

THE COUNCIL OF THE CITY OF NEW YORK

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Hearing on the Fiscal Year 2013 Executive Budget

New York City Housing Authority

June 5, 2012

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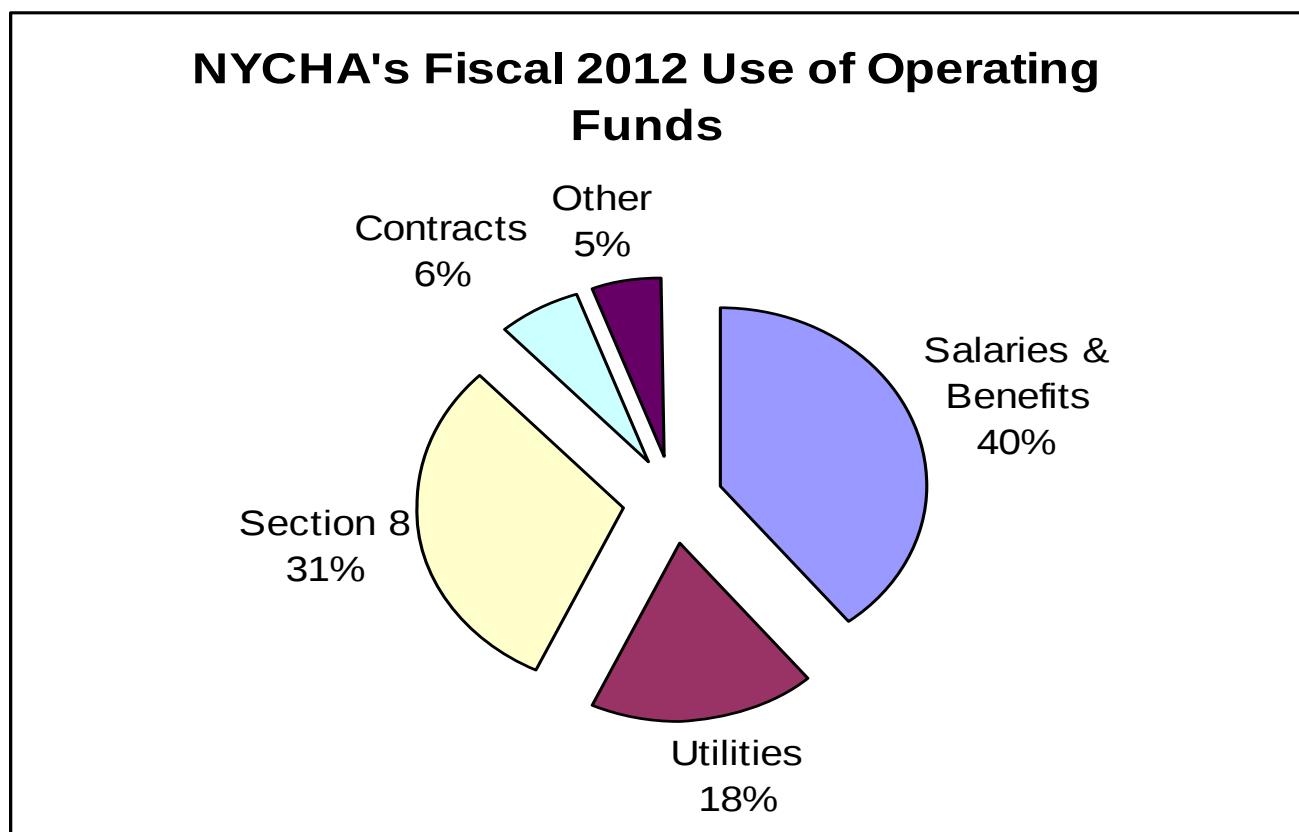
Housing Authority

The New York City Housing Authority (NYCHA) provides affordable housing for low-income City residents by managing and maintaining 345 public housing developments with 181,000 apartments, housing approximately 420,000 authorized residents. NYCHA also administers Section 8 vouchers. The Authority manages new construction and rehabilitation of public housing buildings and units and also provides social services to its residents. NYCHA's budget is not part of the city's budget and NYCHA's fiscal year follows the calendar year. On May 9, 2012 the NYCHA released its Five-Year Capital Plan for Fiscals 2012-2016 and on May 30, 2012 the board approved the Fiscal 2012 Operating Budget.

FISCAL 2012 OPERATING BUDGET

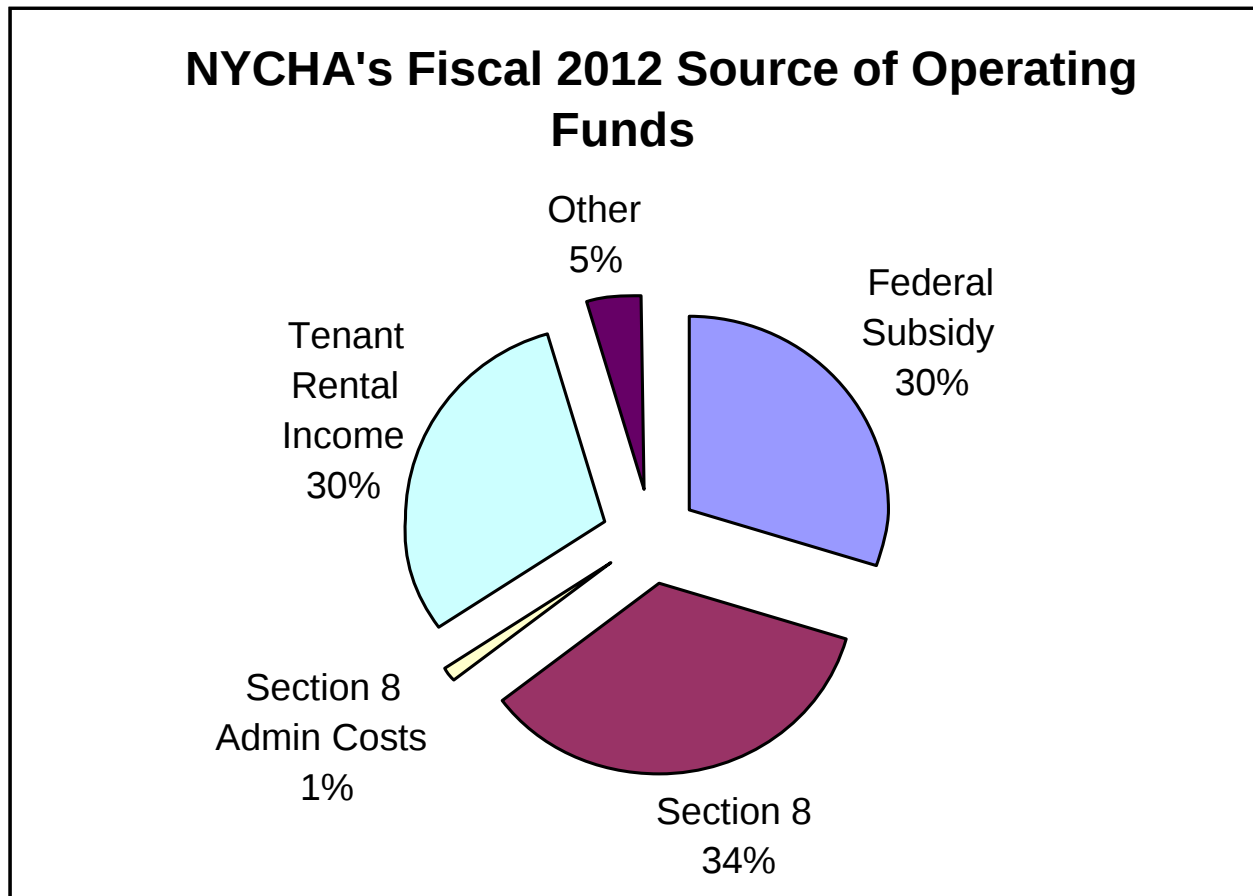
Expense Budget

The Fiscal 2012 expense budget totals \$3.062 billion, which is approximately \$3 million greater than the Authority's Fiscal 2011 expense budget of \$3.059 billion. The most significant portion of NYCHA's budget consists of the cost of full/part-time employees, overtime pay, seasonal workers, and fringe benefits, which make up nearly 40 percent or \$1.19 billion of the Authority's budget. The largest component of NYCHA's Fiscal 2012 expense budget is \$961 million for Section 8 payments to landlords who provide private housing to low-income families. Other expenses included insurance, supplies, leases, PILOT payments, equipment, debt service, and other expenses.



Revenue Budget

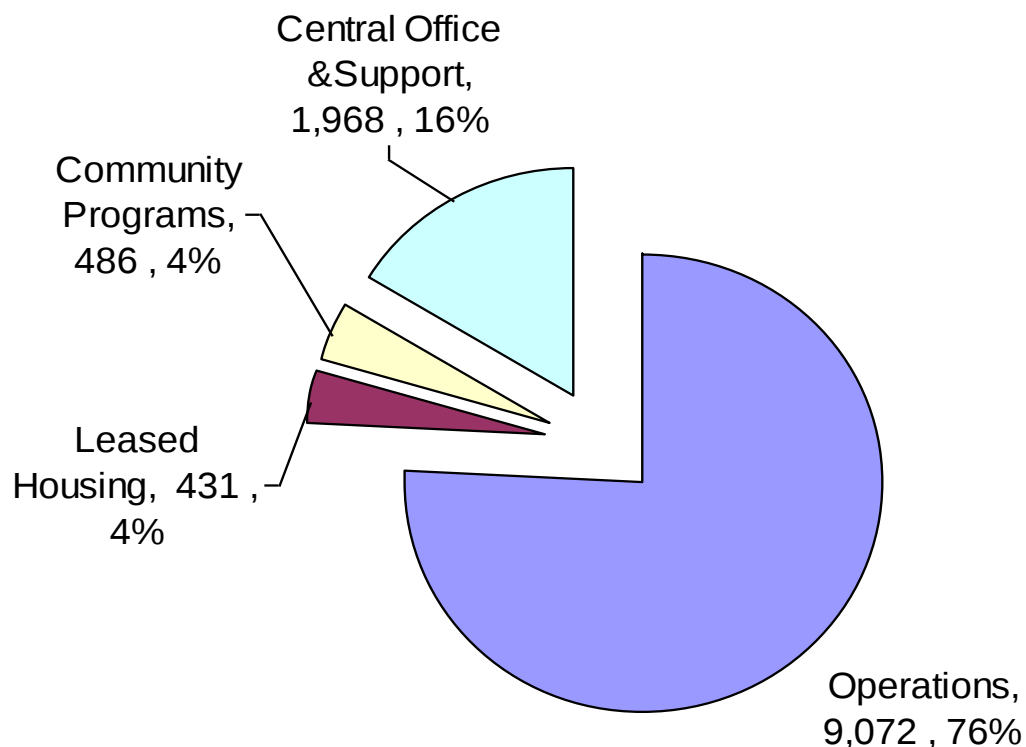
The Fiscal 2012 revenue budget totaled \$2.984 billion, a decrease of \$75 million or 2.5 percent from the Fiscal 2011 total of \$3.059 billion. NYCHA's three largest sources of revenue included \$896 million in federal operating subsidies from the Department of Housing and Urban Development (HUD), \$1.06 billion in subsidies from HUD to operate the Section 8/Housing Choice Voucher Program, and \$889 million in rental income from NYCHA tenants. Other revenue sources which total \$135 million consisted of interest on investments, rental income from commercial tenants, revenue from operations, categorical grants, funding transferred from the Capital budget to the operating budget and other miscellaneous revenue.



Headcount

NYCHA's authorized headcount in 2012 is 11,957 full time positions. 9,072 positions or 76 percent of total positions are in Operations, where personnel directly serve NYCHA's 400,000 residents. NYCHA's Leased Housing Department, which directly administers the Housing Choice Voucher (HCV) Program that serves over 93,000 families, and Community Programs, which delivers community development services to residents, each represent another 4 percent of NYCHA's workforce. Finally, central office and support functions account for the remaining 16 percent of NYCHA's authorized headcount.

NYCHA's Fiscal 2012 Headcount



Highlights of NYCHA's 2012-2016 Operating Plan

The adopted 2012-2016 Operating Plan is the first to incorporate initiatives from Plan NYCHA, which was released in December 2011 as a more fiscally and operationally efficient plan for preserving public housing in New York City. The Plan NYCHA initiatives incorporated into the Fiscal 2012 Operating Plan are aimed at increasing income and redirecting administrative costs to allow for greater resource allocations toward frontline activities that benefit NYCHA's residents and the community at large. It is also NYCHA's plan to eliminate its ongoing structural operating deficit by Fiscal 2015. The following Plan NYCHA initiatives are being implemented in the 2012-2016 Operating Plan:

Rent Equity Policy

Over 47,000 of NYCHA's 175,000 public housing households pay less than 30 percent of family income towards rent, as generally required by public housing regulations. These households are referred to as "flat rent" households. The NYCHA Board approved changes to rent policy to improve fairness in rents among public housing residents. Under this policy, which NYCHA expects to take effect in 2013, rents for these flat rent households will gradually be raised up to 30 percent of family income subject to the maximum HUD-established affordable housing rent. NYCHA expects the rent equity policy to yield a 4 percent compound growth in projected Dwelling

Rent over the Plan period, from \$889 million in 2012 to \$1.036 billion in 2016, or a total increase of about \$150 million. It should be noted that the President's proposed budget for Fiscal 2013 contains provisions that would implement rent increases up to 30 percent of family income on an accelerated basis compared to the policy enacted by the NYCHA Board.

Secure Funding for remaining 5,700 Unsubsidized Units

NYCHA owns and operates 21 developments originally built by the City and State of New York (City/State Developments) with approximately 20,100 housing units. For many years the City/State Developments did not receive any dedicated form of subsidy. To sustain housing for these 20,100 families, NYCHA tapped the resources of the remaining public housing portfolio to fund the operating costs of these developments. Under a 2008 voluntary conversion plan (VCP) approved by HUD, NYCHA was authorized to proceed with a plan to convert 8,400 public housing units which received no funding to Section 8 funding. However, of the 8,400 units covered by the VCP, less than 2,700 have been converted to the Section 8 funding model as of December 31, 2011. Over 5,700 public housing units therefore still receive no dedicated federal subsidy. The 2012-2016 Operating Plan reflects an initiative to accelerate conversion of another 3,000 (of the remaining 5,700) unfunded public housing units to the Section 8 model by implementing a conversion program beginning 2013. Through this initiative, subsidy income for the 8,400 units is projected to nearly double from \$38 million in 2012 to \$74 million in 2016.

Maximize and Develop Ancillary Revenue Streams

NYCHA has historically generated a number of ancillary revenue streams from property assets. Plan NYCHA calls for more aggressive development and management of ancillary revenue sources leveraging the Authority's property assets. These initiatives include improved utilization and realization of market-rate commercial property rentals, increased parking revenue, development of new advertising and sponsorship revenues, and the sublease of underutilized administrative office space. For this Plan, other revenues are budgeted to grow from \$33 million in 2012 to \$41 million in 2016.

Improve Central Office and Administrative Efficiency

During 2011, NYCHA performed an extensive assessment of its central office cost centers (COCC) and operations administration, and identified opportunities to increase efficiency and streamline activities in certain back-office support functions. This Plan reflects initiatives through which central office and borough administrative office activities will be streamlined and resources redirected to the frontline. These efficiencies will be realized gradually over the five year period through a combination of natural attrition with selective back-fill, active performance management, and potential early retirement incentives. NYCHA anticipates that the streamlining of central office and administrative functions will generate about \$35 million in savings by 2016, inclusive of salary and fringe.

Invest in Maintenance & Repair

Chronic federal underfunding of public housing operating and capital budgets combined with aging buildings have contributed to a substantial backlog of repairs and deferred maintenance. Based on apartment inspections and apartment repair work performed during 2011, NYCHA has estimated that the cost to complete work orders addressing the deferred maintenance and repair needs of apartment unit interiors is in the order of \$500 million, or approximately \$3,000 per unit on average. Through funding reimbursement from the capital plan, the prior operating plan

provided an incremental \$31 million of NYCHA resources over the five years 2011-2015 to address the backlog of apartment repairs. \$20 million of this funding is carried forward in this Plan with \$5 million dedicated each year in 2012-2015. In early 2012, the City Council committed \$10 million for City Fiscal Year 2013 to help NYCHA hire an additional 176 positions to address maintenance and repair needs. Hiring will be through NYCHA's resident training program partnership with the Robin Hood Foundation, thereby providing opportunities for employment to additional NYCHA public housing residents.

Redirect Resources to the Frontline

Plan realignments enabled NYCHA to budget an additional \$27 million for frontline operations annually. In 2012, this funding is dedicated to increased overtime for Operations. In prior periods, actual overtime spending far exceeded budgeted overtime. The higher budgeted overtime in the Plan is based on current needs and expectations, and reflects controls that have recently been established to better manage and utilize overtime spend. In 2013-2016, budgeted overtime for Operations is reduced with the equivalent resources redirected toward new frontline personnel. The redirection of \$15 million each year during 2014-2016 toward additional headcount is expected to allow Operations to hire about 225 more front line workers. This, in combination with additional efficiencies in borough administrative functions, is expected to allow Operations to add a total of 300 frontline positions by 2016.

Fiscal 2012-2016 Capital Plan

NYCHA's Five Year Capital Plan 2012-2016 Summary

On May 9, 2012 NYCHA released its \$2.4 billion Five Year Capital Plan for Fiscal's 2012 to 2016. The capital plan will fund infrastructure improvements and major modernizations that will to strengthen the structural integrity of developments by focusing on brickwork and roof improvements. Other non-construction related capital projects will be funded by the plan such as information technology initiatives, energy efficiency initiatives, and code compliance repairs. NYCHA's Capital Plan is being implemented at a time of significant funding reductions at the federal level. Specifically, over the past 11 years federal funding has declined by 36 percent from \$420 million to \$270 million despite a Physical Needs Assessment (PNA) that projects a need of \$25 billion over the next 15 years in order to maintain quality housing for NYCHA tenants. The funding for the five-year 2012-2016 capital plan will come from the following sources:

- **HUD's Capital Fund Program:** Approximately \$1.6 billion or nearly 68 percent of the total five-year capital plan will be funded by HUD's Capital Fund Program (CFP). Specifically, the CFP provides funds annually to Public Housing Authorities (PHAs) for the development, financing, and modernization of public housing developments and for management improvements. The major projects that will be funded under the CFP include \$203 million for elevators, \$174 million for heating and plumbing, \$68 million for roof repairs, and \$107 million for major renovations. HUD's CFP will also be the primary funding source for other miscellaneous administrative costs in the Capital Plan such as \$125 million for information technology, \$135 million for Program Administration and \$299 million for debt services costs related to the bond issuances from the Capital Fund Financing Program.
- **Capital Fund Financing Program (CFFP):** The CFFP allows public housing authorities such as NYCHA to borrow private capital to make improvements on developments and pledge, subject to the availability of appropriations, a portion of its future year annual Capital Funds to make debt service payments for either a bond or conventional bank loan transaction. In 2005 HUD allowed NYCHA via HDC to issue \$300 million in bonds which the Authority fully completed in April 2009. The proceeds of this funding was dedicated towards Local Law 11 compliance which meant to address the dangers of associated with deteriorating buildings facades on buildings that are six or more stories.

The Authority's 2011-2015 Capital Plan called for another \$300 million issuance in order to use the proceeds to address Local Law 11 which has been a costly mandate for NYCHA to comply with given its large portfolio of aging developments. The second issuance however was not initiated in 2011 due to the Authority's realization that Local Law 11 compliance would cost more than \$300 million and NYCHA at that point did not have sufficient staffing resources to successfully implement another issuance in an efficient and cost effective manner. Since then the Authority has hired an Executive Vice President of Capital Projects to prioritize capital needs and funding priorities which is reflected in an updated Physical Needs Assessment (PNA). The 2012-2016 Capital Plan now includes a second issuance of \$500 million which is a \$200 million increase from last year's Capital Plan. The increase of \$200 million is due to a more realistic assessment of what it will cost to comply with Local Law 11 in addition to offsetting reductions in annual federal capital funds which will help the Authority fund needs projects such as new roof installations. The Capital Plan calls for spending all of the \$500 million issuance in Fiscal 2013 in order to address the immediate concerns of

rehabbing building facades and offsetting any future federal reductions to the Capital Fund Program. This will therefore be a one-time infusion of capital dollars which be reflected in Fiscal 2013 but will continue to leave the Authority vulnerable from Fiscal's 2014-2016.

- **Contract Based Section-8 Leveraged Financing:** The Authority owns a portfolio of seven developments that receive a steady and reliable stream of funding from HUD in the form of Section-8 based contracts. Despite this predictable stream of operation cash-flow these properties are need of capital investments and rehabilitation. NYCHA will therefore utilizing the Section-8 contract funding to leverage other private funding sources with the intention of raising \$76 million to perform rehabilitation work on these properties by 2013. This new structured financing will comprise three of the total capital plan.
- **State and City Funding:** Albany has provided funding in the past for the 15 State developments, however, this source of capital funding will end starting in Fiscal 2012. For the current fiscal year there remains \$16.9 million from the State to provide funding for general construction and electrical work on the State developments. However, with the federalization of all developments being implemented, the State will no longer provide funding for the Authority. The City will provide \$163.8 million during the four-year capital plan, most of which is provided by the City Council in the form of discretionary funds and includes projects such as upgrades to security systems, heating and plumbing systems and construction of community centers.

FIVE YEAR CAPITAL PLAN 2012-2016 HIGHLIGHTS

- **Elevator Service and Safety Plan:** In 2009 NYCHA initiated a plan that called for the modernization of over 3,300 elevators and 109 developments over a five-year period. To date, the Authority has spent \$152 million on elevator modernization with another \$37 million in procurement which has led to the modernization of 496 elevators in three years. The capital plan includes \$218 million to complete the Plan by Fiscal 2016.
- **Brick and Roof Work:** The 2012-2016 Capital Plan increases funding for brick and roof work from the previous plan by \$154 million for a total of \$619 million over five years. This increase is largely due to the expected infusion of capital dollars from the \$500 million bond issuance in Fiscal 2013.
- **Heating and Plumbing Upgrades:** The 2012-2016 Capital Plan includes \$237 million to retrofit and upgrade heating and plumbing systems throughout all the developments. The need to upgrade and modernize these systems is essential given the ever increasing costs of energy and the aging heating systems at the developments. In particular, the Authority will invest \$35 million for the installation of 176 instantaneous hot water heaters.
- **Maintenance and Repair Backlog:** Due to aging infrastructure and a decline in federal resources, NYCHA developments have experienced a backlog of maintenance and repair work. In particular, NYCHA estimates that it will cost approximately \$500 million to address the physical needs within apartments or \$2,900 of repair work per unit.. In order to address this problem, the Fiscal 2011 budget transferred \$31 million from its capital plan from Fiscal 2011-2015 into the Authority's operating budget in order to reduce the maintenance and repair backlog that consist of 298,452 open work orders in 17,901 units. Of the \$31 million over the four years, \$11 million was spent in the Fiscal 2011 which increased the number of work orders completed in a 90-day period from an estimated 26,800 to 64,018, thereby significantly

reducing wait time for residents. The Fiscal 2012-2016 Capital Plan continues this commitment and includes \$10 million from the New York City Council to hire and train residents to perform repair work at the developments. This \$10 million commitment from the Council will be transferred from the capital budget to the operating budget in order to expedite the expenditure of these funds.

- **Information Technology Upgrades:** The Authority will invest \$125 million in the 2012-2016 Capital Plan to upgrade information technology systems. From this total \$91 million will be spent on maintaining the current system and another \$31million will be spent on funding new initiatives that improve service delivery and increases efficiency and cost savings.