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Ms. Laura L. Anglin
Public Authorities Control Board
c/o Division of the Budget
State Capital
Albany, NY 12224

June 19, 2008

Re: Atlantic Yards

Dear Ms. Anglin:

We represent Develop Don't Destroy Brooklyn and numerous other groups concerned about the construction and financing of the Atlantic Yards Project in Brooklyn including the proposed Barclay's Arena. We are writing to respectfully demand that the Public Authorities Control Board (PACB) exercise its statutory obligation to approve the financing and construction of the project by the Urban Development Corporation d/b/a Empire State Development Corporation (ESDC).

As you know, the PACB is charged with reviewing and approving projects being financed and undertaken by various state entities, including ESDC. Public Authorities Law § 51. As part of its approval process, the PACB is directed to determine that there are commitments of funds sufficient to finance the acquisition and construction of the project. PAL §51(3).

On December 20, 2006, the PACB adopted Resolution No. 06-UD-953 approving the Atlantic Yards Project submitted by ESDC. The project identified as the subject of the resolution included the Barclay's Arena with identified financing of \$637,200,000. In considering the request from ESDC, the PACB relied in large part upon a December 2006 report from KPMG LLG Economic and Valuation Services, which evaluated the financial viability of the arena. Based upon the expectation that construction of the arena would cost approximately \$637 Million, KPMG found that the projected return on investment would support the development and maintenance cost.¹

¹ However, KPMG did note that Forest City Ratner Companies, the project sponsor, refused to make various financial information and modeling available to it.

Since that time the estimated cost of the arena, as well as other elements of the Atlantic Yards proposal, has increased dramatically, either as a result of increased construction costs or initial underestimation. As of March of this year the estimated cost of the arena itself, according to Forest City Ratner Companies, has increase to \$950 million. This represents a 50% increase over the original estimate.

That is an incredibly significant increase, far above what could be considered an expected factor and far in excess of the rate of inflation. It presents significant questions as to the overall financial viability of the project and its ability to actually be constructed and operated in a manner that would repay its indebtedness. The source of the nearly \$320 Million of additional construction costs has not been identified, and it is utterly unclear how the arena PILOT can be paid towards the bond based on assessed property taxes. The PACB was created exactly for this sort of situation to assure that state entities like ESDC do not undertake an indebtedness and obligations that are not viable. While the ESDC bonds are non-recourse obligations, the fact remains that the good faith of the State does stand behind those obligations and a default by ESDC would have severe ramifications for the State, similar to the UDC defaults in the 1970's.

Therefore, given the major change in the assumptions underlying PACB's 2006 approval, and the lack of an identified source for additional needed funds, we believe it is mandatory that the PACB re-consider the ESDC funding resolution before ESDC undertakes any binding commitments for the project. We assume that you will agree that such a review is legally required and we would like your confirmation of such within ten business days of this letter.

Thank you for your consideration and we look forward to hearing from you.

Very truly yours,

A handwritten signature in black ink, appearing to read "Jeffrey S. Baker". The signature is fluid and cursive, with a long horizontal stroke at the end.

Jeffrey S. Baker

Cc: Hon. David Paterson
Hon. Sheldon Silver
Hon. Joseph Bruno
Peter Karanjia, Esq. (Attorney General's Office)