

Before the City Council of the City of New York
Committee on Housing and Buildings
May 26, 2011

Statement on Resolution 813 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 (Title 5 of the Private Housing Finance Law) and is supervised by the New York City Department of Housing Preservation and Development.

We are justifiably proud of our nearly 50 years of providing high-quality, affordable housing to over 4,500 low and moderate income New Yorkers, a majority 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.

All of this has been made possible by assistance from the City in the form of tax exemption and other benefits and by the carrying charge increases and assessments we have imposed on our cooperators to pay for operating expenses and major capital projects.

Now we are faced with a challenge beyond anything we have ever had to deal with. We must replace our entire heating and cooling distribution system (HVAC) from basement to roof. We must open walls in every apartment, replace piping and fan coil units and close and restore. To complicate matters, the old insulation contains asbestos and requires abatement. Metallurgical tests showed that the 49 year old system has little or no useful life left and needs to be replaced as soon as possible.

Our engineers are hard at work designing the new system. Modern equipment will provide additional comfort to residents in addition to significant energy savings. But it will be expensive. It is estimated that the total cost may be as much as \$100 million dollars. Borrowing this vast sum of money will add over \$6 million dollars a year to our budget. Unless approached creatively, such an increase in debt would have required an increase in carrying charges of about 30%, and placed an undue burden on our residents, particularly senior citizens on fixed incomes.

How to raise sufficient funds to pay for the debt service on the HVAC loan has been a major consideration for the past two years. It has been the subject of much discussion, internally as well as with the City. We believe that the final result, before your Committee today, is fiscally sound, and equitable to all concerned. Let me briefly enumerate the various components:

The major portion of HVAC funding will come from present and future cooperators, as follows:

- A \$17 per room per month assessment over the next 10 years (approximately 10% of current carrying charge).
- A change in the surcharge formula to increase surcharge income — lowering the allowable income from 8 times rent to 7 times rent.
- Increasing the price of first-sales apartments from approximately \$12,000 per room to as much as \$18,000 with the new funds going into our reserves.

The City is assisting in the HVAC financing with the following:

- A \$12,000,000 loan at 1% interest from the Housing Development Corporation (HDC); no principal payments for 30 years.
- A \$5,000,000 loan at 1% interest from HDC; principal paid off over a 30 year amortization period
- A portion of the savings from the loans will be used to subsidize low income families too young to qualify for SCRIE (The Senior Citizens Rent Increase Exemption).
- A \$5,000,000 City Council grant payable over 3 years.
- Approximately \$300,000 a year for the 20 year life of our amended contract resulting from the City waiving the automatic increase in shared surcharge funds they would receive as a result of our change in surcharge calculation. Funds will be held in our operating reserve and released by HDC as needed to pay the HVAC costs or meet other Penn South needs.
- Relaxation of language in our Contract with the City to permit us to do selective and limited development on our property to fund future major capital projects. This change has no connection with HVAC and there are no plans at this time to do any development.

As is customary when coming to the City Council for carrying charge increases under our Contract with the City, our proposal includes the authority to impose in the future additional increases up to total of 15 percent if needed to meet operating expenses after consultation with HPD.

In return for the City aid, Penn South was asked to add eight more years to its Contract and offered eight more years of shelter rent tax exemption. This will allow it to remain affordable through 2030. Our Board of Directors saw this as a win-win situation. It was good for our cooperative and its residents and good for the City as well. Most important, it keeps Penn South affordable. Our cooperators agree with the Board. In an advisory referendum held last month, over 1600 shareholders voted and 87% supported adding the eight years to our Contract.

The City Council is charged by law, and by our Contract with the City, to approve all of Penn South's carrying charge increases, assessments and contract changes. We respectfully seek your approval of all of the items covered by Resolution 813.

**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: _____

(PLEASE PRINT)

Name: Juan David Martinez

Address: 7324 68th rd

I represent: _____

Address: _____

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THE CITY OF NEW YORK**

Appearance Card

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

in favor in opposition

Date: 5/26

(PLEASE PRINT)

Name: Julie Walcott

Address: ~~#~~ 100 6th Street

I represent: HPD

Address: P

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Appearance Card

I intend to appear and speak on Int. No. _____ Res. No. 813

in favor in opposition

Date: 5/26/11

(PLEASE PRINT)

Name: MOREIS BENJAMIN

Address: 330 WEST 28 ST NY 10001

I represent: Mutual Redevelopment Houses (Penn South)

Address: 321 Eighth Ave

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