

TESTIMONY FOR NYCHA CHAIRMAN JOHN B. RHEA
BOSTON CONSULTING GROUP REPORT FINDINGS
CITY COUNCIL COMMITTEE ON PUBLIC HOUSING
THURSDAY, SEPTEMBER 27, 2012 – 1:30 PM
CITY COUNCIL CHAMBERS, CITY HALL

Chairwoman Rosie Mendez, Members of the Committee, and other distinguished Members of the City Council, thank you for this opportunity to discuss the findings of the Boston Consulting Group (BCG) based on the work it performed for the New York City Housing Authority (NYCHA). I am John B. Rhea, Chairman of the New York City Housing Authority. Executive Vice President and Chief Financial Officer Andreas Spitzer and Executive Vice President for Capital Projects Raymond Ribeiro join me this afternoon.

This past June, I spoke with you about NYCHA's fiscal and operational challenges and the ambitious steps we're taking to tackle them, taking a hard look at the efficiency and sustainability of our organization. We know that quality of life for many NYCHA residents is well below our standards: we must expedite maintenance and repairs and building improvements and enhance security measures. Our commitment to addressing these issues head-on has helped us make real inroads on behalf of public housing families, but it's clear that business as usual won't get us where we need to go – we can do better with the resources we already have AND transform our approach to generating new revenues for future generations of NYCHA residents. Our work with BCG – an investment of \$10 million that has identified \$70 million in annual savings by 2016 – is a major step in that direction, one that will directly and substantially benefit NYCHA families. Along with the highlights of BCG's findings and recommendations, I will share with you the early initiatives we are pursuing to reduce our deficit, identify operational efficiencies, tap new funding sources, and redirect resources to our frontline—all for the sake of preserving and sustaining public housing in New York City.

As I've shared with this Committee on several occasions this year, NYCHA faces serious challenges brought on by chronic underfunding, aging infrastructure, regulatory constraints, and increased demand for better services with fewer resources. Since 2002, NYCHA's annual capital subsidies have been cut in half in real terms, while over the past decade we've received \$1.4 billion less in operating subsidies than is required by an already inadequate federal funding formula. And compared to seven years ago we have 3,000 fewer employees serving essentially the same number of families.

Given these facts, some have called on us to give up on public housing and tear down buildings like other large cities have done. Others say do nothing. But neither choice is practical or consistent with this city's values – we're charting an innovative third way to revitalize and restore NYCHA. That's why, with the

invaluable support of Mayor Michael Bloomberg and his administration, we embarked on a multi-year process to develop *Plan NYCHA*, a strategic roadmap guiding NYCHA's transformation into a stronger, more high-performing organization. We heard from partners, employees, and, most importantly, residents that we specifically needed to increase resources and improve customer service at the property level. As a result, one core *Plan NYCHA* imperative calls for shifting resources from administrative and central support functions to the frontline of housing operations – that's where critical work like maintenance and repairs for apartments gets done. In line with this aim, two years ago NYCHA began a comprehensive examination of central support functions in areas such as IT, HR, Procurement, and Finance to identify cost savings and service improvements, as well as opportunities to streamline operations and reduce administrative burdens. This endeavor was just one component of the overall *Plan NYCHA* strategy to reduce our operating deficit while enhancing customer service, but we made it a top priority due to the large opportunity for savings it represented, as well as the fact that it posed a minimal risk of disrupting vital housing services for residents in the short-term.

It became clear during this assessment that NYCHA would benefit from the perspective and resources of an independent, unbiased party, one who could not only analyze the current state of our operations and performance, but also share best-practices and a framework for the future. And, given our resource constraints, we needed technical and analytical support from a highly capable third party while NYCHA's staff continued the everyday work of serving residents. By utilizing the "piggyback" process – a commonly used and accepted method of procurement – we were able to expediently and cost-effectively begin this crucial work immediately.

We tasked BCG with: (1) performing a comprehensive current state assessment of NYCHA's central services and borough office support functions; (2) developing and recommending changes based on its assessment, with the goal of improving and enhancing the efficiency and effectiveness of NYCHA's current business model, particularly the central support functions, while leveraging best practices of organizations such as leading public housing authorities, property management companies, and best-in-class private sector companies; and (3) providing strategic, tactical, and technical support to NYCHA for implementation of its comprehensive business transformation plan. BCG also performed uncompensated work beyond its original scope to provide NYCHA with additional support in the areas of board governance, operations, Section 8 program spend, finance IT systems, capital projects, quantification of *Plan NYCHA* initiatives, and procurement.

BCG's Engagement Process

BCG's work was accomplished over the course of more than a year, beginning in the Spring of 2011, working closely with us to identify improvements that will lead the way to a better, stronger NYCHA. BCG analyzed functional support

areas, as well as the administrative components of Operations' borough offices, Community Programs and Development, and Capital Projects. The team focused on identifying opportunities in four areas: business process improvements, IT systems enhancement, organizational structure re-design, and capabilities and cultural change. BCG and NYCHA also assessed the potential impact that modifications to support functions would have on the frontline.

NYCHA employees across the organization were actively engaged in this transformation effort, which was organized into five phases: review of current state; operating model design; implementation planning; operationalizing the plan; and execution support. During the first three phases of its work, the joint NYCHA-BCG team focused on diagnosis, analysis, and recommendation generation, as well as some high-level implementation planning; and, during the last two phases, on launching the multi-year implementation program, including roadmapping and establishing the Executive Project Management Office, or EPMO.

During the course of its work, the joint NYCHA-BCG team identified numerous hypotheses that upon deeper review were deemed not worth pursuing. Ultimately, at the conclusion of this exhaustive effort, BCG identified over 100 short- and long-term potential business improvements, potential savings of up to \$70 million annually by 2016, and potential opportunities to realize Section 8 voucher savings and revenue reallocation of approximately \$55 million annually by 2016, making the cost of BCG's work a worthwhile investment in our future.

Key Findings

You have the final BCG report, and so I will not go through its findings in detail. But when compared to best practices and top-performing companies, non-profit organizations, and other public housing authorities, NYCHA has some gaps. These gaps were decades in the making, so we know that they won't be bridged over night. The siloed operations of many departments hinder efficiency, communication, project management, and accountability; duplicated functions are a less than optimal use of staff and money; and our organization is too weighted towards central office and support functions rather than frontline activities that add value to a resident's quality of life.

We know that there is much room for improvement, and we have already begun to take action in several areas:

Our Progress toward Transformation

Over the past several months we have been moving forward on several of the most important BCG recommendations that will deliver near-term cost savings and revenue as well as support our efforts to enhance safety and security, maintenance and repairs, and building improvements. Our revised five-year operating plan shared this summer outlines \$38 million in support and

administrative function annual salary and fringe savings by 2016 as a result of these efforts. Cumulatively we expect to deliver \$100 million in savings through 2016. While cost reductions are being made in administrative functions, our 5-year plan redirected \$27 million annually towards the frontline. Thanks to these identified savings and \$10 million in funding from the City Council, we have added hundreds of maintenance and caretaker staff, all of whom are NYCHA residents, and will add hundreds more by 2016.

More Effective Procurement

We have also moved to streamline our procurement process. We instituted an expedited RFP process, shortening the process from 10 to 20 months to three to five months. As a result, we reduced the procurement cycle time by seven to 15 months. We have also captured value from better sourcing techniques, using components of advanced sourcing strategies. For example, a request for proposals (“RFP”) for contingent labor was successfully implemented, yielding projected annualized savings of up to \$1 million, representing savings of 15 to 20 percent. As another example, a RFP for the purchase of maintenance, repair, and operation (MRO) parts and materials resulted in a number of proposals from vendors, allowing us to save up to \$1 million annually by using 5 percent fewer MRO suppliers. We continue to evaluate other materials that NYCHA utilizes, such as paint and tile, for additional strategic sourcing savings. This is just the beginning of this process.

Procurement Re-organization Initiatives

To achieve a more efficient supply chain structure, we are working to consolidate our four buying groups into a single procurement organization. We are also working to improve our materials management and logistics functions. Improvements here will allow us to better manage our inventory levels and move materials more effectively to locations where work must happen. Where appropriate, we will take advantage of just-in time inventory, as well as vendor-managed inventory. This effort will ensure that on-the-ground staff have ready access to the materials they need to perform crucial maintenance and repair work. We expect these efforts to lead to increased productivity among our maintenance and skilled trades workforces.

Capital Projects

The Capital Projects Division (CPD) made progress toward becoming a proactive asset manager by instituting a dashboard to support accountability and measurement, developing metrics to track the performance of both people and projects. The rollout of a newly designed operating model to deliver projects on-time and on-budget has already begun. A high-level capital planning process was developed that includes a framework for capital plan alignment with *Plan NYCHA* priorities and the identification of organizational and process changes that will reduce the time to obligate and expend funds and significantly accelerate

the delivery of capital improvements. As a result of the recommendations that are being employed, CPD is planning to reduce future capital award obligation timelines to 18 months and future expenditure timelines to 36 months, versus HUD's 24-month obligation and 48-month expenditure requirements respectively.

Finance

NYCHA's Finance Department is now focusing on outsourcing select, non-core functions such as parking permit administration and utility payment processing. Also, to tap into other ancillary revenue, we are pursuing new advertising and sponsorship activities (done with resident input), and subleasing excess office space within our administrative portfolio. We are working to improve the budgeting process by developing more accurate budgets and improving spend control and business monitoring.

HR

HR has begun instituting an employee performance management system, which will clearly set expectations, ensure that employees have the tools and skills to perform their job duties, and hold staff at all levels accountable for carrying out those duties.

Enterprise Program Management Office

Our efforts to address our challenges also included the creation of the senior-level Enterprise Program Management Office (EPMO), which oversees NYCHA-wide projects—including implementation of *Plan NYCHA* goals, BCG recommendations, as well as all significant projects—by better tracking and reporting to ensure that the work of transformation gets done. It will also ensure cross-departmental shared ownership for delivering the budgeted financial benefits from BCG's recommendations.

Moving Forward

We have committed to numerous recommendations outlined by BCG in order to realize operational efficiencies and achieve financial savings. However, we continue to review the findings and recommendations internally and with key stakeholders, including residents, labor leaders, and elected officials, to flesh out and prioritize the most critical opportunities. Cecil House, adeptly filling his new role as NYCHA's General Manager, is overseeing an action plan that will enable us to continue providing updates on our transformation progress. We are proud to have achieved real milestones and to have realized financial benefits as a result of our efforts to date. With the EPMO capabilities, roadmaps, and project teams, we now have not just the ideas but the infrastructure to successfully build and grow in line with key strategic priorities. And we are identifying further opportunities for savings beyond the \$70 million annually outlined in BCG's

report, investing significant activity to improve frontline operations. NYCHA will be reaping the value of this work for years to come, employing its recommendations to transform into a new enterprise model enabled by best-in-class support functions operating at lower cost and with greater effectiveness. The changes we are making are designed for long-term strategic value and investment.

Although we have made progress, there is certainly considerable work to be done. Most changes recommended by BCG will not be easy to implement and will require investment in systems and capabilities as well as new employee training and development. It will also call for tough choices, thoughtful collaboration, and strategic partnership to successfully move forward.

We appreciate the City Council's support and advocacy of our vital mission to provide and preserve public housing. Your continued support is essential to realize this crucial transformation we are undertaking. I look forward to continuing to apprise you of the progress we are making in positioning NYCHA for a healthy future. I am happy to answer any questions you may have.