

Entry Name: **2009 NYC Housing Development Corporation – Special Achievement**

NYCHA Federalization

For over 50 years, the New York City Housing Agency (NYCHA) has struggled to fund public housing developments originally financed by New York City and New York State with limited financial support of the federal, state, or local governments. The New York City Housing Development Corporation (HDC) has issued tax exempt bonds for NYCHA that paired with both funding and special authority under the American Recovery and Reinvestment Act of 2009 (“ARRA”) has led to an enormous infusion of capital and needed financial support for the entire NYCHA housing portfolio.

Background

Public Housing has been historically financed by using direct federal subsidies to fund the construction and then continuing maintenance and operations of such facilities. New York City, through its public housing authority, owns and operates 21 public housing developments containing 20,139 apartments that were originally financed under New York State and New York City funding programs (the issuance of general obligation bonds) that pre-date the availability of such federal money (State/City Developments). As these developments were not originally federally funded, the State/City Developments were not included in the federal subsidy formulas that provided both operating and capital subsidies for the vast majority of NYCHA’s 179,000 unit portfolio. As part of the initial financial structure, New York City and State of New York provided operating subsidies sufficient to pay bond debt service and all or a portion of operating costs. However, by the late 1990’s, subsidies for operating costs were discontinued with only subsidies for payment of debt service remaining.

NYCHA had been permitted by US Department of Housing and Urban Development (HUD) to use a portion of its federally funded budget sized for its federal portfolio to operate the state and local portfolio as well. NYCHA had persistent budgetary deficits as the aid was covering more units than originally intended. This reduction in operating subsidy has created a deficit for NYCHA of greater than one billion dollars over the past 10 years. Although HUD worked closely with NYCHA to address the nagging deficits both sides were limited in their ability to create a permanent solution.

Special ARRA Requirements

ARRA contains a provision that allows for the creation of “new” public housing allowing public housing authorities to increase the number of units receiving direct federal operating and capital subsidies under the Annual Contribution Contract (“ACC”). The provision requires the “new” units to be acquired and developed through a mixed finance transaction involving a public-private partnership with the public housing authority as the managing member. ARRA provides capital funds for the transaction (“ARRA Funds”) and requires a minimum expenditure of \$2,000 per unit in hard costs. The ARRA Funds must be leveraged with other public and private financing sources that do not include additional federal public housing funds. This is considered a mixed financing as it combines tax credits and bond proceeds (supported by Section 8 contracts on units not covered by the ACC) as well as the federal funds.

Entry Name: **2009 NYC Housing Development Corporation – Special Achievement**

The Transaction

The federalization transaction required complex strategic planning and creative financing. HDC coordinated the mix of private and public financing that allowed NYCHA to receive more than \$400 million to upgrade and rehab almost 21,000 units of public housing. HUD now may include the developments in a federal subsidy program that will provide an additional \$65-75 million every year for ongoing maintenance. NYCHA could get federal funds to rehabilitate, as well as a permanent subsidy, by selling these units to an entity it controlled. The transaction, however, needed to be financed using a mix of public and private sector money, so NYCHA turned to HDC to weave together all the necessary components. And to make matters more challenging, ARRA had a deadline of March 17, 2010. This meant NYCHA had to act quickly to finance the developments with the stimulus money. HDC moved through the initial stages of financial modeling and into finding investors and raising the necessary funds.

Through innovation and quick planning, HDC was able to make one of the largest tax credit bond deals in the nation's history. It used tax-exempt and taxable bonds to finance the acquisition and rehabilitation of the units. HDC assisted NYCHA in preparing and reviewing a short request for proposals that engaged the nation's largest banks to assess their willingness to participate in providing both debt and equity at competitive rates on this large transaction. Because of the time constraints it was determined that one bank would have to provide both functions and would be left to seek participants after the completion of the entire financing. Citibank, acting through its Community Capital Group, was chosen and will invest approximately \$209 million in the tax credit component of the transaction.

The transactions incorporate a mixture of financing sources including tax-exempt and taxable bonds, Low Income Housing Tax Credits ("LIHTC") and federal funds allocated to NYCHA under ARRA. Because of the size of the transaction, requiring over \$475 million in tax exempt bonds and the financial cost of negative arbitrage on issuing funds prior to when they are required, the financing will be completed over a two year period, using state volume cap allocations in 2010, 2011 and 2012.

HDC coordinated with the State of New York, including its Housing Finance Agency, to receive a forward allocation of private activity volume cap for such bonds. NYCHA, working with HDC, also arranged a change in state law that permitted the lien placed on these projects relating to their initial state financing to be released without requiring any outlay by NYCHA (saving the projects almost \$30 million that could be instead spent on rehabilitation costs).

HDC also negotiated a forward purchase contract with Citibank for the purchase of the subsequent series of bonds by Citi in 2011 and 2012. In addition, HDC was able to use Recycled Volume Cap (itself an innovation arising out of the 2008 HERA legislation) for a portion of the financing as well as bonds issued in late 2009 as convertible option bonds that were remarketed in 2010 for this project. Most of the bonds are expected to be paid down with a combination of tax credit proceeds and other funds from NYCHA in 2012 and 2013.

As money flows into the transaction, the money is used to both acquire the developments from NYCHA and to fund the improvements. NYCHA uses certain of the acquisition financing to fund a Public Housing Preservation Fund that basically lends money back to the new entity that owns the public housing to pay

Entry Name: **2009 NYC Housing Development Corporation – Special Achievement**

back a portion of the debt. Although circular in nature the financing is structured to maximize the availability of LIHTC without overburdening the projects with long term debt that is not supportable.

The use of HDC's parity Housing Revenue Bond (HRB) program allowed for quicker review from the rating agencies and also limited the additional cost of arranging credit enhancement for the transactions. Less debt service reserve funds were necessary for an HRB deal than a standalone financing would have required. Investments did not have to be pre-negotiated or considered for bond cash flows, easing both review and execution. A portion of the bonds are fully supported by ARRA funds and do not require additional bank credit during construction. Due to the financial strength of HRB, NYCHA was spared the need to pre-arrange permanent enhancement (although it is expected that HDC will use its own mortgage insurer REMIC and the State of New York Mortgage Agency's insurance fund to provide such coverage).

The scope of the work for both projects includes brick and remedial structural work, façade concrete repair, roofing replacement, elevator replacement, front and rear entrance door replacement, asbestos abatement and heating upgrade. Citibank will service the construction period for the projects and approve all construction draw requests during construction and act as the construction monitor.

Conclusion

These transactions will enable NYCHA to make needed capital improvements to the 21 developments, as well as access ACC subsidy from HUD for a portion of those State-City properties not currently included in the federal subsidy formula. They also will provide NYCHA with an important opportunity to eliminate a significant portion of its ongoing structural deficit. The result will be better living conditions for the tens of thousands of public housing residents who live in the federalized buildings. Permanently including these buildings in HUD's subsidy formula also means that NYCHA will no longer have to spread its budget so thinly across the city. The federalization that HDC put together with many public and private partners will not only benefit NYCHA, tenants and the community, but all of New York City.