

FOR CONSIDERATION

November 18, 2010

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: City of New York (Kings County)
Sea Rise I Residential Project - UDC Loan No.65
Sea Rise II Residential Project - UDC Loan No. 66

REQUEST

FOR: Authorization to: (i) Sell, Convey Title, and Dispose of Real Property to Bay Park Towers, L.P. or Other Single Purpose Entity Controlled by the Starrett Corporation; (ii) Accept Partial Prepayment of FMD Mortgage; (iii) Forgive Remaining Balance of Mortgage Indebtedness; (iv) Make a Section 32 Mortgage Advance; and (v) Take All Related Actions.

PROJECT SUMMARY

Location: City of New York, County of Kings

Improvements: The site consists of two separate multi-story buildings, one each on adjoining parcels. The first is a 335 unit development located at 3325 Neptune Avenue and West 33rd Street, aka Sea Rise I, and the second is a 338 unit development located at 3415 Neptune Avenue and West 37th Street, aka Sea Rise II in the Coney Island section of Brooklyn, NY. Both structures are irregularly shaped, multi-level buildings ranging in height from 1 story to a maximum of 25 stories.

BACKGROUND

Legal title to the Sea Rise I project (Sea Rise I) and Sea Rise II project (Sea Rise II) (collectively, the "Projects") is held respectively by Coney Island Site 4A-1 Houses, Inc. and Coney Island Site 4A-2 Houses, Inc. (collectively, the "Housing Companies"), with beneficial ownership respectively held by Bay Park One Company and Bay Park Two Company, each of which is a New York limited partnership (collectively, the "Partnerships").

PRIOR BOARD ACTION

Under an authorization by the Boards of Directors of the New York State Mortgage Loan Enforcement and Administration Corporation (“MLC”) and the New York State Urban Development Corporation (“UDC”), a workout agreement was executed in 1985.

FINANCIAL

Sea Rise I was originally financed by UDC with a mortgage loan in the amount of \$16,406,000 and Sea Rise II’s original mortgage loan totaled \$17,078,000 (“Final Mortgage Determination” or “FMD”).

The current debt structure consists of the following outstanding indebtedness:

Sea Rise I: FMD mortgage in the amount of \$16,406,000, an additional note with a balance of \$792,224, arrearage notes with outstanding balances totaling \$19,399,761.76, Section 32 advances of \$215,817.07, and a Project Improvement Program loan (“PIP”) of \$986,919.55. As of October 31, 2010, accrued interest arrears total \$21,623,634.17. The Project is subsidized under Section 236 of the National Housing Act and receives annual interest reduction payments (“IRP”) from HUD in the amount of \$977,173. The Project’s IRP contract expires in February 2025. The Project also receives the benefit of a Rent Supplement Contract for 132 apartments (39.4% of the Project), which provides rental assistance payments to qualified tenants.

Sea Rise II: FMD mortgage in the amount of \$17,078,000, an additional note with a balance of \$664,229, arrearage notes with outstanding balances totaling \$20,125,358.40, Section 32 advances of \$211,197.79, and a Project Improvement Program loan (“PIP”) of \$955,994.95. As of October 31, 2010, accrued interest arrears total \$22,489,772.24. The Project is subsidized under Section 236 of the National Housing Act and receives annual interest reduction payments (“IRP”) from HUD in the amount of \$999,823. The Project’s IRP contract expires in June 2025. The Project also receives the benefit of a Rent Supplement Contract for 129 apartments (38.1% of the Project), which provides rental assistance payments to qualified tenants.

CURRENT STATUS

Constructed in the mid-1970s, the Projects are located in the Coney Island section of Brooklyn. Since their initial occupancy in the early 1970s, the Projects, which are managed by Grenadier Management Company, have been owned and operated as Mitchell-Lama Projects. They are currently in need of extensive and significant rehabilitation of the buildings’ facades as well as the building systems, interiors and apartments.

REDEVELOPMENT PLAN

The contemplated plan calls for the acquisition and rehabilitation of the Projects by Bay Park Towers, L.P. or another single purpose entity controlled by the Starrett Corporation (“Starrett”) who will be the Borrower. Grenadier Realty Corporation or another affiliate of Starrett acceptable to HFA and DHCR will be the managing agent. The scope of work of the proposed

rehabilitation of Sea Rise I and Sea Rise II consists of interior and exterior capital improvements and apartment upgrades. Major improvements include repair of the buildings' envelopes, replacement of all windows, enclosure of existing catwalks, replacement of roofs, repair of elevators and heating systems, installation of security systems, resurfacing of parking lots and driveways, restoration of playgrounds, landscaping and the renovation of individual apartments, corridors, building lobbies, and community rooms.

PROPOSED FINANCING PLAN

The contemplated acquisition and rehabilitation of the Projects is to be financed by an HFA mortgage loan funded through the issuance of tax exempt bonds by HFA. Such issuance will allow the transaction to receive 4% as-of-right low income housing tax credits. Additional financing will be in the form of a subordinate mortgage provided by HFA. The IRP contracts will be decoupled from the existing UDC mortgage so that the new owners continue to receive the financial benefits of the Section 236 contract. Eligible current tenants will receive enhanced Section 8 vouchers allowing the property to receive higher rents while at the same time ensuring the continued affordability for current tenants.

The Projects' total indebtedness to ESDC as of October 31, 2010, including interest arrears of \$44.1 million and PIP of \$1.9 million, is \$120.9 million. ESDC will receive a \$5.6 million cash payment, and will subordinate approximately \$76.5 million of its debt to the HFA financing. The remaining indebtedness of approximately \$38.8 million will be forgiven. Payment to ESDC will be made as follows:

1. a. Payment at initial closing of \$2 million.
b. Payment of \$3.6 million at or before conversion to permanent financing.
2. If the full \$3.6 million is paid to ESDC at or prior to conversion to financing, any cost savings in the development budget will be used first to increase the Construction Manager's fee to the original \$6.5 million from the current budgeted amount of \$5.6 million. Savings in excess of \$900,000 will be split 50/50 between ESDC and the borrower, with the borrower's share to be applied as payment of the borrower's deferred developer's fee and ESDC's share to be applied to the Projects' indebtedness to ESDC.
3. If the full \$3.6 million is not paid to ESDC at conversion, the borrower will execute a note (the "Note") in favor of ESDC for the outstanding balance with the following terms:
 - a. 5 year term starting from date of conversion to permanent financing, with interest to accrue on the unpaid balance of the Note at the same rate as HFA's first mortgage.
 - b. Annual payments in an amount equal to 75% of the project's annual cash flow for the calendar year, with the first payment due on or before the last day of the 12th month following conversion (or such later date as cash flow is determined - but not later than the first day of the 14th month after conversion).
 - c. In the event that cash flow paid during the initial 5 year term of the Note is less than 25% of the original principal balance of the Note, the Borrower will be obligated to pay the difference between the amount of the 75% of cash flow paid to ESDC over the first five years and 25% of the original principal amount of such Note. The

remaining principal balance of the Note will continue to accrue interest annually until paid in full.

- d. If, at the end of the 5-year term, there are outstanding amounts on the Note due ESDC, the remaining balance will be paid each year to ESDC from 100% of the project's cash flow until the full \$3.6 million plus any accrued interest on the Note is paid in full.
4. Upon payment of the full \$3.6 million to ESDC, the Projects' cash flow will be split 50/50 between ESDC and the developer until such time as the Deferred Developer's fee is paid.
 5. Once the Deferred Developer's fee is paid, the Projects' cash flow will be shared 75% to ESDC and 25% to the Developer until such time as the remaining indebtedness to ESDC is satisfied.
 6. The terms of this repayment agreement are subject to the following:
 - a. Agreement by DHCR/HFA/HUD on Section 8 rent levels.
 - b. Approval of credit enhancer of the HFA Bonds and the tax credit investor.
 - c. Written Agreement at Closing by Borrower/HFA/DHCR on conditions for future development to be placed on two parcels of land to be released to limited partners.

MANAGEMENT ACTION

Based on recent site inspections by ESDC and HFA Technical Services staff, ESDC has been advised that the buildings' facades are in need of emergency repairs which must be completed before the onset of winter and before title is transferred to the new owner. Emergency work items include the removal of the parapets and temporary patching of the affected areas of the roof and flashing; installation of new 3'6" parapet fencing; addressing any readily accessible spalled or cracked brick area; temporary shoring and bracing of any large areas which cannot be fully restored until next spring; and upgrades to any existing sidewalk bridging in affected areas and further access control in the form of perimeter fencing.

Accordingly, it is recommended that the Board authorize a Section 32 mortgage advance for the emergency façade work, in an amount not to exceed \$2.0 million, to be paid from the Housing Repair Fund Account, which is funded from savings realized from the 1996 Corporate Purpose Bond Restructuring. All amounts advanced by ESDC pursuant to this authorization will be repaid at the time of closing from proceeds of HFA's bond issuance.

PUBLIC PURPOSE

The Public Purpose to be served by the sale and conveyance of the Projects to Bay Park Towers, L.P. will be the rehabilitation and modernization of a vital affordable housing resource in the Coney Island section of Brooklyn as well as the restructuring of the Project's governmental subsidy to leverage new private capital investment.

NON-DISCRIMINATION

ESD's Non-Discrimination and Affirmative Action policy will apply. Purchaser and every successor in interest to the Property shall not discriminate upon the basis of race, creed, color, sex or national origin in the sale, lease or rental, or in the use or occupancy of the Property or improvements erected or to be erected thereon or any part thereof. This covenant shall run with the land in perpetuity

ENVIRONMENTAL REVIEW

ESD staff has determined that the requested authorization constitutes a Type II action as defined by the New York State Environmental Quality Review Act ("SEQRA") and the implementing regulations of the New York State Department of Environmental Conservation. No further environmental review is required in connection with the authorization.

REQUESTED ACTION

The Directors are requested to adopt the attached resolution authorizing (i) the sale, conveyance of title and disposition of real property to Bay Park Towers, L.P. or other single purpose entity controlled by the Starrett Corporation; (ii) acceptance of a partial prepayment of FMD Mortgage; (iii) the forgiveness of remaining balance of mortgage indebtedness; (iv) the making of a Section 32 mortgage advance; and (v) the taking all related actions.

RECOMMENDATION

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

ATTACHMENTS:

Resolution
Summary Approval Sheets

November 18, 2010

CITY OF NEW YORK (KINGS COUNTY) – SEA RISE I (UDC LOAN NO. 65) AND SEA RISE II (UDC LOAN NO. 66) RESIDENTIAL PROJECTS – AUTHORIZATION TO:

(i) SELL, CONVEY TITLE, AND DISPOSE OF REAL PROPERTY TO BAY PARK TOWERS, L.P. OR OTHER SINGLE PURPOSE ENTITY CONTROLLED BY THE STARRETT CORPORATION; (ii) ACCEPT PARTIAL PREPAYMENT OF FMD MORTGAGE; (iii) FORGIVE REMAINING BALANCE OF MORTGAGE INDEBTEDNESS; (iv) MAKE A SECTION 32 MORTGAGE ADVANCE; AND (v) TAKE ALL RELATED ACTIONS.

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 Sea Rise I (UDC LOAN NO. 65) and Sea Rise II (UDC LOAN NO. 66) Residential Projects, the Corporation be and hereby is authorized to (i) Sell, Convey Title, and Dispose of Real Property to Bay Park Towers, L.P. or Other Single Purpose Entity Controlled by the Starrett Corporation; (ii) Accept Partial Prepayment of FMD Mortgage; (iii) Forgive Remaining balance of Mortgage Indebtedness; (iv) Make a Section 32 Mortgage Advance; and (v) Take All Related Actions; and be it further

RESOLVED, that the Chairman and Chief Executive Officer of the Corporation or his designee(s) be, and each of them hereby is, authorized to take such action and execute such documents as may be necessary or appropriate to carry out the foregoing resolution.