

HUGH L. CAREY BATTERY PARK CITY AUTHORITY

MEMBERS' MEETING
One World Financial Center – 24th Floor
New York, NY 10281
May 5, 2009

Members Present

James F. Gill, Chairman
Charles J. Urstadt, Vice Chairman
David B. Cornstein, Member
Frank J. Branchini, Member
Robert J. Mueller, Member
Evelyn K. Rollins, Member
Andy K. Shenoy, Member (via telephone)

Authority Staff in Attendance: James E. Cavanaugh, President and Chief Executive Officer
Alexandra Altman, Executive Vice President and General Counsel
Daniel Baldwin, Senior Development Counsel
Lauren Brugess, Administrative Assistant
Megan Churnetski, Assistant General Counsel and Assistant Corporate Secretary
Sidney Druckman, Director, Special Projects
Stephanie Gelb, Vice President, Planning & Design
Joy Granado, Comptroller
Antigona Hajdaraj, Special Assistant to the President
Robert Holden, Vice President, Human Resources & Administration
Stephen E. Harper, Vice President, Safety & Site Management
Carl D. Jaffee, Senior Development Counsel and Corporate Secretary
Wilson Kimball, Senior Vice President, Operations
Stan Molinski, Director, Information Technology
Leticia Remauro, Vice President, Community Relations, Affirmative Action and Press
Robert M. Serpico, Senior Vice President, Finance and Treasurer/Chief Financial Officer
Roy Villafane, Director, Internal Audit
Antony Woo, Vice President, Construction

Others in Attendance: Tessa Huxley, Executive Director, Battery Park City Parks Conservancy
Randy Tancer, Battery Park City Parks Conservancy
Matthew Fenton, Battery Park City Broadsheet
Julie Shapiro, Downtown Express
Brian Krapf, George Arzt Communications, Inc.

Jeffrey Julien, Director, Holliday Fenoglio Fowler, L.P.
Joseph Morningstar, Senior Managing Director, Holliday Fenoglio
Fowler, L.P.
Linda Belfer, Battery Park City Community Board Chair, Gateway
Plaza Tenants' Association Chair
Paul Goldstein, Representative of State Assemblyman Sheldon
Silver
Ruth Ohman, Representative of the Battery Park City Senior
Group
Glen Plaskin, Gateway Plaza Tenants' Association
Gateway Plaza Residents

Before the meeting was called to order, Ms. Belfer, Ms. Ohman, and Messrs. Goldstein and Plaskin spoke on behalf of a matter on the meeting agenda pertaining to Gateway Plaza, and Mr. Gill thanked them for their interest and concern.

The meeting, called on public notice in accordance with the New York State Open Meetings Law, convened at 10:20 a.m.

The first item on the agenda was approval of the minutes of the April 3, 2009 meeting.

Upon a motion made by Mr. Mueller and seconded by Mr. Urstadt, the following resolution was unanimously adopted:

APPROVAL OF MINUTES OF THE APRIL 3, 2009 MEETING

BE IT RESOLVED, that the minutes of the meeting of the Members of the Hugh L. Carey Battery Park City Authority held on April 3, 2009 are hereby approved.

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The next item on the agenda, presented by Mr. Cavanaugh, was a request to authorize the payment of \$532,000 to the Alliance for Downtown New York, Inc. (the "BID") for calendar year 2009 for the promotion and improvement of the lower Manhattan business district and in furtherance of its long-term economic viability.

Mr. Cavanaugh explained that it has been a tradition for the Authority to support the BID. Although Battery Park City does not fall within the BID's geographic footprint, he noted, Battery Park City benefits from the many services that the BID provides. Therefore, the Authority traditionally pays the BID an annual amount an amount equal to fifty percent of the amount which would be payable if Battery Park City were within the BID's boundaries, he stated.

Mr. Cavanaugh reported that the BID spends over a million dollars a year on the free Downtown Connection bus system. In response to public request, he explained, the BID will be extending this service into the shopping district of Tribeca. The expanded route will cost approximately \$216,000 per year, he stated. The Members are being requested to authorize a contribution of an additional \$100,000 above its normal contribution, or approximately half of the additional cost for the Downtown Connection expansion, for a total contribution of \$532,000.

Mr. Mueller asserted that the BID is the largest, best-managed Business Improvement District in New York, with the most substantial following. Furthermore, he added, the Downtown Connection transportation system is an outstanding service.

Upon a motion made by Mr. Urstadt and seconded by Ms. Rollins, the following resolution was unanimously adopted:

AUTHORIZATION OF PAYMENT TO ALLIANCE FOR DOWNTOWN NEW YORK, INC.

BE IT RESOLVED, that in accordance with the materials presented to this meeting, the President of the Authority or his designees) be, and each of them hereby is, authorized and empowered to make a payment to The Alliance for Downtown New York, Inc. (the "BID") in the amount of \$532,000 for calendar year 2009 to assist the BID to carry out its corporate purposes with respect to the revitalization of downtown Manhattan; and be it further

RESOLVED, that the President of the Authority or his designees) be, and each of them hereby is, authorized and empowered to execute all such other and further documents, and the take all such other and further actions as may be necessary, desirable or appropriate, in connection with the transaction contemplated in the foregoing resolution, and any such execution of documents and any other and further actions heretofore taken are hereby ratified and any actions hereafter taken are confirmed and approved.

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The next item on the agenda, presented by Mr. Cavanaugh, was a request to authorize the execution of an amendment to the ground lease for the Gateway Plaza project, an amendment to the Master Lease necessary to permit the ground lease amendment, and an amendment to the existing agreement limiting apartment unit rent increases in the project.

Mr. Gill recused himself from voting on or discussing this item.

Mr. Cavanaugh stated that these amendments will provide for an 11-year extension of Gateway Plaza's "quasi-rent stabilization" program, which has been in effect for more than twenty years. The LeFrak Organization ("LeFrak") has agreed to an extension of the program which would otherwise expire on June 30, 2009, in exchange for a rent credit, commencing in 2023, when the ground rent for Gateway Plaza is scheduled to be re-set. Residents of Battery Park City have repeatedly asserted that that a great deal of the revenue generated by the Authority has been devoted to create affordable housing elsewhere in the five boroughs, and they would like to see some of those dollars used to preserve affordable housing here, he added.

Mr. Cavanaugh then thanked Assembly Speaker Sheldon Silver "who exercised what understatedly would be called a leadership role" in this matter. He also thanked the Governor and his staff "who were very supportive and made it clear that they wanted to see this happen." He took note of their direction, support and assistance. He also thanked state Senator Daniel Squadron for his support and the Gateway Plaza Tenants' Association who "struck ... the right balance between patience and aggressiveness." Further, he thanked the Battery Park City

Authority staff, particularly Ms. Altman and Mr. Serpico, the Authority's consultants Holliday Fenoglio Fowler, L.P. ("HFF"), and LeFrak for their role in the negotiations.

Next, Mr. Serpico reported that to structure this proposed transaction, the Authority formed a Gateway Plaza working group including staff members from the Authority's legal and finance departments and real estate experts from HFF. Its two main objectives, he said, were: (1) to continue Gateway's quasi-rent stabilization program ("QRS") and (2) to stay true to the underlying ground lease, which requires that the ground rent increase in 2023 to an annual amount equal to eight percent of the land's fair market value. That amount would be based on separate independent appraisals commissioned recently by both the Authority and LeFrak. LeFrak's appraisal of the current value of the land was \$145 per square foot and the Authority's was \$175, Mr. Serpico stated. These figures were then used as the bases for negotiations, he explained. In response to inquiry from Mr. Urstadt, Mr. Morningstar explained that the total land value was, as appraised by the Authority, \$338 million and, as appraised by LeFrak, \$281 million.

In response to an inquiry by Mr. Cornstein, Mr. Morningstar stated that the land value is approximately fifty percent less than it would have been if valued two years earlier. Mr. Serpico noted that the value would likely be even lower if the appraisals were done today.

Mr. Serpico continued by explaining that LeFrak will forego apartment lease revenue by extending the QRS for 11 years because QRS would, under current agreements, end in June. The Authority and LeFrak have estimated this foregone revenue and will credit it back to LeFrak beginning in 2023.

Next, Mr. Serpico introduced Mr. Morningstar and Mr. Julien of HFF and asked them to present further details of the proposed transaction. Mr. Morningstar explained that there are three critical dates involved in this negotiation: the first is the expiration of QRS in June of 2009; the second is the date of the re-set of the Gateway Plaza ground rent in July of 2023; and the last at the next lease renewal period, which is in 2040. The cost of extending QRS is the estimated \$10 per square foot difference between potential market rent and current QRS rent, he explained. Gateway Plaza is made up of 1.3 million square feet of residential space, he noted, and there is a certain amount of apartment turnover as tenants leave the building and their apartment rents go to market value. After negotiation with LeFrak, he continued, and taking into account all these factors, the 11-year total cost of QRS was estimated at \$80 million. He stated that HFF is confident that the current proposal is a good business deal for the Authority.

In response to inquiry by Mr. Urstadt, Mr. Morningstar explained that the commercial property in Gateway is not subject to the QRS. He noted that the \$80 million estimate of the cost of QRS takes into account that tenants will leave the building at varying times. The estimate combines market conditions and practicalities, he said. In response to an inquiry from Mr. Cornstein, Mr. Morningstar stated that the estimated land value in 2023 is \$195 per square foot.

Mr. Morningstar explained that the \$30 million annual ground rent, scheduled to begin in 2023, is comprised of two elements: (1) the actual annual rent to be paid by LeFrak, which averages to \$12 million, and (2) an \$18 million implied credit for the cost to LeFrak of the QRS extension. Through this arrangement, the Authority will maintain the integrity of the existing lease, he stated. The rent will then reset to fair market value in 2040, he noted.

Mr. Urstadt then inquired into whether the proposed transaction had been set forth in a written report to the Authority. Mr. Morningstar stated that a memo had been prepared and provided to the Members, but that HFF would also prepare a more detailed report. Mr. Urstadt noted that he is critical of the Authority's staff for not having kept keeping the Members more fully informed as the details of the proposal.

Mr. Urstadt then noted that because of the financial relationship between the City and the Authority, the City should be informed in detail of these proposed amendments and should approve them in writing.

Mr. Cavanaugh explained that the Authority has appraised the City, through the Office of Management and Budget of these amendments, but the City has chosen not to become involved. Ms. Altman stated that there is no current agreement as to the disposition by the City of revenue received from the Authority, although in the past there have been agreements specifying that that revenue would be used for moderate-income housing.

Mr. Cornstein stated that he had been kept abreast of this information at Authority meetings, and while the details provided today could have been provided sooner and in greater depth, he felt that management had aggressively pursued this matter. Mr. Mueller commended the work which had been done, but expressed concern that the City be fully informed as to the use of City money.

Mr. Cavanaugh explained that all the terms of this deal have been e-mailed to the Authority's usual contact at OMB. Furthermore, he explained that during a meeting with the Deputy Mayor on a separate matter, this issue was raised, showing that the Deputy Mayor was aware of it. Mr. Cornstein and Ms. Rollins stated that the record should be clear that the City was adequately informed as to this transaction, and Mr. Cavanaugh responded that there can be "a hundred percent amount of comfort" as to that concern.

Next, Mr. Urstadt noted that the portion of the proposed amendments regarding renovation and rehabilitation is vague and should be more specific. In response to Mr. Urstadt's next inquiry regarding the proposed amendments, Ms. Altman explained that in the event that a program is initiated to sell Battery Park City's fee interests in its residential land, Gateway Plaza would like to be offered the chance to buy the fee. It is not a right of first refusal, she noted. LeFrak has confirmed in writing that it will not be a party to the proceeds of the any such sale, she reported.

In response to inquiry by Mr. Branchini, Mr. Morningstar again stated that the proposal represents "a good business deal" for the Authority because the economic integrity of the lease arrangement has been preserved and the credit due to LeFrak starting in 2023 has been computed in dollars which would otherwise be paid between 2009 and 2020.

Upon a motion made by Mr. Cornstein and seconded by Ms. Rollins, the following resolution was unanimously adopted:

**AUTHORIZATION OF AMENDMENTS TO GROUND LEASE AND MASTER LEASE
AND AGREEMENT AS TO RENT INCREASE LIMITATIONS FOR GATEWAY
PLAZA PROJECT**

BE IT RESOLVED, that in accordance with the materials presented to this meeting, the President of the Authority or his designee(s) be, each of them hereby is, authorized and empowered to execute amendments to the ground lease for the Gateway Plaza residential project, to the "Master Lease" for the Battery Park City project area, and to the agreement pertaining to limitations on apartment unit rent increases in Gateway Plaza (the "Amendments"); and be it further

RESOLVED, that the President of the Authority or his designee(s) be, and each of them hereby is, authorized and empowered to execute and deliver the Amendments on behalf of the Authority, subject to such changes as the officer or officers executing the Amendments shall, with the advice of counsel, approve as necessary and appropriate and in the best interest of the Authority, such approval to be conclusive evidence by the execution and delivery of the Amendments; and be it further

RESOLVED, that the President of the Authority or his designee(s) be, and each of them hereby is, authorized and empowered to execute all such other and further documents, and to take all such other and further actions as may be necessary, desirable or appropriate, in connection with the transactions contemplated in the foregoing resolutions, and any such execution of documents and any other and further actions heretofore taken are hereby ratified and any actions hereafter taken are confirmed and ratified.

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The next item on the agenda, presented by Mr. Branchini, was a report from the Audit Committee. Mr. Branchini reported to the Members that the Audit Committee met on April 16th, wherein Ms. Kimball presented the Authority's current internal control procedures and processes. Secondly, he said, at that meeting a request was made to read a letter from the office of the state Inspector General (the "IG") regarding a review of various items. Ms. Altman contacted outside counsel who then contacted the IG's office as to the appropriateness of distributing the letter to the Members, he explained. The letter was then distributed to the Members. The IG's review is on-going and Ms. Altman is working directly with the IG's Office, on this matter, he stated.

Additionally, he noted, the Authority is in the midst of performing an ongoing audit of its various travel and entertainment expenses which will be completed by mid-June.

With regard to the IG's letter, Mr. Mueller inquired as to why the Members were not asked to preserve all emails, correspondence and documents, as the letter requested. Ms. Altman explained that the Authority follows a regular procedure in these situations wherein a universal e-mail is sent to all Authority employees which states that all records are to be retained. Furthermore, she stated, the Authority operates under the assumption that all records possessed by the Members are duplicative of what is kept by the Authority itself and therefore that the Members do not in fact possess records which must be maintained under these types of circumstances. "It is a gap in our procedures which will be rectified," she stated.

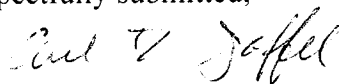
Mr. Cavanaugh explained that it was Ms. Altman's understanding that the Authority's outside counsel, Andrew Lankler, would contact each Member and give them each an appropriate appraisal of the situation. Mr. Cornstein said he was not contacted and Mr. Mueller

questioned the sufficiency of the information he was given. Mr. Urstadt also asserted that the Members had not been adequately informed and kept abreast of the IG's investigation.

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There being no further business, the meeting thereupon adjourned at 11:50 a.m.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Carl D. Jaffee".

Carl D. Jaffee
Corporate Secretary