

Finances Still Queasy

To the Editor:

The recent Avalon Bay tour of Garden City's four POAs was helpful in providing an initial understanding of the preliminary financial terms of the Avalon Bay proposal. The terms are subject to continuing negotiations, but presently appear to be as follows:

1. A 99-year ground lease which effectively transfers ownership of the St. Paul's building and property to Avalon Bay. Any future renewal and/or renegotiation of the ground lease remains unsettled. Avalon Bay would not pay the Village any rent during the 99-years of this ground lease.

2. Parties to the lease seem to be the Village of Garden City and a special purpose subsidiary of Avalon Bay. This subsidiary may or may not have the full parent company guarantee of Avalon Bay's contractual responsibilities, which means that if the Village had to sue Avalon Bay for failure to fulfill its contractual obligations the Village could not recover any money from Avalon Bay but would be limited to the minimal money of the Avalon Bay subsidiary.

3. "Payments In Lieu Of Taxes," PILOTS, will be paid, rather than normal and customary Village taxes. The PILOTS initially will be minimal, but will increase over a thirty-five (35) year period at which time the PILOTS will/may approximate the then current level of taxes.

4. An annual lease payment of approximately \$450,000 will be paid by the Village for some community benefit described as either a subterranean parking facility or community space in/near the main building at St Paul's. That \$450,000 can increase or decrease depending on what the Village wishes to add to or subtract from the project. Avalon Bay has indicated to the POAs that the cost of the project to Avalon Bay must remain the same.

5. Avalon Bay would retain the right to build a medium-sized apartment building, approximately 50' high that would accommodate approximately 37 new 1- and 2-bedroom rental units. This medium-sized apartment building would be located on the easterly or northerly border of the property. Avalon Bay has called this medium-sized (5-story) apartment building a "Town House".

6. Avalon Bay assumes the following risks:

- Development risk
- Financial risk
- Construction risk
- Rental risk
- Operating risk

and the not inconsiderable risk of securing the Home Rule legislation from the New York State Legislature, as well as a significant zoning change in the Village of Garden City's Master Plan.

7. It is not clear whether or not the Village has negotiated a Profit Share and Participation in Capital Events provision in the Memorandum of Understanding. However, there is scant financial data to show that the Village would ever receive revenue under this provision, or if it does, how much revenue and when it would be received.

8. Avalon Bay has said that it would seek historic tax credits of approximately \$8+ million. Since Avalon Bay cannot use the tax credits because it is a real estate investment trust, or “REIT” it would sell those credits, further reducing the capital that Avalon Bay would pay from its corporate pocketbook.

Avalon Bay appears to have mitigated its various “risk” by accepting some risks but shifting other risks to the Village. Development and financial risk are assumed by Avalon Bay, which will finance the project from its own funds. Avalon Bay indicated at the POAs that self-financing would eliminate “market risk” from the project. Construction cost risk however, will be assumed indirectly by the Village through two subsidies that together will pay almost all of the project’s projected \$40 million construction costs. Those subsidies are the transfer of the St Paul’s grounds and building to Avalon Bay for free (a \$20+ million value) and the 99-year ground lease at a minimum of \$450,000 annual rent paid by the Village (an additional \$20 million value to Avalon Bay in today’s real estate market). Consequently, Avalon Bay appears to have secured a fully renovated \$40 million rental property in the heart of Garden City at no cost.

Avalon Bay has also accepted the risk of renting the completed project. However, according to Avalon Bay the rental occupancy rate for Long Island approximates 97+% and the occupancy rate for Garden City would be higher. Consequently, the project should be fully rented quickly with the resulting annual rental revenues accruing to Avalon Bay, which would not be obligated to pay either taxes for 35 years or a ground lease payment to the Village for 99 years. Since the project’s renovation costs are paid by the Village through its two subsidies, Avalon Bay then receives the full rental revenues from 97+% of the rental apartments as its profit after paying its operating costs.

Imagine being able to move into a fully renovated home in the central section of Garden City and not have to pay taxes or a mortgage, and then being able to rent that home and keep all monthly income for 99 years after paying the typical monthly maintenance costs.

Avalon Bay and the Village are currently negotiating a Memorandum of Understanding that will control the risks associated with the development and renovation of St Paul’s. It appears that the Village has already agreed to subsidize Avalon Bay with \$40 million in free land, a free building and an annual payment of half-a-million dollars; plus, no taxes, no ground lease payments, and the right to build a five story/50’ medium-sized apartment building on the property.

For years Mr. Mauk promised that his Committee’s plan to renovate St. Paul’s would be at “no cost” to the Village taxpayers. More recently that promise has evolved into a sly statement in the recent *Village Facts* that there would be a “**MINIMAL COST**” to Garden City’s taxpayers. Two financial subsidies that are reasonably valued at \$40+ million plus the construction of a 50’ medium-sized apartment building are NOT MINIMAL costs!!! What’s next, Mr. Mauk?!!

The Executive Committee of the
Committee to Save St. Paul’s
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