

Testimony from NYCHA’s Interim Chief Executive Officer Lisa Bova-Hiatt
Preliminary Budget Hearing – Public Housing
Committee on Public Housing
Monday, March 13, 2023 – 2:30 p.m.
New York City Hall Committee Room

Chair Alexa Avilés, members of the Committee on Public Housing, other distinguished members of the City Council, NYCHA residents, community advocates, and members of the public: good afternoon. I am Lisa Bova-Hiatt, NYCHA’s Interim Chief Executive Officer. I am pleased to be joined by Chief Operating Officer Eva Trimble, Executive Vice President of Finance and Chief Financial Officer Annika Lescott-Martinez, Chief Asset and Capital Management Officer Shaan Mavani, 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 in December. I would also like to briefly discuss our efforts to transform this vital institution and improve residents’ quality of life.

Contending with the Impacts of Diminished Rent Revenue

There is considerable work underway to stabilize and strengthen the Authority so that we can improve conditions at our developments and provide residents with the quality of life they deserve. We are focused intensely on this mission, and the stakes could not be higher – NYCHA is home to hundreds of thousands of New Yorkers, a significant resource of affordable housing in our city. However, in addition to the accumulating impacts of decades of federal government disinvestment, today we are contending with another serious challenge – rent arrears, which are growing at an alarming rate.

Rent arrears now total \$466 million across about 73,000 households, having nearly quadrupled since 2019, when arrears stood at \$125 million. NYCHA is collecting only 64 percent of the rent owed over a 12-month period; HUD expects public housing authorities to collect 100 percent of the rent. NYCHA’s primary mission is to keep families housed, and we launched a campaign to inform residents of the various ways they can get help with paying their rent – from one-time emergency assistance available from the City’s Human Resources Administration to financial counseling opportunities from our partners – and we work with residents experiencing hardship. For instance, payment plans are possible, and residents experiencing a loss in income can have their rent reduced to as low as zero – a powerful demonstration of the vital safety net that public housing provides. In addition, we submitted \$121 million worth of Emergency Rental

Assistance Program (ERAP) applications to the State on behalf of more than 31,000 households. At this moment, though, there is no ERAP funding available for public housing residents. And at the same time, the NYCHA households with ERAP applications pending have amassed more than \$240 million in arrears. To bring attention to these critical needs, we sent each State legislator data on rent arrears in their district, as residents with subsidized rents have been granted the lowest priority for ERAP funds.

Rent payments fund one-third of NYCHA's operating budget and are crucial to our operations. We rely on rent payments, along with federal funding, to maintain our developments, which are aging rapidly and have more than \$40 billion in major capital needs. Without additional funding or an increase in rent payments, beginning next year NYCHA will have no choice but to significantly cut expenses and curtail repairs, including those related to the HUD Agreement – which will have a real impact for residents. We will discuss the ways we are mitigating the loss in rent payments later in our testimony.

Budget Outlook

Operating Budget

I would now like to take you through some specific information related to NYCHA's budget. For 2023, with expected operating revenues of about \$4.378 billion and an expected \$4.413 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 2022. However, with the increasing needs and expected mounting losses in rent revenue, the anticipated annual deficit climbs to about \$56 million in 2027.

Two-thirds of NYCHA's operating revenue comes from federal sources. This year, we expect to receive about \$1.2 billion in federal operating subsidy. However, as noted, the other third of our operating revenue comes from rent, and we expect to collect about \$850 million in rent this year, about \$150 million less than we should be collecting. In our 2023 budget, we assumed a proration factor of 89 percent for the operating subsidy – \$150 million less than what NYCHA is eligible for. We also expect to receive \$234 million in City operating funds.

We expect to receive about \$1.46 billion for Section 8 vouchers, and the associated administrative fees, this year. NYCHA is receiving the previous year's expenses plus a Section 8 administrative fee that is estimated to be prorated by 88 percent. Along with program reserves, NYCHA will be appropriately funded to issue more Section 8 vouchers for low-income New Yorkers.

Our projected expenses for 2023 include about \$1.46 billion in Section 8 payments to landlords; \$1.52 billion in salaries and fringe benefits; \$463 million in contracts; \$604 million in utility payments; and \$367 million for expenses such as leases, supplies, vehicles, and equipment. A significant portion of our expenses are beyond our control and rising, such as utilities and employee benefits.

The majority of our buildings are more than a half century old, and the historic lack of investment is driving up the costs to simply maintain them. Due to the insufficient rental revenue and the escalating costs related to the HUD Agreement, NYCHA has relied heavily on operating reserves to improve services for residents and meet the demands of the Agreement. As part of our efforts to close this year's budget gap, we will withdraw \$65 million from our operating reserves, leaving less than one month of reserves. To put this in context, HUD recommends three to four months of operating reserves for public housing authorities of our size. To help close this year's deficit, we will also use \$17 million in restricted PACT proceeds. And we will again shift 35 percent of our federal capital grant for our basic operations (the maximum amount we can shift under HUD rules).

Chief Financial Officer Annika Lescott-Martinez will now provide a few more details about NYCHA's 2023 budget and financial outlook.

[Budget presentation from Chief Financial Officer Annika Lescott-Martinez]

Capital Investments

Thank you, Annika. In terms of NYCHA's capital investments in our properties, about \$2.45 billion is available for this purpose in 2023, including approximately \$390 million in expected federal capital funding; \$741 million in City capital funding available in the 2023 City Fiscal Year; and other federal, State, and City funds allocated from prior-year awards. We are grateful

for the City's support, which is vital to our efforts. We are also grateful for the State's commitment of \$350 million in 2022, which we plan to use to upgrade heating systems and repair façades across the city after finalizing a Funding Agreement.

While the capital funding we receive is only a fraction of the more than \$40 billion needed to provide residents with the quality of life they deserve, we are making a difference with the money we do receive. More than 700 capital projects are underway across the city; over 250 of these projects are in the construction phase. In 2023 we anticipate committing an additional \$950 million to upgrade heating systems, roofs, elevators, and waste management systems; repair building facades; and abate lead-based paint and asbestos in apartments, among other important capital improvements. Expenditure in 2023 is expected to be \$935 million, or \$78 million each month.

NYCHA consistently meets and exceeds HUD's deadlines for obligating and expending federal capital funds – for the past several years, we've exceeded those deadlines by an average of 7 months and 16 months, respectively. We have also increased our rate of committing City capital funds over previous years to 21.2 percent as of the end of February – and we expect to further increase this rate by the end of the City's fiscal year.

As of the end of 2022, we have completed \$2.83 billion of Sandy recovery work, providing thousands of residents with new roofs, floodproofed electrical equipment, boilers, backup power generators, flood protection, as well as exterior lights, CCTV cameras, and security systems. For the 2022 Hurricane Season, 100 apartment buildings had flood protection and almost 10,000 households had full backup power generators installed. By the end of 2023, those numbers will almost double.

Towards meeting our HUD Agreement targets, we have replaced 86 boilers and 8 elevators as of today through capital investments; in 2023, construction work will be underway at scores of developments to replace an additional 50 boilers and 160 elevators. There are now 317 brand-new roofs at NYCHA developments thanks to our roof replacement program, and an additional 383 roof replacements are in progress.

Additionally, we have completed or significantly advanced a range of smaller projects funded through Mayoral, discretionary City Council, or Borough President allocations. After the 2022

preliminary budget hearing, we began working to further accelerate projects with City funding allocated in 2020 or earlier. Of the 72 projects we prioritized through this effort, 20 are now substantially complete, 32 are in construction, and 20 are in procurement or completing design work to move to construction during 2023.

Even with the significant progress in our capital portfolio over the last year and the large number of projects completing or in construction this year, this area of NYCHA's work will be impacted by our operating budget shortfall and resulting staffing constraints. We are mitigating these impacts to the extent possible but have identified approximately 70 projects that we must pause in the next few months as a result of our operating budget constraints (which are due to growing rent arrears, insufficient operating funding, and rising expenses and have contributed to staffing and resource limitations).

These 70 projects account for only 1 percent of the unexpended budget across all of our active capital projects, and they do not involve work directly related to the HUD Agreement; other health, safety, and security issues; or other major programs. However, approximately 50 projects with City discretionary funding – mainly related to community center and playground renovations and grounds improvements – are included in this group of paused projects.

Investing in Residents' Improved Quality of Life

As we continue to invest in our buildings and campuses with the funds at our disposal, we are also investing in our organization, making fundamental changes that will enable us to better serve residents. This work is underway across various areas of NYCHA, as guided by our Transformation Plan. Developed and implemented through ongoing feedback from residents and staff, the 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's Neighborhood Model created smaller property management portfolios that are easier to manage while bringing more decision-making and resources to developments. We also re-oriented our centralized functions, such as heat and pest management, to the Neighborhood Model to provide increased oversight and stronger

coordination with property management. The Transformation Plan's Work Order Reform initiative is bringing improved communication and enhanced service to residents across the city. Revised caretaker schedules provide for the unique janitorial needs of each development, providing greater accountability to ensure our properties are clean and well maintained. The implementation of a supplier risk management and vendor screening tool is helping to ensure that we are selecting the best vendors possible to carry out the critical work we are doing for residents.

We are striving to provide residents with safe and healthy homes in very tangible ways. For instance, we performed lead abatement at more than 1,500 apartments in accordance with the City's new and stricter standard for detecting the presence of lead. We discussed at last month's hearing the advances we have made in our ventilation improvement program, including how we completed the installation of thousands of new roof fans at developments in all five boroughs.

We are also working to help address the housing instability crisis in our city, by issuing more than 5,700 Emergency Housing Vouchers (EHV) to New Yorkers last year. EHV's are tenant-based vouchers targeting those families experiencing at risk of homelessness or housing instability, referred directly by the City's Continuum of Care partners.

Our Comprehensive Modernization program will complete more holistic capital improvements at selected developments, instead of simply repairing individual building components. Launched at four developments so far, the program is supported by \$650 million in our City Capital Action Plan and \$200 million from the Gowanus Neighborhood Rezoning.

The PACT initiative is revitalizing the homes of thousands of NYCHA residents. In 2022, PACT drove \$2 billion in large-scale improvements, providing residents of more than 8,500 apartments across 17 developments with comprehensive apartment renovations, building system and infrastructure upgrades, and improved grounds and common areas. Currently, 137 developments comprising over 36,000 apartments are in either the engagement or pre-development process, under construction, or have received comprehensive repairs through PACT. Our goal is to bring dramatically improved quality of life to about 62,000 NYCHA families in total through PACT.

We are proud that collaboration with our partners in State government helped pass the NYC Public Housing Preservation Trust last year. The Trust will transform the homes of 25,000 NYCHA families through an innovative, 100 percent public model to bring much-needed new funding to the developments. As part of an extensive engagement process, residents at select sites will begin voting this year on whether or not to implement the Trust at their developments.

On the Path of Progress

While the challenges are numerous, and true change takes time, we know that with the dedication of NYCHA staff and the partnership of residents and other stakeholders, including members of the Council, we will prevail. Long-entrenched issues, those stemming from a half century of federal government disinvestment from public housing across the nation, can only be solved through innovative approaches and bold, new ways of thinking. We must come together as a community to seize this once-in-a-generation opportunity to pivot to a better and stronger tomorrow.

Thank you for your support as we strive to improve the quality of life for today's families and the generations to come. We are happy to answer any questions you may have.