

TESTIMONY FROM NYCHA CHAIR & CEO GREG RUSS
PRELIMINARY BUDGET HEARING – PUBLIC HOUSING
COMMITTEE ON PUBLIC HOUSING
TUESDAY, MARCH 8, 2022 – 1:00 PM
REMOTE HEARING (VIRTUAL ROOM 2)

Chair Alexa Avilés, members of the Committee on Public Housing, other distinguished members of the City Council, NYCHA residents, and members of the public: good afternoon. I am Greg Russ, NYCHA’s Chair and CEO. I am pleased to be joined by Chief Operating Officer Daniel Sherrod, Executive Vice President of Finance and Chief Financial Officer Annika Lescott, Chief Asset and Capital Management Officer Shaan Mavani, Vice President of Intergovernmental Relations Brian Honan, and other members of NYCHA’s team. Thank you for this opportunity to present the Authority’s adopted budget (which was approved by NYCHA’s Board of Directors on December 29, 2021) and discuss our efforts to transform this agency and our residents’ homes.

I would first like to congratulate all the new members of the City Council; I look forward to working closely with you to serve the NYCHA community. I would also like to thank Mayor Adams for his partnership and support.

Reckoning with Decades of Disinvestment

This is a moment of significant change at the Authority – we have new leadership, including a new Chief Operating Officer, Chief Asset and Capital Management Officer, and Chief Compliance Officer – and we are instituting major organizational reforms through our Transformation Plan. At the same time, we are reckoning with the Authority’s greatest existential threat in its 88-year-history: the compounding effects of more than four decades of federal government disinvestment from public housing across the nation.

The days of piecemeal fixes – of putting band-aids on our aging, deteriorating buildings – are over. Residents know this reality painfully well, with the near daily cascade of serious issues, from the rooftops to the pipes underground. We have experienced this in sharp relief this winter with the increase in heating outages.

It's not for lack of working harder or working smarter – we have increased our staffing levels in critical areas and are improving the way we do business. Quite simply, this is what disinvestment looks like, when buildings haven't received the continual investment they need: 80-year-old piping giving out behind walls; boilers and elevators failing; roofs leaking, giving rise to mold. Across our portfolio right now, there's more than *\$40 billion* in urgent repair needs that are seriously degrading our residents' quality of life – and the needs grow at a rate of about a billion dollars every year.

Residents should not have to suffer any longer. We have a responsibility to bring our buildings the investments they so desperately need, as quickly as we can. The only way to ensure that our properties can serve residents for another century is through comprehensive modernization, like we're doing at St. Nicholas and Todt Hill Houses. To bring top-to-bottom renovations and upgrades to every NYCHA building, we must use every tool in our toolbox, from PACT to the Public Housing Preservation Trust. These initiatives protect residents' rights while bringing the funding needed to transform their homes.

Our residents are relying on us to take the necessary action now; the very future of public housing in New York City is at stake. Despite the best efforts of our advocates in federal government, it is clear that the only serious and viable plan on the table right now is the Public Trust. We are continually reminded that we cannot depend solely on federal funding alone, and that we must implement creative strategies to bring residents the quality of life they deserve.

Budget Outlook

Operating Budget

The numbers illustrate the need for a new approach. Rent revenue, which is about a third of our budget, is down significantly (by about 30 percent), largely due to the

pandemic. The current rent shortfall has climbed to about \$311 million – a significant sum that we need to repair and preserve our buildings.

For 2022, with expected operating revenues of about \$4.144 billion and an expected \$4.179 billion in operating expenses, we anticipate a year-end deficit of about \$35 million. We believe we can close this gap – we will continue to closely monitor our spending and implement cost-saving measures as necessary, as we did to close the budget gap in 2021. However, with the increasing needs, and without additional revenue, the anticipated annual deficit climbs to about \$279 million in 2026.

Two-thirds of NYCHA’s operating revenue comes from federal sources. This year, we expect to receive about \$1 billion in federal operating subsidy. However, as noted, the other third of our operating revenue comes from rent, and we expect to collect about \$867 million in rent this year, nearly \$130 million less than we should be collecting. The 2022 budget assumes a proration factor of 96 percent for the operating subsidy – about \$43 million less than what NYCHA is eligible for. We also expect to receive \$276 million in City operating funds.

We expect to receive about \$1.4 billion for Section 8 vouchers, and the associated administrative fees, this year. Our Section 8 program is well managed – deemed a “high performer” by HUD – despite the fact that we are underfunded by HUD’s formula. NYCHA’s contract with HUD authorizes us to lease about 106,000 vouchers. But this year, NYCHA is receiving the previous year’s expenses plus a Section 8 administrative fee that is prorated by 84.7 percent. This funding only supports 88,880 vouchers, roughly 83.6 percent of the 106,000 vouchers that NYCHA is eligible for.

Our projected expenses for 2022 include \$1.3 billion in Section 8 payments to landlords; \$1.5 billion in salaries and fringe benefits; \$487 million in contracts; \$524 million in utility payments; and \$339 million for items such as supplies, vehicles, and equipment. A significant portion of our expenses are fixed, such as utilities and employee benefits.

As part of our efforts to close this year's budget gap, we will withdraw \$100 million from our operating reserves, leaving just over one month of reserves for 2023. We will also use \$80 million in restricted proceeds from PACT deals. And we will shift 35 percent of our federal capital grant for our basic operations (the maximum amount we can shift; typically, we would only transfer 15 to 20 percent) – this is because lack of investment in the buildings is driving up the costs to simply sustain them; the work orders keep surging due to leaks and mold and failing building systems, symptoms of the condition of our buildings.

Again, we cannot rely on federal funding alone to maintain our properties. The majority of our buildings are more than a half century old, and the federal, State, and City funding we receive will never meet their needs – which are currently 20 times the national appropriation from Congress. We receive an average of \$469 in tenant rent, \$573 in HUD operating subsidy, and \$119 in City subsidy per apartment – a total of about \$1,161 per month. However, it costs about \$1,490 to operate the apartment, a gap of about \$329 per month and \$3,948 per year.

Despite the funding constraints, we are investing in the areas that affect residents the most. Even with the decline in rent revenue, we increased our investment in the HUD Agreement pillar areas by \$162 million over the past three years.

We received over \$300 million in new needs requests from staff for this budget, largely to address the pillar areas of heating and elevator service, pest and waste management, lead, mold, and compliance. Funding them all would have created an even larger year-end deficit. And so we funded \$137 million worth of the most critical requests. That includes \$47 million for our Transformation Plan efforts, such as an additional 250 skilled trades staff to carry out our Work Order Reform initiative and make a dent in our repairs backlog. We also plan to hire about 200 janitorial staff and supervisors to maintain our grounds and buildings. We funded 100 percent of the requests from property managers regarding supplies, equipment, and contracts for their buildings. We also budgeted for additional overtime – considering the needs of our aging, ailing buildings, overtime is necessary to provide vital services to residents and improve our

responsiveness as a landlord. We allocated \$38 million in additional funding for the HUD Agreement pillar areas, including the comprehensive modernization pilot; heating investments; asbestos, lead, and mold abatement; elevators; and pest and waste management. These investments pertain just to operations and are in addition to the capital investments we're making in these areas.

We expect to spend substantially more over the next several years to continue addressing all the major areas of the HUD Agreement. For example, we expect that it will cost at least \$1.1 billion to fully abate lead-based paint across the portfolio. We are currently spending about \$101 million to complete XRF tests in over 134,000 apartments – we estimate that interim control protocols in this area would cost roughly \$230 million annually.

[Operating budget slides presentation from Chief Financial Officer Annika Lescott]

Capital Investments

About \$2.9 billion in capital funding is available in 2022, including around \$700 million in expected federal capital funding, \$410 million in City capital funding, and rolled over funds from the prior year. However, this barely makes a dent in the more than \$40 billion in needs. For 2022, we are allocating \$773 million to update heating systems, \$245 million for façade repairs, \$264 million to repair roofs, \$205 million to replace elevators, and \$53 million for security systems and fire alarms.

Since January 2021, NYCHA has been spending an average of \$63 million per month on capital projects from all sources – more than a billion dollars of construction work is currently underway across the city. NYCHA consistently meets and exceeds HUD's deadlines for obligating and expending federal capital funds – for the past four years, we've exceeded those deadlines by an average of 7 months and 16 months, respectively. In addition, NYCHA anticipates committing 23 percent, or \$231 million, of City capital funds that became available to NYCHA since November 2021, by the end of the City fiscal year in June 2022, representing a significant increase from last year's rate.

We are incredibly grateful for all the City funding we've received, which is vital to residents' quality of life, and we're looking at ways to streamline the City funding approval processes and work with our partners more effectively on expending those dollars. This includes enhancements related to strategic vendor management and increasing our use of alternative project delivery models that allow us to select for quality and other critical value-for-money factors in addition to cost.

Also, to provide greater transparency to residents and stakeholders on the progress of NYCHA's capital investments, we are developing a publicly accessible online tracker that presents details and status for each capital project.

[Capital projects tracker mockup slide presentation from Chief Asset and Capital Management Officer Shaan Mavani]

As of the end of 2021, we have completed \$2.47 billion worth of Sandy recovery projects, providing residents with new roofs, electrical systems, boilers, exterior lights, CCTV cameras and security systems, backup power, and flood protection. We expect to complete 90 percent of this work by the end of the year, closing out all \$3.2 billion of the Sandy recovery work by the end of 2023.

Over the next several years, we plan to replace 356 elevators and 357 boilers at scores of developments. However, simply replacing the boilers isn't enough to fully resolve the heating issues – we also need to update the associated infrastructure, from underground distribution systems, to pipes in walls, to heating components, to apartment radiators. But we don't have the funding to do so, which is why we need the Public Housing Preservation Trust.

Since 2014, we have invested more than \$212 million in CCTV cameras and other security measures at our developments, and another \$101 million on exterior lighting.

To date, we have replaced 220 roofs, benefitting nearly 52,000 residents and helping to prevent leaks that can cause mold.

Investing in Transformation Along With Safety and Quality of Life

In tandem with the efforts to improve our buildings, our imperative is to also improve our organization. Our Transformation Plan envisions operational and organizational changes that will improve customer service and responsiveness to conditions at our developments, ensure that large projects are completed in a timely manner, and promote accountability through property management performance metrics. The Transformation Plan was created from ideas and feedback we received directly from residents and staff. In fact, it was the first plan NYCHA made available for public comment, and the Resident Roundtable we established continues to shape the plan and its implementation. The plan's initiatives will enable us to manage our properties better and use our limited funding more effectively, all while improving the quality of life for our residents.

A vital element of our Transformation Plan is our Neighborhood Model, which creates smaller property management portfolios and brings more decision making and resources to developments. To strengthen property-based budgeting, we have been training all our property managers and some of our resident leaders on budget concepts and processes.

Another critical piece of these efforts is our Work Order Reform initiative, which assigns skilled trades staff (such as painters and plasterers) to developments and "Neighborhoods" to ensure faster repairs. It also simplifies the repair scheduling process for residents, allowing all related work orders for a repair to be scheduled at once through one phone call (rather than sequentially, as each work order involved is completed). We began rolling out Work Order Reform by borough in November, and it will be in place citywide by the end of this year. As I mentioned, our budget provides funding to hire additional skilled trades staff for this important initiative.

We are also in the process of changing our janitorial scheduling to allow site-based schedules for our caretaker staff that are designed by the property managers to meet their unique site needs. Caretakers will also be assigned to specific buildings, allowing for increased accountability to ensure our properties are clean and maintained. These changes will be fully implemented by this summer.

In line with our transformation efforts, we have been strengthening our organization's leadership. Daniel Sherrod, who brings vast experience with improving the performance of public housing authorities across the nation, was appointed Chief Operating Officer in January. That month, we also appointed a new Chief Compliance Officer, Brad Greenburg, as well as NYCHA's first-ever Chief Asset and Capital Management Officer, Shaan Mavani. Mr. Mavani leads the new Asset and Capital Management Division, which integrates and aligns the Authority's existing development, modernization, and asset management work being carried out by the Real Estate Development, Capital Projects, and Comprehensive Modernization teams. This division will bring comprehensive repairs to NYCHA buildings and apartments through strong partnership with residents and other stakeholders; strategic, data-driven portfolio planning; and cost-effective project delivery and management. The division will also position NYCHA's housing portfolio for the future by incorporating innovative building materials, construction methods, and technology, improving residents' quality of life while enhancing building performance and management. Aligning NYCHA's capital investment plans portfolio-wide is an important part of our Transformation Plan efforts to become a stronger and more streamlined organization, and we are excited about the progress we're making.

Permanent Affordability Commitment Together (PACT)

With our PACT preservation initiative, which is truly transformative, we are bringing total repairs and upgrades to at least 62,000 apartments while safeguarding resident rights and protections. Since 2016, PACT has generated more than \$3.4 billion in capital funding for comprehensive apartment renovations and building infrastructure improvements for nearly 15,500 households. That includes beautiful, brand-new

kitchens and bathrooms; upgraded building systems (like elevators and boilers); and improved grounds and common areas (including playgrounds and security systems).

Approximately \$579 million in renovations have already been completed, and \$2.8 billion in major upgrades are underway or will begin early this year. Another 19,700 households are part of active development projects in the process of resident engagement or pre-development. In total, NYCHA has more than 35,000 apartments completed, in construction, or in a stage of resident engagement or pre-development.

Together with PACT, the Public Housing Preservation Trust would bring top-to-bottom renovations to all of our buildings, providing residents with the quality of life they deserve regardless of the vagaries of funding from Washington.

Fighting Tirelessly for Public Housing

Bringing investment back to our buildings and restoring them is the most pressing issue we face. We cannot wait – residents cannot wait – for sufficient federal funding to suddenly materialize, and we must address the challenges now with sustainable, realistic, and comprehensive solutions. We will continue to work around the clock to do the best we can for residents with the resources at our disposal, and we will advocate equally tirelessly to raise the capital funding our buildings so desperately need.

Thank you for standing with us as we fight for our residents and the future of public housing in New York City. We are happy to answer any questions you may have.