



# Westview Taskforce Inc.

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<http://westviewtaskforceinc.org>

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Privatization Update – May 4, 2016

Dear Westview Resident,

The purpose of this communication is to bring you up to date on recent developments. Moving forward we will make an effort to communicate more frequently especially via our website [westviewtaskforceinc.org](http://westviewtaskforceinc.org). If you have not provided your email address please do it now to: [info@westviewtaskforceinc.org](mailto:info@westviewtaskforceinc.org).

We have good news but we also report on new obstacles. Please read this Update carefully then answer the attached Survey. For the benefit of everyone we will also provide a short list and explanation of terminology used herein.

## Background

As you know, our building is in transition to COOP with the objective to preserve affordable housing at WV through the affordable rental plan, affordable homeownership, and funding of building rehabilitation. The pace of transition is fully controlled by the Owners and they are in no rush. They have recently transitioned Island House ending up with many vacancies there which they are allowed to sell at market but are releasing slowly to maximize the value.

The Rental Plan for 30 years comprises (1) initial rent increase, (2) annual RGB adjustments, and (3) income surcharges for families with incomes over 100% AMI (about \$70,000). Originally the Owners also wanted to add an option for MCI rent increases but finally consented to do it only in case of assessments (more on this later).

The homeownership opportunities for each apartment are detailed in the RED HERRING, Schedule A, Pages 47-55. They are based on \$226/SF along with certain maintenance projections.

Funding the massive rehabilitation the building presently needs and will need during the first 30 years of operation as a COOP is primarily achieved by collecting flip taxes on resales of apartments purchased by inside tenants. If participation is at or over 50% our projections indicate that flip tax income plus initial reserve contributions will be adequate to cover these expenses.

On May 1, 2015 the Owners (acting as Sponsors) filed a preliminary offering plan (called RED HERRING) with the AG. Six months later the AG responded with a list of deficiencies to cure. The 2 most important deficiencies are (a) HCR approval of the Affordability Plan which set the terms related to rentals/homeownership/funding, and (b) RIOC extension of the Ground Lease. Until HCR approves the Plan and RIOC extends the Ground Lease, the building cannot transition.

## Terminology (At this point please familiarize yourself with some of the terminology used)

**HCR**= NYS Department of Homes and Community Renewal (formerly **DHCR**)

**RIOC**= Roosevelt Island Operation Corporation

**AG**= Office of NYS Attorney General

**ML**= Mitchel Lama Program

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### OFFICERS

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Froukje Bos - Slavica Plecas-Gak - Natalia Gavrilov - Paul Lenner - Mark Long - Rosemary Musumba - Michael Sinelnikov - Ivens Stanton

**WV**= Westview Building

**AMI**= Area Median Income (about \$70,000)

**RGB**= Rent Guidance Board decisions on rent hikes for NYC Rent Stabilized Apartments.

**MCI**= Major Capital Improvement eligible for rent increase

**Effective Date:** The day when the following events occur:

- (a) ML program is dissolved by HCR
- (b) Affordability Plan becomes effective
- (c) Initial rent Adjustment is applied
- (d) Refinancing of building mortgage
- (e) Ground Sub Lease is extended by RIOC thru 2068

**Affordability Plan:** HCR approved Rental/Homeownership/Funding plan for 30 years following ML dissolution

## **Initial Rent Adjustment Finally Determined By The New HCR Administration**

The level of initial rent increase at WV became a major concern when we were notified by HCR in 2014 that HCR had endorsed a hefty 26% rent increase at the Effective Date. In essence HCR accepted the Owner's claims for retroactivity and rent/SF equalization. After discussions with the Owners, the rent adjustment was reduced to 14.9% (average 2.1% per year since last rent adjustment at WV in 2009).

However, when the new HCR administration was installed in the Summer of 2015, we asked the Owners, and they agreed, that the new HCR administration should independently review and determine the appropriate level of rents at WV. Obviously, the Owners hoped HCR would determine higher rents consistent with their prior 2014 determination. We hoped the new HCR administration may be more open to consider parameters cited in the ML regulations like tenant hardships, building financials and efficiencies. We were very pleased when, in July of 2015, HCR accepted the responsibility of setting the rents. We urged HCR to act expeditiously and told them we would accept any such determination up to 14.9% as final. We also met with all our political representatives, educated them on the ML rent determination process and asked for their support.

We have just learned from HCR that the initial rent adjustment at the Effective Date would not be 26%, not 14.9%, but rather 6.16%. We are extremely pleased with this decision and would like to thank the new HCR administration, Commissioner Rubin and President Mark Colon and his team for their effort. We also thank our political representatives State Senator Jose Serrano, Councilmember Ben Kallos, Manhattan Borough President Gale Brewer, Congresswoman Maloney, and especially Assembly Member Rebecca Seawright for their support.

We have not heard yet from HCR about the second (RGB related) rent adjustment which the WV Owners plan to implement just a few months after the Effective date. We argued it should not occur sooner than 12 months after the initial rent adjustment. We also asked HCR to review the rent surcharges for families with incomes over 100% AMI.

## **Owner's Reaction**

The WV Owners refuse to accept the rent determination rendered by HCR. They told HCR that if such rent determination stands, they would consider assessing each and every tenant who is considering homeownership a \$45/SF penalty. They provided no explanation for this absurd request which, if materialized, amounts to a exorbitant 19.91% price increase (about \$56,000 on average) in addition to the purchase price listed in the Offering Plan. To calculate your specific (proposed) penalty, add 19.91% to your specific price listed in the Red Herring, Schedule A, Pages 47-55).

Clearly the proposed penalty renders the entire transition not viable and is in fact catastrophic. Homeownership opportunities, no longer affordable to many, will result in low participation which in turn will cause significant rent increases due to assessments for all renters, this in addition to income surcharges for families with incomes over 100% AMI.

The notion that families who consider first time homeownership (which under Red Herring terms is already 24% less affordable than Island House) should be further required to subsidize the Owners because the Owners are unhappy with HCR's rent decision, is simply unacceptable and should be rejected by HCR.

This is especially frustrating because the WV Owners committed to providing affordable rentals and affordable first time homeownership opportunities in exchange for HCR's permission to sell 127 WV apartments (including many vacancies which the Owners have been permitted to warehouse) at unrestricted market rates.

Moreover, killing the affordable homeownership opportunities will also kill the affordable rental opportunities by virtue of assessments and income surcharges.

**Assessments:** Remember, during the first 30 years after conversion, funding for building repairs is planned to be generated primarily from flip taxes on resales of apartments by tenants. Rents and monthly maintenance do not include contribution to repairs and Owners have exempted the units they own and sell from contributing anything towards building repairs. Low participation means a shortfall in flip tax income for building rehabilitation. This by itself will result in significant assessments to shareholders and MCI rent increases to renters (in addition to regular annual RGB related rent hikes).

For example: Every \$3M building-wide assessment will cause an immediate 9% rent increase to all renters plus \$8,300 individual assessment to every shareholder. In 2007 Our Engineers estimated that the building needed \$23M for rehabilitation (see RED HERRING page 971). The situation now is likely worse. Considering the level of building disrepair now, imagine the impact of 3-4 such assessments. **The fact of the matter is HCR's recent rent determination of 6.16% and all the proposed rent protections are worthless if purchase participation is low.**

**Income surcharges:** Low participation also means that families with incomes over 100% AMI (about \$70,000/yr) who may consider homeownership under the terms of the current Red Herring but unable to pay the extra proposed \$45/SF penalty, will be stuck in a rental scenario with annual income surcharges in addition to annual RGB adjustments. Rents will quickly escalate to levels where long time ML qualified WV residents might be forced out.

On 4/18 we met with HCR and communicated our strong objection to the proposed penalty in principal and practicality. HCR indicated they would make every effort to assist in mitigating this new obstacle. Stay tuned.

## **Confidential Survey**

Finally, we need your feedback and ask you to fill out the attached Confidential Survey and return it to the Task Force Drop Box (not the rent deposit box!) located next to the bulletin boards in the 625 lobby no later than Wednesday May 11th. Your voice and feedback is crucial at this time and we urge you to complete and return the survey without delay.

Thank you for your continued support.  
Westview Taskforce