

TESTIMONY FROM NYCHA CHAIRMAN JOHN B. RHEA
PRELIMINARY BUDGET HEARING
COMMITTEE ON PUBLIC HOUSING
TUESDAY, MARCH 12, 2013 – 10:00 AM
14TH FLOOR COMMITTEE ROOM, 250 BROADWAY, NEW YORK, NY

Chairwoman Rosie Mendez, members of the committee, and other distinguished members of the City Council, good morning. I am John B. Rhea, Chairman of the New York City Housing Authority (NYCHA). Joining me today are Cecil House, General Manager, and Michael Zunno, Vice President, Finance. Also with us in the audience are Vice Chair Emily Youssouf, Commissioner Margarita López, Board Member Victor A. Gonzalez, and members of NYCHA's senior management team. Thank you for this opportunity to present NYCHA's 2013-2017 Operating Budget Plan ("Operating Plan" or the "Plan").

Introduction

NYCHA is the largest public housing authority in the nation and administrator of the country's largest Section 8 program. For almost 80 years, we have been a prudent, successful steward of these valuable programs that currently provide homes for over 625,000 New Yorkers. However, never before in our history has NYCHA been required to do so much with so little. The federal funding we sorely depend upon to maintain our buildings and provide vital services has been woefully insufficient for over a decade. And given the current landscape in Washington, we expect this trend will continue, if not worsen. Despite our efforts to preserve New York City's public housing asset and improve resident quality of life, severe underfunding puts at risk our ability to uphold our commitment to NYCHA families, present and future.

As I have shared with the Council, *Plan NYCHA* is our strategic roadmap for the preservation of public housing. This morning I will take you through our Operating Plan, which demonstrates how we are confronting the underfunding challenge head on by carrying forward and refining key *Plan NYCHA* initiatives

to increase revenue, redirect resources to the frontline, and transform the Authority into a more efficient agency.

This budget also reflects how, despite our proactive efforts, circumstances beyond our control make restoring NYCHA's long-term financial stability an incredibly difficult task. The budget implications of events like Superstorm Sandy, and the current sequestration of federal funds, further jeopardize NYCHA's ability to fulfill our mission for those we serve. Although Sandy caused substantial damage to hundreds of our buildings' systems—but thankfully not to the structures—it is our capital budget and not our operating budget that is most affected. The operating costs associated with the storm occurred in 2012 and so are not reflected in this Plan. I will return at a later date to present our 2013-2017 Capital Plan, which will describe Sandy's financial impact.

Key Plan Highlights

In last year's budget presentation, I laid out a plan that included \$35 million of annual cost savings in central office and administrative functions by 2016. This Plan realizes an additional \$10 million of annual savings. These savings, along with other initiatives, will help us eliminate the maintenance and repair backlog by the end of 2013. We are on track to meet this goal, having resolved 73,000 outstanding work orders since rolling out this ambitious program in January.

This Operating Plan also builds upon critical *Plan NYCHA* initiatives such as implementation of a rent equity policy, conversion of unsubsidized units to the Section 8 program, and development of ancillary revenue streams. The strategy to lease under-utilized land at select NYCHA sites is another significant *Plan NYCHA* initiative incorporated in this budget. In total, these initiatives will provide an additional \$170 million in cumulative revenues over the next five years. However, despite this increase in projected revenues since the prior budget was adopted, NYCHA's cost structure has sustained substantial increases due to higher employee fringe benefits.

Last year's Plan included the Board-approved changes to rent policy to restore fairness in rents among public housing residents. Under this policy, which is expected to take effect later this year, rents for most of these flat rent households will gradually be raised up to 30 percent of family income, subject to the maximum U.S. Department of Housing and Urban Development (HUD)-established fair market rent. The rent equity policy, which will only affect 28 percent of households, is expected to yield \$169 million in cumulative tenant rental revenue from 2013 through 2017. It should be noted, however, that the increased income is non-recurring.

While NYCHA succeeded through federalization in securing federal operating and capital subsidy for over 11,000 units of public housing, there are over 5,500 public housing units that still do not receive any dedicated form of federal, state, or local subsidy. This significantly contributes to NYCHA's current structural operating deficit. Our Plan reflects an initiative to convert another 4,300 of these unfunded public housing units to Section 8 assistance beginning in 2014 by amending our current conversion program. NYCHA intends to work with HUD and residents over the coming year to develop a comprehensive strategy for conversion. As we've been saying since 2006, full conversion of these 4,300 units is critical to NYCHA's survival, equating to \$104 million of additional revenue annually.

Last year's budget outlined how we will tap into ancillary revenues, including increased commercial income from rooftops and storefronts, increased parking fees, and subleasing excess office space within our administrative portfolio. Beginning in 2013, we plan to lease under-utilized land at select NYCHA sites to developers to generate additional revenue streams. NYCHA anticipates this initiative will add over \$30 million annually in revenues by 2016. The majority of this incremental revenue is designated for transfer from the operating budget to the capital budget to enable critical capital work at NYCHA's public housing buildings. We are moving forward with this beneficial strategy completely

committed to transparency and collaboration with our stakeholders. We have already met with many elected officials and residents to discuss our plans, and will continue to go above and beyond what is required by regulation in engaging with residents and resident leaders to solicit their input.

Key Highlights: Increased Expenses

Despite our efforts to increase revenues, we are facing rapidly increasing non-discretionary expenses. Notably, in 2012, NYCHA's annual contribution to the City's pension system swelled from \$119 million to \$150 million (a \$31 million increase). This, along with increased costs for employees' health insurance (a 9 percent annual increase) and workers' compensation (a 4 percent annual increase), represents substantial increases over last year's Plan; the cumulative increase in fringe benefits from last year's plan is a staggering \$394 million. While NYCHA plans to reduce headcount by 217 from 2013 through 2017, fringe benefits and other entitlements for active and retired employees remain the fastest rising costs we face, growing 5.6 percent annually. The Council should note that, like the rest of the City, NYCHA is operating without a labor contract.

Reliance on Federal Funding

As I have said, NYCHA faces significant headwinds due to chronic federal underfunding, which continues to put public housing in jeopardy. Public housing is primarily funded through federal subsidies, which account for 63 percent of NYCHA's total revenues, about 40 percent of NYCHA's General Fund revenues, and 100 percent of our Section 8 Housing Choice Voucher (HCV) Program revenues. I have reported many times to the City Council how the federal funding NYCHA receives does not keep pace with the increasing needs of our aging infrastructure—70 percent of our buildings are over 40 years old—and rising inflationary costs. Since 2001, our cumulative funding loss compared to HUD-determined eligibility has been over \$857 million. That total is about \$115 million more than we reported to you just a few months ago as a result of HUD's 2012

reserves recapture. To be clear, this is money that our national oversight and funding agency has determined necessary to maintain our functions—and that Congress has not delivered due to proration, which occurs when Congress does not appropriate full funding to HUD.

Additionally, HUD's funding formula is flawed as it does not fully recognize the demands of NYCHA's aging housing stock. While we continue to work closely with government partners to increase flexibility, pursue new opportunities, and develop innovative approaches to make the most of every dollar, NYCHA's needs far exceed the amount we receive through federal funding. Insufficient funding threatens NYCHA's ability to efficiently address the maintenance and repair our buildings desperately need and which, in effect, ensures the safety of the families we serve and the preservation of these assets. We have worked hard to identify additional revenue since last year's Plan, and we're going to continue looking at more solutions to close the funding gap—we are not going to raise the white flag of defeat.

Operating Plan 2013 Revenues

NYCHA's operating budget is maintained in three component funds: the General Fund, which includes all public housing activities; the Housing Choice Voucher Program Fund, which includes all activities in the administration of NYCHA's Section 8 Program; and Categorical Grants, which include all other grant programs. "All Funds" reflects the consolidation of these three component funds. In 2013, NYCHA forecasts \$3.140 billion in total All Funds revenues. Tenant rental revenue accounts for 37 percent of total revenues, federal operating subsidies for public housing are 29 percent, and Section 8 Subsidy for Housing Assistance Payments (HAP) and Administrative Fees are 34 percent. Two discrete revenue streams related to the Mixed-Finance federalization and Contract-based Section 8 transactions will garner \$65 million and \$25 million, respectively, in 2013. These one-time sources of revenue are the types of innovative opportunities NYCHA is actively pursuing to close our budget gap,

rehabilitate buildings that are in desperate need of repair, and provide ongoing maintenance services.

Operating Plan 2013 Expenditures

For 2013, the budget calls for total All Funds expenditures of \$3.139 billion. Personal service costs (which comprise salary, fringe, and overtime) account for 41 percent of total operating budget spending, Section 8 landlord payments (HAP) are 30 percent of total expense, utilities are 17 percent, and all other expenditures plus supplies and contracts (such as for building improvements) are 12 percent. In total, nearly 58 percent of NYCHA's expenditures are for personal services and utilities.

With \$3.140 billion in expected revenues and \$3.139 billion in expenditures, the 2013 budget projects a modest surplus of \$310,000 in consolidated funds in 2013.

Uncontrollable Costs

While NYCHA has taken decisive and responsible steps to shore up the deficit, we are still subject to budgetary factors out of our control. I'd like to convey the considerable challenge posed by higher pension and other employee entitlements, which by definition are uncontrollable costs. Over the last decade, cost-per-employee rose 5.4 percent annually while federal funding rose only 1.8 percent annually. During the same period, employee headcount was reduced by nearly 3,000 in an attempt to bring costs in line with funding levels. This Plan projects that employee costs will rise 2.5 percent annually over the Plan period, funding will increase only 1.1 percent, and headcount will continue to decline. The additional \$31 million in pension costs that I mentioned previously is an annual recurring item.

NYCHA also pays the City for various city-administered services on behalf of our residents, such as sanitation, payment in lieu of taxes (PILOT), NYPD services, and water usage. These expenses have grown 4 percent annually over the past decade, and for the projected five-year plan, we expect these payments to grow an additional \$60 million (5 percent per year).

HCV Program Reserve Forecast

For the fiscal year ending 2012, NYCHA oversaw the expenditure of over \$1.1 billion in federal Section 8 subsidies for Housing Assistance Payments and Administrative Fees. The Housing Assistance Payment subsidy of \$985 million is used to provide rental assistance to more than 92,000 families and 32,000 private landlords.

Between 2005 and 2013, NYCHA's Housing Assistance Payment subsidy has been reduced by over \$140 million. Of this loss, \$50 million was due to proration and \$90 million was due to HUD's recapture of reserves. In all periods, we are operating with reserves of less than one month of program costs, leaving a very thin margin for error in projecting required voucher assistance payments. Administration of the HCV program requires prudent stewardship over both annual funding resources and program reserves, while balancing the many needs of voucher recipients, developers, and landlords.

Pending Congressional Risks

NYCHA's operating subsidy is faced with two separate and serious challenges: the Continuing Resolution to fund government programs and funding cuts resulting from sequestration.

For fiscal year (FY) 2013, NYCHA is currently funded under a six-month Continuing Resolution that expires on March 27. This means that the Operating Fund program will be funded at last year's level until an Appropriations act is

passed or Congress takes other action. This is significant because the FY2012 funding level reflected HUD's suggestion that the Operating Fund Appropriation save \$1 billion in federal assistance via a one-time \$1 billion "offset," or recapture, of housing authority operating reserves. Congress agreed to that proposal, lowered the offset to \$750 million, and achieved the balance of the \$1 billion in savings through proration. 2012's effective proration was about 80 percent. This proration level is based on the assumption that the overall Appropriation remains at \$3.9 billion and does not address sequestration.

Under the current Continuing Resolution, NYCHA will receive \$808 million, a \$202 million loss against our 2013 eligibility, which is far below the level of funding necessary for maintaining and operating the City's public housing. The reserves are now gone, but our funding under the Continuing Resolution continues to be based on the imbalanced FY2012 Appropriation resulting from the reserve recapture methodology. While NYCHA hoped that the six-month Continuing Resolution would recognize the anomaly in funding the Operating Fund, it failed to do so. Perhaps more important is the fact that last Wednesday, the House approved a Full-Year Continuing Resolution, again funding the Operating Fund at FY2012 levels with no anomaly adjustment. Moreover, the approved measure specifically provides that all amounts under the Full-Year Continuing Resolution are subject to sequestration. The Senate is now in the process of considering the House bill.

The sequester, which took effect on March 1, subjects all domestic and defense discretionary programs to automatic across-the-board cuts as outlined in the Budget Control Act of 2011, resulting in an additional 5.1 percent operating funding loss for NYCHA.

Together, the proration of 80 percent and the sequester of 5.1 percent, or 75 percent effective proration, will cause NYCHA to lose \$253 million in Operating Fund Subsidy for calendar year 2013 as compared to full eligibility, or \$150

million less than the Operating Plan, which was based on House and Senate Appropriation bills.

HCV: 2013 Potential Loss to NYCHA

The effect of sequestration on NYCHA's Section 8 program is equally dire and may impact the 92,560 families in our program. Currently, HUD has prorated the Housing Assistance Payment subsidy by 94 percent (which includes sequestration), reducing NYCHA's subsidy by about \$50 million for calendar year 2013. This dramatic cut cannot be absorbed by NYCHA's current reserve levels and jeopardizes subsidy to our existing families. Additionally, HUD has prorated the Administrative Fee, which is used to support administration of the Section 8 program, by 69 percent. Similar to the Operating Fund, the administrative subsidy as introduced by the House and Senate Appropriations bills was already \$23 million less than eligibility. Together with sequestration, NYCHA is estimated to lose an additional \$10 million in administrative subsidy for calendar year 2013.

To address the funding reduction, HUD has distributed guidance to public housing authorities suggesting lower payment standards, review of utility allowances, adjusting portability, and move policies.

While the Continuing Resolution and sequestration impacts are not reflected in this Plan, their combined effect is a loss of over \$300 million in Operating Funds—and they speak further to the volatility of our funding and how that makes efficient and effective planning difficult. The additional funding loss they present would result in layoffs and service delays, direly affecting the service we provide to our families.

Conclusion

Public housing is too vital for us to abdicate in our efforts to strengthen and preserve it for the coming generations of New Yorkers. Since 1934, NYCHA has been here for our families, our communities, and our city, serving as a rock of stability in times of both bust and boom. Together, NYCHA, residents, elected officials, and our many other partners are responsible for continuing NYCHA's legacy as an indispensable part of New York City, one that makes it a vibrant, thriving place. The specter of continued underfunding requires all of us committed to this crucial cause to stand together in pursuit of solutions, even those that are bold and new. As I have said before, inaction is not an option, and we need support and assistance from our stakeholders.

In 2012, the City Council committed \$10 million for Plan years 2012 and 2013 to help NYCHA hire 176 temporary positions to address maintenance and repair needs. Hiring was through NYCHA's resident training program partnership with the Robin Hood Foundation, providing employment opportunities for public housing residents. This commitment is an excellent start, but our need remains great. While this budget does not assume continued funding in 2014 through 2017, NYCHA requests that the City Council renew its funding commitment throughout the five-year plan (a \$10 million commitment annually), allowing us to maintain these positions into future years. NYCHA greatly appreciates the City Council's commitment, and will continue working with governmental partners to pursue additional funding opportunities to address critical maintenance and repair needs.

I would also like to thank the City Council for helping restore critical services for our youth this fiscal year. As a result of the Council's efforts, 1,218 slots were restored for afterschool programs and 676 slots were restored to provide childcare services. We are also grateful for the Council's ongoing efforts to support our seniors, such as by providing healthy meals or transportation services at our senior centers.

We hope that NYCHA will continue to benefit from the City Council's support for *Plan NYCHA* initiatives that help generate important resources.

Thank you; I look forward to answering any questions you may have.