



MUTUAL REDEVELOPMENT HOUSES, INC.

A residential community cooperatively owned and operated

321 EIGHTH AVENUE / NEW YORK, N.Y. 10001 / 212-675-3200 / FAX 212-727-8289 / www.pennsouth.coop

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Before the City Council of the City of New York
Committee on Finance
February 1, 2017

Statement on Contract Changes by Morris Benjamin, President
Mutual Redevelopment Houses, Inc. (Penn South)

Penn South, more formally known as Mutual Redevelopment Houses, Inc., is a 2,820 unit housing cooperative in the Chelsea section of Manhattan. Completed in 1962, it is organized under New York State's Redevelopment Companies Law (Article 5 of the Private Housing Finance Law) and is supervised by the New York City Department of Housing Preservation and Development. The City Council is charged by law to approve any change in Penn South's Contract with the City and to implement any changes in our property tax exemption.

We are justifiably proud of our 55 years of providing high-quality, affordable housing to 5,000 low and moderate income New Yorkers, many of whom are senior citizens on fixed incomes. Acting responsibly, we have preserved our infrastructure, added modern conveniences and aided our environment while operating in a sound financial manner.

Now we have a wonderful new opportunity. We have a commitment for a HUD insured loan to refinance our mortgage, a Win-Win situation. Let's look at some of the loan benefits:

- We will lock in a record low interest rate around 3% on a 35-year self-liquidating mortgage.
- We will use the savings to help pay for HUD required infrastructure replacements over the next 20 years.
- There will be an increase in operating reserves to provide a cushion if an emergency arises also paid out of savings.

(Continued)

- Paying off the mortgage over 35 years will reduce the amortization (reduction of principal) and in turn reduce the pace at which apartment prices have been rising. This will help cooperators planning a move to larger apartments, particularly growing families.

In providing insurance, HUD minimizes risk by imposing several requirements. Since these require modifications in our contract with the City, we are here today asking the City Council to approve an Eighth Amendatory Agreement that satisfies the HUD requirements and helps keep Penn South affordable in the years ahead. The technical details of our request have been spelled out in a letter addressed to the Committee Chair. I would like to use my few minutes to share with you an explanation in layman's terms.

- It provides an additional 22 years of tax exemption so that we remain affordable and on Shelter Rent for the full 35 years of the new mortgage, until 2052.
- It authorizes a 1% carrying charge increase every year to offset potential inflationary impact. It may be waived by HUD, if not needed.
- It allows HUD to impose carrying charge increases if needed to meet expenses without further Council approval.

The Amendatory Agreement contains one provision not required by HUD – elimination of surcharge sharing with the City. Penn South requested the change to provide it with additional funds to meet the costs of potential future capital improvements and/or replacements and HPD and OMB agreed.

These contract changes are clearly in the best interest of the City and Penn South. I urge adoption by the Council.



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January 31, 2017

Honorable Julissa Ferreras
Chair, Finance Committee
New York City Council
250 Broadway, 15th Floor
New York, New York 10007
Attention: Eric Bernstein, Esq.

Re: Submission in Support of Request by Department of Housing Preservation and Development for Approval of a Resolution:

- (1) to approve, pursuant to Private Housing Finance Law §125(1)(a-4), an extension of the exemption, for the period from July 1, 2030, through June 30, 2052, from real property taxes of the residential portion of the property of the cooperative housing development, commonly known as “Penn South”, owned by Mutual Redevelopment Houses, Inc. (“Mutual”);
- (2) to approve an Eighth Amendatory Agreement to the Contract between Mutual and the City of New York, providing for amendments incorporating provisions concerning (a) the extension of Mutual’s tax exemption to June 30, 2052, (b) discretionary authority for Mutual to impose annual one percent increases in carrying charges, (c) discretionary authority for the Federal Housing Administration of the U.S. Department of Housing and Urban Development (“HUD”), while it insures the first mortgage loan made to Mutual, to require an increase of carrying charges, if such an increase is ever needed to pay Mutual’s expenses, and (d) full retention of collected surcharges; and
- (3) to authorize the Mayor or any Deputy Mayor or the Commissioner of the Department of Housing Preservation and Development to execute such Eighth Amendatory Agreement, when approved as to form by the Corporation Counsel, and to direct the City Clerk to attest and affix the seal of the City to such agreement.

Dear Finance Committee Chair Ferreras:

Background Regarding Mutual Redevelopment Houses, Inc. Mutual Redevelopment Houses, Inc. (“Mutual”) is a Redevelopment Company organized under Article 5 of the New York State Private Housing Financing Law (the “PHFL”). Mutual owns and operates a low and moderate income cooperative housing development known as Penn South (the “Development” or “Penn South”) located in the Borough of Manhattan, in the area bounded by Eighth and Ninth Avenues, West 23rd Street and West 29th Street, and consisting of ten twenty-one story residential buildings containing a total of 2,820 apartments, as well as a power plant, a parking garage, commercial, retail and office space. We have a contract (the “Contract”) with the City of New York dated July 1, 1987, which amended our original Redevelopment Agreement with the City, dated March 25, 1959. The Contract, as amended to date by seven Amendatory Agreements, continues our status as a limited equity, affordable housing cooperative until June 30, 2030, with the support of the benefits of Mutual’s “shelter rent” real estate tax exemption that currently continues through June 30, 2030. The Contract also places certain income and other restrictions on our cooperators similar to those applicable by statute and regulation to “Mitchell Lama” companies organized under Article 2 of the PHFL.

By reason of the income and other restrictions, as well as the limitations on the carrying charges (rents) that can be charged to Mutual’s cooperators, Mutual can only afford to continue as an affordable cooperative housing development as long as the benefits of its “shelter rent” real estate tax exemption are available to Mutual.

Mutual’s Current Real Property Tax Exemption. By Resolution of the City Council adopted on April 16, 2015 (Resolution No. 658), the City Council approved a Seventh Amendatory Agreement to the Contract and an additional real property tax exemption for Mutual, to be effective from July 1, 2022, through June 30, 2030 (the “Current Exemption”).¹

Subparagraph (B) of Paragraph 105 of the Contract, as previously added by Paragraph 1 of the Sixth Amendatory Agreement, dated as of June 24, 2011, provides for the Current Exemption for Mutual to be effective through June 30, 2030, subject to certain conditions, including the enactment of State enabling legislation now embodied in PHFL §125(1) (1-4) and the adoption in 2015 by the City Council of such Resolution No. 658 confirming the Current Exemption, that have since been satisfied.

Mutual’s need for the Current Exemption in order to remain an affordable housing development was readily apparent in 2011 and 2015. Penn South is a vital

¹ Following that approval, the City and Mutual entered into the Seventh Amendatory Agreement, dated as of May 8, 2015.

part of New York City's affordable housing stock. While the surrounding neighborhood of Chelsea in Manhattan has experienced a tremendous rise in property values and housing prices, Penn South continues to offer moderately priced cooperative apartments to low-to-middle income households. Unlike many once-affordable developments that have left their limited-equity status and become market-rate co-ops, Penn South's cooperators have now voted on four occasions, most recently, this past November 6th, by overwhelming majorities to preserve the affordability of Penn South for current and future generations.

As real property values have increased extensively in the Chelsea area of Manhattan in which the Development is located, this has led to soaring real property taxes in that area to a level that, if applied to Penn South, would be beyond the means of Penn South's residents, primarily low and moderate income cooperators, to afford.

For the present, Mutual's Current Exemption enables Mutual to make affordable Penn South apartments available to its cooperators, but only until the Current Exemption expires on June 30, 2030.

Loan and Preconditions: Tax Exemption Extension and Carrying Charge Increases. For over a year, Mutual has been seeking a means of providing assurance of its long-term ability to continue as an affordable housing development in the Chelsea neighborhood. After extensive negotiation, Mutual's efforts have been successful. Mutual has received a commitment for a 35-year fixed-interest-rate loan, to mature in 2052, of approximately \$190,000,000 at today's historically low interest rates (the "Loan"). The Loan would be insured by the Federal Housing Administration of the United States Department of Housing and Urban Development ("HUD"). Mutual anticipates that the Loan will close early this year. To assure the viability of Mutual during the term of the Loan, the commitment requires Mutual to satisfy certain preconditions for which action by the New York City Council is essential.

The first such precondition for the Loan and HUD's insurance for which the City Council's approval is needed is that HUD is requiring Mutual to obtain a further 22-year extension of its Current Exemption from its current expiration date of June 30, 2030, until June 30, 2052, by which time the Loan will have matured (the "Exemption Extension"). As a second precondition to Mutual's obtaining the Loan for which the City Council's approval is needed, HUD requires that Mutual obtain advance authority to increase the carrying charges at its Development by one (1%) percent per year over the entire 35-year term of the Loan, that is, until 2052 (the "1% Carrying Charge Increases"). These annual 1% Carrying Charge Increases would be in addition to any other carrying charge increases previously or subsequently authorized by the City Council. In addition, as the third such precondition, HUD requires that HUD also have the authority from time to time to require Mutual to increase its carrying charges, if needed for paying Mutual's expenses (together with the 1% Carrying Charge Increases, the "Carrying Charge Increases").

In the absence of the Loan, and in the absence of the Exemption Extension and the authorization of the Carrying Charge Increases, both required for the Loan, Mutual would be unable to assure its long-term financial stability and its ability to continue to maintain the Penn South Development as affordable housing for its residents. If Mutual were compelled to pay full real property taxes, its carrying charges would necessarily have to be increased well beyond its cooperators' ability to pay. Furthermore, the long term low interest rate Loan will keep Mutual's mortgage expenses stable for the extended future.

As a result, to assist Mutual in maintaining affordable rents and carrying charges, so that Mutual will be able to remain an affordable housing resource for the City, Mutual needs to close on the Loan, with its favorable terms. To accomplish this, Mutual needs the City Council's approval of the Exemption Extension and the Carrying Charge Increases.

Retention of Full Surcharges. In addition, Mutual receives surcharges on carrying charge payments from those of its cooperators who, over the course of time while living at Penn South, have incomes that have increased above the base levels provided for in the City Agreement. The City Agreement provides a schedule of surcharges charged to those cooperators and collected by Mutual. It also provides for Mutual to share a portion of those surcharges with the City. Penn South is an aging housing development and, to continue to maintain its physical plant, Mutual anticipates that its repair and maintenance needs will be substantial in the coming years.

To provide a source of funds for the Development's future repair, maintenance and operations and for reserves for future capital projects, all of which will be expensive, without having to burden its cooperators with unduly large carrying charge hikes, Mutual is requesting that the City Agreement be amended to allow Mutual to terminate its sharing arrangement with the City and to retain the full amount of the surcharges that it receives. This would begin with those surcharges that come due, beginning in July 2018, from tenant-cooperators based on their 2017 incomes. Surcharges due before then would continue to be shared, when received, with the City in accordance with the formula currently in the City Agreement.

Requests for City Council Action. Accordingly, Mutual now requests that the City Council adopt a resolution approving the Exemption Extension and the Carrying Charge Increases, to assure Mutual's long-term financial stability, so that Penn South can remain an affordable cooperative housing development at least until June 30, 2052. Mutual also requests that the City Council's resolution approve the termination of Mutual's sharing of its surcharges with the City.

The Department of Housing Preservation and Development ("HPD") has submitted a letter to the Speaker, dated January 26, 2017 ("HPD's Letter") requesting

and recommending approval of such a resolution. Mutual supports the request and recommendations of HPD's Letter.

Furthermore, Mutual also requests that the City Council's resolution approve the Eighth Amendatory Agreement. HPD's Letter requests and recommends approval of such a resolution. Mutual supports the request and recommendations of HPD's Letter regarding the Eighth Amendatory Agreement.

Respectfully submitted,
Mutual Redevelopment Houses, Inc.



Morris Benjamin
President, Board of Directors

cc: Hon. Corey Johnson,
City Council Member
Hon. Julie Walpert,
Assistant Commissioner
New York City Department of Housing Preservation and Development
Eric Bernstein, Esq.,
Legislative Attorney, New York City Council

**THE COUNCIL
THE CITY OF NEW YORK**

Appearance Card

I intend to appear and speak on Int. No. 44543-2016 Res. No. _____

in favor in opposition

Date: 2.1.17

(PLEASE PRINT)

Name: MORRIS BENJAMIN

Address: 330 WEST 28th ST NY 10001

I represent: Mutual Redefinment / Penn South

Address: 321 Eighth Ave NY 10001

◆ Please complete this card and return to the Sergeant-at-Arms ◆