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HIGH-RISE BUDGET CONCERNS: ITEMS TO CONSIDER

A frequent theme of our publications is the fiduciary responsibility of condominium and co-op boards. While there are certain responsibilities common to all boards, (elections, monitoring the building's finances), certain considerations are particular to high rise buildings. High rise buildings, by their intrinsic design, have unique budgeting requirements. In this article we will be addressing expense management issues and strategies and the cost/benefit of seeking revenue generating opportunities.

Expense Management Issues and Strategies

Every condominium and co-op board seeks to be prudent in managing the building's expenses. However, unlike the low or mid-rise building likely to be designed with individual mechanical units and controls, such as HVAC, a high rise may have a centralized, or potentially a combination of a centralized and individual unit controlled, mechanical infrastructure. Additionally, high rise buildings will have one or more elevators to maintain and inspect and compactors for trash disposal. And, these buildings will have different types of common areas/elements, such as lobbies, hallways, and windows, or specialized security systems, requiring ongoing maintenance and periodic repair or replacement.

Some of the questions that must be addressed include:

- Have utility costs been carefully projected? Has the price volatility been carefully considered? Has the board compared most current rates vs. the yearlong average, to determine the most appropriate indicator of these costs?
- Have efforts been made to control HVAC costs through capital expenditures for energy efficient systems, or bulk buying or fixed rate contracts of energy products been considered?
- How are windows and carpets cleaned and how often will it be done this year?
- Is the elevator system in good working order or is it time to evaluate additional repair/possible replacement?
- Has insurance been placed out to bid by a knowledgeable broker and has a higher deductible and an immunity clause been considered?
- Have the major contracts been placed out to bid recently? Consider sealed bids.
- Has an adequate amount been spent on fire safety concerns?

Further, when it comes to replacements of items such as carpeting, windows, fixtures, etc. in common areas, boards many times will utilize the services of designers/decorators and these costs must also be considered as well.

Each of these issues should be considered for their impact on the operating budget and depending on the age/condition of the items in question, maintenance or capital budgets as well. For example, boards considering upgrading HVAC systems or windows may want to research the cost/benefit of potential rebates/ reimbursements or grants from utility companies or State agencies or tax credits from the Federal government that often provide financial incentives for those seeking to upgrade the energy efficiency of their residential or commercial systems.

Another strategy to control costs/improve services is to consider maintenance contracts for compactors elevators, HVAC equipment, maintenance and monitoring re and alarm etc.

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Other miscellaneous expense/budget management issues for consideration include:

- Impact of New York City ordinances (such as Local Laws 11, 84 and 87 and others).
- Has the mandate by the FHA requiring 10% of the operating budget be set aside for reserves been considered?
- For new buildings, is the sponsor current on its obligations for expenses?
- Are there collection issues with the unit owners in a condominium requiring a bad debt line item in the budget and an increase in legal fees to pursue collections?
- For newer buildings, have appropriate procedures been implemented to protect the building from damages from move-ins?

Cost/Benefit of Seeking Revenue Generating Opportunities

On the surface, an ever popular topic is "Is there a way we can use some portion of the building to generate revenue for the condominium or co-op"? The short answer is "there may be, but be prudent and conduct due diligence before proceeding with any revenue generating initiative".

Among the income generating options are:

- Income from use of building roofs, air rights and access points for lease to cell or other utility providers
- Rental revenue from community rooms, laundry facilities, commercial space, application fees, and move in/out fees
- Income from rental/outsourcing of parking or health/fitness facilities.
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Issues to consider include:

- Compliance with any applicable New York City, State or Federal laws and building codes
- Security of residents and the building
- Impact on residents and common areas due to increased traffic and building access.
- Insurance issues
- Compliance and consistency with condominium or co-op governing documents
- Net revenue after deducting expenses for legal reviews, or potential added maintenance, permitting or security costs, etc.
- Potential cost of infrastructure upgrades needed to make the facilities usable for their desired purpose
- Income taxability of certain sources of income

And although it is not a revenue generating opportunity per se for a condominium, potential economic benefits specific to co-op owners can be realized from mortgage refinancing and/or real estate tax appeals.

A thorough evaluation of these issues in conjunction with the board's professional advisors would be wise when evaluating and implementing income generating activities.

Summary

Every building lifestyle choice has its associated benefits and costs. This article has highlighted some of the costs and budget implications unique to high rise buildings in an effort to offer guidance to boards and others charged with the stewardship of these buildings. If you have any questions, please call Annette Murray or Ed Wilkin. Your WilkinGuttenplan advisor is ready to help you in your efforts.