




NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

MEMORANDUM

To: The Chairperson and Members

From: Marc Jahr
President 

Date: July 17, 2013

Subject: Capital Fund Grant Program Revenue Bonds
(New York City Housing Authority Program), Series 2013A and Series 2013B

I am pleased to recommend that the Members approve the issuance of the Corporation's Capital Fund Grant Program Revenue Bonds (New York City Housing Authority Program), Series 2013A and Series 2013B (the "2013A Bonds" and the "2013B Bonds," respectively, and, collectively, the "Bonds") in an amount not to exceed \$750,000,000. The interest on the Bonds will be exempt from Federal, state and local income tax.

The proceeds of the 2013A Bonds will be loaned (the "2013A Loan") to the New York City Housing Authority ("NYCHA") to advance refund the Corporation's Capital Fund Program Revenue Bonds (New York City Housing Authority Program) Series 2005A (the "2005A Bonds"). The proceeds of the 2013B Bonds will be loaned (the "2013B Loan" and, together with the 2013A Loan, the "Loan") to finance necessary capital improvements for up to 39 NYCHA developments. The Bonds will be secured by NYCHA's future annual allocation of public housing capital funds ("Capital Fund Grant Monies") provided by the U.S. Department of Housing and Urban Development ("HUD"), subject to annual appropriations by Congress.

This memorandum will provide a description of the transaction and NYCHA and a discussion of the structure and security for the Bonds.

Transaction Description

NYCHA has submitted a proposal to HUD for approval under HUD's Capital Fund Financing Program ("CFFP") under which a public housing authority ("PHA") may incur debt that is secured by a pledge of a percentage of its future federal assistance. NYCHA is participating in the CFFP Program to accelerate the modernization of its aging public housing stock and improve existing public housing. The program will allow NYCHA to plan and execute multi-year construction initiatives that will address critical needs in a comprehensive manner. As part of HUD's approval of the transaction, HUD is expected to authorize NYCHA to pledge and assign its Capital Fund Grant

Monies to the Corporation and bond trustee (the "Trustee"), to the extent necessary to pay Loan debt service, pursuant to a letter from HUD to NYCHA (the "HUD Approval Letter"). The HUD Approval Letter is expected to be issued by mid-August.

In connection with HUD approval of the transaction, it is expected that HUD will require that NYCHA request the Corporation to engage a construction monitor to inspect the work and provide periodic reports. The Corporation will review the reports and monitor the transaction as loan disbursements are made and debt service is repaid. As HUD is still in the process of reviewing NYCHA's application, it is possible the HUD Approval Letter will require more oversight by the Corporation or the third-party construction monitor. The Members are being asked to authorize the Corporation to enter into such agreements as necessary to meet the requirements of the HUD Approval Letter.

Use of Series 2013A Proceeds

The Series 2013A Bond proceeds are expected to be used to provide funds to defease and advance refund the Series 2005A Bonds, which are optionally redeemable on or after July 1, 2015. The refunding is expected to achieve present value debt service savings. The Corporation will establish an irrevocable escrow defeasance account with The Bank of New York Mellon, as trustee for the Series 2005A Bonds, for the deposit of cash and/or non-callable direct obligations of the United States of America to pay interest when due and principal of the Series 2005A Bonds on the date of maturity or redemption. A verification report to be prepared by Causey Demgen & Moore P.C. will ensure the accuracy of the arithmetical computations and the sufficiency of the cash and/or securities deposited with the trustee. The Series 2013A Bonds will also fund the debt service reserve fund and pay costs of issuance.

Use of Series 2013B Proceeds

The Series 2013B Bond proceeds are expected to be used for repairs for up to 39 NYCHA developments. Such funds will provide NYCHA with a dedicated, immediate funding source to address critical building-envelope repairs including needed repairs to brick façade, roof and other structural elements and also to provide investment in building components such as elevators, bathrooms, kitchens, intercoms as well as heating, plumbing and electrical systems. The Series 2013B Bonds will also fund the debt service reserve fund and pay costs of issuance.

NYCHA has designed the program so that it is as flexible as possible to allow changes to be made based on market conditions without any adverse impact on delivery of proposed improvements. NYCHA purposely designed a program that exceeds the available bond proceeds, enabling NYCHA to strategically select projects. NYCHA has taken work at 39 developments and packaged them into 30 different contracts that could be entered into as funding permits. The 30 different contracts have been assembled in a way that will maximize the availability of market labor to complete the work.

Description of NYCHA

NYCHA was formally established by the City of New York (the "City") as a municipal housing authority on February 20, 1934. It was constituted and declared to be a body corporate and politic by

the State on April 5, 1935, possessing all the powers, rights and duties set forth in Article Five of the State Housing Law. The general organization and operation of NYCHA is now governed by Chapter 44-A of the Consolidated Laws of New York.

NYCHA is principally involved in providing housing to persons and families of low income and very low income under a variety of HUD, State and City programs. NYCHA owns and operates 334 developments with approximately 179,000 dwelling units of housing for low income and very low income City residents, making it the largest public housing agency in the nation. NYCHA-owned developments are located in all of the five boroughs of the City. Under certain HUD-supported programs, NYCHA also leases directly from private owners or administers the leasing by eligible tenants from private owners of approximately 92,560 additional units. Under Section 154 of the Public Housing Law, NYCHA is given the exclusive right to establish rents, subject to the terms of any loan or subsidy contract with a government.

Debt service or operating subsidies or both are paid to NYCHA pursuant to the provisions of the relevant government programs. Of NYCHA's total budget, approximately 98.8% is supported by HUD, 1% by State programs and 0.2% by City programs. NYCHA has never failed to pay in a timely manner the payment of principal of or interest on any of its bonds, notes or other obligations.

NYCHA currently has a total of approximately 12,220 employees in its 48 major departments established to develop and manage low income and very low income housing in the City. General offices are located at 250 Broadway, New York, New York 10007.

Structure of the Bonds

It is anticipated that the Series 2013A Bonds, in an amount not expected to exceed \$225,000,000, and the Series 2013B Bonds, in an amount not expected to exceed \$525,000,000, will be issued as fixed rate tax-exempt bonds. The Members are asked to authorize a true interest cost that does not exceed 10% for each series of the Bonds; however, it is expected that the Series 2013A Bonds and the Series 2013B Bonds will each have a true interest cost that does not exceed 6%. The approximate final maturity of the Bonds is expected to be July 1, 2033; however, market conditions may result in a shorter final maturity.

Under the Master Trust Indenture (the "Indenture"), the Corporation will be required to maintain on deposit in the debt service reserve fund an amount expected to be equal to one half (1/2) of the maximum annual debt service requirements on all Bonds outstanding and payable in any year. At the time of issuance of the Bonds, proceeds will be deposited with the Trustee in an amount sufficient to satisfy the debt service reserve requirement with respect to the Bonds.

Security for the Bonds

Repayment of the Bonds will be made from Capital Fund Grant Monies payable to NYCHA by HUD (subject to federal appropriation and certain other conditions) each year for its capital purposes and assigned to the Corporation by NYCHA, with the consent of HUD. Under the Indenture, the Corporation will assign to the Trustee, as security for the payment of the Bonds, all of its right, title and interest in and to: (i) the Capital Fund Grant Monies delivered on behalf of NYCHA as to debt

service on the Loan ("Loan Debt Service"), and (ii) all funds held in the accounts established under the Indenture, all investments derived therefrom, if any, and earnings thereon, if any.

HUD is expected to agree to forward Capital Fund Grant Monies directly to the Trustee to the extent necessary to pay Loan Debt Service. Therefore, subject to the availability of appropriations, with respect to the payment of Loan Debt Service, the Trustee will have a first priority claim against all Capital Fund Grant Monies to be made available to NYCHA in any fiscal year and no expenditures for other projects or purposes can be made by NYCHA that would reduce delivery of such moneys to the Trustee in less than the full amount of Loan Debt Service. HUD is further expected to agree that no subsequent change in the permissible use of Capital Fund Grant Monies and no administrative sanction regarding NYCHA will affect the eligibility of expenditures for Loan Debt Service or reduce Capital Fund Grant Monies to NYCHA, except as required by law, below the levels needed to pay such Loan Debt Service.

Risks and Risk Mitigation

The main risks associated with this bond issuance are annual appropriations risk and expenditure risk as follows:

Annual appropriations risk

The source of repayment of the debt is the Capital Fund Grant Monies which are subject to annual appropriations from the Federal Government. Estimated debt service on the \$698 million of anticipated Bond proceeds is less than 20.4% of NYCHA's anticipated 2013 Capital Fund Grant Monies allocation. This equates to a coverage ratio of approximately 4.9 to 1, exceeding the HUD requirement of 3 to 1 for the entire amount to be borrowed. Lastly, a debt service reserve fund equal to maximum semi-annual debt service is expected to be funded by Bond proceeds in an expected amount of \$27 million or otherwise secured at closing.

As a result of federal sequestration, NYCHA estimates that the amount of Public Housing Capital Fund Program (the "Capital Fund Program") funds to be allocated to NYCHA for 2013 will be cut by approximately 5.01% from \$270,369,594 in 2012 to approximately \$256,581,000. While harmful to NYCHA, this will not compromise the proposed issuance.

Expenditure risk

The National Housing Act of 1937, as amended, requires public housing authorities to obligate for expenditure at least 90% of its allocation of Capital Fund Grant Monies within 24 months of (i) the date such funds become available to the public housing authority or (ii) the date on which adequate funds to undertake modernization, substantial rehabilitation or new construction are accumulated (the "Obligation Requirement"). Unless a waiver or extension is obtained, a public housing authority cannot be awarded Capital Fund Grant Monies for any month during a fiscal year in which such public housing authority has unobligated Capital Fund Grant Monies from the preceding or any earlier fiscal year in violation of the Obligation Requirement. However, if a public housing authority cures its failure to obligate the previously allocated Capital Fund Grant Monies within such fiscal year, Capital Fund Grant Monies will be made available to the public housing authority in an amount proportional to the number of months remaining in such fiscal year.

In addition to the Obligation Requirement discussed above, public housing authorities are required to expend Capital Fund Grant Monies within four years of the date on which such funds become available to the public housing authority for obligation plus the period of any extension, if any, approved by the Secretary of HUD (the "Expenditure Requirement"). Failure to do so may result in recapture of the funds upon action by the Secretary of HUD.

HUD anticipates applying the Expenditure Requirement to proceeds from the Bonds as well. Under the Capital Funds Program, NYCHA is currently in compliance with the Obligation Requirement and the Expenditure Requirement. Internal control and monitoring systems are in place to ensure that NYCHA meets or exceeds the Obligation Requirement and Expenditure Requirement in a timely manner. Over the past 10 years, NYCHA has complied with the Obligation Requirement and the Expenditure Requirement.

Both internal and external control mechanisms have been or are anticipated to be implemented along with this transaction to minimize the risk of NYCHA failing to meet its Expenditures Requirements.

1) Internal Construction Management

NYCHA's Capital Projects Division ("CPD") is responsible for all planning, design and construction associated with NYCHA's capital improvements to its building and infrastructure portfolio. CPD has put in place a number of programmatic controls to ensure that projects financed with the Series 2013B Bonds are delivered on-time and within budget. Construction Managers will be used to ensure that roles and responsibilities are clearly defined throughout the project and that those managing the day-to-day construction are acting in NYCHA's interest. All of the Construction Management firms selected by NYCHA have already performed exhaustive constructability reviews of the projects that they will manage to ensure that they are complete and clearly detail the expected work. A new change order approval process is also in place and requires that all proposed change orders first be vetted and approved by senior staff and then negotiated before a contractor is directed to do any extra work. Addressing change orders in this manner will ensure that scope of work is clearly defined, NYCHA gets a fair price, contract claims will be reduced and contract close outs will be expedited. In addition, CPD recently

completed a major enhancement to its standard procedures manual that covers the entire life cycle of a project from its initiation in the capital planning process, through planning, design and construction and then to completion of contract close out. This manual will be a key tool for project managers to deliver projects consistently on time and within budget.

2) External Construction Monitor

It is anticipated that the Corporation will monitor the construction process through a contract with a third-party construction monitor that will inspect the work and provide periodic reports to the Corporation. The Corporation will review the reports and monitor the transaction as loan disbursements are made and debt service is repaid. As mentioned above, it is possible the HUD Approval Letter will require more oversight by the Corporation or the third-party construction monitor.

HUD is expected to require NYCHA to work with the Department of Investigation ("DOI") to hire an integrity monitor to inspect for fraud or abuse by contractors or subcontractors during the rehabilitation. The Corporation is working with HUD, DOI and NYCHA to ensure that the hiring of the two monitors does not result in duplication of efforts or delays that could impede the completion of the repair work.

The Corporation believes that these measures sufficiently mitigate the risk of NYCHA failing to meet the Expenditure Requirements.

Between 2010 and 2012 the Corporation issued \$475,450,000 of bonds for the NYCHA federalization project which provided funds for the rehabilitation of 21 developments and over 20,139 units. The rehabilitation funded with such bonds has been completed ahead of schedule and the construction loans for those developments are expected to convert to permanent status this summer. The Corporation believes the success of the extensive federalization transaction is a solid indicator of NYCHA's ability to manage the work that needs to be done for the Capital Fund Grant Program transaction.

Fees

NYCHA will be obligated to pay the Corporation a fee equal to all of the Corporation's costs of issuance in connection with each series of the Bonds plus an up-front fee equal to .10% of the Series 2013A Bonds and .30% of the Series 2013B Bonds. In addition, HDC will receive an annual servicing fee of .04% of the outstanding Series 2013A Bonds and an annual servicing fee of .075% during construction and .04% thereafter of the outstanding Series 2013B Bonds.

It is anticipated that the Corporation will contract the construction monitoring services to an outside provider that is familiar with HDC's processes. HDC will select a monitor after soliciting bids from at least three qualified candidates.

The underwriters will earn an up-front underwriters' fee collectively not to exceed 1.75% of the Bonds including expenses.

Rating

The Corporation is currently in discussions with the rating agencies. It is expected that the Bonds will be rated "A" or "AA-" by Standard and Poor's Ratings Services. The Corporation is currently assessing the benefit of obtaining a second rating on the transaction by Fitch Ratings or Moody's Investors Service, Inc.

Pricing Advisor

Caine Mitter & Associates Incorporated will provide the Corporation with an opinion attesting that the terms and conditions of the Bonds are reasonable given current market conditions with respect to such matters as interest rate, fees, costs of issuance, call provisions and reserve fund requirements.

Trustee

U.S. Bank National Association

Senior Managers

J.P. Morgan Securities LLC
Citigroup Global Markets
Goldman, Sachs & Co.
M.R. Beal & Co.
Siebert Branford Shank & Co.

Co-Managers

Bank of America Merrill Lynch
Barclays Capital Inc.
Loop Capital Markets
Morgan Stanley & Co, LLC
Ramirez & Co., Inc.
RBC Capital
Roosevelt & Cross
Wells Fargo Securities

Bond Counsel

Hawkins Delafield & Wood LLP

Underwriter's Counsel

Winston & Strawn LLP

Action By Members

The Members are requested to approve an authorizing resolution which provides for (i) the execution of the Bond Purchase Agreement regarding the sale of the Bonds, (ii) the distribution of the Preliminary Official Statement and the Official Statement in connection with the financing, (iii) execution of the Master Trust Indenture, (iv) execution of the First Supplemental Trust Indenture and Second Supplemental Trust Indenture, (v) execution of the 2013A Loan Agreement and 2013B Loan Agreement, (vi) execution of a defeasance escrow agreement and (vii) execution of any other documents necessary to accomplish the issuance of the Bonds and the financing of the loan.