TESTIMONY FROM NYCHA CHAIR & CEO SHOLA OLATOYE
PRELIMINARY BUDGET HEARING
COMMITTEE ON PUBLIC HOUSING
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Speaker Melissa Mark-Viverito, Chair Ritchie Torres, members of the Committee on Public Housing, and other distinguished members of the City Council: good afternoon. 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, and other members of NYCHA's executive team. Thank you for this opportunity to present the Authority's adopted budget for the years 2017 through 2021, which was approved by the NYCHA Board of Directors on December 21, 2016.

Where Public Housing Finds Itself

For three years, I've sat before you to speak frankly about the threats facing public housing – from decaying infrastructure to growing deficits. I've talked about accountability and debated the wisdom of hard and unpopular choices with you. I've also heard and felt the anger in the voices of residents and of members of this Council.

However, with some time and even some setbacks, together, a brighter future for NYCHA was finally starting to come into focus. There was:

- A Mayor marshaling the resources to literally put new roofs over people's heads;
- An Authority moving out of the Stone Age and into the Digital Age; and
- A fight for every dollar to restore fiscal order – replenishing NYCHA's reserves up to 2.5 months, balancing budgets, even small surpluses – all from tough choices and necessary changes.

NextGen NYCHA, our 10-year strategic plan and turnaround effort, was becoming more than a 100-page plan – it was becoming a reality.

Now, I fear all that progress may be in jeopardy as we face the most uncertain times in public housing history.

Today, this Chamber – the people of New York City, the country – want to know what the future of public housing looks like under the Trump Administration. They hear reports of crippling cuts – of an estimated $54 *billion* in cuts to domestic programs and a devastating $6 billion slash to HUD's budget. They want to know what it means for 600,000 New Yorkers who count on NYCHA or Section 8 for affordable housing in this City.

Speculation will be put to rest any day now when the President shares his budget for next year, but in the meantime, there are some things we know for sure, right now.

We know cuts from HUD are real, and we've already received them.

Crippling Cuts Hinder Our Efforts

For the third year in a row, NYCHA was able to balance the books at the end of the year. We accomplished this through increased rent collection, more federal subsidy as a result of higher proration rates, and development revenue coupled with lower utility costs and a lower head count.

Like any family who might tighten their budget ahead of uncertain times, NYCHA's Board approved a conservative 2017 budget at the end of last year. By our projections, tightened belts meant NYCHA could end 2017 with a $21 million operating surplus. Unfortunately, our reality today now projects a deficit of $14 million instead of a surplus.

HUD provided notice for reductions to three funding streams vital to NYCHA: two cuts impacting the Authority's day-to-day operations (public housing operations and Section 8 administration) and one cut, which has the potential to impact landlords and voucher holders (the Section 8 subsidy).

In short, HUD instituted:

- A formula change to public housing that assumes that the rate of our rent collection has gone up by 2 percent, but the rate of our expenses has only risen by 0.4 percent;
- A proration rate cut for public housing, from 90 percent to 85 percent; and
- A proration rate cut to administer the Section 8 program, from 84 percent to 77 percent.

Before the year ended, we took a conservative approach and assumed a proration decrease for public housing operations, from 90 percent to 87 percent, which represents a $21 million loss. The HUD notice we received subsequently went further, lowering proration to 85 percent, which would have been a $48.7 million loss. NYCHA is now left with a $27.7 million shortfall for public housing operations, in addition to a $7.6 million shortfall for Section 8 program administration.

Separately, HUD also instituted:

- A 95 percent proration rate (down from 99 percent) for Housing Assistance Payments, or HAP, which is the Section 8 voucher subsidy for landlords – a potential loss of $40.5 million. HAP is somewhat unique because the impact on voucher holders can be mitigated through a number of measures.

It's important to acknowledge that HUD changes proration rates on a regular basis. However, if the rates published by HUD are any indication of the future, NYCHA must brace for cuts, because HUD is as uncertain as we are of what's to come. And for NYCHA, every 1 percent decrease in proration is about a $10 million loss for the Authority.

When we are talking about proration, we are really talking about the rationing of funds. HUD rations out the funds appropriated by Congress across 3,100 housing authorities across the country. And through proration, the gap between income and expenses only grows wider.

In fact, in the last 16 years, HUD's formula funding achieved a proration rate of 100 percent or more for New York City only three times.

'The Plan'

Everyone wants to know, what's the plan? How does NYCHA plan to manage these and any future federal funding cuts?

The plan is this:

1.) Washington <u>does not</u> get to walk away from public housing – so we will fight any and all cuts, and I hope you will join us.

2.) As a City, we need to decide what level of service in public housing we can tolerate. There is no "doing more with less," which we've done every year for more than 15 years. So there will be tough choices ahead.

3.) NextGeneration NYCHA *is* the plan. Even though it was drafted two years prior to the threat of millions in lost federal aid, it still provides a valuable roadmap of how we can fundamentally change the way we do business. Because without the NextGen initiatives we've started to put in place, we'd be suffering deficits in the *hundreds* of millions every year.

Cuts Have Real Consequences

It would be impossible for any landlord to operate with less revenue than they need to operate, with less capital dollars than they need to maintain their buildings, all while keeping rents the most affordable in the City.

There is no question there is more work that can and must be done by the Authority to increase efficiencies and lower expenses, but NYCHA's hands are tied on many fronts, including the cost of utilities, work rules, health care, and pensions. We are also limited in how we can bring in new revenue, because rents are capped to keep them affordable.

So a cut today means real service reductions – an impact to residents that will be felt immediately, and mostly in maintenance and repairs. We are a 24/7 operation that only works between 8:00 am and 4:30 pm. We pay a premium for work to occur outside those hours. If we decided to stop paying a premium and stop work outside 8 to 4:30, residents would see longer waits and reduced customer service. And at some point the question will come: What, as a city, is a level of service we can tolerate?

Significant cuts to NYCHA's Section 8 program, which received an "A" rating from HUD, could force us to decrease the number of families served; lower the subsidy toward a voucher holder's rent, which effectively increases their rent; potentially stop issuing vouchers through attrition; and eventually, remove families from the program.

NextGen: Making the Most Impact Possible with Capital Funding

As you may know, our capital budget includes three sources: federal funding from HUD, City funding, and federal FEMA funding.

In recent years, HUD has provided NYCHA with about $300 million annually in federal capital dollars for infrastructure improvements and major upgrades. This year, nearly three quarters of our capital dollars will go toward structural and exterior work, such as roof and façade repairs. Sealing our buildings from the elements has a significant impact on the quality of life that residents experience in their homes.

While our capital funding is far from sufficient to meet our buildings' $17 billion in needs – and has declined by a cumulative $1.4 billion since 2001 – we're putting the money we do receive to work for our residents faster and more efficiently. We've accelerated the obligation of these funds, from 18 months in 2013 down to eight months now, well below HUD's 24-month requirement.

On the City level, Mayor de Blasio has demonstrated his commitment to public housing in a very tangible way. He recently announced a $1 billion investment over 10 years so we can replace more than 700 of the most deteriorated roofs in our portfolio. This is on top of the $300 million he already committed as part of NextGeneration NYCHA. In total, we'll be able to tackle one of the biggest structural challenges we face at more than 950 buildings, benefitting some 175,000 residents.

I'm also pleased to report we are ahead of schedule with the installation of new safety lighting for the MAP initiative, funded through the partnership between the City Council and the Speaker, the Mayor's Office, and the Manhattan District Attorney's Office. To date, we've installed an impressive 1,781 new light fixtures. And as promised, we installed or upgraded more than 600 CCTV cameras at 121 buildings with Fiscal Year 2015 and 2016 funding, thanks to support from the City Council.

Our Bond B work to complete about $500 million of major improvements at 319 buildings is nearly finished. Last year, our Capital Projects Division had 120 projects in construction worth a total of $1.2 billion. We completed brick and roof repairs in all five boroughs. We have spent nearly $500 million on Sandy recovery work, hiring 164 residents and beginning major construction at seven developments; major construction will start at every Sandy-impacted development by the end of the year.

All of this momentum to finally begin to rebuild our infrastructure will be lost if we see devastating cuts to NYCHA's federal capital budget next year. Simply put, with fewer resources, there will be fewer rehabilitation projects. Precious dollars will be invested in the most dire properties, while other projects in the queue will be shelved for a future, uncertain date.

NextGen: Creating Revenue for NYCHA's Preservation

NYCHA's fate is tied to our infrastructure and our ability to operate. For years, these functions have been starved of the very resources they need to survive. And since "there is no NYCHA fairy coming to save us," we must pursue revenue-generating strategies to help save ourselves.

With so much uncertainty from Washington, the debate on whether or not to build on public housing land as a revenue source should be over. As a city, the stakes are too high for us to disagree amongst ourselves. Public housing will need leadership and partnership like we've never seen before, because of these unprecedented times.

In a win-win, NextGen Neighborhoods offers the City more affordable housing and NYCHA much-needed revenue to fund building upgrades. Constructing a 50/50 mix of affordable and market-rate housing on under-utilized NYCHA land helps shore up public housing. And this spring, we will announce the selected developers for our first two NextGen Neighborhood sites, Wyckoff Gardens in Boerum Hill and Holmes Towers on the Upper East Side.

When tested, we can be entrepreneurial in the way we approach challenges. Our NextGen strategy on RAD – HUD's Rental Assistance Demonstration program – is a public-private partnership and a path forward to preserve affordable housing for the long term, and to improve the quality of life for residents through major building repairs immediately.

In December, we closed our first RAD agreement for Ocean Bay-Bayside in the Rockaways, bringing in $325 million to repair and modernize 1,400 apartments. In January, we received approval from HUD to proceed with another 1,700 units, which will enable us to invest an estimated $300 million in extensive repairs at 17 developments and 59 individual buildings throughout the Bronx and Brooklyn.

NextGen: Creating a More Efficient Organization

NYCHA’s survival hinges, in part, on making our operations more efficient, a core tenet of our NextGen vision and a key way that we are providing better service to residents. One measure of our progress in this area is the time that it takes to complete basic repairs. Last year, it was around 10 days. Today, we’re just under six days.

NextGen NYCHA has taught us many things – none more important than local property management matters. Our NextGen Operations model of localized property management is delivering faster repairs to residents at approximately 67,000 units, by making property managers more accountable as leaders of their developments. Basic repairs are being completed within five days at these developments, down from 14 days in January 2015. Emergency repairs are being completed within an average of nine hours, beating our target of 24 hours and in comparison to about 12 hours at the rest of our portfolio.

Since operations is our core business, it will be nearly impossible to shield it from the impacts of lost operating dollars. The hard-fought gains to improve service levels may slip backwards as one of the first casualties of cuts.

While future funding levels may slow us down, we are still proceeding with FlexOps, the Flexible Operations pilot we launched last summer at 12 developments with our colleagues at Local 237. It is another demonstration of our ability to adapt, to the benefit of residents and staff alike. Through multiple, staggered shifts for front-line staff, residents are seeing cleaner hallways, elevators, and lobbies when they leave for work in the morning and can get repairs completed in their homes in the evening, so they don't have to take time off from work. We are looking to expand the pilot program at up to 12 new sites.

Through NextGen's digital initiatives, we've laid the groundwork to be more resilient in the face of fiscal uncertainty. NYCHA has joined the digital age with a host of initiatives that improve customer service by streamlining the work that our employees perform at our residents' request. More than 3,500 of our front-line staff are now equipped with handhelds that allow them to open and close work orders and get resident sign-off on the work on-the-spot, increasing transparency and eliminating paperwork from the process entirely. Using their handhelds, maintenance workers are now completing 15 percent more work orders. Residents can now complete their annual income certifications online, which cuts down on paperwork, back and forth, and frees up our staff to assist residents in other ways. Self-service kiosks have been rolled out to property management offices, enabling residents without computer access to complete their annual recertification online, in addition to paying rent and even applying for jobs. Our MyNYCHA app – which just won the Citizens Budget Commission award for Public Service Innovation last week – has been downloaded nearly 48,000 times by our residents.

NextGen: What NYCHA Is (And Why Saving It Matters)

As I've been speaking today, images of "our people, our neighbors" have been scrolling beside me, because when federal funding is on the line, it really does impact real people and our city.

Consider this: One in 14 New Yorkers rely on NYCHA for housing, through public housing or NYCHA's Section 8 program.

They are working families – they are teachers, caretakers, and cops. In fact, the top employers of our residents are the DOE, NYCHA, and the NYPD.

Some are seniors; actually, 76,000 residents are retired from the workforce, aging in place on fixed incomes.

Others are formerly homeless, as NYCHA has become the permanent home for more than 4,500 families over the past three years, and about 2,600 families transitioned from shelters into housing with assistance from NYCHA's Section 8 program.

NYCHA isn't just in the business of housing our residents, but connecting them to economic opportunities. Since it was founded in 2010, the NYCHA Resident Training Academy, a collaboration with the Robin Hood Foundation and best-in-class workforce development partners, has trained more than 1,800 residents for careers in the construction, maintenance, and janitorial fields. In addition, our Office of Resident Economic Empowerment and Sustainability and its partners connected more than 3,000 residents to good jobs last year.

We believe that public-private partnerships can help us bring greater opportunity to residents. To that end, we launched the Fund for Public Housing, a non-profit that seeks support from philanthropists and businesses who value this incredible institution and want to invest in NYCHA residents and their communities. Jeffrey Levine, who grew up in Linden Houses, is the first former NYCHA resident to donate to the Fund: Over 10 years, he's providing $100,000 in scholarships to NYCHA residents enrolled at City College, his alma mater. I'm proud to note that the Fund for Public Housing was recently named by *Fast Company* magazine as one of the 10 most innovative non-profits in the world.

Who We Are

Last month, in Speaker Mark-Viverito's final State of the City address, I was struck by the powerful words she used to describe our city. She really tapped into the ethos of Who We Are; something powerful that resonates beyond our city limits, which means something not just in Albany and in DC, but to the entire world.

For 83 years we've put a stake in the ground to say: Public housing is a New York institution because our people deserve decent and affordable housing – this is who we are.

When brick towers in St. Louis and Chicago were brought to rubble, New York's towers in the park became a bastion for working families and seniors in the increasingly unaffordable city they call home – this is who we are.

For the last forty years, curve balls and shortfalls, and even management missteps, have dogged public housing, yet NYCHA, even with some bruises, continues to rise above and carry on – because this is who we are.

We must refuse to allow Washington to turn its back on 2.6 million public housing residents across the country, including 400,000 here in New York City.

While some may underestimate the magnitude or uncertainty of this crisis, I can assure you: History will judge us on what we did or did not do to save public housing in New York City when we had the chance. Now is our chance.

With that preface, I request of you this:

Join me in calling on Washington to meet their obligations to public housing. Invite your constituents and your residents. Go to Albany, knock on doors, and ask them to commit to rebuilding public housing, the way the Mayor and the Council have. Raise your voices so there is no mistake that this is who we are.

Also, there may be the temptation to solve cuts with short-term fixes instead of systemic changes, systemic changes like we've outlined in NextGen – the type of change that can ensure the long-term prosperity of public housing as we know it in New York City. We must fight the urge to do what is convenient and what others have done before us.

As Chair, I know I cannot do it alone. I will need you, our workforce, and our residents – we all will have to come together to do whatever proves necessary to prevent deficits, default, and the dismantling of public housing. Because we can provide safe, clean, and connected public housing for this generation and the next, because <u>that</u> is who we are.

Thank you. We are happy to answer any questions you may have.