

TESTIMONY FROM NYCHA CHAIR & CEO SHOLA OLATOYE
PRELIMINARY BUDGET HEARING
COMMITTEE ON PUBLIC HOUSING
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Chair 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 are Karen Caldwell, Executive Vice President and Chief Financial Officer; Brian Clarke, Senior Vice President for Operations; and other members of NYCHA's executive team. Thank you for this opportunity to present the Authority's adopted budget for the years 2016 through 2020, which was approved by the NYCHA Board of Directors on December 23, 2015.

Before I walk us through NYCHA's finances, I think it's important to recognize some other numbers that show NYCHA is moving in a different and more positive direction:

- We met our goal to cut the average wait time for routine repairs to less than seven days portfolio-wide;
- We've installed more than 12,000 security cameras to date;
- We completed nearly a quarter of the roof replacements funded by the Mayor last year; and
- We've doubled our reserves.

Central to these accomplishments and this conversation about NYCHA's fiscal health is NextGeneration NYCHA, our 10-year strategic plan. Since launching last May, NextGeneration NYCHA is having a real impact, shoring up our organization right now and moving us toward a stronger future.

A Fundamentally Dire Financial Situation

As I've stated many times before, significant financial challenges threaten the very survival of public housing in New York City: government disinvestment has resulted in a nearly \$2.5 billion loss in operating and capital funding since 2001; a deficit that will grow to a cumulative \$5 billion in 10 years if we continue on the path of the status quo; and aging buildings – the majority of which are more than a half century old – require \$17 billion in funding for major capital repairs.

Simply put, the money NYCHA takes in is not enough to cover our expenses. Our main sources of revenue – federal funding and rent – do not cover the cost of fulfilling our basic responsibilities as a landlord. After NYCHA combines federal operating funds and the rent we collect, there's a \$120 per unit annual deficit. Across nearly 178,000 apartments, that's a more than \$22 million structural deficit this year.

A crisis of this magnitude requires urgent action now.

We can all agree that New York City does not want to go the way of other cities. We will not be Chicago; we refuse to be St. Louis or Atlanta. We cannot allow New York City to solve its problems with abandonment, demolition, or receivership. Hundreds of thousands of New Yorkers expect the Authority, this Administration, and our elected officials to get serious about solving NYCHA's financial problems and making it stronger today to ensure it is here for tomorrow.

So we have intensified our efforts to educate and engage our partners in Washington and Albany on the gravity of NYCHA's predicament, and why it must be saved.

The cornerstone to bringing NYCHA back from the brink is our 10-year strategic plan, NextGeneration NYCHA, and its 15 targeted strategies. By transforming how we do business and getting on solid financial ground, we can become the transparent, modern, efficient, and effective landlord our residents have long deserved.

How We Got Here

For the past 80 years, New York City's **public** housing has survived and thrived on **public** funding. Funding from the City, State, and federal governments subsidized the original construction of NYCHA's 2,550 buildings – 60 percent of which were built before 1965. Over the years, NYCHA has become increasingly dependent on Congress and annual federal funding for our very existence, since resident rent is no longer our primary funding source for day-to-day building operations. We also depend on Congressional appropriations for capital grants to modernize and make major infrastructure improvements to our housing stock.

Knowing NYCHA's funding history is important context for understanding our current fiscal crisis. While there are ways NYCHA can control our costs and generate more revenue (a major aim of NextGen NYCHA), there are many factors outside the Authority's control which impact our annual budget tremendously.

Public housing subsidies are supposed to bridge the gap between tenant rent and operational expenses. HUD uses a formula to calculate the subsidy level for housing authorities that makes up for the difference between income and expenses. Unfortunately, this formula is rarely, if ever, fully funded.

For the last couple of years, the **President's proposed annual budget** for HUD's public housing programs has not reflected a fully funded formula and

the tremendous needs within housing authorities across the country, especially here in New York City.

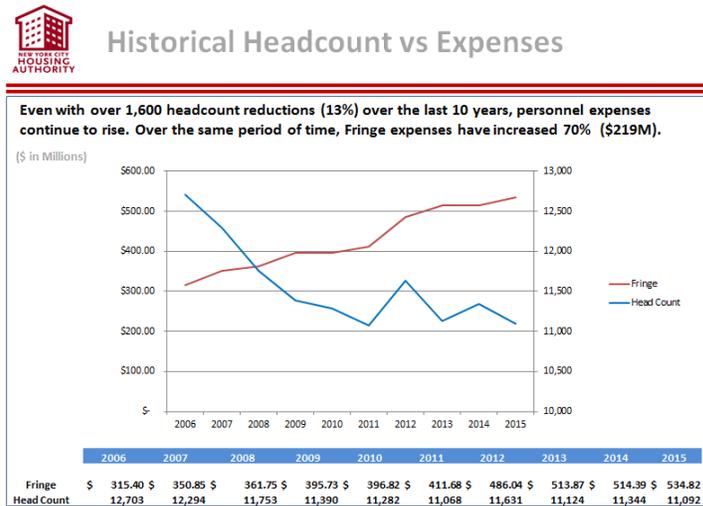
With weak budget support – and lacking national political support – public housing programs have essentially been **flat-funded by Congress** for more than a decade. As operational costs continue to rise, stagnant funding is basically a funding reduction.

When appropriated funds land at HUD, the agency is forced to ration much-needed federal funding across all public housing authorities – which it does through **proration** – and the gap between income and expenses only gets wider. In 2016, NYCHA expects an *85 percent* proration rate of federal operating funds – a \$159 million shortfall from what HUD’s formula deems necessary to keep NYCHA afloat.

While federal operational support has dwindled, State and City operating subsidies have completely disappeared. When the State (in 1998) and the City (in 2001) abandoned the public housing they built and supported for years, NYCHA assumed the total operational and capital costs of 20,000 unsubsidized public housing units. Since 2008, NYCHA has leveraged federal programs, such as Section 8, to create new federal funding streams to support 15,000 apartments. But NYCHA will spend a total of \$68 million this year alone to operate the remaining **5,000 unfunded, former City- and State-subsidized public housing units.**

NYCHA’s largest operational expenses are the most uncontrollable, and the most vital to our daily operations: **employee benefits** and **utilities.**

[Referring to our historical headcount and expenses chart:]



You'll see that even with central office headcount *going down* by 13 percent over the past decade due to attrition and transfers to other City agencies, our health care and pension costs have *increased* by 70 percent during that same period. The soaring costs of health care and pensions are a major obstacle to solvency, setting us up for a structural deficit year after year.

Similarly, NYCHA is beholden to the market for utilities, which is volatile, variable, and unpredictable.

In 2016, NYCHA budgeted \$705 million, or *30 percent* of the entire operating budget, for employee fringe expenses, and a *quarter of the budget*, or \$600 million, on utilities.

NYCHA's Financial Status

While there are many factors impacting NYCHA's budget that we cannot control, there are many ways we can control our finances.

At last year's budget hearing in March, we projected a \$100 million deficit for 2015. Later, when we released the NextGen strategic plan in May 2015, our revised projections showed a \$74 million deficit for 2015.

In fact, in 2015, thanks to NextGen initiatives and the generous support of a mayor who recognizes the importance of NYCHA's success, **we achieved a one-time surplus of approximately \$61 million.**

Let me be clear – this surplus will not be reoccurring and it does not mean NYCHA is now whole. Sixty-one million dollars represents *2 percent* of NYCHA's operating budget – it could cover the cost of our operations for about 7 days. This one-time surplus was primarily due to the Mayor forgiving \$28 million in payments to the City that we had already paid in 2014 and forgiving an additional \$33 million in payments for this year. City payment relief now exceeds \$100 million a year, the majority of which is forgiveness of NYPD payments. **This payment relief is a NextGen strategy** aimed at reducing payments to the City and keeping more money for vital operations.

Additionally, NYCHA received a \$39 million reimbursement from HUD for energy efficiencies from energy conservancy measures. We also saved about \$34 million in utility costs by replacing some mobile boilers with boilers that run on gas (and due to a warmer than average winter season).

A surplus this year is a bright bud in our slow awakening. HUD recommends having four months of operating reserves. We currently have **2.6 months** of operating reserves; last year, we had only **four weeks** of reserves.

NextGen strategies are helping to chip away at NYCHA's deficit. Although we have revised our forecast for the total revenue that a range of NextGen strategies will bring to the Authority in 2016 from nearly \$108 million to about \$74 million, these initiatives are making a fundamental difference now, and in the years to

come. If Mayor de Blasio had not forgiven NYCHA's long-standing payments to the City, for instance, we'd confront an additional \$100 million gap every year. Without the totality of the other NextGen strategies we're instituting, we'd face an impossible \$320 million deficit in the year 2019. Consider the incredibly tough decisions we would have to make in that scenario. But with NextGen, we can reduce NYCHA's deficit by a total of more than \$1 BILLION over the next five years.

Our outlook for this year demands that we continue implementing our NextGen strategies for the sake of financial sustainability: We are projecting a \$60 million operating deficit for 2016, with anticipated revenues of \$3.32 billion and anticipated expenses of \$3.38 billion. This gap is due, in part, to the increased employee health care and pension costs, the 5,000 unfunded units, and federal underfunding.

NYCHA: Putting Funding to Work

NextGeneration NYCHA is about fundamentally changing the way we do business, so that we can overcome severe financial challenges and better serve residents. Through that lens, we are writing a new chapter on how we administer our resources. Old perceptions are hard to overcome, but in today's reality, NYCHA is putting more dollars to work faster, more efficiently, and more responsibly. That is readily apparent in the way that we are moving capital projects forward, driven by a new and improved planning process informed by industry best practices.

NYCHA's 2016 capital plan allocates approximately \$5.6 billion for infrastructure improvements and major upgrades over the next five years. The bulk of this funding – 75 percent – will go toward structural and exterior work, such as roof and facade repairs.

HUD capital funding comprises 31 percent of our five-year capital plan. Funding from the City constitutes 12 percent. Unfortunately, NYCHA's federal capital funding has been steadily declining since 2001 – we've been shortchanged a total of more than \$1.2 billion since then.

More than half – *55 percent* or \$3 billion – of the five-year capital plan is comprised of FEMA funding to repair and make more resilient the 33 developments that were severely damaged by Hurricane Sandy. **Building a more resilient NYCHA after Sandy – a NextGen strategy** – was finally made possible after three years of negotiating with FEMA for the largest grant award in the agency's history. Residents living in Sandy-impacted developments have waited long enough, so we've quickly put those dollars to work. We started preliminary construction at 16 developments and expect to have shovels in the ground at all 33 sites by the end of the year. More than 200 severely damaged apartments at 10 developments have been restored and returned to the rent rolls so far.

NYCHA isn't just repairing Sandy-impacted buildings – we're also rebuilding our relationship with these residents, through meaningful engagement, outreach, and communication. Just last month, the [*Red Hook Star-Review*](#) described NYCHA's meeting with Red Hook residents as the "best NYCHA meeting ever," because the Authority presented proposed design changes that were based on resident feedback from previous meetings. We are **actively listening**, which is why we also launched the interactive Sandy Transparency Map – a digital accountability and communications tool that allows the public to track the progress of Sandy projects, including estimated funding levels, scope of work, timelines, renderings, and contractor information.

Transparency and accountability doesn't stop with our Sandy projects: We've also started posting information on our awards and active capital contracts on our website for the first time in the Authority's history, as part of our commitment to

be a more open and transparent NYCHA and as a direct result of our conversations with this Committee. This type of transparency is critical as we get to work on major capital projects, including our roof replacement campaign.

Through roof replacements, a NextGen strategy, NYCHA is tackling mold head-on and combating its leading root cause – leaks. Thanks to a \$300 million investment from the Mayor, we will replace an estimated 267 roofs over the next several years, meaning that nearly 64,000 residents will benefit from healthier, stronger buildings. Within the past year, we've completed roof replacements at 16 buildings, and we expect to complete work at a total of 67 buildings by spring 2018.

As we build better roofs and infrastructure, we are also building healthier, safer, and more connected communities. **The Mayor's Action Plan for Neighborhood Safety (MAP) is a NextGen strategy that brings together a variety of partners to reduce crime through a range of measures.** Violent crime is down by more than 11 percent at the 15 MAP sites. Thanks to funding from the Mayor, the Council Speaker, and the Manhattan DA, we will install new, energy-efficient exterior lighting at all 15 MAP developments. We installed 341 lights at Polo Grounds Towers – a \$4.8 million project – and projects at another eight sites are underway, six of which will be completed by the end of the year. With \$18 million in funding from the City Council and the State, we installed nearly 1,000 CCTV cameras, along with layered access security measures, at 31 developments last year. This year, we will begin installing security cameras at 23 sites with \$10 million in City and State funding.

Since technology alone won't improve safety in our communities, we also launched the Public Safety Advisory Committee, an advisory board comprised of NYCHA's Department of Public Safety, the NYPD, District Attorneys from all five boroughs, and three NYCHA residents. We want to elevate the voice and impact of younger residents on safety issues, so two of the residents will be between the ages of 18 and 24. The Advisory Committee will produce a Public Safety

Blueprint, which will identify top public safety and quality of life challenges and solutions and incorporate current initiatives, such as MAP. We know residents have to be at the table for these important conversations. As **Woodside Resident Association President and leader of NYCHA’s Citywide Council of Presidents Ann Cotton Morris** put it, “NYCHA is opening a direct line of communication” with our leaders and residents to better protect the community.

As we improve safety, we are also improving our sustainability as well. We selected the initial energy services company to replace and repair outdated infrastructure – such as heating systems – at 80 developments, home to 76,000 families, through the largest energy savings program ever undertaken by a public housing authority. Actual construction will begin later this year. A more sustainable NYCHA means improved quality of life for residents and a greener City for all.

NextGen: A Path to Budget Solvency

As I described earlier, the world that NYCHA is navigating today is very different than that of yesteryear. Every aspect of NYCHA’s funding has changed – as high up as the President’s budget, Congressional appropriations, and HUD’s allocations, and all the way down to State and City operating dollars. Facing this reality head-on, we launched NextGeneration NYCHA to get our financial house in order so that we can preserve public housing. We are *owning* our reality and NYCHA’s fiscal crisis, which we did not create, but inherited. The fact is, as the *Daily News* put it, “there is no NYCHA fairy” coming to save us, so we must save ourselves. We will continue to fight for every government dollar, but in the meantime we must generate new streams of funding for NYCHA. If we don’t, the consequences will be dire.

Another **NextGen strategy** and tool we're leveraging to bring in new resources to upgrade buildings and improve the quality of life of residents is **HUD's Rental Assistance Demonstration program, known as RAD**. Through RAD, NYCHA will partner with a developer to convert a development's funding source from public housing funds to Section 8, a program that can be leveraged to raise additional resources to repair buildings and modernize apartments. Funds generated through the RAD program will pay for comprehensive renovations, such as new kitchens and bathrooms, just as last year's Section 8 recapitalization program brought in new funding to make critical repairs and upgrades to six communities, including Bronxchester Houses. Several Council Members will see those improvements first-hand in a tour of Bronxchester in the near future, and they will have an opportunity to meet **Patricia Lamonda, the development's Resident Association President**, a huge champion of the Section 8 recap program. Like many others, she was skeptical of the change at first, but became a true believer when she saw the vast improvements, upgrades, and modernizations, as well as the change in mindsets of the entire community, who are more proud than ever of their homes.

We will bring these same types of improvements to Ocean Bay Apartments (Bayside) in Far Rockaway through RAD. Last month, we released an RFP for developer partners to complete major repairs and upgrades to the development's buildings and 1,400 apartments.

When this Committee held a hearing at Holmes Towers in January, we provided background and an update on **NextGen Neighborhoods, our NextGen strategy** to generate revenue for NYCHA and bring improvements to developments by building a 50/50 mix of affordable and market-rate housing on NYCHA land, starting with Holmes Towers and Wyckoff Gardens. We have been meeting with residents to learn their priorities, and this spring we will launch Stakeholder Committees so residents and other members of the community can work directly with the developers to help inform and oversee these projects.

While this may be the most headline-grabbing NextGen initiative, it's just one of many that will bring the Authority into the future.

In addition to finding new streams of funding, we are looking inward to ways we can save much-needed resources. In 2015, we integrated 56 employees into other agencies and ended the year with 226 fewer staff, mostly due to attrition.

Becoming the Landlord Residents Deserve

Our work to change the way we operate is key to our NextGeneration vision, crucial for our success in becoming a better landlord for residents, and a testament to the way we are maximizing our limited funding. We've been deeply engaged on this front this past year, from advancing a new property management model to unveiling FlexOps, which my colleague, Resident Board Member Victor González, will discuss. I'd like to invite him to join me at the table at this time.

OPMOM (the Optimal Property Management Operating Model) is a NextGen strategy that is empowering local property managers at 18 consolidations, or 33 developments, to build their own budgets, hire their own staff, and gain more control of purchasing and contract work. The average time it takes to complete a maintenance request at these sites has gone down to under 7 days from 21 days. Emergency repairs at these developments are being completed within an average of 20 hours, beating our target of 24 hours. Starting this summer, we will nearly double the number of developments under this localized operating model.

Since launching our real-time repairs program last June, NYCHA has inspected about 38,000 apartments and performed 42,500 routine repairs at the time of inspection – repairs such as the installation of smoke detectors and plumbing fixes. We are repairing on the spot 70 percent of the work identified during the

apartment inspection; this includes any maintenance work orders that were open prior to the inspection.

Since we are talking about repairs, an area of our work that is felt most directly by residents, I wanted to bring a resident voice to the hearing today. I'd like to introduce Mr. Victor Antonio González, a Wise Towers resident for almost a half century and a NYCHA Board Member who knows just about all there is to know about living in public housing.

[TESTIMONY FROM BOARD MEMBER GONZÁLEZ]

Thank you, Chair. Good morning, everyone.

My name is Victor Antonio González. I am a NYCHA Resident Board member and a public housing resident. Thank you to the Council and the Chair for allotting me time within her testimony to address the Committee today. It is a tremendous honor.

I've lived in public housing for more than 50 years. During that time, I've seen support for public housing come and go through eight presidents and governors. I've also had a front row seat while seven mayors and 11 NYCHA Chairs managed the Authority's growing problems amidst declining funding support.

My NYCHA story begins in the early 1970s, at Wise Towers on the Upper West Side. I moved into Wise when the building was just a few years old and still considered new.

*It was a very different time back then, **era una época muy distinta en ese entonces.***

*We didn't have work orders or backlogs or a CCC. We had a property management office. If you had a problem, you would go down to the office to talk face to face. Before you even finished stating the problem, you would have to rush back to your apartment because a crew was on its way to take care of it. In those days, local management made local decisions--**la administración local tomaba las decisiones locales.** Back then, NYCHA had the funds and adequate personnel to stay on top of maintenance and repairs the way they should.*

But with every year, the challenge of underfunding grows.

Money would be the most direct way to do good. Unfortunately, it's very clear that NYCHA does not have adequate federal funding – and probably won't anytime soon – which is why the Authority has the responsibility to think outside of the box.

*Last week, NYCHA took a big step. The Chair introduced Flexible Operations: Expanded Service Hours, or FlexOps, a new staggered shift initiative to extend the hours for repairs, cleaning, and sitting down with property managers. Now, it's not like I remember when managers worked every day of the week, but the service hours laid out in FlexOps will help NYCHA start to return to a time when customer service was key to operations, **el servicio al cliente era esencial para las operaciones.***

As a resident myself, I know that NYCHA residents won't actually believe NYCHA is changing until they see it happen. I believe FlexOps is a crucial way they can see it for themselves. Thank you.

[CHAIR]

Thank you, Mr. González. I appreciate his thoughts, and couldn't agree more about the change FlexOps will deliver to both residents and employees.

Conclusion

We've come a long way in the last two years, but it's not far enough. In NYCHA's fight for survival against staggering capital needs and looming deficits in the years to come, including a projected \$60 million operating deficit this year, we need to make bold and tough choices.

For more than eight decades, NYCHA has been a pathway to opportunity for countless New Yorkers. As the City's largest resource of affordable housing – home to 5 percent of the population and representing half of our truly affordable apartments – it must be here to serve tomorrow's families.

So we must change the way NYCHA is funded to keep our buildings standing. We must change the way NYCHA operates to become the landlord our residents

deserve. Those are our imperatives – doing anything less would be a dereliction of our duty.

I want to take a moment to recognize and thank this Committee, and the Chairman in particular. It's your job to ask the tough questions and bring greater accountability and transparency to NYCHA. As the Chair, I'm doing the same from my post. In the end, our mutual goal is to improve NYCHA, to better serve residents. At times there may be differing views about how to achieve those goals, but I believe we can accomplish them if we do it together, in partnership.

Thank you for your vital role in our work to strengthen and sustain public housing in New York City. We are happy to answer any questions that you may have.