

**TESTIMONY BY JULIE WALPERT, ASSISTANT COMMISSIONER  
APRIL 13, 2015  
FINANCE COMMITTEE**

Good morning Chairperson Ferreras and members of the Finance Committee. My name is Julie Walpert and I am the Assistant Commissioner for Housing Supervision at the Department of Housing Preservation and Development. I am testifying today regarding our request on behalf of Mutual Redevelopment Houses' Board of Directors for an extension of the current tax exemption from 2022 to 2030 and a request to amend the Agreement between the City of New York and Mutual Redevelopment Company to allow prospective applicants to increase the amount they can borrow up to 75% from the current limit of fifty percent of the purchase price.

Mutual Redevelopment Houses, Inc., popularly known as Penn South Houses, is a redevelopment company organized under Article V of the Private Housing Finance Law. Penn South is located in Chelsea, and consists of 15 buildings with 2,820 dwelling units. It is important to note that Article V housing companies differ significantly from Mitchell-Lama housing companies with respect to the level of ongoing city supervisory responsibility. Pursuant to Article V and the redevelopment company contract with the City, HPD supervises admission and occupancy requirements at Article V developments, and the Council has jurisdiction over the extension of the tax exemption and approval of the original contract and further amendments between the City and Penn South.

Housing companies authorized by Article V are regulated by contract with the municipality. The Board of Estimate previously was responsible for approving such

contracts and any amendments. The City Council is now the body responsible for approval of contract amendment requests made by this housing company. We are appearing before the Council this morning to seek approval for the extension of the current tax exemption at Penn South from 2022 to 2030 in exchange for continued affordability at the development. The State Legislature enacted the necessary enabling legislation for the additional tax exemption at the end of 2014 and we are now seeking the City Council's approval for this extension.

HPD also supports the proposed change recommended in the Seventh Amendatory Agreement increasing the guidelines for loans for apartment purchases from 50% of the purchase price to 75% of the purchase price. Due to increases in purchase prices, in part due to the increasing equity assessment required to be paid by Penn South's incoming cooperators, it has become more difficult for some purchasers to assemble the funds needed to purchase their apartments.

In order to maintain the sound financial status of the development, HPD requests that the Council approve both the extension of the tax exemption and the ability for prospective shareholders to increase the amount of the loan they need to take to purchase an apartment at Penn South.

Thank you for the opportunity to speak to you on behalf of HPD today. I am happy to respond to any questions.

Before the City Council of the City of New York  
Committee on Finance  
April 13, 2015

Statement on Land Use Application T2015-2805 by Walter Mankoff, Treasurer  
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 53 years of providing high-quality, affordable housing to over 4,500 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.

We are here today asking your approval of Land Use Application T2015-2805 which does two things to help keep Penn South affordable in the years ahead:

- It provides an additional 8 years of tax exemption so that we remain on Shelter Rent until 2030.
- It increases the portion of apartment sales price that can be financed by a secured loan from 50% to 75%.

The technical details of our request have been spelled out in a letter prepared by our President, Morris Benjamin, and addressed to the Committee Chair. A copy of that letter is attached to my testimony. I would like to use my few minutes to share with you an explanation in layman's terms.

Both changes grow out of incidents that began in 2011. At that time Penn South began a massive and vastly expensive infrastructure program – replacing the entire HVAC system in our buildings at a cost that is now approaching \$145 million. We had to borrow the funds to pay for the project. To meet the increased debt service, without imposing a huge carrying charge increase of 35% or more, we developed a creative and equitable tri-partite approach:

- A 10% assessment for all shareholders payable monthly for 10 years.
- An increase in surcharge for higher income residents (Our contract provides a maximum allowable household income of 7 times the annual rent. Those with higher incomes pay a surcharge that can be as high as 200%)
- An increase in apartment pricing (an assessment payable on first sale equal to twice the apartment equity) with the additional funds going into a reserve for capital improvements currently helping pay for HVAC debt service.

In 2011 we also asked the City to help keep Penn South affordable. To its credit, the City responded positively. Among other benefits we were given a low interest HDC 2<sup>nd</sup> mortgage for \$17 million and a City Council approved capital improvement evaporating 8a loan for \$5 million. In return, the City sought an extension of our agreement to remain a limited equity cooperative for 8 years, from 2022 to 2030. This was to be accompanied by 8 years of additional tax exemption. The Penn South shareholders overwhelmingly voted in an April 2011 referendum to accept the City proposal and have our housing remain affordable.

The terms of the proposal were incorporated in the 6<sup>th</sup> amendment to our 1987 Contract with the City but with one problem. The State enabling legislation at that time only permitted tax exemption through 2022 and the City Council could not vote the needed tax benefit addition. The State Legislature subsequently determined that additional tax benefits could be provided and adopted legislation for this purpose. The additional tax benefits were incorporated in our contract on condition that they take effect following amendment of the State law and the subsequent passage of the resolution by the City Council required by the Contract. The State Legislature passed the amending bill in 2014 and the Governor signed it as the year was ending.

Penn South is the last of the affordable housing developments to be granted this additional tax benefit. In 2004, the City Council, following State action, made additional tax benefits available to Limited-Profit and Limited Dividend cooperatives but not to Mutual Redevelopment Companies such as Penn South. The Council by approving our request can finally correct this omission.

The proposed change in apartment secured loan size also stems from our HVAC project. About 10 years ago we imposed a first sale assessment that was equal to the apartment equity. By State Law, apartment prices are set at the price paid for the shares plus assessments and a proportional share of amortization after move-in. To accommodate low and moderate income families and enable them to purchase apartments in Penn South we adopted, with City Council approval, a provision permitting a 50% secured loan to purchase an apartment. This worked well.

In 2011, to help pay for HVAC we doubled the assessment, thus increasing reserve funds. In the interim, equity value has been rising fairly rapidly reflecting the combined impact of the 10% monthly assessment and the amortization on our large mortgage. Once again, we want to accommodate low and moderate income families and enable them to buy apartments in Penn South. An increase in the loan size from the current 50% of purchase price to 75% will make this possible. A 75% loan is well within the size offered in private development and may help make the loans more attractive to banks. It would be desirable for lenders others than our own credit union, the primary lender that our cooperators can now turn to, to be involved.

The two changes called for by the application have been approved unanimously by our Board of Directors and by the New York City Department of Housing Preservation and Development. We ask this Committee and the City Council to adopt the application and help keep Penn South affordable.



# 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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**ROBERT L. SILVERSTEIN**

*General Manager, BRENDAN KEANY*

April 8, 2015

Honorable Julissa Ferreras

Chair, Finance Committee

New York City Council

250 Broadway

Suite 1866

New York, New York 10007

Attention: Tanisha Edwards, 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 additional exemption, for the period from July 1, 2022, through June 30, 2030, 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 a Seventh Amendatory Agreement to the Contract between Mutual and the City of New York ("Contract"), providing for an amendment to Subparagraph (a) of Paragraph 209 of such Contract, as amended by the Fifth Amendatory Agreement, dated as of January 17, 2006, to such Contract, to authorize loans from lending institutions to Mutual's cooperators of up to 75% of the purchase prices for their cooperative apartments at Penn South, an increase from the presently authorized loans that are limited to one-half (1/2) of such purchase prices; and
- (3) to authorize the Mayor or any Deputy Mayor or the Commissioner of the Department of Housing Preservation and Development to execute such Seventh 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”) located in the Borough of Manhattan, in the area bounded by Eighth and Ninth Avenues, West 23<sup>rd</sup> Street and West 29<sup>th</sup> 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 six Amendatory Agreements, continues our status as a limited equity, affordable housing cooperative until the June 30, 2030, but currently affords to Mutual the benefits of “shelter rent” real estate tax exemption only until June 30, 2022. It 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 rents that can be charged to Mutual’s cooperators, Mutual can only afford to continue as an affordable cooperative housing development if the benefits of its “shelter rent” real estate tax exemption are available to Mutual during the entire period for which Mutual is committed to maintain its affordable status, namely, through June 30, 2030.

**Additional Tax Exemption.** By Resolution of the City Council adopted on May 26, 2011 (Resolution No. 813), the City Council approved a Sixth Amendatory Agreement to the Contract. Following that approval, the City and Mutual entered into the Sixth Amendatory Agreement, dated as of June 24, 2011. Paragraph 105 of the Contract, as amended by Paragraph 1 of the Sixth Amendatory Agreement, provides for an additional real property tax exemption to be afforded to Mutual through June 30, 2030 (the “Additional Exemption”), subject to (i) adoption by June 30, 2016, of an amendment to PHFL Section 125 authorizing such Additional Exemption (the “Enabling Legislation”), and (ii) adoption by June 30, 2016, of a City Council resolution approving the Additional Exemption, both of which must remain in effect through June 30, 2022.

The Enabling Legislation, Chapter 531 of the Laws of New York, 2014, was enacted by the State Legislature and was approved by the Governor, effective December 17, 2014.

Mutual’s need for the Additional Exemption in order to remain an affordable housing development is apparent. Penn South is a vital part of New York City’s affordable housing stock. While the surrounding neighborhood of Chelsea has experienced a tremendous rise in property values and housing prices, Penn South

continues to offer moderately priced cooperative apartments low-to-middle households. Unlike many once-affordable developments that have left their limited-equity status and become market-rate co-ops, on three occasions Penn South voted by an overwhelming majority 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 caused real property taxes in the area soar beyond the means of the primarily low and moderate income cooperators who reside at Penn South.

In the absence of the Additional Exemption, Mutual would be unable to continue to maintain the Development as affordable housing for its residents. In order to pay full real property taxes, its carrying charges would necessarily have to be increased beyond its cooperators' ability to pay. As a result, to assist Mutual in maintaining affordable rents and carrying charges, so that Mutual will be able remain an affordable housing resource for the City, Mutual needs the City Council's approval of the Additional Exemption, as authorized by the Enabling Legislation.

Accordingly, Mutual now requests that the City Council adopt a resolution approving the Additional Exemption, to assure that Penn South can remain an affordable cooperative housing development at least until June 2030. The Department of Housing Preservation and Development ("HPD") has submitted a letter to the Speaker, dated April 6, 2015 ("HPD's Letter") requesting and recommending approval of such a resolution. Mutual supports the request and recommendations of HPD's Letter.

**Seventh Amendatory Agreement (Modification of Guidelines for Apartment Purchase Loans to Cooperators).** Since the Board of Estimate has been abolished, Mutual is required to seek the approval of the City Council, as the local legislative body (PHFL, § 2(12)), for amendments to the Contract or whenever permission is needed to increase equity or, in certain circumstances, carrying charges.

Pursuant to resolution of the City Council, Resolution No. 1266-2005, adopted November 30, 2005, a Fifth Amendatory Agreement, dated as of January 17, 2006, amending the Contract, was entered into between Mutual and the City. Among other things, the Fifth Amendatory Agreement set forth certain guidelines pursuant to which Mutual's cooperators are permitted to assign their Mutual shares of stock and their Occupancy Agreements to institutional lenders in order to secure loans obtained to finance their purchases of their apartments. Among other guidelines for such loans, the Fifth Amendatory Agreement limited the amounts of such loans to one-half (1/2) of the purchase prices for apartments.

At this time, it has become apparent that for some prospective purchasers of apartments at the Development, financing for only one-half (1/2) of the purchase price is inadequate. The primary reasons for this are that the purchase prices for apartments at the Development have increased over time. This has resulted, among other things,



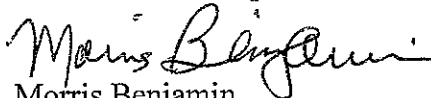
at the Development have increased over time. This has resulted, among other things, from equity assessments made from time to time on Penn South's cooperators that are repaid to the cooperators when they move out, and from increases in cooperators' proportionate shares of amortization on Penn South's mortgages that are also paid to outgoing cooperators. Both of these amounts are then collected from purchasers as part of the purchase prices for their apartments. These increased purchase prices have made it more difficult for some prospective purchasers to assemble the funds needed to purchase their apartments.

To ameliorate this difficulty, Mutual now seeks an amendment to the Fifth Amendatory Agreement to change the guidelines for such loans to purchasers to allow those loans to be made for up to 75% of the purchase prices, up from the ½ of the purchase prices now allowed. This would enable a purchaser of an apartment to finance more of the purchase price and repay it over a period of time, thus making it more affordable. The City Council's approval, and a new amendment to the Contract, namely, the proposed Seventh Amendatory Agreement, is required to make this change.

Accordingly, Mutual now requests that the City Council adopt a resolution approving the Seventh 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 Seventh Amendatory Agreement.

Respectfully submitted,

**Mutual Redevelopment Houses, Inc.**



Morris Benjamin  
President, Board of Directors

cc: Hon. Corcy Johnson,  
City Council Member  
Hon. Julie Walpert,  
Assistant Commissioner  
New York City Department of Housing Preservation and Development  
Gary Sloman,  
Director of Operations  
New York City Department of Housing Preservation and Development  
Tanisha Edwards, Esq.,  
Chief Counsel, Finance Division, New York City Council



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April 8, 2015

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Chair, Finance Committee  
New York City Council  
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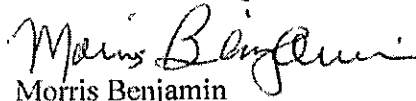
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Respectfully submitted,

**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  
Gary Sloman,  
Director of Operations  
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FRAN KAUFMAN

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IRMA P. LOBEL  
ROBERT L. SILVERSTEIN

*General Manager, BRENDAN KEANY*

April 8, 2015

Dear City Council,

On behalf of the Board of Directors of Mutual Redevelopment Houses, Inc., commonly known as Penn South, I urge you to approve the proposal before you today that grants Penn South a new property tax abatement for an extended eight year period from 2022 through 2030. In 2014, the New York State legislature and Governor Cuomo enacted the necessary State-enabling legislation for the City to authorize the additional property tax abatement to Penn South. The current legislation is supported by HPD. Absent this legislation, our tax abatement would end in 2022 and the additional cost would be a severe burden to our residents and impact affordability. The savings from our current property tax abatement are the single most important factor keeping our carrying charges at rates that are affordable to moderate income households.

Penn South is a vital part of New York City's affordable housing stock. We are a ten building, 2,820 unit limited equity affordable housing cooperative in Manhattan, located between Eighth and Ninth avenues and West 23rd and West 29th streets. We are incorporated as a Redevelopment Company (Article V of the Private Finance Housing Law) and have provided quality housing at affordable rates to people of modest incomes for the past 52 years. While the surrounding neighborhood of Chelsea 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, on three occasions Penn South voted by an overwhelming majority to preserve the affordability of Penn South for current and future generations.

We are the nation's first designated Naturally Occurring Retirement Community (NORC) with two-thirds of our population over age 50 and half over age 60. Many of our seniors live on fixed incomes, and rely on the low carrying charges to be able to remain in their homes.

We hope that you support Penn South in our mission to continue providing affordable housing for generations to come.

Sincerely,

Morris Benjamin  
President, Board of Directors

**THE COUNCIL  
THE CITY OF NEW YORK**

Appearance Card

I intend to appear and speak on Int. No. \_\_\_\_\_ Res. No. \_\_\_\_\_

in favor  in opposition

Date: 4/13/2015

(PLEASE PRINT)

Name: Julie C. Walfoert, Asst. Commissioner  
for Housing Supervision

Address: \_\_\_\_\_

I represent: HPD

Address: 100 Gold Street NYC 10038

**THE COUNCIL  
THE CITY OF NEW YORK**

Appearance Card

I intend to appear and speak on Int. No. \_\_\_\_\_ Res. No. \_\_\_\_\_

in favor  in opposition

Date: April 13, 2015

(PLEASE PRINT)

Name: Walter Mankoff, Treasurer

Address: \_\_\_\_\_

I represent: Mutual Redevelopment Houses, Inc.

Address: 321 Eighth Avenue, NY, NY

**THE COUNCIL  
THE CITY OF NEW YORK**

Appearance Card

I intend to appear and speak on Int. No. \_\_\_\_\_ Res. No. \_\_\_\_\_

in favor  in opposition

Date: April 13, 2013

(PLEASE PRINT)

Name: Morris Benjamin, President

Address: \_\_\_\_\_

I represent: ~~President of~~ Mutual Redevelopment Houses, Inc.

Address: 321 Eighth Avenue, NY, NY

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