

## **FOR CONSIDERATION**

March 26, 2010

**TO:** The Directors

**FROM:** Dennis M. Mullen

**SUBJECT:** City of Syracuse (Onondaga County)  
Harrison House Residential Project – UDC Loan No. 108

### **REQUEST**

**FOR:** Authorization to: (i) Dispose of Real Property and Convey Title to Health Science Center Foundation at Syracuse, Inc. (“HSC Foundation”) or SUNY Upstate Medical University (“SUNY Upstate”), (ii) Forgive All Outstanding Mortgage Indebtedness and (iii) Take All Related Actions.

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### **PROJECT SUMMARY**

Location: City of Syracuse, County of Onondaga

20 story high-rise building containing 200 residential units

### **BACKGROUND**

Legal title to the Harrison House Residential Project (the “Project” or “Harrison House”) is held by Harrison House Holding Corporation, a subsidiary of the New York State Urban Development Corporation (“UDC”) d/b/a the Empire State Development Corporation (“ESDC”), which was organized under Article 2 of the New York State Private Housing Finance Law. Title was acquired by the UDC subsidiary on June 1, 2009 pursuant to a deed in lieu of foreclosure.

### **FINANCIAL**

The Project’s current debt structure consists of a UDC mortgage of \$5,091,000 (the “FMD mortgage”), \$4,591,085 of which remains outstanding. The Project has received additional financial assistance in the form of a \$1,750,000 Special Purpose Building Loan, a \$351,261 Project Improvement Program (“PIP”) Loan and Section 32 mortgage advances aggregating to \$905,642. Unpaid interest arrears under the FMD mortgage total \$2,354,299

The Project is subsidized under Section 236 of the National Housing Act and receives annual interest reduction payments (“IRP”) from the U.S. Department of Housing and Urban Development (“HUD”) in the amount of \$293,193. The Project’s IRP contract expires on July 31, 2014.

## **PRIOR BOARD ACTION**

The New York State Mortgage Loan Enforcement and Administration Corporation and UDC Boards of Directors previously authorized foreclosure of the mortgage lien, a Special Purpose Building Loan and Section 32 mortgage advances. On January 15, 2009, the UDC Board authorized the acceptance of a deed in lieu of foreclosure and creation of a UDC subsidiary corporation to acquire title to the Project.

## **CURRENT STATUS**

Over the years, the previous owner of Harrison House consistently failed to address the critical ongoing financial and physical problems of the Project and did not meet his obligation to provide the tenants with safe and habitable housing. As of Spring 2009, the occupancy level of Harrison House had declined to 20%. In order to ensure that essential services continued to be delivered to the few remaining tenants, it was necessary for ESDC to provide funds on a regular basis to pay for many of the Project's most vital services. These funds were provided under Section 32 of the UDC Mortgage, which allows the Corporation to advance additional mortgage funds for tenant health and safety related items. To date, the Project has received Section 32 mortgage advances totaling \$905,642 for such expenses.

Because of the Project's deteriorating financial and physical problems and the substantial financial burden placed on ESDC to protect the remaining tenants, ESDC staff requested authorization from the Directors in January 2009 to create a subsidiary housing company pursuant to Article 2 of the New York State Private Housing Finance Law in order to acquire title to the Project from the owner by deed in lieu of foreclosure. Pursuant to the Board's approval of this request, Harrison House Holding Corporation, the newly formed subsidiary of ESDC, acquired title to the Project on June 1, 2009 and subsequently entered into an agreement with the Syracuse Housing Authority ("SHA") to assume management of the Project, commence relocation of the remaining tenants to safe and affordable housing, and manage the shutdown and closure of the Project. SHA completed the relocation of all of the Project's residents to safe and affordable housing at the end of February 2010.

## **THE PROPOSED TRANSFER AND REDEVELOPMENT PLAN**

As part of a program to expand its research, medical, and educational facilities and provide faculty and medical student housing, SUNY Upstate and the HSC Foundation, a not-for-profit corporation whose corporate purpose is to support the mission of SUNY Upstate, have negotiated with ESDC to transfer the property to either HSC Foundation or SUNY Upstate.

The proposed transaction consists of the following elements:

- The property will be transferred to either HSC Foundation or SUNY Upstate (the “Transferee”) for \$1 plus assumption by the Transferee of all of the Project’s outstanding tax liabilities, currently estimated at \$440,000.

- In addition, the transaction documents will require the Transferee to make use of the property for its core mission for a minimum of ten years. ESDC and Transferee will negotiate a reasonable time frame for commencement of rehabilitation. In the event Transferee is unable to commence rehabilitation within the agreed upon time period, Transferee will be required to pay ESDC the appraised value of the property, \$2.5 million.

- The Transferee will take the property “as is” and will be responsible for all costs associated with redevelopment.

- Upon taking ownership, the Transferee will develop the property to expand its footprint in the City of Syracuse. SUNY Upstate is one of three academic medical centers operated by the State University of New York and employs just under 7,000 people, making it the largest employer in Syracuse and the Central New York region. It consists of the College of Medicine, the College of Nursing, the College of Graduate Studies and the College of Health Professions. SUNY Upstate also operates University Hospital and the Golisano Children's Hospital at Upstate. The campus, located between Downtown Syracuse and the campus of Syracuse University, is landlocked and unable to expand within its existing campus footprint. At the same time, increases in student enrollment and faculty, both mandated by SUNY’s accrediting agencies, have increased pressure for housing options near to and adjacent to the campus. Harrison House is located adjacent to the campus and the Transferee intends to renovate the Project to provide housing for faculty, students and employees.

## **PUBLIC AUTHORITIES ACCOUNTABILITY ACT COMPLIANCE**

This is a transfer of property for less than fair market value that is within the purpose, mission or governing statute of UDC. Pursuant to the Public Authorities Accountability Act, the following information is provided:

- (i) A full description of the asset: Harrison House is a 20 story high rise building containing 200 residential units in the City of Syracuse.
- (ii) An appraisal of the fair market value of the asset: Pursuant to an appraisal received August 4, 2009, the appraised value of Harrison House is \$2,500,000.
- (iii) A description of the purpose of the transfer, and a reasonable statement of the kind and amount of the benefit to the public resulting from the transfer, including but not limited to the kind, number, location, wages or salaries of jobs created or preserved as required by the transfer, the benefits, if any to the communities in which the asset is situated as are required by the transfer: As more fully described above, the transfer is being made to permit SUNY Upstate to expand housing opportunities to its students and faculty. No direct jobs are being created by the transfer. However, by permitting SUNY Upstate to grow its campus footprint, the transfer will allow SUNY Upstate to continue to drive its expansion which has resulted in hundreds of millions of dollars of investment in University Hill in Syracuse.

- (iv) A statement of the value to be received compared to the fair market value: The transfer will not provide any cash to ESDC but will result in the continued investment by SUNY Upstate in Syracuse. In lieu of a cash consideration, SUNY Upstate will be responsible for the payment of the Project's outstanding real estate taxes.
- (v) The names of the private parties participating in the transfer: ESDC has retained the services of outside legal counsel, Menter, Rudin & Trivelpiece, P.C., to assist in the real estate closing. No other private parties are participating in the transaction.
- (vi) The names of the private parties who have made an offer for such asset, the value offered, and the purpose for which the asset was sought to be used: No offer has been received.

### **PUBLIC PURPOSE**

The Public Purpose to be served by the disposition and transfer of the Project will be to provide space for SUNY Upstate's expansion and facilitate its continued investment in Syracuse. SUNY Upstate has been an engine of opportunity for students, workers, and the greater Syracuse community. Currently, SUNY Upstate has a capital program in excess of \$350 million in the City of Syracuse which consists of 75 active projects totaling \$325 million and 37 funded future projects totaling \$27.3 million. The transfer will support SUNY Upstate's continued investment in Syracuse.

As the transfer is being made directly to the Transferee to further SUNY Upstate's expansion and investment in Syracuse, there is no reasonable alternative to the proposed below-market transfer that would achieve the same purpose of such transfer.

### **NON-DISCRIMINATION**

ESDC's non-discrimination policy shall apply.

### **ENVIRONMENTAL REVIEW**

The Directors made a Determination of No Significant Effect on the Environment for the proposed disposition at their meeting of January 15, 2009. This determination addressed all aspects of the proposed action. Therefore, no further environmental review is required in connection with this action. No specific future redevelopment plan for the subject property is currently proposed. At such time that any future redevelopment plan is proposed, it will be subject to review under SEQRA.

### **REQUESTED ACTION**

The Directors are requested to adopt the attached resolution authorizing: (i) the disposition of real property and conveyance of title from Harrison House Holding Corporation, a subsidiary of UDC, to either Health Science Center Foundation at Syracuse, Inc. or SUNY Upstate Medical University, (ii) the forgiveness of all outstanding mortgage indebtedness and (iii) the taking of all related actions.

**RECOMMENDATION**

Based on the foregoing, I recommend approval of the attached resolution.

**ATTACHMENT**

Resolution

March 26, 2010

CITY OF SYRACUSE (ONONDAGA COUNTY) – HARRISON HOUSE RESIDENTIAL PROJECT – UDC LOAN NO. 108 – AUTHORIZATION TO (i) DISPOSE OF REAL PROPERTY AND CONVEY TITLE TO EITHER HEALTH SCIENCE CENTER FOUNDATION AT SYRACUSE, INC. OR SUNY UPSTATE MEDICAL UNIVERSITY, (ii) FORGIVE ALL OUTSTANDING MORTGAGE INDEBTEDNESS AND (iii) TAKE ALL RELATED ACTIONS.

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**RESOLVED**, that based on the materials presented to this meeting and ordered filed with the records of the New York State Urban Development Corporation, relating to the Harrison House Residential Project (UDC Loan No. 108), the Directors hereby find that there is no reasonable alternative to the proposed below-market transfer that would achieve the same purpose of such transfer and the Corporation be and hereby is authorized to: (i) Dispose of Real Property and Convey Title to either Health Science Center Foundation at Syracuse, Inc. or SUNY Upstate Medical University, (ii) Forgive All Outstanding Mortgage Indebtedness and (iii) Take All Related Actions; and be it further

**RESOLVED**, that the Officers of the Corporation, be, and each of them hereby is, authorized and directed to take any and all action necessary to carry out the foregoing resolution and to carry out any authority or delegation granted to the Corporation in conjunction with such authorizations, including, but not limited to, the preparation and execution of any agreements, instrumentation and/or documents as such authorized officer may deem necessary or appropriate.