

AUDIT REPORT



CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF MANAGEMENT AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Efforts of the Roosevelt Island Operating Corporation To Maintain and Rehabilitate the Landmarks on Roosevelt Island

MJ03-108A

June 25, 2003



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, N.Y. 10007-2341

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, §93, of the New York City Charter, my office has audited the Roosevelt Island Operating Corporation (RIOC) to determine: whether RIOC maintained, or caused to be maintained, the landmarks in the open space areas on Roosevelt Island; and whether RIOC attempted to obtain financing for the landmarks' rehabilitation as well as the extent to which such rehabilitation took place. RIOC is a public benefit corporation created in 1984 to be responsible for the operation, security, and maintenance of Roosevelt Island.

Our audit resulted in the findings and recommendations that are presented in this report. The findings and recommendations were discussed with RIOC officials; their comments were considered in the preparation of this report.

Audits such as this provide a means of ensuring that City resources are used effectively, efficiently, and in the best interest of the public.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please e-mail my audit bureau at audit@comptroller.nyc.gov. or telephone my office at 212-669-3747.

Very truly yours,

A handwritten signature in cursive script that reads "William C. Thompson, Jr.".

William C. Thompson, Jr.

Report: MJ03-108
Filed: June 25, 2003

Table of Contents

AUDIT REPORT IN BRIEF1
INTRODUCTION3
 Background.....3
 Audit Objectives4
 Scope and Methodology.....4
 Discussion of Audit Results.....5
FINDINGS AND RECOMMENDATIONS6
 RIOC Took Some Steps to Maintain and Rehabilitate the Island’s Landmarks6
 RIOC Has Not Taken Adequate Steps to Stabilize the Smallpox Hospital Landmark.....9
 RIOC’s Efforts to Rehabilitate the Smallpox Hospital and Octagon Tower Landmarks May Have
 Contravened the Intent of the GDP11
APPENDIX
ADDENDUM – RIOC Response

*The City of New York
Office of the Comptroller
Bureau of Management Audit*

**Audit Report on the Efforts of the
Roosevelt Island Operating Corporation
To Maintain and Rehabilitate the
Landmarks on Roosevelt Island**

MJ03-108A

AUDIT REPORT IN BRIEF

This audit determined: whether the Roosevelt Island Operating Corporation (RIOC) maintained, or caused to be maintained, the landmarks in the open space areas on Roosevelt Island (Island); and whether RIOC attempted to obtain financing for landmarks rehabilitation as well as the extent to which such rehabilitation took place. RIOC is a public benefit corporation created in 1984 to be responsible for the operation, security, and maintenance of the Island.

Audit Findings and Conclusions

Regarding the lease requirement that RIOC stabilize and rehabilitate the five existing landmarks on the open space areas, RIOC has taken some steps to maintain or stabilize four of the five landmarks. In addition, RIOC has obtained, or attempted to obtain, financing to rehabilitate all five landmarks.

However, during the audit period and contrary to the lease agreement, RIOC had not taken adequate steps to stabilize the Smallpox Hospital landmark, although the landmark was cited by engineers as needing emergency stabilization, and State grant funding was available for that purpose. A 1995 engineering survey commissioned by RIOC found that the Smallpox Hospital was unstable and that there was potential for catastrophic wall collapse. RIOC applied for and was awarded a State grant in 1997 to perform emergency stabilization of the Hospital. However, RIOC refused the grant, anticipating that it would instead rehabilitate the landmark and develop the surrounding open space area. However, RIOC rejected a proposed rehabilitation project for the Hospital in 1999 and had taken no steps to stabilize the landmark. Subsequent to the audit scope period, in May 2003, RIOC commissioned an engineering study to determine the emergency stabilization that is needed for the north wall of the Hospital (Phase I) as well as the overall stabilization that is needed to make the entire structure stable (Phase II). Phase I is expected to be completed in June 2003.

In addition, the financing method by which RIOC sought to rehabilitate the Smallpox Hospital landmark (as well as the Octagon Tower landmark) may have disregarded the letter or intent of the lease. RIOC has sought to rehabilitate these two landmarks by soliciting proposals

for commercial or residential development on the open space areas in which they are located. The General Development Plan (GDP) of the lease states that open space areas are to be developed as parkland. Moreover, RIOC's efforts to undertake stabilization or rehabilitation of these landmarks through development may have delayed important stabilization or rehabilitation work at the Smallpox Hospital landmark that could have been funded by other means, such as governmental grants or tax-free bonds. Subsequent 2002 State legislation explicitly states that the Island's open space areas are not to be developed for other than park purposes. At the exit conference, the RIOC acting president strongly asserted that RIOC's current policy is to be in full compliance with that legislation regarding the Southpoint Park site, in which the Smallpox Hospital is located.

Audit Recommendations

We make three recommendations, all of which are listed below. RIOC should:

- Abide by its contractual obligations and continue the process after the engineering study to ensure that it stabilizes the Smallpox Hospital.
- Continue its recent policy to ensure that any project to rehabilitate Island landmarks and to develop the open space areas fully complies with the legislation and with provisions of the City lease.
- If RIOC desires to seek development in areas not currently allowed by the City lease, RIOC should obtain approval from the City to amend the GDP before entering into any binding contracts with developers.

Agency Response

RIOC agreed with the audit's recommendations.

INTRODUCTION

Background

Roosevelt Island, considered part of the borough of Manhattan, is a mixed-income urban community encompassing 147 acres in the East River between Manhattan and Queens. The Roosevelt Island Operating Corporation (RIOC) is a public benefit corporation created in 1984 to be responsible for the operation, security, and maintenance of Roosevelt Island (Island).

RIOC receives its funds from commercial space leases, parking fees, bus and aerial tramway fees, and fees from housing companies that operate apartments and co-ops on the Island. RIOC previously received financial support from the State. However, that funding ended in 1997.

When it was created, RIOC took over an existing lease obligation that the New York State Urban Development Corporation (UDC) had with the City to manage the Island. (The UDC lease with the City dated from 1969.) The specific responsibilities of the City and RIOC in developing the Island are stated in the General Development Plan (GDP), an attachment to the lease.

Under the lease, RIOC is required to finance, design, and construct all public facilities on the Island. Public facilities are identified in the GDP as those properties that are to be used by the general public. They include, but are not limited to: public school; library; daycare center; public open spaces, including a town square; and “open space areas,” including the landmarked structures in them. (See Appendix A for a chart listing all of the public facilities identified in the GDP.) The open space areas are identified in the GDP as Blackwell Park, Lighthouse Park, Octagon Park, and Southpoint Park.

The landmarks on the Island’s open space areas, as identified in the GDP, include six structures, one of which was demolished long after preparation of the GDP. The six are:

- The Blackwell House: Built in 1804 as the residence for James Blackwell, located in Blackwell Park opposite East 65th Street, Manhattan.
- The Octagon Tower: Built in 1839, designed by Alexander Jackson Davis, served as a lunatic asylum for 1,700 patients, located in Octagon Park opposite East 79th Street, Manhattan.
- The former Smallpox Hospital: Built in 1856, designed by James Renwick, Jr., used for the treatment of patients with smallpox, located in Southpoint Park opposite East 52nd Street, Manhattan.
- The Lighthouse: Built in 1872, designed by James Renwick, Jr., located at the northern tip of the island in Lighthouse Park.
- The Strecker Laboratory: Built in 1892, designed by Frederick Clark Withers & Dickson, served as a pathology building for the Charity Hospital, located in Southpoint Park opposite East 52nd Street, Manhattan.
- The main building of the old City Hospital (demolished): Built in 1894 by the City of New York, served as a mental health facility, was located across from the Strecker

Laboratory in Southpoint Park. Demolished by RIOC in 1994. RIOC stated that it received a letter in 1985 from the New York State Department of Parks, Recreation and Historic Preservation (NYS Parks) that recommended the landmark be demolished because of its instability and the prohibitive cost to stabilize it.

Under the lease, RIOC is required to develop the open space areas of the Island as parkland and to stabilize the landmarks in those areas. (According to the RIOC Director of Engineering and Capital Projects, stabilization refers to supporting a structure to prevent it from further deterioration or collapse.) In addition, RIOC is required to rehabilitate the landmarks, but is not required to use its operating funds to do so. Rehabilitation may be financed from tax-exempt financing (by issuing bonds) or other sources. RIOC is not authorized to issue bonds, but is allowed to ask the City or State to issue bonds on its behalf.

Audit Objectives

To determine whether RIOC:

1. Maintained, or caused to be maintained, the landmarks in the open space areas on the Island.
2. Attempted to obtain financing for the rehabilitation of the landmarks in the open space areas on the Island and the extent to which such rehabilitation took place.

Scope and Methodology

The audit covered the period January 1994 through March 2003.

To acquaint ourselves with the current condition of the Island and its landmarks, we made three site visits to the Island on June 11, 2002, November 15, 2002, and March 21, 2003.

We reviewed legislation and other documents that state RIOC responsibilities in maintaining the Island. We obtained assistance from Office of Counsel to the Comptroller in reviewing and interpreting such legislation and documents, including: the City lease with UDC (subsequently assigned to RIOC); the GDP and subsequent amendments to that plan; Chapter 899 of the 1984 Laws of the State of New York (the RIOC Act); and Chapter 493 of the 2002 Laws of the State of New York.

To gain an understanding of RIOC efforts to maintain Island landmarks, we met with the various RIOC representatives, including the Chief Financial Officer, Vice President of Operations, Deputy General Counsel, and Director of Engineering and Capital Projects, who provided us a walk-through of their operations as they pertain to Island landmarks.

We also obtained the RIOC mission statement and certified financial statement for Fiscal Year 2002. We reviewed the financial statement and attempted to determine whether RIOC operating funds were used to pay for any rehabilitation of the landmarks.

We requested documentation from the City Landmarks Preservation Commission (LPC) to verify that these properties are designated as City landmarks and obtained the procedures for performing work on a landmarked property. We also requested information from the LPC on applications submitted by RIOC to rehabilitate these properties. In addition, we determined whether the LPC issued any notices of violation for the landmark properties.

We contacted NYS Parks to obtain documents indicating a designation of these properties as State landmarks.

We requested evidence from RIOC officials of their efforts to obtain financing (tax-exempt or non-tax-exempt), such as grant requests and requests for proposals, to maintain and rehabilitate the Island's landmarks. We also requested evidence of any work performed (i.e., maintenance, stabilization, rehabilitation) on the landmarks during the audit period.

We reviewed the minutes of RIOC Board of Directors meetings for the audit period (1997 through 2002) as posted on the RIOC Web site to determine whether any discussions took place regarding the rehabilitation of Island landmarks and obtaining financing to fund such rehabilitation. We reviewed the list of attendees at the Board meetings to determine whether the Vice President responsible for capital projects attended the meetings at which landmark rehabilitation was discussed. Finally, we reviewed newspaper articles and other documents to determine whether there were any public issues related to the rehabilitation and maintenance of the Island's landmarks.

* * * * *

This audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and included tests of their records and other auditing procedures considered necessary. This audit was performed in accordance with the New York City Comptroller's audit responsibilities as set forth in Chapter 5, §93, of the New York City Charter.

Discussion of Audit Results

The matters covered in this audit report were discussed with RIOC officials during and at the conclusion of this audit. A preliminary draft was sent to RIOC officials and was discussed at an exit conference held on May 28, 2003. On June 4, 2003, we submitted a draft report to RIOC officials with a request for comments. We received a written response from RIOC on June 16, 2003. In its response, RIOC agreed with the audit's recommendations. The full text of the RIOC comments is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

Regarding the lease requirement that RIOC stabilize and rehabilitate the five existing landmarks on the open space areas, RIOC has taken some steps to maintain or stabilize four of the five landmarks. In addition, RIOC has obtained, or attempted to obtain, financing to rehabilitate all five landmarks.

However, during the audit period and contrary to the lease agreement, RIOC had not taken adequate steps to stabilize the Smallpox Hospital landmark, although the landmark was cited by engineers as needing emergency stabilization, and State grant funding was available for such stabilization. A 1995 engineering survey commissioned by RIOC found that the Smallpox Hospital was unstable and that there was potential for catastrophic wall collapse. RIOC applied for and was awarded a State grant in 1997 to perform emergency stabilization of the Hospital. However, RIOC refused the grant, anticipating that it would instead rehabilitate the landmark and develop the surrounding open space area. However, RIOC rejected a proposed rehabilitation project for the Hospital in 1999 and had taken no steps to stabilize the landmark. Subsequent to the audit period, in May 2003, RIOC commissioned an engineering study to determine the emergency stabilization that is needed (Phase I) as well as the overall stabilization that is needed to make the entire structure stable (Phase II). Phase I of the study is expected to be completed in June 2003.

In addition, the financing method by which RIOC sought to rehabilitate the Smallpox Hospital landmark (as well as the Octagon Tower landmark) may have disregarded the letter or intent of the lease. RIOC has sought to rehabilitate these two landmarks by soliciting proposals for commercial or residential development on the open space areas. The GDP of the lease states that open space areas are to be developed as parkland. Moreover, RIOC's efforts to undertake stabilization or rehabilitation of these landmarks through development may have delayed important stabilization or rehabilitation work at the Smallpox Hospital landmark that could have been funded by other means, such as governmental grants or tax-free bonds.

RIOC Took Some Steps to Maintain and Rehabilitate the Island's Landmarks

RIOC took some steps to maintain or stabilize four of the Island's five landmarks. The Lighthouse and Strecker Laboratory have been rehabilitated and appeared to be well maintained when we visited the landmarks. Regarding the Blackwell House, RIOC has taken steps to maintain it in recent months. Finally, regarding the Octagon Tower, a private developer began removing debris from the landmark pending future rehabilitation efforts. (Recently, RIOC has taken some preliminary steps to stabilize the Smallpox Hospital. However, these steps occurred subsequent to our audit scope period.)

RIOC has also made efforts to obtain financing to rehabilitate all five landmarks. Currently, two—the Lighthouse and the Strecker Laboratory—have been rehabilitated, and financing to rehabilitate another two—Blackwell House and the Octagon Tower—has been identified. These two are scheduled for rehabilitation, pending project approval. There were

plans to rehabilitate the remaining landmark, the Smallpox Hospital, but these fell through when the project associated with that rehabilitation was canceled.

RIOC's efforts to maintain and rehabilitate these landmark properties are discussed below in more detail.

The Lighthouse

In October 1997, RIOC granted permission to Friends of Roosevelt Island Landmarks, Inc., a private donor, to rehabilitate the Lighthouse at its own cost and expense. The project was completed in 1998 at a cost of \$122,000, raised and paid for by Friends. (The Lighthouse is a historic landmark and is not used as a marine navigational signal.) We visited the Lighthouse in June 2002, and it appeared to be well maintained by RIOC. A locked door restricts access to the Lighthouse interior.

The Strecker Laboratory

The Metropolitan Transportation Authority (MTA) approached RIOC in 1996 to inquire about the use of the laboratory as an electrical substation. Under the resulting agreement, the MTA rehabilitated the building and converted the building's interior for use as an electrical substation. The rehabilitation was completed in 2000. The MTA is responsible for maintaining the landmark. We visited the Strecker Laboratory in November 2002, and it appeared to be well maintained, consistent with the lease requirements.

The Blackwell House

From 1991 to 1999, RIOC rented this property to a commercial tenant (Suri Designs) on a month- to-month basis. The agreement called for the tenant to maintain the property. However, the tenant neglected the property and stopped paying rent, resulting in RIOC's eviction of the tenant from the landmark.

In January 2000, RIOC hired an architect to survey the condition of the Blackwell House. According to a RIOC engineer, although the landmark needs general repairs, it is a stable structure. (We requested but were not provided with a copy of the architect's report, so we were unable to ascertain the engineer's findings.) Based on the architect's report, RIOC applied to NYS Parks in August 2001 for a grant to renovate the exterior of the landmark. In November 2001, RIOC also applied to New York City Transportation Coordinating Committee¹ for a grant to fund the interior renovation cost.

In May 2002, the application to NYS Parks was rejected. RIOC subsequently reapplied and in September 2002 received approval for a \$200,000 NYS Parks grant to fund 50 percent of

¹ There are Transportation Coordinating Committees for regions throughout the State. The New York City Transportation Coordinating Committee includes representatives of the City Department of Transportation, the City Department of Planning, the MTA, and the New York City regional office (Region 11) of the New York State Department of Transportation. By organizing planning, project development, and review along geographic lines, the real decisions are made on a local, decentralized basis by local officials.

the restoration of the Blackwell House. The remaining \$200,000 was to be provided by RIOC. In 2003, RIOC issued an RFP for the restoration of the Blackwell House; the project is anticipated to begin no later than spring 2004. At the exit conference, RIOC provided us with documentation indicating that NYS Parks increased the grant amount to \$250,000, which along with RIOC's matching \$250,000, brings the total project cost to \$500,000.

We visited the Blackwell House in June 2002. RIOC had taken steps to restrict access to the building pending restoration of the property. RIOC has removed the stairs leading to the house, boarded shut the windows in rear of the house, and blocked access to front and rear porches by nailing two-by-fours to the houseposts.

The Octagon Tower

In 1997, RIOC issued a RFP for the commercial, residential, and mixed development of the waterfront (Waterfront Development RFP). The RFP was addressed to builders, developers, and other interested parties. The development of the Octagon Park area, which includes the Octagon Tower, was one of the areas covered under the RFP. In 1999, a private developer, Becker and Becker Associates, submitted a proposal that was selected by RIOC to present to its Board of Directors for approval. The proposal calls for the following:

- rehabilitation of the existing Octagon Tower,
- addition of two residential wings similar to the wings on the original building that had been destroyed years earlier and consisting of approximately 500 apartments (Octagon Apartments), and
- creation of an ecological park.

According to the Becker and Becker proposal, the developer will pay for the cost of construction, development, and rehabilitation. In return, the developer will enter into a sublease agreement with RIOC (for the remaining term of RIOC's lease with the City) to operate the new development. Some of the Island residents have objected to the project, concerned that the proposed housing (consisting primarily of studios and one-bedroom apartments) would not contribute to bringing more families to the Island and claiming that the project is a violation of the GDP. Residents are still contesting the project. (This issue is discussed later in this report.)

In November 2002, an engineering consultant firm employed by Becker and Becker determined that emergency stabilization should be performed before the winter ensued to prevent further damage to the Octagon Tower. That month the RIOC Board passed a resolution that permitted the developer to perform emergency work to stabilize the property. According to the resolution, the developer has determined that "certain selective demolition and temporary stabilization work is required to ensure that the Octagon Building's remaining sound structural elements and architectural finishes are preserved." This work was to be at no cost to RIOC, paid through grant funds provided by NYS Parks.

In February 2003, the City's Landmarks Preservation Commission authorized the rehabilitation of the Octagon Tower as part of the Octagon Apartments project. The authorization included the stabilization work identified in the RIOC resolution. According to

RIOC, Becker and Becker removed debris and performed some stabilization at the landmark during the first few months of 2003. However, officials were unable to provide documentation of the scope of work performed.

After the exit conference, RIOC officials sent us notification from the developer that as of May 28, 2003, it had substantially completed the “temporary stabilization and related selective demolition work” at the landmark.

The Smallpox Hospital

The 1997 Waterfront Development RFP discussed earlier also covered the development of the Southpoint Park area, which includes the Smallpox Hospital. In 1998, SSJ Development submitted a proposal to develop the area and erect a hotel. The proposal called for:

- construction of a twin-tower hotel,
- rehabilitation of the Smallpox Hospital, and
- creation of a public park.

In November 1998, resident groups criticized the plan for the way that it connected with the rest of the community. It was also said to be in violation of the GDP. (This issue is further discussed in the following section of this report.) In December 2001, RIOC returned the security deposit to the developer. There is no longer any proposal for the Southpoint Park area under consideration.

RIOC Has Not Taken Adequate Steps to Stabilize the Smallpox Hospital Landmark

During the audit period, although RIOC had taken some steps to maintain or stabilize four of the Island’s landmarks, it had not taken adequate steps to stabilize the Smallpox Hospital, which was cited by engineers as needing emergency stabilization, and State grant funding was available to perform the stabilization. If the Hospital is not stabilized, deterioration will continue and the landmark may have to be demolished. Subsequent to the audit period, which ended in March 2003, RIOC commissioned an engineering study in May 2003 to determine, among other things, the emergency stabilization that is needed for the north wall of the landmark. That portion of the study is expected to be completed in June 2003.

RIOC did take some steps to identify the condition of the property and what was needed to stabilize it. In early 1995, RIOC management engaged Langan Engineering and John Milner Associates (architect) for a survey of the Smallpox Hospital and the surrounding Southpoint Park open space area. In August 1996, RIOC applied for a \$100,000 grant through NYS Parks for the stabilization of the Smallpox Hospital as a ruin. In its application, RIOC stated that the landmark “is in perilous condition, and last winter’s repeat ice and thaw cycles have accelerated the deterioration. A recent engineering survey determined that the building is unstable, there is potential for catastrophic wall collapse, and moisture penetration threatens the handsome crenellated stonework.” On January 31, 1997, NYS Parks informed RIOC that the grant had been awarded, subject to certain conditions. RIOC was advised to follow up with a grant officer.

However, according to the RIOC Vice President of Operations, the pre-contract requirements were too burdensome, and RIOC did not pursue the grant. Another RIOC representative stated that RIOC had been in the process of soliciting proposals to develop the Southpoint Park area, including the rehabilitation of the Smallpox Hospital.

RIOC subsequently issued the Waterfront Development RFP in 1997 for the development of the Southpoint area, which contains the Smallpox Hospital. However, as stated previously, a project that included the rehabilitation of this landmark was canceled in 2001.

During our visit to the Smallpox Hospital in November 2002, we noted that RIOC had installed a fence restricting access to the landmark. However, other than erecting the fence and installing exterior lights to illuminate the Hospital, to date, no work has been performed on the property, although RIOC has known since 1995 that emergency stabilization work is needed to prevent further deterioration or collapse. A former RIOC Vice President told us that RIOC had contacted a capital programs manager of NYS Parks and asked him to inquire informally whether other developers might have plans for the Southpoint area, which includes the Smallpox Hospital landmark. However, he did not identify any other sources (e.g., grants, tax-free bonds) that RIOC would pursue to fund the stabilization or rehabilitation of the landmark.

Failure to perform emergency stabilization on the Smallpox Hospital allows its condition to deteriorate further and may necessitate more resources for stabilization than would be needed had the condition been addressed in a more timely fashion. One of the Island's landmarks, the old City Hospital, has already been demolished because it was allowed to deteriorate to the point where stabilization and rehabilitation were not economically feasible. (We should note that this deterioration took place before RIOC assumed management of the Island.) If steps are not taken to stabilize the Smallpox Hospital, it is in danger of meeting the same fate.

At the exit conference, RIOC's acting president stated that RIOC is now taking steps to stabilize this landmark. In May 2003, RIOC commissioned AMEC, an engineering services company that is performing other work on the Island, to conduct an engineering study, including plans and specifications. According to the president, the study has two phases. Phase I involves determining the emergency stabilization that is needed for the north wall of the landmark, which is bowed visibly near the top of the wall. Phase II involves determining the other stabilization work that is needed to make the entire landmark stable. The first phase of the study is scheduled to be completed in June 2003. All other timetables will be based on what Phase I reveals. The study is anticipated to cost approximately \$80,000. The cost to perform the stabilization itself and the timetable for performing the work will be determined once the study is completed and the plans and specifications are drawn up.

Recommendation

1. RIOC should abide by its contractual obligations and stabilize the Smallpox Hospital after the engineering study is completed.

RIOC Response: “RIOC has already begun this process and had already expressed its commitment to the architectural investigation and follow up work now underway.”

RIOC’s Efforts to Rehabilitate the Smallpox Hospital and Octagon Tower Landmarks May Have Contravened the Intent of the GDP

The funding for two projects that included the rehabilitation of the Smallpox Hospital and Octagon Tower landmarks involved development that appears to be contrary to the letter or intent of the GDP. Any deviation from the GDP must be approved as an amendment by the City, as the Island’s owner.

Although the lease makes reference to financing the rehabilitation of the landmarks with tax-exempt financing (e.g., sale of City or State bonds), RIOC’s approach has been to use financing from other sources, such as private developers or government grants, to develop the open space areas and to stabilize or rehabilitate the landmarks.

In order to encourage private parties to develop parks and rehabilitate the landmarks in the Octagon and Southpoint Park open space areas, RIOC issued the Waterfront Development RFP in 1997. The RFP solicited proposals from “builders, developers, and other interested parties . . .to develop waterfront locations, or lease commercial space, on Roosevelt Island.” The development included “approximately 10 acres of Southpoint [Park] for commercial, residential, or mixed use, and areas of Octagon Park.” RIOC would allow developers to develop part of these open space areas for other than parkland purposes, as well as to use the landmarks as part of its commercial or residential developmental project. Under this approach, RIOC would:

- have the open space areas developed and the landmarks rehabilitated,
- require the party to maintain the rehabilitated landmarks, and
- generate revenue from a sublease agreement with the party for the use of the open space areas and landmarks.

In response to the RFP, RIOC received proposals to build the Octagon Apartments and ecological park in Octagon Park and a twin tower hotel and park in Southpoint Park. These two projects included the rehabilitation of the Octagon Tower and the Smallpox Hospital. The Octagon Apartments project calls for some of the open space to be used in constructing residential wings to be attached to the Octagon Tower landmark. The twin-tower hotel project called for development of all but approximately three acres of the ten-acre Southpoint Park area. The remaining area was to developed as a public park.

However, these projects may be contrary to the intent of the GDP, which states that the open space areas are to be developed as parkland. Interested parties (tenant groups) challenged both of these projects, based in part on this argument.

In referring to the Island's open space areas, the GDP states that these areas are "to be developed as parks . . .with the landmarks identified below stabilized." This language appears to prohibit using any part of the open space areas for other purposes (such as commercial or residential development), although this prohibition is not explicitly stated in the GDP. To address this issue, the State Legislature passed a law in September 2002 (Chapter 493 of the Laws of 2002, "The Roosevelt Island Open Spaces Protection Law") that explicitly states that the Island's open space areas are not to be developed for other than park purposes. The law states:

"No further development or construction for other than park purposes shall be permitted on any real property which is identified as open space areas in the general development plan...unless such development or construction includes the reconstruction, restoration, rehabilitation, or preservation of the historic landmarks located in such open space areas and furthers the use of the areas surrounding the historic landmarks as open space areas. Open space areas, as used in this section shall be limited to Lighthouse park, Octagon park, Blackwell park, and Southpoint park."

The language in the Waterfront Development RFP in regard to development in the Southpoint and Octagon open space areas is somewhat contradictory. The RFP solicits proposals for commercial and residential development in Southpoint and Octagon Parks, which appears to be contrary to the letter or intent of the GDP (the above-mentioned law was not in existence when the RFP was issued). However, the RFP also states that any proposed development must comply with the GDP and is subject to the provisions of the RIOC lease with the City and the GDP. The RFP further states that if a proposed development requires a modification of the City lease and GDP, RIOC will prepare and process such modification. It also states that adoption of a lease or GDP modification or amendment "may" require approval by RIOC and the City.

We disagree with the "may" language contained in the RFP, however. City approval is mandatory for any modification or amendment to the lease or GDP. Since the intent of the RFP was to allow for commercial and residential development on the open space areas, RIOC should have sought an amendment to the GDP that would allow such development before it made the RFP solicitation. However, it was not until five years after the RFP solicitation and following a public hearing in which a number of Island residents objected to the Octagon Apartments project that RIOC drafted a December 2002 amendment to the GDP. That amendment would allow the development of approximately 500 units of residential housing in Octagon Park. (As previously stated, the twin-tower hotel project was rejected in December 2001.) RIOC officials told us that they forwarded the amendment to the New York City Department of Housing Preservation and Development and are waiting for a response. It is unclear who is authorized to approve a GDP amendment. The Board of Estimate approved the last GDP amendment in 1990; however, the Board was abolished in 1990 through a revision to the City Charter. According to an article published in *The Main Street WIRE*, a Roosevelt Island weekly newspaper, the Speaker of the City Council wants the court to decide the matter.

At the exit conference, the RIOC acting president strongly asserted that RIOC's current policy is to be in full compliance with the 2002 legislation regarding the Southpoint Park site. Regarding the Octagon Apartments, RIOC has not granted final site control to Becker and Becker and is awaiting a determination from the City regarding the proposed GDP amendment.

Recommendations

2. RIOC should continue its recent policy to ensure that any project to rehabilitate Island landmarks and to develop the open space areas fully complies with the recent State legislation and with provisions of the City lease and GDP.

RIOC Response: "This is directly related to the Southpoint site. As the audit itself establishes, RIOC is now, and expect to be subsequently, in compliance."

3. If RIOC desires to seek development in areas not currently allowed by the City lease and GDP, RIOC should obtain approval from the City to amend the GDP before entering into any binding contracts with developers.

RIOC Response: "This is already RIOC's practice as the audit report establishes. And it has been followed with respect to the proposed development of the Octagon site. RIOC has not signed a ground lease with the proposed developer. The path that RIOC has followed has been to achieve the GDP amendment prior to signing any such lease. RIOC has in fact held a public hearing related to the project and discussed it publicly at several Board meetings, all prior to a GDP amendment."



ROOSEVELT ISLAND OPERATING CORPORATION
of the State of New York
591 Main Street
Roosevelt Island, New York 10044
(212) 832-4540
www.rioc.com

George E. Pataki
Governor

Patrick J. Siconolfi
Acting President/Chief Operating Officer

June 10, 2003

Dear Mr. Carey:

This is in response to audit report MJO3-108A "Efforts of the Roosevelt Island Operating Corporation to Maintain and Rehabilitate the Landmarks on Roosevelt Island," by the Office of the Comptroller, City of New York.

RIOC has taken, particularly recently, aggressive steps to maintain the landmarks which are the subject of this audit.

Two, the lighthouse at the Island's north point, and the Strecker Laboratory, have been fully rehabilitated and maintained. All of this work is relatively recent, having been completed within the last eight years. RIOC has meet every standard of stewardship regarding these landmarks.

Two more landmarks are currently in the process of active rehabilitation, the Octagon Building, and Blackwell House. Regarding Blackwell House, last year RIOC applied for and won a competitive grant from the State's Office of Parks, Recreation and Historic Preservation to rehabilitate Blackwell House. The grant, originally for \$200,000, but increased to \$250,000, is matched by another \$250,000 in RIOC capital funds. Together this \$500,000 will restore the exterior, infrastructure, and systems of the house, thereby protecting it from future destruction and allowing RIOC to return the building to active use. An RFP was issued in February 2003 for an architect to determine the scope of needed construction work and to produce plans and specifications for same. A selection was made in June, and at its June 12th Board Meeting, it is expected that the RIOC Board will formalize the selection. Architectural work will begin in July 2003. To ensure the highest quality, we asked the OPR and the Landmarks Conservancy to provide guidance in this process.

Regarding the Octagon building, even greater progress can be reported. The building, has undergone a process of debris removal and preliminary stabilization beginning in February 2003 and now complete. More importantly, a developer conditionally selected to build almost 500 units of housing adjacent to the Octagon will, if given final approval, commit approximately

\$8 million to restore the Octagon to a condition resembling its historical appearance. Both in terms of funds committed and historic significance this will be the most important reclaiming of a landmark to date on Roosevelt Island.

The fifth landmark in this audit is the Smallpox Hospital in Southpoint Park, the largest of the five. The audit report recounts some past steps which would have rehabilitated this structure. What is important here is to focus on RIOC's current activities to stabilize this important structure. And, those efforts are considerable. Starting in April 2003, RIOC ordered a two part approach to this landmark. Part one, already under way, is an architectural and engineering investigation of the problem areas of the landmark together with recommendations for immediate undertakings which may be needed to prevent further deterioration in sensitive areas. Part two would provide RIOC with plans and specifications for a full stabilization of the structure.

Accordingly, it is important to note that a time and significant work attendant to the Smallpox hospital is already underway.

Concerning the recommendations, we have these comments:

1. "Abide by its....obligations and continue....[to] stabilize the Smallpox hospital." RIOC has already begun this process and had already expressed its commitment to the architectural investigation and follow up work now underway.

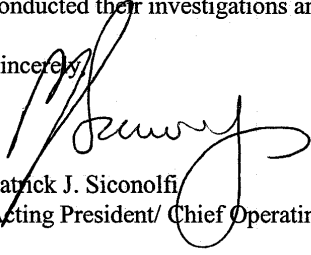
2. "Continue its recent policy.....to develop open space [in compliance] with the legislation and.....the City lease." This is directly related to the Southpoint site. As the audit itself establishes, RIOC is now, and expects to be subsequently, in compliance.

3. "RIOC should seek.....to amend the GDP before entering into any binding contracts with developers." This is already RIOC's practice as the audit report establishes. And it has been followed with respect to the proposed development of the Octagon site. RIOC has not signed a ground lease with the proposed developer. The path that RIOC has followed has been to achieve the GDP amendment prior to signing any such lease. RIOC has in fact held a public hearing related to the project and discussed it publicly at several Board meetings, all prior to a GDP amendment.

It is worth noting that RIOC's accomplishments go beyond the fine landmarks in the audit. The Good Shepard Center is a 19th century chapel now in RIOC's custody per the City lease. With the cooperation of the OPR (using a specifically designated appropriation) and the Landmarks Conservancy, a \$380,000 restoration of the building is about to commence, and the surveying and architectural plans have been completed. The Landmarks Conservancy is managing this project, and RIOC is providing managerial and financial assistance.

RIOC wishes to thank the audit team on site for the professional manner in which they conducted their investigations and determinations.

Sincerely,



Patrick J. Siconolfi
Acting President/ Chief Operating Officer