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Department of
Housing Preservation
& Development
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VICKI BEEN
Commissioner

Office of the Commissioner
100 Gold Street
New York, N.Y. 10038

JAN 26 2017

Honorable Melissa Mark-Viverito
Speaker of the Council
City Hall
New York, New York 10007
Attention: Gary Altman

Re: Penn South
212-226 9th Avenue (Block 747, Lot 1)
311-351 West 24th Street (Block 748, Lot 1)
250-268 9th Avenue (Block 749, Lot 1)
313 8th Avenue (Block 749, Lot 24)
270-296 9th Avenue (Block 751, Lot 1)
305 9th Avenue (Block 752, Lot 1)
Manhattan, Community District No.4
Council District No. 3

Dear Madame Speaker:

Mutual Redevelopment Houses, Inc. ("Penn South" or "Housing Company") is a redevelopment company organized pursuant to Article V of the Private Housing Finance Law ("PHFL") which owns and operates the 2,820 unit cooperative housing development commonly known as Penn South. A majority of the residents have lived at Penn South for many years, some even since its opening in 1962. The Housing Company has an agreement with the City of New York ("City") dated July 1, 1987, which amended its original Redevelopment Agreement with the City, dated March 25, 1959, and which has been further amended to date by seven Amendatory Agreements (collectively, with all such amendments, the "City Agreement"). In accordance with the City Agreement, Penn South continues to maintain income restrictions, occupancy standards, and resale price limits.

On March 26, 1959 (Cal. No. 26), the Board of Estimate granted a 20-year partial tax exemption to the residential portion of the referenced property ("Exemption Area") pursuant to PHFL Section 125. On August 20, 1981 (Cal. No. 311), the Board of Estimate extended such partial tax exemption for an additional five years. On June 30, 1987 (Cal. No. 167), the Board of Estimate approved an additional 25-years of a partial tax exemption ("1987 Resolution"), and on August 22, 2001, the Council approved an amendment to the 1987 Resolution extending the partial tax exemption for the Exemption Area for the maximum period provided for in PHFL Section 125(1)(a-2), through June 30, 2022.

On May 6, 2011, in Resolution No. 813, the City Council approved, among other things, the Sixth Amendatory Agreement between the Housing Company and the City of New York ("City"), acting through the Commissioner of its Department of Housing Preservation and Development ("HPD"), which was executed by the parties on June 24, 2011. Section 1 of the Sixth Amendatory Agreement stated that, subject to enactment of State enabling legislation and further City Council action, all of the residential portion of the Exemption Area would be granted an additional real property tax exemption for eight years from July 1, 2022 through June 30, 2030, provided that the Housing Company pay during this period taxes in an amount equal to the greater of (i) 10% of the annual rent or carrying charges of the Housing Company, minus utilities for the residential portion of the property, and (ii) the taxes paid by the Housing Company for the residential portion of the property in the City's 2000-2001 tax year, in the total amount of $3,477,099.00 ("Additional Tax Exemption").

The City Council's actions in 2011, which included permission for the Housing Company to impose an annual capital assessment and up to a fifteen percent increase in carrying charges, provided much needed financial support for the Housing Company's replacement of its entire heating and cooling distribution systems (HVAC) from basement to roof. In return for this authority, the Housing Company agreed to remain an affordable housing project until June 30, 2030, which was an additional eight years beyond its prior expiration date of June 30, 2022.

The State Legislature enacted the necessary enabling legislation for the Additional Tax Exemption pursuant to Chapter 531 of the Laws of 2014, which added paragraph (a-4) to subdivision 1 of PHFL Section 125. Due to Penn South's location in Chelsea, an area that has experienced tremendous growth in real property values and generated real property tax increases beyond the means of the primarily low income tenants who reside there, the Additional Tax Exemption was necessary for the maintenance of affordable rents and carrying charges for Penn South's residents.

In 2015, following the enactment of the State enabling legislation, the City Council, by Resolution No. 658, adopted on April 16, 2015, approved a Seventh Amendatory Agreement between the Housing Company and the City, which was executed by the parties on May 8, 2015. Resolution No. 658 also provided the Council's approval "... pursuant to Private Housing Finance Law §125(1)(a-4), [of] an additional exemption from real property taxes, other than assessments for local improvements, of all of the residential portion of the Exemption Area for a period commencing with the City's tax year July 1, 2022 through June 30, 2023 and continuing through the City's tax year July 1, 2029 through June 30, 2030, provided, however, that the amount of taxes to be paid during such period of tax exemption shall not be less than an amount equal to the greater of (i) ten per centum of the annual rent or carrying charges of the project minus the utilities for the residential portion of the project, or (ii) $3,477,099.00, the taxes payable by the Housing Company for the residential portion of the project during the tax year commencing July 1, 2000 and ending on June 30, 2001."

Although Chapter 531 of the Laws of 2015 authorized an additional tax exemption for a total of fifty years, the Housing Company only sought and received from the City Council in 2015 an extension of eight years, to June 30, 2030. However, the Housing Company is now eligible for a 35-year loan of approximately $190,000,000 (the "Loan") to be insured by the Federal Housing Administration of the United States Department of Housing and Urban Renewal ("HUD"). The Loan, which is expected to close in 2017, will enable Penn South to remain affordable throughout its 35 year term.

As conditions for providing the Loan, HUD will require the Housing Company to secure another extension of its tax exemption for an additional 22 years until June 30, 2052. This additional tax exemption extension will also confirm the Housing Company's commitment to remain an affordable housing development for the entire 35 year term of the Loan. HUD also will require the Housing

Company to secure the authority to impose, at its discretion and without any further City Council approvals, carrying charge increases at the rate of one (1%) percent per year throughout the term of the Loan until 2052 ("1% Carrying Charge Increases"). These 1% Carrying Charge Increases would be in addition to any other increases previously or hereafter authorized by the City Council. Finally, HUD will require the discretionary authority to mandate from time to time and without any further City Council approvals, that the Housing Company increase its carrying charges if necessary for purposes of paying expenses. All of these requirements necessitate amendments to the City Agreement.

In addition, pursuant to Paragraph 206 of the City Agreement, the Housing Company currently shares with the City a portion of the surcharges collected from certain tenant-cooperators pursuant to Paragraphs 204 and 205 of the City Agreement. Given the age of the development, the Housing Company expects its repair and maintenance obligations to increase substantially over the coming years. Therefore, the Housing Company is also requesting an amendment to the City Agreement that will authorize its retention of the entire amount of such surcharges, commencing with those surcharges coming due on or after January 1, 2017. The Housing Company will use such funds to support its operations, maintenance and/or reserves for future capital projects in order to maintain the livable and affordable nature of the housing development.

The City of New York Department of Housing Preservation and Development ("HPD"), which supervises the Housing Company, recognizes the importance of the preservation of the Exemption Area as an affordable housing development and the tax relief necessary for such preservation. HPD also supports the proposed Eighth Amendatory Agreement.

For the reasons set forth above, HPD respectfully requests that the Council:

Approve, pursuant to PHFL § 125(1)(a-4), an additional exemption from real property taxes, other than assessments for local improvements, of all of the residential portion of the Exemption Area for the period commencing with the City's tax year July 1, 2030 through June 30, 2031 and continuing through the City's tax year July 1, 2051 through June 30, 2052, provided, however, that the amount of taxes to be paid during such period of tax exemption shall not be less than an amount equal to the greater of (i) ten per centum of the annual rent or carrying charges of the project minus the utilities for the residential portion of the project, or (ii) $3,477,099.00, the taxes payable by the Housing Company for the residential portion of the project during the tax year commencing July 1, 2000 and ending on June 30, 2001.

Approve, pursuant to PHFL Section 114, the proposed Eighth Amendatory Agreement between the City of New York and the Housing Company in substantially the form submitted, incorporating provisions concerning extension of the Housing Company's tax exemption to June 30, 2052, discretionary authority for the Housing Company to impose annual one (1%) percent increases in carrying charges, discretionary authority for HUD to mandate that the Housing Company increase its carrying charges if necessary for purposes of paying expenses and retention of collected surcharges, and authorize the Mayor or any Deputy Mayor or the Commissioner of the Department of Housing Preservation and Development to execute the Eighth Amendatory Agreement, when approved as to form by the Corporation Counsel, and direct the City Clerk or Acting City Clerk to attest to the same and to affix the seal of the City thereto.

HPD recommends approval of this matter and requests that it be referred to the appropriate committee at the next scheduled meeting of the Council.

Sincerely,

Vicki Been