

**TESTIMONY FOR NYCHA CHAIRMAN JOHN B. RHEA
NYCHA'S FIVE YEAR OPERATING BUDGET**

CITY COUNCIL COMMITTEES ON FINANCE AND PUBLIC HOUSING

FRIDAY, MAY 21, 2010 – 12:30 PM

CITY HALL - CITY COUNCIL CHAMBERS

Chairwoman Rosie Mendez, Chairman Domenic Recchia Jr., distinguished members of their respective Committees and to all the members of the City Council – it is indeed a pleasure to be with you today. I am John B. Rhea, Chairman of the New York City Housing Authority (NYCHA). And joining me today are Vice Chairman Earl Andrews, Jr., Commissioner Margarita López, NYCHA's Chief Financial Officer Felix Lam and members of NYCHA's senior management team.

When I was here in March, I presented NYCHA's Board approved Capital Plan, as well as last year's Five Year Operating Budget and our forecast for 2010.

I am pleased to say that the Board approved Five Year Operating Budget I present today maintains the disciplined, integrated approach to planning and serving NYCHA families that we projected in March, and presents a strong foundation for the future of public housing in our City.

None of this would have been possible alone. Collaboration is a hallmark of any successful undertaking—particularly one as large and comprehensive as the commitment to preserve, strengthen and secure public housing in New York. We have the good fortune at NYCHA to benefit from the leadership of Mayor Michael R. Bloomberg, whose visionary New Housing Marketplace Plan promotes preserving government-assisted affordable housing; harnessing the private market to create affordable housing; creating incentives to develop housing for new and traditionally underserved populations; and finding new land for affordable housing. NYCHA's Five Year Operating Budget reflects our commitment to Mayor Bloomberg's vision and we are encouraged by his support.

We also benefit from the City Council's enduring commitment to public housing. Your unflagging energy and dedication year round on behalf of NYCHA families is vital to the work we do.

And we benefit from the Obama Administration's new National Urban Policy Agenda, which recognizes the important role public housing authorities play in creating strong urban communities.

Re-cap of the 2009 Financial Plan

When I was here in March, I emphasized that the Authority's 2009 Financial Plan reflected our core priorities.

Specifically, we pledged to invest in elevator modernization and safety and NYCHA adopted the Elevator Service and Safety Plan. As part of that plan, we hired new elevator mechanics, authorized overtime for existing staff, contracted with third-party inspectors and had our mechanics undergo Qualified Elevator Inspector Training; and we installed door zone locks on NYCHA elevators. Going forward, we will continue to support current staffing levels and safety initiatives.

Furthermore, we have committed \$88 million in funding from the 2009 American Reinvestment and Recovery Act (ARRA or Stimulus), the capital grant and federalization plan to modernize 251 elevators at 25 developments. To date, we have awarded contracts for 22 of the 25 developments, and physical construction work has started at 14.

We also implemented a Quality Assurance Program at our Customer Contact Centers to measure the performance of each help desk technician. I am pleased to report that since June 2009, the Customer Contact Center has seen dramatic improvements in its level of service, productivity, and quality. For example, between June 2009 and April of this year, the number of customer questions responded to within 30 seconds was up more than 69.5 percent. Additionally, we have expanded the Customer Contact Center's client base to include public housing and Section 8 applicants, Section 8 participants and Section 8 landlords.

NYCHA also made a commitment to work with our partners in City government and in the not-for-profit sector to preserve as many NYCHA Community and Senior Centers and the important services they provide, as possible.

Currently, NYCHA operates 66 Community Centers serving an average of 4,780 individuals daily. We also operate 39 Senior Centers serving another 1,048 individuals every day.

There are 101 Administration for Children's Services (ACS) Day Care Centers currently on NYCHA property; 29 Head Start Programs run in NYCHA developments; 66 After School programs and 67 projected Day Camps. We know the value these services have in the lives of NYCHA families.

But maintaining our Community and Senior Centers and the programs they provide has not been without its challenges. Due to budget cuts in 2009, the City Council allocated \$18 million for the operational transition to the Department of Youth and Community Development (DYCD), ACS and the Human Resources Administration (HRA) to immediately allow 19 NYCHA-operated community centers slated for closure to remain open. Through the appropriation agreement, DYCD assumed operations management

for community centers at 25 developments. DYCD is currently operating programs at all 25 developments as part of the Cornerstone Initiative.

On the other hand, the Department for the Aging's (DFTA) recently announced budget cuts are a particular concern. DFTA is slated to close 18 of NYCHA's Senior Centers and discontinue lunch programs at an additional 11 NYCHA-operated Centers. Although we recognize the unfortunate need for these cuts, clearly we are concerned about the impact these measures will have on seniors, and we will continue to work with DFTA to minimize the impact.

And, finally, we pledged to repurpose underutilized land to generate revenue for the Authority. In the current property market, meeting this commitment required us to be even more enterprising.

NYCHA's Metro North land lease agreement, for example, will bring in as much as \$750,000 per year to the Authority; and we expect to yield \$22 million in cash and mortgage revenue over the next 15 years from the sale of property at UAC – Arista, UAC – Bronx Pro, and East 173rd Street/ Vyse Avenue.

Historic Challenges to NYCHA's Fiscal Health

At our budget hearing in March, I also discussed several historic challenges to the Authority's fiscal stability. Not least of these was the Authority's structural deficit. NYCHA's structural deficit was the result of multi-year chronic under funding of federal operating and capital subsidies, as well as growth in non-discretionary costs.

Furthermore, NYCHA faced additional operating deficits resulting from management of the now federalized 21 State and City built developments, which had largely been unfunded since 1998. The Authority had responded to budget shortfalls by increasing rents, decreasing headcount, and reducing services. Despite these measures, however, sizeable deficits continued to be projected.

Board adopted a Revised Five Year Financial Plan for FY 2010 – FY 2014

When Mayor Bloomberg asked me to serve as NYCHA's Chairman one year ago, his first charge was to restore long-term financial stability to the Authority. NYCHA's Five Year Operating Budget not only reflects our efforts to meet the Mayor's charge, but it also exemplifies our core priorities to secure public housing for future generations. To accomplish this ambitious agenda, we must maximize current resources, seek new revenue, and reinvest those funds where it directly impacts residents. We realize that in these changing economic times NYCHA must be even more creative at leveraging our core assets to increase value for residents. As City, State and Federal government are less able to provide funding, the Authority must strengthen existing ties with our sister agencies, as well as identify new philanthropic and private sector partners with whom we can enhance the level of service to NYCHA families. To that end, NYCHA's Board approved Financial Plan begins to present an integrated, multi-year vision to achieve

long-term financial stability for the Authority; foster partnerships; and improve resident quality of life.

The New National Urban Policy Agenda

Since 2001, the federal government underfunded NYCHA's operating subsidy by \$666 million, cumulatively. After almost a decade of receiving less than their eligible funding, housing authorities nationwide can expect to receive 100 percent of requested operating subsidy in fiscal year 2010 under the Obama Administration. This increase will provide NYCHA with an additional \$70 million dollars to meet service delivery needs this year.

NYCHA has positioned itself to take full advantage of opportunities presented by the new political landscape. And our Five Year Operating Budget details our actions to both address the current year deficit and significantly alleviate shortfalls in the out years. Just last year, the Obama Stimulus Act presented a one-time opportunity to re-invest in and develop public housing units. NYCHA capitalized on this opportunity by creating a permanent funding stream for its then unfunded State and City built developments.

Through a Mixed-Finance Modernization Plan otherwise known as "Federalization," NYCHA received more than \$400 million in public and private funds to address needed capital improvements at the 21 newly federalized developments. Beyond the capital work, these developments are, for the first time, eligible for annual federal subsidies. As a result of this undertaking, the Authority estimates it will receive \$65 million in recurring annual capital and operating subsidies beginning in fiscal year 2011. Thus, NYCHA will substantially address a portion of its structural operating deficit.

NYCHA's Five Year Operating Budget and the Deficit Closing Plan

In 2010, NYCHA's consolidated budget has revenues of \$2.998 billion and expenses of \$3.017 billion, resulting in an estimated deficit of \$19 million. As I will discuss, this shortfall is driven solely by a deficit in NYCHA's Housing Choice Voucher Program (Section 8).

In the previous Board approved Financial Plan, the consolidated budget deficit for fiscal year 2010 was projected to be \$137 million, with a structural deficit of the same magnitude predicted for the next four years. The deficit closing plan we implemented reduced the current year operating deficit for NYCHA's general operations and put the Authority on the path to achieving structural balance.

In addition to the significant funding received from the Stimulus Act and the successful Federalization plan, NYCHA is implementing the following measures to further abate the Authority's budget deficit.

First, pursuant to federal statute, housing authorities may transfer up to 20 percent of a federal capital award to their operating budget. This budget projects NYCHA will transfer \$34 million for such purposes in fiscal year 2010. NYCHA does not assume

these transfers in the out years and anticipates future capital funds to be focused on structural upgrades and other property improvements.

Second, as part of the Authority's first bond issuance in 2005, NYCHA entered into a collateralized guaranteed investment contract, which expired in December 2009. The interest generated was \$8 million over the amount needed to fund the debt service reserve. As a result, NYCHA will use this revenue in the 2010 fiscal year to fund current operations.

Third, the Authority intends to generate \$6 million from the sale of vacant land on two NYCHA properties—Thurgood Marshall Plaza in Manhattan and Highbridge Gardens in the Bronx. The vacant land in Thurgood Marshall Plaza will be used to construct a school and community health facility. In Highbridge Gardens the land will be used to build affordable housing for low income New Yorkers.

And finally, to cover the costs of administering the Stimulus Act, housing authorities can charge up to a 10 percent management fee. These funds can only be received at the rate at which expenditures are incurred. NYCHA will generate \$25, \$11, and \$6 million in fiscal years 2010, 2011 and 2012, respectively, as a result of this initiative.

Federalization

As I discussed in March, a significant contributor to the Authority's annual deficit was the approximately \$90 million spent each year to operate the 21 State and City built developments to offset the lack of operating subsidies.

Thanks to the Stimulus legislation, NYCHA identified and seized an opportunity to take what looked to be a one-time funding infusion and leveraged it to provide ongoing operating support to address the single largest contributor to NYCHA's structural deficit.

Service to NYCHA Families: Resident Economic Empowerment

While we have identified ways to close our 2010 budget deficit and, thereby, strengthen the Authority's financial position, we have kept an eye to enhancing community development and resident quality of life.

We believe that helping residents create strong futures for their families through workforce development, asset building and entrepreneurship makes NYCHA families and NYCHA neighborhoods stronger. That's why I created the Office of Resident Economic Empowerment and Sustainability (REES) in August 2009, just two months after assuming the role of Chairman.

Vice Chairman Andrews has taken resident empowerment under his office's direct supervision and NYCHA's current Financial Plan builds on the Board's commitment to foster economic empowerment among its residents. Beginning this year, the Authority is

creating employment opportunities for its residents through a collaborative effort with premiere philanthropic organizations to provide career training.

Our new partnership with Robin Hood, a proven difference maker in alleviating poverty for New Yorkers, will create a privately funded Training Academy that will not only prepare residents for careers, but will also track their progress so that we can use that data to further improve the classroom-to-job pipeline. Phase I of the program will train residents for Section 3 jobs within NYCHA and for construction-related jobs with NYCHA contractors. Later phases will help move qualified graduates into jobs in the private sector.

The Financial Plan provides funding for approximately 200 front-line staff positions related to this initiative, over and above normal attrition replacement. Beyond investing in NYCHA resident employment, this initiative will greatly enhance service to residents throughout the Authority.

NYCHA's Green Agenda

NYCHA spends more than a half billion dollars each year on energy costs. Developing an integrative agenda to reduce our carbon footprint and rein in our energy expenses makes not only good environmental sense, but it is good economics, as well. NYCHA's Green Agenda does both.

In 2007, Mayor Bloomberg named Commissioner López NYCHA's Environmental Coordinator, and under the Commissioner's stewardship we have launched a progressive environmental agenda to reduce the Authority's carbon footprint, lower energy and utility consumption, conserve resources, engage residents in adopting low-carbon lifestyles, and help to preserve public housing for the future.

Much like the Mayor's visionary PlaNYC, NYCHA's Green Agenda is an integrated initiative that focuses on creating sustainable communities from the ground up, working hand in hand with residents, public service partners and key stakeholders in the private sector. As I have said many times before, at NYCHA we believe deeply in collaboration and the power of partnerships. To that end, we have an on-going strategic alliance with the Clinton Climate Initiative and with PlaNYC; we forge partnerships with key stakeholders in the environmental, development, and energy efficiency sectors on a project by project basis; and we stay in constant conversation with our chief stakeholder—NYCHA residents.

NYCHA's innovative investments in upgrading our systems have brought the Authority acclaim from the federal government and around the world. NYCHA has been honored by the U. S. Environmental Protection Agency (EPA) and the Department of Energy (DOE) with the ENERGY STAR Award for Excellence in Affordable Housing. The U.S. Department of Commerce has commended our environmental agenda. And just this week, a delegation from the U.S. Trade and Development Agency in South Africa visited

the Castle Hill Houses to see first hand the work we're doing to modernize our lighting and boiler systems.

Section 8 Challenges

NYCHA administers the largest Section 8 program in the nation with approximately 100,000 active families and 33,000 participating landlords. As I stated earlier, NYCHA's \$19 million deficit in fiscal year 2010 is completely attributable to a shortfall in Authority's Section 8 program. It is the result of greater demand for housing assistance, significantly reduced levels of participants voluntarily leaving Section 8 and a funding formula which will not meet program needs in fiscal year 2010.

Earlier this year, NYCHA originally forecast an approximate \$45 million deficit primarily due to HUD's funding formula not recognizing NYCHA's program costs. Annually, HUD calculates program renewal funding based on prior federal fiscal year (October to September) leasing costs while NYCHA operates the Section 8 program on a calendar year basis (January to December). As a result, HUD's formula provides funding based on a lower average cost than NYCHA's actual program costs.

Fortunately, Congress set aside \$150 million to assist housing authorities nationwide that experienced voucher leasing rates at the end of the calendar year that exceeded the average leasing for the 12 month period used to establish the 2010 allocation. Of this amount, NYCHA was eligible for \$35.6 million. After national proration, we were awarded \$24.7 million. As a result, NYCHA's remaining Section 8 deficit is \$19 million. In addition to supplementary federal aid, NYCHA is expanding our fraud recovery efforts, thereby generating an additional \$1.5 million in 2010 savings. But these efforts are clearly not enough to close the gap completely.

Should we not receive additional funding, beginning in September NYCHA will have to take, perhaps, severe steps to address the Section 8 shortfall. We could have to terminate approximately 4,400 families from the Program. However, we are not currently pursuing this course of action. Another way to close the gap would be to reduce the Section 8 payment standard to 95 percent, thereby lowering the amount of subsidy we provide to tenants and requiring residents to pay on average an additional \$115 each month in rent. This action would impact approximately 47,000 families.

Fortunately, the structural imbalance in the Section 8 program is for one year only; with additional funding, which would only be used to preserve housing assistance for families currently under lease, we feel confident that our Section 8 budget will be in balance by fiscal year 2011. But for this year, it is clear that we need local help to develop a solution to ensure that the Section 8 program will continue to be there for the New Yorkers who need it most.

Conclusion

We have accomplished much but more remains to be done. NYCHA's Five Year Operating Budget will serve as an ambitious roadmap to ensure that public housing not only survives in our City, but thrives.

To that end, we have better leveraged federal funding while pursuing alternate revenue sources to increase our resiliency during times of uncertainty. We have strengthened existing partnerships and formed new alliances to emphasize the value of collaboration. And we have refocused our efforts on leveraging NYCHA assets to create more value for the Authority.

We remain as committed today as at any time in our history to preserve, strengthen and secure public housing in New York City. We know that is the commitment Mayor Bloomberg has made; it is the commitment this City Council has made; and it is the commitment NYCHA makes, every day, to the families we serve. Thank you and I look forward to taking your questions.

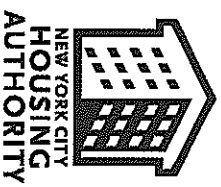
FY 2010 – FY 2014 Operating Budget

City Council Hearing
May 21, 2010

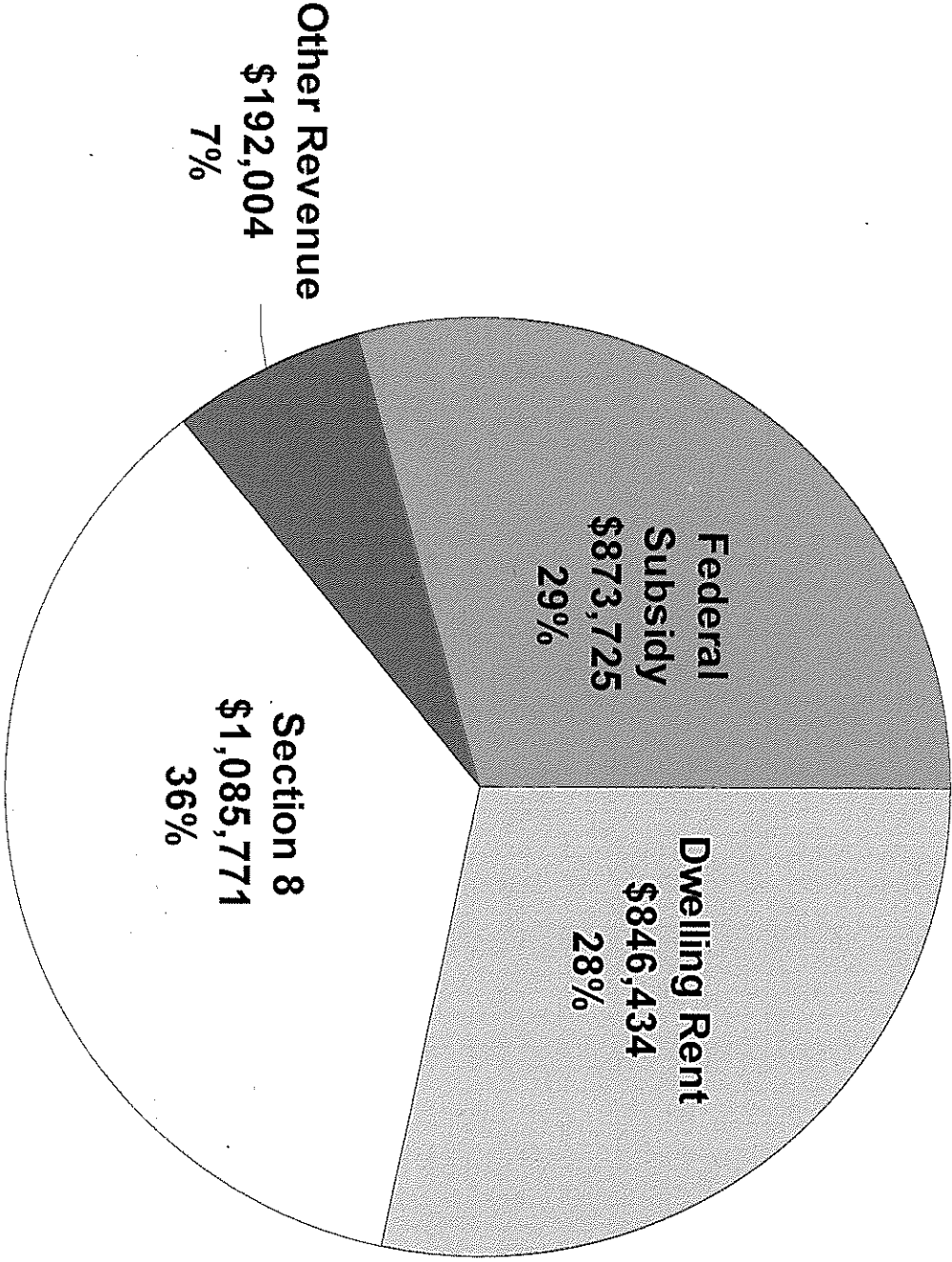
John B. Rhea
Chairman

Earl Andrews, Jr.
Vice Chairman

Margarita López
Member



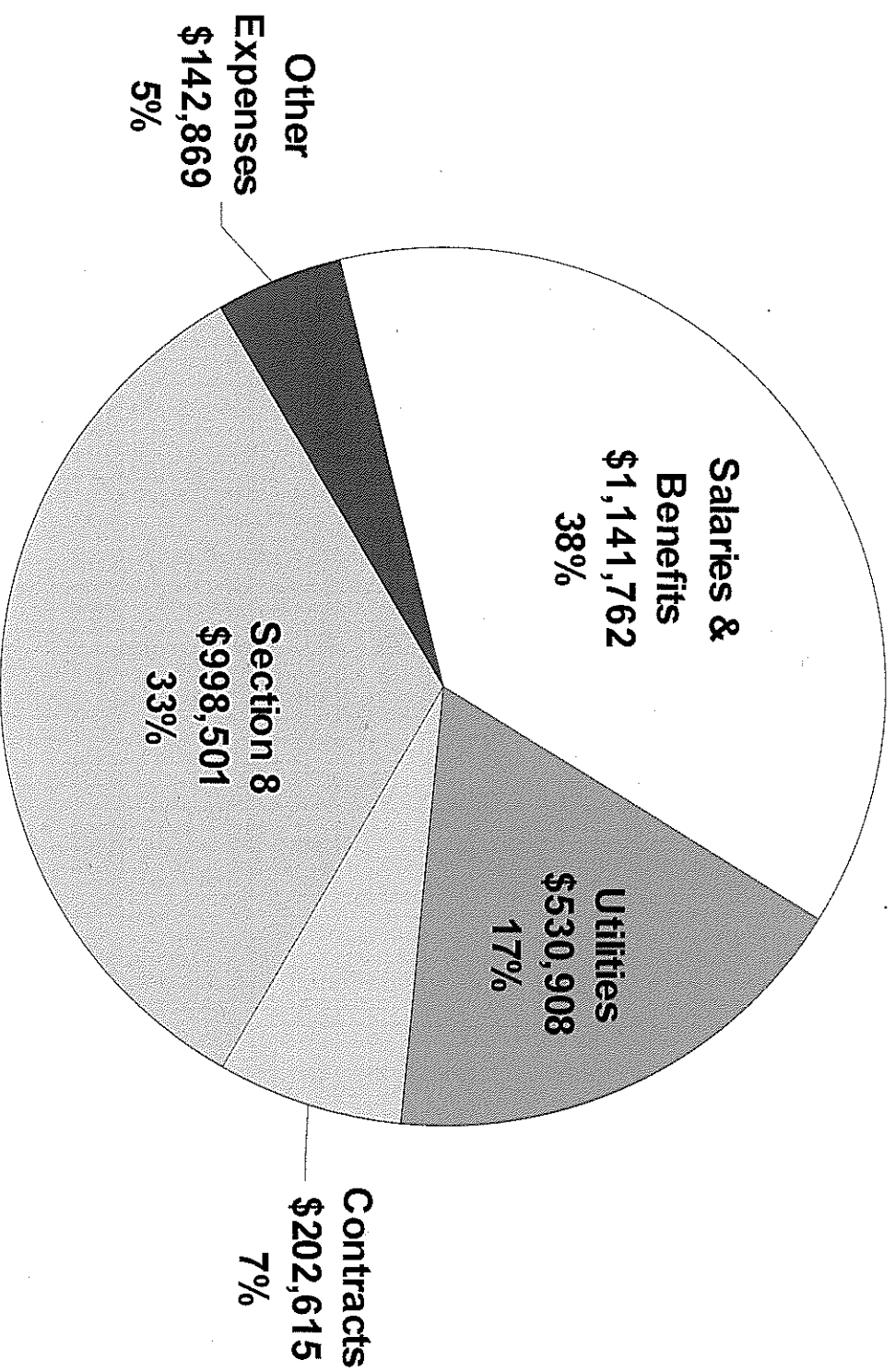
NYCHA 2010 Source of Funds



TOTAL \$2.998 BILLION

In Thousands of Dollars

NYCHA 2010 Use of Funds



TOTAL \$3.017 BILLION

In Thousands of Dollars

Highlights of the Plan

The budget incorporates the following elements:

Fiscal Stability

- FY 2010 General Operations Budget is balanced
- Out-year deficits substantially reduced
- Establishes framework for the next Plan to Preserve Public Housing

Federalization

- City and State-built developments fully federalized
- Additional operating subsidy of \$55 million

Resident Empowerment

- Collaboration with philanthropic organizations
- Creation of at least 200 positions
- Emphasis on direct service

Leveraging Revenue Sources

- Leverages \$70 million in various revenue sources
- Repurpose of vacant land will benefit local community

Closing the Budget Gap

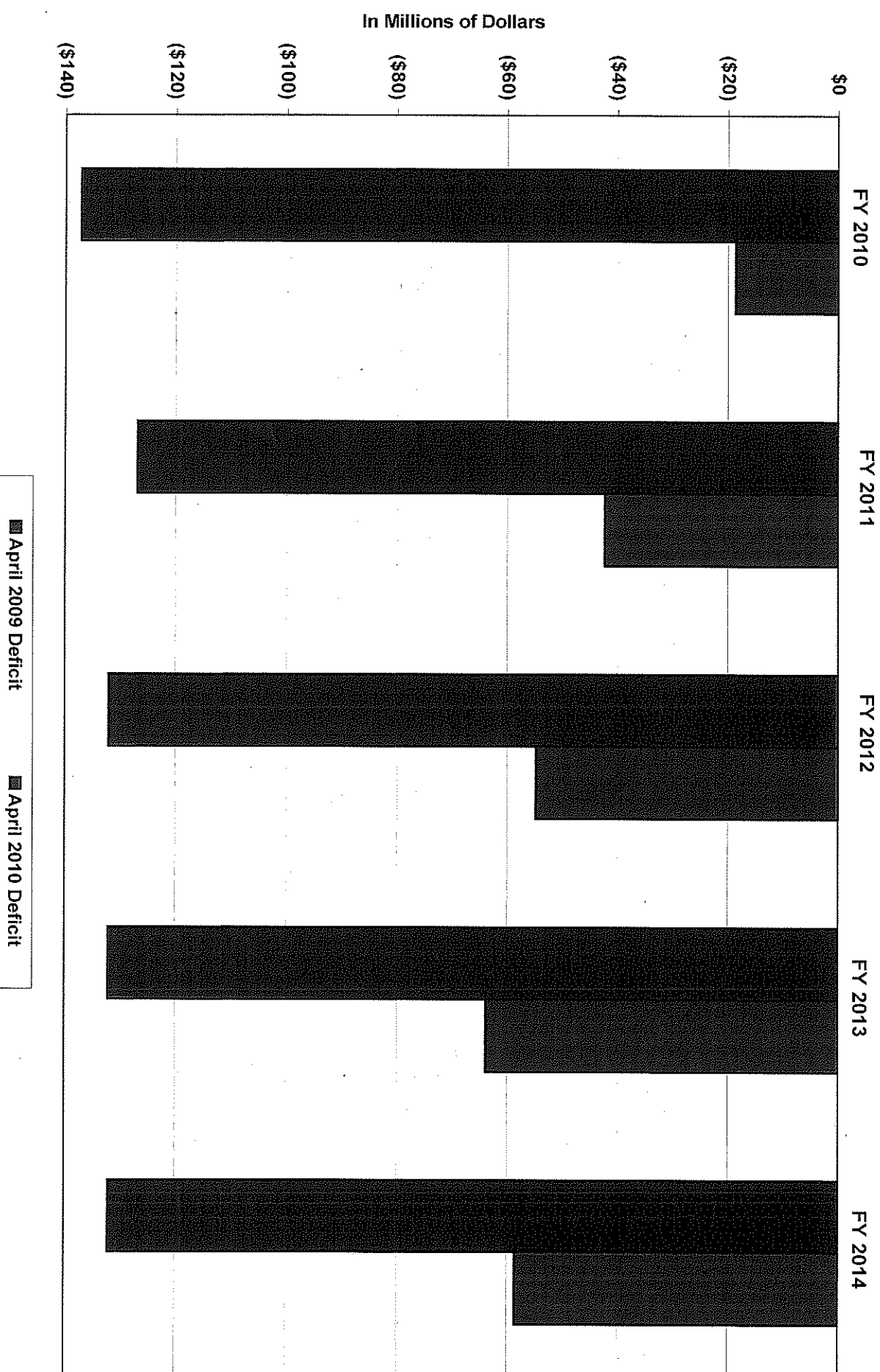
NYCHA has achieved a balanced budget for its general operations, but challenges remain in the Section 8 program.

	All Funds	General Fund
Deficit- April 2009	(\$137,139)	(\$137,139)
Baseline Adjustments	(\$20,090)	(\$1,369)
Federal Operating Subsidy	\$70,031	\$70,031
Capital Transfer	\$34,395	\$34,395
Investment Earnings	\$7,873	\$7,873
Asset Sales	\$5,850	\$5,850
ARRA Management Fee	\$25,031	\$25,031
Resident Training and Employment	(\$4,672)	(\$4,672)
Deficit- April 2010	(\$18,721)	\$0

In Thousands of Dollars

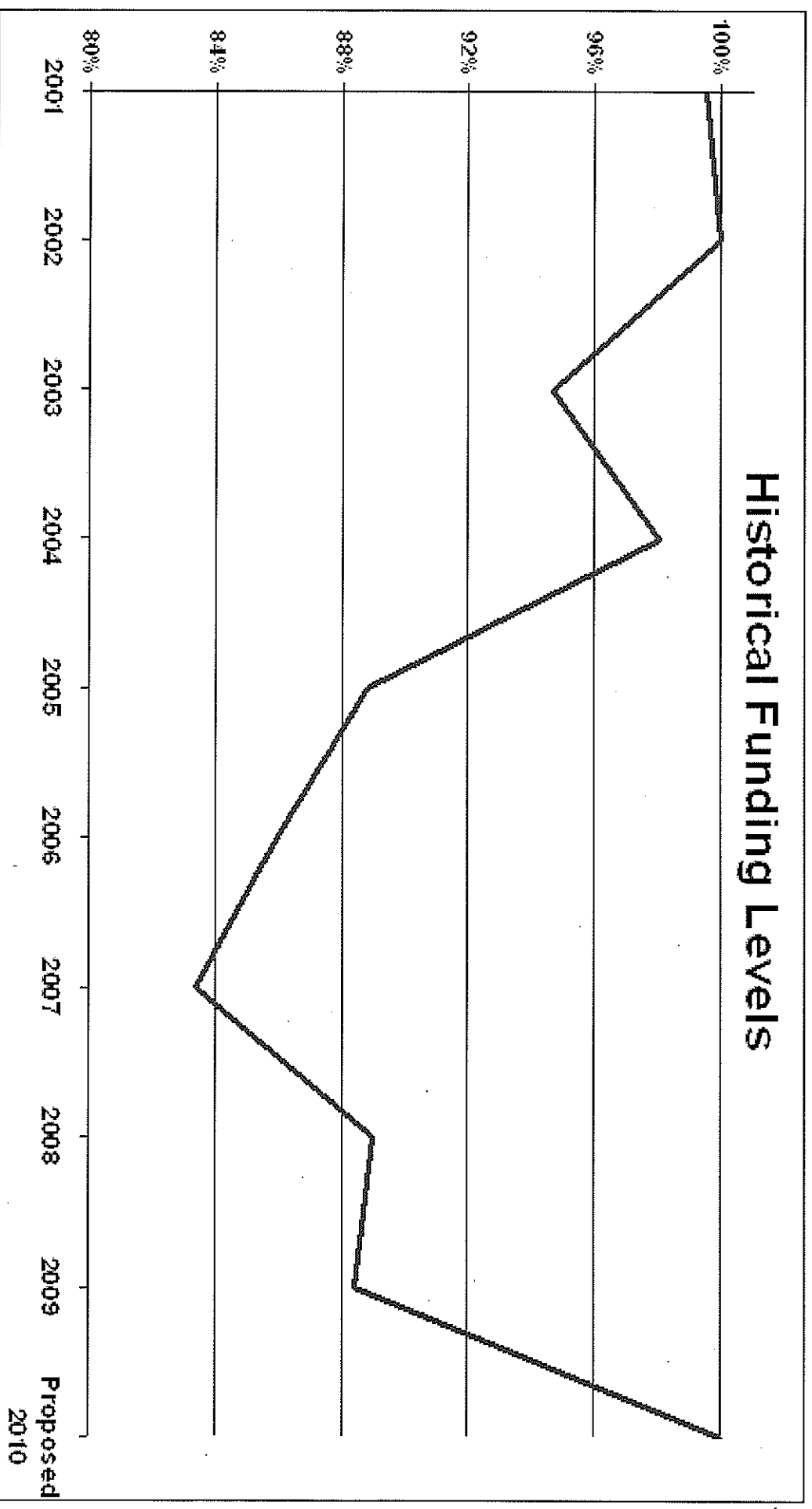
Deficit Reduction

Out-year deficits have been substantially reduced.



Federal Operating Funding

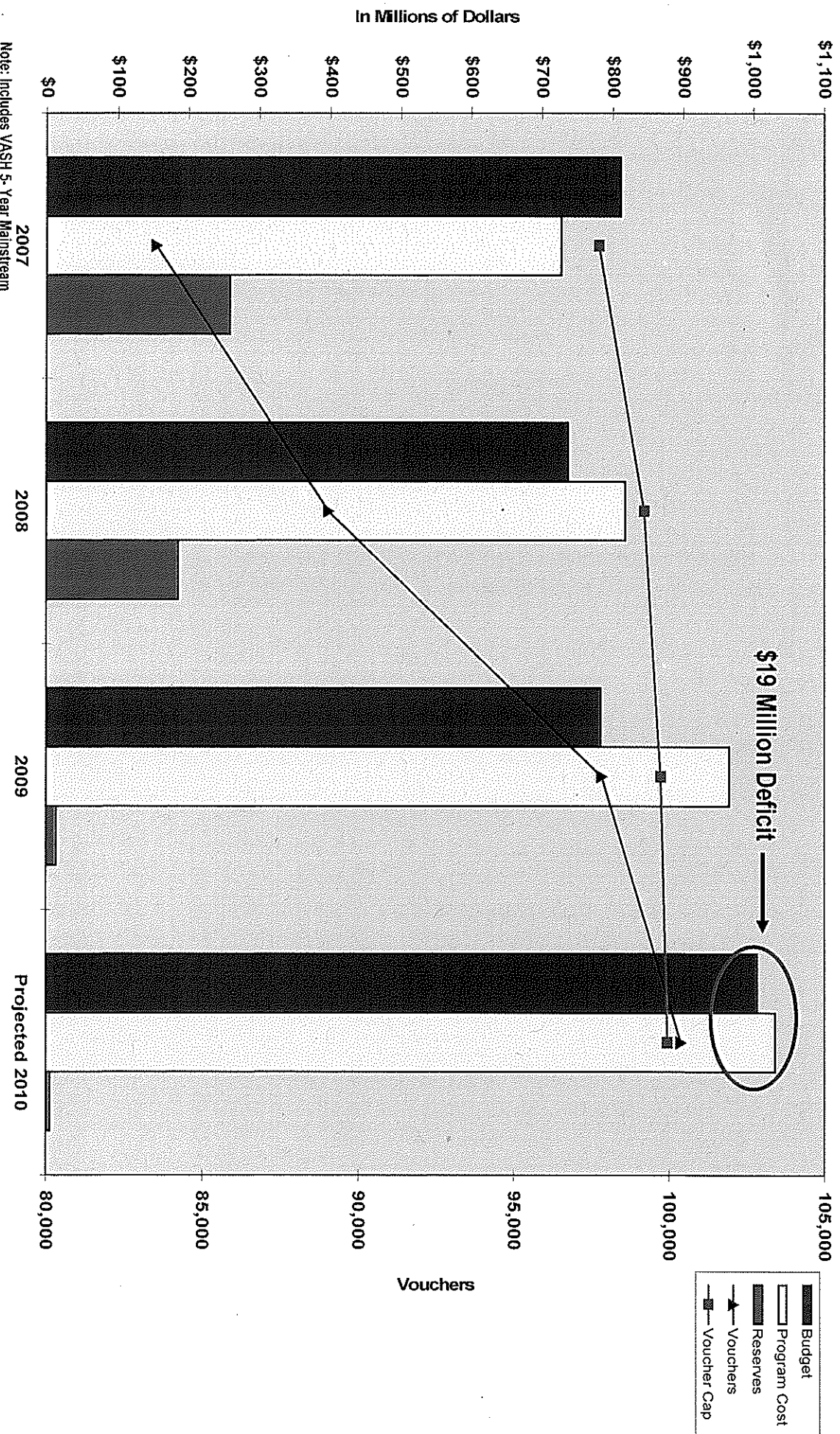
The Obama Administration's commitment to public housing has resulted in full funding for operating subsidy. However, costs such as social services and employee benefits remain unfunded.



Section 8 Challenge

The FY 2010 shortfall was initially estimated at \$45 million. After receiving emergency assistance from HUD, the revised deficit has been reduced to \$19 million.

Section 8 Program Budget 2007 - 2010



Financial Outlook

NYCHA will continue to identify solutions which leverage opportunities and address financial challenges.

Opportunities

- Increased Access to Credit Markets
- Moving to Work
- Real Estate Development
- Transformation of Rental Assistance
- Public/Private Partnerships

Risks

- Appropriation Shortfall
- Increased Repair and Maintenance Costs
- Insufficient Front Line Staff
- Underfunding of Community and Senior Centers
- Availability of Section 8 Vouchers

Preserving public housing and ensuring long-term fiscal stability will require a solution to NYCHA's multi-billion dollar unmet capital need.

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THE CITY OF NEW YORK**

Appearance Card

I intend to appear and speak on Int. No. _____ Res. No. _____

☐ in favor ☐ in opposition

Date: _____

Name: John P. Hea (PLEASE PRINT)

Address: _____

I represent: NYCHA

Address: _____

▶ Please complete this card and return to the Sergeant-at-Arms ◀

**THE COUNCIL
THE CITY OF NEW YORK**

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☐ in favor ☐ in opposition

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