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## Second Party Opinion

# City of New York's General Obligation Bonds, 2025 Series D Taxable Social Bonds, Subseries D-1

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**Location:** U.S.

**Sector:** Local government

## Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

✓ Social Bond Principles, ICMA, 2023

See [Alignment Assessment](#) for more detail.

## Strengths

### The financing provides funding for over 1,700 housing units for the formerly homeless.

Such units comprise nearly 40% of the financing. By focusing on housing some of the most vulnerable residents in New York City (NYC), the issuer directly tackles a highly material issue for its stakeholders.

**The financing takes place under a stringent regulatory environment, which ensures compliance with social objectives.** The issuer is subject to federal, state, and municipal regulations pertaining to affordable housing.

**Reporting for issuer housing initiatives, both under and outside of the financing, is comprehensive and transparent.** Historically, the City of New York (the City) and its Department of Housing Preservation and Development (HPD) have released periodic reports on their public websites, which feature extensive data, case studies, and qualitative information on affordable housing initiatives.

## Weaknesses

No weaknesses to report.

## Areas to watch

**The City could face challenges, such as construction delays, high construction costs, and elevated maintenance and operations costs, due to exogenous forces.** HPD has navigated challenges stemming from exogenous (e.g. COVID-19 pandemic, supply chain), as well as endogenous forces, in recent years, which could lead to challenges for the City's affordable housing goals.

## Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

## Issuer Description

The City, with a population of 8.3 million (July 2023 estimate), has the highest metropolitan area GDP of all U.S. metro areas and is a global hub for finance, leisure, and business tourism, universities, health care providers, and--increasingly--technology companies. The City established the HPD in 1978 to handle the development and maintenance of its affordable housing. HPD's mission is to promote the quality and affordability of the City's housing and the diversity and strength of its neighborhoods. HPD supports this mission by providing low-cost subordinate subsidy loans to finance affordable housing through various programs, including the Extremely Low- and Low-Income Affordability (ELLA) Program, the Supportive Housing Loan Program (SHLP), and the Senior Affordable Rental Apartments (SARA) Program. Between Jan. 1, 2014, and June 30, 2024, the City financed the construction or preservation of over 255,000 affordable housing units across the five boroughs of NYC.

## Material Sustainability Factors

### Access and affordability

Local governments provide essential services for their communities, including--but not limited to--infrastructure, housing, education, transportation, public safety, and recreation. An important component of accessibility is ensuring services are affordable, particularly for more vulnerable populations. The needs of these populations, in terms of specific services and the relative affordability of these services, can vary greatly within and between jurisdictions. For example, residents in densely populated urban areas with a high cost of living may have greater need for access to affordable housing or public transportation than those in more rural jurisdictions.

### Impact on communities

Fostering and maintaining a stable and cohesive community is important to a local government's constituent wellbeing and the long-term prosperity of the jurisdiction. Achieving this objective often relies on broad access to economic opportunities and advancement, as well as to a jurisdiction's services and resources, and a shared sense of security. Limited access to opportunities and services, on the other hand, may undermine the stability and cohesiveness within and between communities, leading to both social and economic disruption.

### Constituent health and safety

Constituent safety, security, health, and wellbeing are among the top priorities for local governments. Governments may support these objectives through the provision of police, fire, or other emergency services, access to health and wellbeing services or facilities, food and nutrition programs, clean water and sanitation services, management of pollution, as well as resources such as parks or greenspaces. A safe, secure, and healthy population can support a jurisdiction's ability to attract economic investment and encourage growth, prosperity, and enhanced quality of life for its residents. Conversely, public health challenges, if not properly managed, can hinder the accumulation of social, human, and economic capital within a jurisdiction.

### Physical climate risk

Physical climate risks can affect communities and local government service areas through direct damage to assets or disruptions to public health, as well as economic activity. Increasing (unabated) greenhouse gas (GHG) emissions will contribute to more-frequent and severe climate hazards absent adaptation. While the physical impacts of climate change and extreme weather events will continue to play out globally, the direct impacts of climate hazards--including (but not limited to) heat waves, flooding,

and wildfires--are typically localized. As such, climate hazard adaptation and resilience measures are also typically localized--that is, bespoke to the specificities of the location and asset-- and are often the responsibility of local governments. However, the indirect impacts associated with such events may precipitate through different channels (such as the volume and pricing of traded goods and services), extend beyond administrative borders, and cascade through multiple sectors.

## Issuer And Context Analysis

**By reimbursing prior affordable housing spending, the City addresses the issues of access and affordability, impact on communities, and constituent health and safety, which we view as key sustainability factors.**

**All financed projects under the ELLA, SARA, and SHLP programs directly address the issues of affordability and accessibility in NYC.** In June 2022, the City released its housing plan titled *Housing Our Neighbors: A Blueprint for Housing and Homelessness*, which outlines its plan to provide safe, high-quality, affordable homes to NYC residents. The plan outlines policies and strategies for five key housing pillars, including addressing homelessness and housing instability, creating and preserving affordable housing, and improving the health and safety of NYC residents. The plan elaborates the City's objectives and related targets associated with affordable housing, and the City tracks and regularly reports on its progress toward these goals. The ELLA, SARA, and SHLP programs are part of the City's overall strategy to meet its affordable housing targets. HPD has faced recent challenges, both exogenous (e.g. COVID-19 pandemic, rising construction costs, supply chain) and endogenous in nature, which are detailed in its section of the 2022 Mayor's Management Report. To manage the increased costs associated with building affordable housing projects, the City reviews and revises its construction building standards to ensure cost effectiveness.

**The preservation and creation of affordable housing units is integral to maintaining the social fabric of communities in NYC.** The projects mitigate gentrification risk by generally restricting occupancy to those below the area median income (AMI), while simultaneously mitigating income segregation by ensuring all properties are occupied by individuals across a wide range of AMI bands (30%-120%). Notably, nearly 40% of the total units across all projects will be allocated for the formerly homeless, which we view as a best practice to maintain a cohesive community. Furthermore, by administering financing and tax incentives for the preservation and creation of affordable housing in NYC, the City aims to stimulate economic growth and revitalize disadvantaged neighborhoods.

**The financed projects aim to improve constituent health and safety, which is a priority for local governments, via the provision of quality affordable housing and ancillary services.** A large proportion of residential buildings in NYC were built in the early- to mid-20th century and contain environmental contaminants and pollutants, such as lead water pipes and lead paint. All new construction and substantial rehabilitation projects receiving funding from HPD must comply with the current NYC Overlay of Enterprise Green Communities Criteria (EGCC)--a comprehensive green building framework designed for affordable housing--or pursue certification with Leadership in Energy and Environmental Design (LEED; v4, gold, or platinum). By abiding by EGCC or LEED standards, all properties under the ELLA, SARA, and SHLP programs will provide a safe living environment free from environmental hazards. Furthermore, some of the projects also provide ancillary services geared toward residents' physical and mental health needs, which are especially important for senior citizens and the formerly homeless.

**Physical climate risk is a key sustainability issue for providers of affordable housing, especially those operating in the Northeast U.S., which is facing intensifying flooding and storm events.** Under the EGCC, all projects must avoid construction within 100-year floodplains and, if pertinent, be landscaped with native plants. The EGCC also sets forth a mix of mandatory and recommended requirements, including energy and water conservation, resiliency assessments, and more. Alternatively, the properties may elect to pursue certification with LEED

(v4, gold, or platinum) instead of EGCC because the LEED certification entails similar green building guidelines.

## Alignment Assessment

This section provides an analysis of the framework's alignment to Social [Bond/Loan] principles.

### Alignment With Principles

Aligned = ✓    Conceptually aligned = ○    Not aligned = ✗

✓ Social Bond Principles, ICMA, 2023

#### ✓ Use of proceeds

We consider the transaction's social project category aligned. The issuer commits to allocate the net proceeds issued under the transaction exclusively to eligible social projects. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the social benefits of the expected use of proceeds.

#### ✓ Process for project evaluation and selection

The Preliminary Official Statement (POS) clearly communicates the process the City uses to evaluate projects for financing. The process incorporates stringent eligibility criteria, including market-based taxonomies and relevant certifications. Eligible applicants, who must be affiliated with a Housing Development Fund company, submit their housing proposals to HPD or through a request for proposal process. Proposals are accepted on a rolling basis and are evaluated based on several criteria, such as project readiness, feasibility of financing, efficiency of subsidy, depth of affordability, quality of design, and suitability for use as housing. All new construction and substantial rehabilitation projects receiving funding must meet HPD's Design Guidelines for New Construction and green building standards--either the EGCC or LEED (v4, gold, or platinum).

The program selection and approval process is led by HPD and involves its internal teams, such as the Discretionary Approvals and Site Authorization (DASA) committee, the New Construction team, and its Credit Committee. The POS describes the multiple decision-making bodies involved in the approval process and their relevant affordable housing expertise. HPD's internal policies for project selection also include procedures to identify, manage, and mitigate perceived social and environmental risks associated with the eligible programs, such as risk assessments, environmental and remediation assessments, building resiliency assessments, and building accessibility and inclusivity assessments. We view the inclusion of these features as advanced practices.

#### ✓ Management of proceeds

The City's framework indicates that it will immediately transfer net 100% of the proceeds to its general fund, which it will track using its financial management system. Because 100% of the net proceeds will be immediately allocated after issuance, we do not view a commitment to temporarily manage or periodically adjust the proceeds as necessary.

#### ✓ Reporting

Because the projects have already been funded and full allocation of the bond proceeds will occur immediately, the City only commits to one instance of reporting, which is included in the POS. Such disclosure includes the associated project borough and zip code, the associated project subsidy program, the amount the City disbursed, the percent of total allocation, whether the first mortgage is through a public or private lender, and the total number of units. The City communicates the expected impact of the projects through its program descriptions and their actual impact by reporting on the number of units that will be used for formerly homeless residents and the number of units in each AMI range, where available. The City periodically releases updated

reports on the success of its affordable housing programs on the HPD's website, including an extensive data portal that reports on the actual impact of housing projects, which is a best practice in our opinion. The reimbursement of prior spending will be reflected in the City's accounting system. Such accounting is used in compiling the City's financial statements, which are audited annually by an independent audit firm.

## Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

The City expects to allocate 100% of the net proceeds from the fiscal-year 2025 Series D, Subseries D-1 bonds to reimburse its portion of the costs of 4,349 affordable housing units in NYC.

### Social project categories

#### Affordable Housing

The City will allocate the net proceeds from the fiscal-year 2025 Series D, Subseries D-1 bonds exclusively to reimburse spending on previously funded affordable housing projects in NYC. Specifically, the City will use the net proceeds to reimburse its spending on ELLA subsidy loans for the construction of 2,008 units at eight multifamily rental developments in Brooklyn, the Bronx, and Queens (approximately \$419 million); SARA subsidy loans for the construction of 744 units of affordable housing at six senior housing developments in Brooklyn, Manhattan, Queens, and the Bronx (approximately \$68 million); and SHLP subsidy loans for the construction of 1,164 supportive housing units at nine housing developments in Brooklyn, Manhattan, and the Bronx, as well as for the acquisition of one property in Manhattan that will be used to provide 433 units of supportive housing, for a total of 1,597 units (approximately \$332 million). The City funded all of the projects specified in the POS over the 18 months prior to the issuance of the Series 2025 D, Subseries D-1 bonds. The housing projects under ELLA, SARA, and SHLP support HPD's mission to promote the quality and affordability of NYC's housing and the diversity and strength of its neighborhoods.

The ELLA term sheet specifies that a minimum of 80% of the units will be available at low-income rents and affordable for households earning up to 80% of AMI. In addition, up to 20% of the units must be affordable for households earning up to 100% of AMI, which is \$155,300 for a family of four in NYC in 2024. Additionally, 15% of the units are set aside for formerly homeless households. The SHLP term sheet specifies that 60% of the units in SHLP-funded projects must be made available to homeless individuals or families that reside in shelter facilities operated by, or on behalf of, the City, or who are otherwise in need of emergency shelter (as determined by the City). The remaining 40% of the SHLP units must be rented to low-income households with incomes up to 60% of AMI, except for tax-credit projects that may include units affordable to households earning up to 80% of AMI. SHLP projects also provide on-site social services. Finally, the SARA term sheet specifies that units must be rented to low-income seniors above 62 years of age with incomes up to 60% of AMI, while 30% of the units must be reserved for homeless households with at least one person who is 55 years of age or older.

#### Analytical considerations

- We believe utilizing AMI, a metric utilized by the U.S. Department of Housing and Urban Development (HUD), is a best practice when defining low-income target populations. We expect over 99% of units financed will be set aside for households with incomes that do not exceed 90% of AMI. In rare cases, affordable housing projects may exceed the AMI underwritten rent levels described in the program term sheets if there is a strong need case. For the fiscal-year 2025 Series D, Subseries D-1 bonds, there are 31 units with household incomes of up to 100% of AMI and four units with household incomes of up to 120% of AMI. In our view, the broad range of AMI brackets serviced by the affordable housing projects help to avoid income segregation, which is a common social risk associated with affordable housing.
- We believe the inclusion of over 1,700 units of housing for the formerly homeless is an advanced feature of the City's use of proceeds. By focusing on housing some of the most vulnerable residents in NYC, we believe the projects address one of the most material issues for the City.
- The policies, procedures, and experienced management team at HPD ensure that both perceived and real social risks associated with the projects are appropriately identified, managed, and mitigated.



# Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs		
Affordable Housing	 <b>1. No poverty*</b>	 <b>10. Reduced inequalities</b>	 <b>11. Sustainable* cities and communities</b>

\*The eligible project categories link to these SDGs in the ICMA mapping.



## Related Research

- [Analytical Approach: Second Party Opinions: Use Of Proceeds](#), July 27, 2023
- [FAQ: Applying Our Integrated Analytical Approach For Use-Of-Proceeds Second Party Opinions](#), July 27, 2023

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## Second Party Opinion: City of New York's General Obligation Bonds, 2025 Series D Taxable Social Bonds, Subseries D-1

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