WilkinGuttenplan
CPAs & Advisors

HIGH-RISE BUDGET CONCERNS: ITEMS TO CONSIDER

At WilkinGuttenplan, our publications frequently cover theme's surrounding the fiduciary responsibility of condominiums and co-op boards. While there are responsibilities common to all boards, (elections, monitoring the building's finances), specific considerations need to be made for high-rise buildings. Unlike the low or mid-rise buildings, high-rise buildings, by their intrinsic design, have unique budgeting requirements. Therefore, our advisors, who are well-versed in the distinct needs of high-rise buildings, are ready to offer guidance to boards and others charged with the stewardship of these buildings.

In this article, we will be addressing how to aid in strategizing to control costs for high-rise buildings, as well as discovering potential opportunities for seeking additional revenue.

EXPENSE MANAGEMENT ISSUES AND STRATEGIES

As part of a condominium or co-op board, we know there is a desire to be prudent in managing the building's expenses. However, the unique issues that can surface with high-rise buildings versus that of a low or mid-rise building may have a more significant impact on the operating budget and depending on the age/condition of the items in question, maintenance, or capital budgets as well.

For instance, high-rise buildings will often have different types of common areas/elements, HVAC that is centralized, or potentially a combination of a centralized and individual unit controlled, and one or more elevators and compactors to maintain and inspect which will need to be considered. Additionally, be mindful that when it comes to replacing common area items, the services of designers/decorators may need to be utilized, and that is an added expense to be budgeted for. We also recommend considering maintenance contracts for compactors, elevators, HVAC equipment, and maintenance and monitoring regarding alarms.

At WilkinGuttenplan, we want to help you strategize to control costs and are providing some of the questions that must be addressed, including:

- 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?

We recommend that boards also 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 HVAC systems.

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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

There is often the question from boards asking, "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".

Income generating options to consider 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.
- For co-op owners only: economic benefits can be realized from mortgage refinancing and/or real estate tax appeals.

Issues to consider are:

- 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

Our team at WilkinGuttenplan recommends a thorough evaluation of these issues in conjunction with the board's professional advisors 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 Michael Esposito and David Schwartz. Your WilkinGuttenplan advisor is ready to help you with your fiduciary responsibility.