs due to the rising level of repairs. As of 2014, NYCHA needs approximately \$18 billion dollars to bring all of our developments to a state of good repair. In contrast, the estimated revenue from HUD for major modernization and infrastructure is only estimated at \$2.3 billion dollars. Clearly, NYCHA's need far outweighs the available funds. On top of our existing need, NYCHA is estimating an additional \$1.8 billion dollars to address any damage incurred by Superstorm Sandy. Of the \$3.9 billion dollars assumed in the five-year Capital Plan, 37 percent is an annual appropriation from the federal government, 45 percent is from funds related to disaster recovery, 13 percent is from our Bond B program, and 5 percent comes from the City of New York. Similar to the operating subsidy and to Section 8, we just learned that the capital subsidy will be around \$300 million dollars, a 15 percent increase from the plan.

Lack of funding severely constrains NYCHA's ability to make needed repairs and upgrades to brick facades, roofs, elevators, heating and plumbing systems, and apartment interiors. This work is critical to maintaining our existing housing stock in a state of good repair.

## **Superstorm Sandy**

Superstorm Sandy inflicted extensive damage to NYCHA developments and severely affected NYCHA's finances. More than 80,000 residents in 423 buildings were significantly affected, many of whom are still dealing with the aftermath today. NYCHA's immediate response included installing 23 mobile boilers, restoring service to 397 elevators, installing more than 100 generators, and pooling resources from non-impacted developments to provide much-needed cleaning crews. The Capital Plan projects a one-time infusion of \$1.8 billion dollars for repair and resiliency work at the developments impacted by Sandy as well as those developments located in the expanded Flood Zone A. To date, NYCHA has only recovered \$206 million dollars from our private insurance coverage and from Federal Emergency Management Agency (FEMA). NYCHA shares the concern of residents and advocates that delays in disaster-related capital investments and repairs place our developments at risk. In recent weeks, we have appreciated the intervention of Senator Schumer to help move us past some of the programmatic sticking points with FEMA in order to quicken the federal pipeline of recovery dollars. When we do receive funds, we intend to use the disaster recovery money to fund an implementation plan that will repair and replace damaged infrastructure and safeguard NYCHA against future extreme weather events. Funding for this needed work includes a combination of insurance reimbursements, FEMA dollars, and Community Development Block Grant Disaster Recovery funding.

### **Notable Accomplishments**

Now that we have discussed the budget, I would like to update you on a few notable initiatives.

#### *Work Order Backlog*

Last year, NYCHA embarked on a maintenance and repair backlog initiative to reduce the number of open work orders and the average time to respond to a work order. As of today, NYCHA successfully reduced open work orders by 79 percent, from a peak of a shocking 423,000 to approximately 88,000.

We also reduced the average time it takes to respond and close a work order request. When comparing February 2013 to 2014, the average time it takes to complete a maintenance task has declined from 147 days to just 7 days. Furthermore, the average time it takes to complete a skilled trade work request has declined from 288 days to 155 days. Clearly our work is not done, but with your help, I am confident we can improve our response time even more.

### *Completed Capital Projects*

In 2013, NYCHA expended \$420 million dollars on major modernization at our developments. About 70 percent of those funds were spent on building facades, roofs, and the administration of the capital program. Moreover, NYCHA has fully completed work at 53 developments and improved the quality of life for more than 59,000 residents. In addition, NYCHA has fulfilled every one of its HUD-mandated deadlines ahead of schedule, successfully spending the 2009 capital grant and obligating 90 percent of the 2011 award.

### *Bond B*

Additionally, NYCHA closed on a \$732 million dollar bond issuance called Bond B, which provides funding for critical repairs and quality of life improvements for residents. Of the \$732 million dollar bond, NYCHA used \$232 million dollars to pay back the 2005 bond issuance, about \$50 million dollars for closing costs and a debt service reserve, and \$450 million dollars to rehabilitate building envelopes and install new roofs at up to 38 developments across all five boroughs. In total, this bond will impact up to 30,000 NYCHA residents. To date, NYCHA has executed six contracts under the Bond B program. We are confident that we will complete this work by 2016.

### *Security Enhancements*

In 2013, NYCHA also completed the installation of 3,879 new security cameras at 84 developments. This successfully met our goal to install all pre-2012 City Council-funded closed-circuit television (CCTV) security cameras by the end of 2013.

### *Section 8*

Despite funding challenges, significant upgrades to the Section 8 program were initiated in 2013. NYCHA implemented two significant customer service online portals, received additional funding for veterans' housing, and increased our HUD Section 8 management assessment performance scores by 30 percent.

The first initiative is the successful launch of the Tenant Self-Service Portal, which allows Section 8 applicants or existing participants to register their voucher or case electronically and obtain status information on their request. Additionally, existing Section 8 tenants now have the ability to create service requests for special inspections and reschedule their annual inspection appointments online. The second initiative is the Owner Portal, where property owners can renew their tenant leases online and have the option to self-certify outstanding Housing Quality Standard inspection violations. These portals improve customer service and drive efficiency in the Section 8 program. Additionally, the collaboration between NYCHA and the U.S. Department of Veterans Affairs to ensure that veterans receive Section 8 vouchers was so successful that we received new funding under the Veterans Affairs Supportive Housing program for 250 new vouchers and an additional \$2.6 million dollars in annual Housing Assistance Payment funds. This funding enables the Authority to serve almost 2,500 homeless veterans.

NYCHA submitted the annual HUD Section 8 Management Assessment Program certification, which indicated a score of 125 points, or a rating of 86 percent, which is a 30 percent improvement over 2012. Productivity was very high, with the completion of annual re-certifications and inspections at 96 percent.

### *Resident Employment*

NYCHA's Office of Resident Economic Empowerment and Sustainability (REES) is responsible for overseeing NYCHA's compliance with the employment-related provisions of Section 3 and the resident employment program. Section 3 encourages PHAs to connect residents to employment opportunities through housing authority contractors. These policies facilitate access to economic opportunity for our residents by creating lasting partnerships with some of the City's best employers.



REES also provides technical assistance and oversight of contractors to ensure they are well informed of their obligations to hire Section 3-eligible residents for NYCHA-approved projects. For the current HUD Section 3 reporting period, from October 2012 to September 2013, REES has facilitated more than 1,000 direct job placements, a 5 percent increase from 2010 placements. I look forward to accomplishing even more for our residents.

### **Partnering with the City**

Collaboration with stakeholders and government partners is essential to NYCHA's success and a cornerstone of my approach on leadership. In that spirit, the City Council has been a critical partner to the Authority, helping to bolster our fiscal outlook. In response to the federal sequestration in 2013, the Council provided NYCHA an additional \$58 million dollars for fiscal years 2013 and 2014 which prevented the closure of 70 community centers and 87 senior centers and approximately 300 layoffs. More important, community services at these centers were able to continue at full capacity with the help of partner agencies DYCD and DFTA.

We would also like to thank the Council for its commitment to improving maintenance and repair conditions at NYCHA developments – \$10 million dollars in Council funds enabled us to hire 175 temporary workers to address repair and maintenance needs. Our Plan assumes this funding for maintenance and repairs will be continued through 2018, and we respectfully request that the Council make a commitment through 2018 and beyond.

Over the past decade, the Council has also invested \$175 million dollars in capital funds to renovate community centers and install CCTV and Layered Access Controls. In this calendar year, the Authority is on track to install CCTV and/or Layered Access projects at about 49 developments. In order to stay on track, NYCHA is also committed to spend the 2013 and 2014 City Council capital funds by the end of the year. To reach this goal, we are currently hosting meetings at developments citywide, engaging residents and

elected officials.

As part of our commitment to the City Council, we will continue to submit quarterly reports on Council-funded capital projects. We are also working to extend transparency to the public by revamping our website and posting more pertinent and real-time information. It is my intention to continue to drive transparency initiatives throughout the organization. In fact, I have posted my public schedule on our website for all of the residents, partners, and stakeholders to follow along.

## **Conclusion**

Despite NYCHA's very difficult fiscal picture and a turbulent financial climate, we are moving in the direction of becoming a leaner and more efficient organization. However, we cannot turn a blind eye to the reality of NYCHA's fiscal situation: The fact remains that NYCHA will continue to be underfunded in its Operations and Capital budgets for the foreseeable future. While working with renewed energy to become more sustainable, we are confronted with unsustainable employee health care and pension costs. We are challenged by our capital needs that continue to outpace available funds.

We strongly believe this invaluable asset is worth preserving, and we will do everything we can to meet the challenges ahead. Public housing is a lifeline to families and communities throughout New York City. With a new Administration and City Council leadership equally committed to preserving public housing, now is the time to secure its future for the generations to come. We will maintain a strong partnership with the Council that will benefit the residents and community. I also look forward to coming back in June to update you on HUD's funding levels and the Authority's overall financial outlook.

I am eager to work with you and answer any questions you may have.