



MEMORANDUM

TO: The Chairperson and Members
FROM: William W. Traylor *WT*
DATE: July 29, 2003
SUBJECT: Ruppert/Yorkville Subsidy Program

The Members are asked to approve the funding of a rental subsidy program ("City Subsidy Program") for eligible Ruppert/Yorkville residents as defined below. Ruppert/Yorkville, a 1,257 unit development located on the Upper East Side of Manhattan, prepaid its HDC mortgage in October of 2002 and subsequently bought out of the Mitchell-Lama Program. This buyout was the subject of a lawsuit brought by the residents against the owners. The owners and the residents agreed to a settlement plan that included both condominium conversion and a subsidy program for low income residents. The City agreed to subsidize residents who earn below 80% of median income for as long as they are income eligible and continue to reside at Ruppert/Yorkville. The City has asked HAC to fund and implement this subsidy program. The City Subsidy Program became effective January of 2003.

Below is a discussion of the background of the Project, the terms and conditions of the City Subsidy Program, and sources of funding.

Background

The Project, which is located on the Upper East Side of Manhattan, was originally constructed by Yorkville Towers Housing Company, Inc. ("Owner") in 1974 under the Mitchell-Lama Program. The Owner is an entity effectively controlled by the DeMatteis Organization. In addition, the Project is managed by R.Y. Management Company, Inc. During 1973, HDC made two un-insured first position mortgages totaling \$ 62,356,700. These loans were prepaid on October 7, 2002 and Yorkville Towers Housing Company was dissolved as a Mitchell Lama Housing Company. The City received \$ 19 million in surplus cash from this buyout and will receive an estimated additional \$ 7 million per year in real estate taxes.

City Subsidy Program

The Court supervised settlement between the Owner and the residents provided financial relief to residents not purchasing their apartments. These residents are eligible for one of three subsidized or discounted rent programs at the time of their lease renewal: (1) the "the City Subsidy Program" for residents whose household income is below 80% of the Area Median Income, (2) the "Landlord Supplemental Subsidy Program" for residents whose household income is between 80% and 100% of the Area Median Income, and (3) the "Limited Rent Increase Program" for residents whose household income exceeds 100% of the Area Median Income. The Landlord Supplemental Subsidy Program and the Limited Rent Increase Program are funded by the owners of Ruppert/Yorkville.

At the time of lease renewal, non-purchasing residents must complete an application providing all required documentation in order to participate in one of the programs. Under the City Subsidy Program the rent during the first lease renewal will be an annual amount equal to the greater of (i) the resident's immediately previous annual rent or (ii) one-third of the aggregated income for their household for the immediately preceding calendar year calculated in accordance with the settlement agreement. The City agreed to pay the difference between the resident rent and the "HPD Adjusted Rent" on a monthly basis. The HPD Adjusted Rent is the 1982 vacancy rent as adjusted thereafter by the Rent Guideline Board for increases on one-year leases from 1982 to the present. At subsequent lease renewals, the new adjusted rent is calculated by adding 50% of the RGB increases to the previous HPD Adjusted Rent. The residents will pay the greater of one-third their income plus one-half the RGB increase or their immediate previous annual rent plus one-half of the RGB increase.

Residents have a one-time opportunity to qualify for the City Subsidy Program. If a resident fails to qualify at the time of their first lease renewal, they will not be eligible for subsidy in subsequent years. In addition, if at any subsequent lease renewal a resident is no longer qualified, they will not be eligible to obtain benefits in the future.

Income eligibility is determined based upon standards utilized in the Mitchell Lama Program: wages, taxable interest and/or dividends, taxable business income, and taxable capital gain or loss as reported on the resident's tax return, with permissible deductions for dependants, secondary wage earners, itemized medical deductions, and social security income.

Current Status

825 of the 1,257 units were sold. Of the 432 remaining unsold units, it is estimated that 200 of these units will be eligible for the City Subsidy program.

Ruppert/Yorkville has submitted the required documentation to request subsidy for January 2003 through and including June 2003. To date \$354,000 is owed the owners pursuant to these requests for 81 eligible households. The owners have the right to request payment from the residents if the City does not pay the subsidy. Over six months have elapsed since the initial payment was due to the owners.

Funding

HAC is empowered to assist rental developments to maintain rents affordable to low- and moderate-income persons.

Originally, the City anticipated the cost of the City Subsidy Program would be slightly less than \$3 million per year. Based upon the information we have received to date, the Corporation estimates the subsidy for 2003 to be \$1.5 million as the leases come up for renewal and the City Subsidy Program ramps up. Once fully implemented, the Corporation estimates that the City Subsidy Program will cost \$3 million per annum.

At this time the Members are being asked to authorize funding for calendar year 2003. The Corporation has the resources to meet the 2003 obligation. Subsequent requests for funding may be made beginning in calendar year 2004, upon appropriation by the City or other funding source.

Costs to the Corporation

In addition to the cost of funding the City Subsidy program, the costs of supervision and administration of this program will be absorbed by the Corporation.

Recommendation and Action by Members

Staff recommends that the Members (i) approve the execution of a resident assistance contract between the corporation and Yorkville Towers Housing Company for the administration of the City Subsidy Program, (ii) approve the City Subsidy Program to be funded from the HAC proceeds for calendar year 2003, and, (iii) authorize an officer of the Corporation to execute any documents necessary to effectuate the City Subsidy Program.