COMMON CAUSE/NY'S

CONNECT THE DOTS *DOWNTOWN*

Liberty Bonds Free Up Funds for Campaign Contributors

Disregarding the severe affordable housing crisis in New York City, the state government awarded $340 million in federal funds designated for downtown redevelopment to luxury apartment developers in 2002. Despite the public outcry over this decision, the state chose to award an additional $138 million to one of these developers for a second project in early 2004. Connect the Dots and see how public subsidies are being funneled to major campaign contributors…

The Liberty Bonds program is part of the federal economic stimulus package of 2002. Under the program, up to $8 billion in bonds will be approved to aid in rebuilding Lower Manhattan in the wake of September 11th.

Governor Pataki and Mayor Bloomberg have the right to allocate $4 billion each for four areas of redevelopment: commercial real estate, residential rental property, retail property, and public utilities.

In 2002, the New York State Housing Finance Agency (HFA), whose members are appointed by the governor, awarded the first $340 million of these funds, in a meeting called on just 24 hours public notice. The recipients: Glenwood Management Corporation (through Liberty Street Realty, a limited liability corporation established for this project), The Related Companies, and the Albanese Development Corporation and Northwestern Mutual Life (for a co-owned project). The HFA approved approximately ***$100 million for each to finish three luxury housing projects*** in TriBeCa and Battery Park City.

In 2004, new research by Common Cause/NY uncovered that the HFA chose to award a second round of Liberty Bonds to Glenwood Management Corporation owner Leonard Litwin for another luxury housing project in lower Manhattan. All told, Litwin received about $238 million in Liberty Bonds from the state—nearly 30% of the entire state pot of Liberty Bonds for residential construction.

<u>CAMPAIGN CASH:</u>

<u>$904,050 in Campaign Donations</u>

<u>At the State Level</u>

Legally, corporations can only donate a total of $5,000 per year to campaigns throughout the state, but many subvert this requirement by submitting major donations from high-level executives, or by making donations from various subsidiaries of the same company. These legal loopholes in campaign finance law made big donors out of two Liberty Bond recipients.

<u>Glenwood Management Corporation</u>

$772,350 from '99 to early '04

Between 1999 and 2004, when Litwin was issued a second round of Liberty Bonds, ***Litwin, his wife and his businesses donated $772,350 to state level campaigns.***

Governor Pataki was the largest single recipient of Litwin donations, with $133,000 contributed to his campaign during this time period.

Litwin also took advantage of the ***legal entities loophole***, which allows each legal entity of a corporation to give the $5,000 a year corporate limit separately. Each of the twenty parking garages that Liwin owns throughout the New York City made separate corporate campaign contributions, for a total of $143,000 in state level donations from these companies alone.

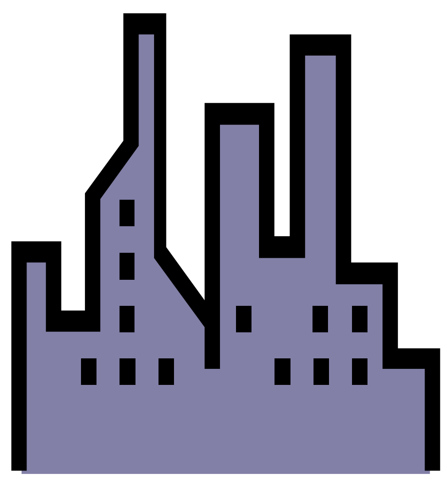
<u>The Related Companies</u>

$131,700 from '99 to mid-'02

Between 1999 and mid-2002, when Related was awarded its allotment of Liberty Bonds, Related Companies CEO Stephen Ross and his upper management gave significantly on the state level. ***Ross himself gave $110,000 on the state level from 2000 to mid-2002, and his executive officers gave an additional $8,000 during this period*** ($4,000 from David J. Wine and $2,000 each from Michael J. Brenner and Jeff T. Blau).

Multiple contributions from executive officers were often given to the same candidate on the same day. For example, on November 30, 2001, executives Wine, Brenner and Blau each gave $1,000 to Friends of Pataki, for a total of $3,000 to Governor Pataki on that day. Ross himself gave $25,000 to Pataki on June 13, 2001.

Like Litiwn, Related Companies also took advantage of the ***legal entities loophole.*** Related made contributions as The Related Companies, LP ($2,500 from '00 to '02), Related Companies ($50 in 2000), Related Capital Co.($1,150 in '00 and '01), Related Partners, Inc.($5,000 in '99), and Related Properties Company ($5,000 in '99), all from the same Madison Avenue address.



This fact sheet is part of the Connect the Dots series on **housing and development**. If you want to learn more, please check out our other research on LEAD POISONING and RENT REGULATIONS!

CAMPAIGN CASH: $221,000 in NYC

Though it is the state government that allocated the first $4 billion in Liberty Bonds, Mayor Bloomberg also controls $4 billion in bond allocations. Although participants in NYC's campaign finance program cannot accept corporate donations, interested parties often bypass this rule by bundling together multiple donations from corporate executives. Bundling effectively allows individuals donating within the legal limits to make their donations as a block of common interests. So how did these real estate moguls stack up on the local level?

Glenwood: $113,600 in '01

CEO Leonard Litwin gave $74,250 to city campaigns in the 2001 election cycle, and other upper-level staff gave another $39,350, making ***a total of $113,600 in contributions from high-level Glenwood employees.***

In many cases, contributions from multiple Glenwood employees were made on the same day. For instance, on March 16, 2001, the mayoral campaign of Fernando Ferrer received $4,500 from Executive VP Carole Pittelman, $2,000 from Exec. VP Jacob Gary, $500 from Sr. VP Morton Sanders, and $500 from Sr. VP Howard Heisner, making a total of $7,500 in contributions to Ferrer from company executives on that day.

The Related Companies: $107,750

CEO Stephen Ross gave $56,250 for the 2001 election cycle, $500 for the 2003 cycle, and $1,000 for the 2005 cycle.

Additionally, Ross served as the intermediary for two major contribution bundles. One went to Kenneth Fisher for Borough President (2001 cycle) and totaled $17,500. The money came from five Related employees (including VPs Jeff Blau and David Wine) who each gave $3,500.

Another Ross bundle, totaling $32,500, was collected from construction, heating, electrical, sprinkler, and roofing companies, went to Mark Green for Mayor.

THE REVOLVING DOOR

Former Vice President of Related Companies Sally Hernandez-Pinero is now a member of the Lower Manhattan Development Corporation, the subsidiary of the Empire State Development Corporation that was established by Pataki to oversee all aspects of redevelopment downtown. The revolving door between government and special interests allows even greater access for wealthy and powerful corporate players.

What Are Liberty Bonds?

The Liberty Bond program is part of the Job Creation and Worker Assistance Act of 2002. This program authorizes the state and city to issue up to $8 billion in tax-exempt private activity bonds ("PABs") for the reconstruction of New York City.

PABs are issued by public entities but the proceeds are supposed to be used for private activities that have a public purpose. Interest rates for these bonds are lower than corporate bonds because the interest paid is not taxable by the federal, state, or local governments.

Allowable uses for the bonds are limited to commercial real estate, residential rental property and public utility property in a designated "Liberty Zone" in Lower Manhattan.

Importantly, ***no more than $1.6 billion can be used for residential rental property. The $340 million approved for luxury housing developers in 2002 represented over 21% of this total. And as noted above, developer Leonard Litwin has alone received almost 30% of state residential Liberty Bonds.***

An Unnecessarily Rushed (And Hushed) Process

When the HFA approved the first $340 million in bonds, the state agency waived the 10-day public notice requirement at a public hearing convened on just 24 hours public notice. The Governor and Mayor have three and a half years to decide how to use the bonds, so what's the rush?

The three luxury housing projects that received the bonds were already under construction before September 11th. The state conducted no tests of necessity to determine that these projects could not have been completed without this financing or to assess whether more luxury housing downtown is really what New York needs.

When looked at alongside the major campaign contributions made by Liberty Bond recipients, this process leaves the impression that the state does not have our common interest in mind.

Liberty Bonds Leave Little Shelter for Low Income New Yorkers

The HFA claims that its mission is to create and preserve affordable housing. But along with the public notice requirement, the HFA also waived the normal state requirement that rental housing projects earmark at least 20% of their units as "affordable." In the case of the three projects approved in 2002 and the Litwin project approved in 2004, only 5% of the units will be designated "affordable." Moreover, renters who make as much as $93,000 will still qualify for these "affordable" apartments.

Common Cause/NY calls on New York to demand an open and transparent rebuilding process and an end to the dominance of special interests in Albany and at City Hall. With all that we lost on September 11th, let's make this an opportunity to rebuild the city for all New Yorkers and to create a renewed atmosphere of openness, honesty, and accountability in government.

This fact sheet was created as part of a series called CONNECT THE DOTS,
which aims to show how money in politics impacts on issues New Yorkers care about.
For more information about Common Cause/NY's CONNECT THE DOTS coalition, call 1-800-300-8707.
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