

# HDC Housing Impact Bond Resolution & NYCHA PACT

**New York City Housing Development Corporation**  
Rental Housing: Preservation and Rehabilitation

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### *Entry Title*

## **HDC Housing Impact Bond Resolution & NYCHA PACT**

### *Summary*

HDC has expanded its mission to serve as the key financing partner on the NYCHA 2.0 PACT plan to help bring capital repairs to buildings and apartments, and improved quality of life to residents living in NYCHA's public housing. To support these efforts, HDC recently launched its inaugural Housing Impact Bond Resolution – an innovative financing tool that will help the City's to achieve an ambitious plan to repair and preserve 62,000 public housing units by the end of 2028.

### *Description*

In 2020, the New York City Housing Development Corporation (HDC) introduced two innovative and replicable financing solutions to support the renovation of New York City's public housing stock.

In January 2020, HDC launched the Housing Impact Bonds Resolution (Impact Resolution) with a specific goal of supporting New York City's Permanent Affordability Commitment Together (PACT) plan which aims to convert at least 62,000 public housing units from Section 9 to more stable Section 8 by the end of 2028.

PACT is a critical part of the City's 10-year strategic plan to repair public housing to bring improved quality of life to New York City Housing Authority (NYCHA) residents, while ensuring permanent affordability, guaranteeing tenant protections, and maintaining public ownership of the land and buildings.

The new Housing Impact Bonds are designated as Sustainable Development Bonds consistent with the goals of the International Capital Markets Association's Social Bond Principles to end poverty and to make cities inclusive, safe, resilient, and sustainable. All units funded by Housing Impact Bonds serve low-income households at or below 60% of the Area Median Income. Housing Impact Bonds issued in 2020 were assigned an Aa2 rating by Moody's Investors Service.

In addition to creating a new bond resolution, HDC introduced a new financing tool for PACT deals – the SUN Loan, which is a Senior Unenhanced Non-accelerating Loan. The SUN Loan, described in detail below, is in first position and does not require third-party credit enhancement. As a result, it essentially buys down the all-in interest rate and enables additional proceeds to support a robust rehabilitation scope.

With financing facilitated by the Impact Resolution, PACT leverages an array of federal resources and public-private partnerships to fund comprehensive repairs and effective management of public housing developments that have long suffered from disrepair.

In addition to assembling the financing on PACT, HDC joins NYCHA in providing ongoing asset management and compliance for PACT transactions.

Through a public procurement process, NYCHA prequalifies eligible developer, property manager, general contractor and social services provider partners to work with NYCHA in converting and rehabbing public housing units through the PACT program.

The City established new Comprehensive Design and Construction guidelines for PACT transactions to help to support healthy, sustainable, and connected communities. Guidelines include:

- Capital needs: Rehabilitation scopes must address the 20-year capital needs of the properties as determined by a third-party assessment
- Resident training and hiring: Partners must carry out a training and employment plan for NYCHA residents, inclusive of construction and other permanent jobs.
- Energy and sustainability: NYCHA is preferencing proposals that proactively conserve energy and water, manage materials responsibly, and reduce the carbon impact of our portfolio (see NYCHA’s Climate Mitigation Roadmap)
- Resident input: NYCHA is revisiting its engagement process to better integrate resident recommendations into the scope development.
- Urban planning: NYCHA has added guidance through the Connected Communities Guidebook to better integrate campuses into their neighborhoods.
- Environmental hazards: NYCHA requires mold remediation and lead-based paint abatement, in addition to other requirements associated with federal, state, and city environmental review processes

### **Community Context**

1 in 15 New Yorkers reside in a NYCHA public housing development (i.e. over 550,000); a majority of whom are Black or Hispanic. NYCHA residents include our teachers, police officers, sanitation workers, nurses; many serving as essential workers who have continued to serve New York City throughout the Covid-19 pandemic.

For decades there has been substantial disinvestment in local Public Housing Authorities (PHAs) throughout the nation. As a direct result, PHAs have found it difficult to meet their day-to-day operational expenses as well as any major capital repairs needed. In turn, the quality of life for many PHA residents has declined.

NYCHA is the largest PHA in the United States and the largest landlord in New York City with a portfolio of more than 170,000 units – the equivalent of roughly 8% of New York City’s rental housing stock. The majority of NYCHA apartments were built between 1945 and 1970 — more than 50 years ago — federal funding levels have been and remain insufficient to keep pace with capital needs of these types of properties.

Since 2014, the City of New York has made significant investments in NYCHA and in 2016 the PACT program was launched as one of three prongs of the overall NYCHA 2.0 strategy to reposition the Authority.

### **Equity & Inclusion**

The Covid-19 pandemic has underscored the need for housing stability for all Americans. Further, it has shone a light on the deep systemic inequalities existing in our communities.

PACT is a critical component to ensuring an equitable recovery for New York City. The financing secured through the Impact Resolution will support the PACT program in achieving its goal to rehabilitate and

secure our City’s precious public housing stock; and provide greater stability, health outcomes, and economic opportunity for public housing residents and the surrounding communities.

Residents benefit from ongoing tenant protections under PACT, including restricted rents at no more than 30% of tenant income, permanent affordability, automatic lease renewal, grievance rights, and succession rights, which are more important than ever amid the instability of the pandemic.

In addition to delivering repairs and renovations, PACT facilitates collaborations between development partners and community-based non-profits and service organizations who enhance the ability to connect NYCHA residents with the necessary social services and community programming.

Furthermore, recent improvements to the procurement process for PACT transactions promote inclusion of Minority and Women Owned Business Enterprises (M/WBEs) and local non-profit partners by bolstering the required structure of JV agreements to give smaller partners more weight in negotiations with their partners.

### **Policy Impact & Results**

To date, approximately 9,517 public housing apartments have converted to Section 8 under PACT at 50 NYCHA campuses across New York City, with another 12,000 apartments at 35 additional developments slated for comprehensive repairs and upgrades that are in active planning.

Since 2018, HDC has provided approximately \$1 billion in financing for 5,065 total renovations for NYCHA apartments, including issuing \$664 million in bonds from the newly created Housing Impact Bonds Resolution and providing \$192 million in total SUN Loan financing.

### **Replicability**

The public-private partnership and financing structure of PACT serve as an effective, proven, and replicable model that other municipalities can follow to bring repairs and protections to their public housing stock.

Under PACT, NYCHA engages with private development partners to renovate public housing developments and make them healthier and stronger. NYCHA continues to own the land and developments, and maintains oversight over all major decisions. Furthermore, contractual and statutory obligations ensure permanent affordability. As a result of the transaction, residents will benefit from upgrades to the apartments, building systems, grounds, and on-site community facilities, as well as a proven private managing agent to help ensure the smooth day-to-day functioning of the project.

Further, the innovative financing methods supported by the Impact Resolution and SUN Loan can be replicated by other state and local governments and their partners. PACT transactions are financed through a conventional debt and equity model, with subsidy filling in gaps where needed. PACT leverages an array of federal resources including various HUD Section 8 programs, such as the Rental Assistance Demonstration (RAD) Program and Tenant Protection Vouchers (TPVs) through HUD’s Part 200 and Section 18 Programs. Transactions financed with Housing Impact Bonds do not require the use of private activity volume cap - a critical, but limited federal resource utilized in the creation of affordable housing. Rather, other funding tools such as taxable bonds, recycled volume cap, 501c3 bonds, governmental purpose bonds and HDC’s unrestricted corporate reserves can be deployed.

## ***Case Studies***

### ***#1 - PACT Brooklyn Bundle II***

Closed: February 12, 2020

The PACT Brooklyn Bundle II transaction consists of the acquisition and rehabilitation of 2,625 units in 39 buildings across 9 NYCHA public housing developments located in various neighborhoods throughout Brooklyn.

All units converted to Project Based Section 8, guaranteeing annual resident rents no greater than 30% of adjusted gross income. Unit sizes range from studios to five-bedrooms.

The development team was a joint venture between Omni New York LLC, The Arker Companies, Dabar Development Partners, and Bedford Stuyvesant Restoration Corporation.

Sites are undergoing substantial rehabilitation incorporating improvements or replacements of common areas, community facilities, security systems, building exteriors, building systems, extensive electrical, mechanical, and plumbing upgrades as well as full renovation of apartment interiors.

NYCHA continues to own the sites and benefits from ground lease acquisition revenue, the entire developer's fee, an annual administration fee, 50% of the cash flow payments after debt service, and the option of removing any PACT partners due to bad conduct or failure to comply with PACT program requirement.

Resident social services are funded by annual payments approximating \$1,000,000 toward workforce training services, computer and IT courses, supporting increased services of existing providers at the developments, and creating connections to local organizations through Resident Service Coordinators.

The transaction closed in February 2020 and as of January 2021 is 56% complete, which is remarkable given that the COVID-19 pandemic began just one month after closing. The rehabilitation is projected to be 100% complete in December 2021.

### ***#2 – PACT Baychester-Murphy***

Closed December 28, 2018

Prior to closing on new financing, Baychester-Murphy was an existing public housing development consisting of 722 units across 14 buildings located at two New York City Housing Authority (NYCHA)-owned properties in the Bronx. The Baychester-Murphy rehabilitation allowed for the properties to convert to project-based Section 8 operating subsidy and to secure substantial renovation that addressed a 20-year capital need.

Through the NYCHA Permanent Affordability Commitment Together (PACT) program, these developments were converted to more stable, project-based Federal Section 8 funding. PACT enables NYCHA to unlock the funds required to make capital repairs, while ensuring public control of NYCHA buildings and maintaining residents' rights.

PACT preserves restricted rents at no more than 30% of tenant income, and ensures permanent affordability, automatic lease renewal, grievance rights, and succession rights, which are more important than ever amid the instability of the pandemic.

In addition to delivering repairs and renovations, PACT facilitates collaborations between development partners and community-based non-profits and service organizations who enhance the ability to connect NYCHA residents with the necessary social services and appropriate programming.

While Baychester-Murphy residents benefit from an improved quality of life, local area residents can also enjoy the renovated senior center and childcare facilities, the newly renovated and expanded community center, as well as the well-managed Baychester-Murphy public spaces.