

Financial Operations

Management Report

Bob Klehammer



I have written several times to shareholders this year about the difficult financial condition we are facing. Our expenses have increased well beyond budget projections mainly due to rising natural gas, insurance, water and sewer, and maintenance supply costs. You see this every day in your personal experiences at the supermarket or gas station.

I am also aware of the debate in the community and in the *CC Times* regarding how money is spent by Management. Some of this debate is spurred by people who have access to the monthly management reports that contain detailed information about our financial operations and have participated in the review of our biennial HCR-mandated operating budgets.

I want to give the community a summary of our budget and where our revenues come from and how they are spent. In the most recent fiscal year that ended March 31st, our total revenue was \$250.7 million. Of that amount, \$211.3M came from carrying charges and surcharges. That is 84% of our overall revenue. If you add to that another \$24.4 million from shareholder-provided payments for things like storage rooms, garage fees and other miscellaneous fees, then 94% of our revenue comes from the pockets of shareholders. The remaining 6% comes from commercial tenant rents and fees, electric sales to ConEd and transient parking fees.

On the operating side, almost 90% of our budget goes to paying fixed expenses that we have very little control over. These include payroll and employee benefits, which is our largest expense and approximately 44% of our budget, followed by mortgage debt service, fuel costs, real estate taxes, water and sewer costs and insurance. The remainder is available to pay for discretionary expenses such as the supplies used to clean and maintain the buildings and grounds.

On the capital side, we have spent over \$150 million in the last five years on repairing and replacing critical parts of Co-op City's infrastructure, among which include residential elevator modernizations; mandated façade work; power plant improvements, especially installation of a new boiler; renovation of the Dreiser Auditorium; removal of deteriorating metal structures from the garage roofs (a requirement from the 2012 mortgage refinancing); replacement of leaking porticos in four buildings; installation of new water mains in eight buildings; installation of fire alarm systems in Bartow and Einstein centers; the Bellamy Loop basketball courts renovation and several smaller projects. We paid for these projects by using both reserve funds from the prior mortgage refinancing and surplus operating funds.

These projects were accomplished with only a compound increase of carrying charges from 2016 to today of 9.75%. In comparison, the compounded core Consumer Price Index (CPI) of inflation over the same period was 23%. So we

achieved many goals and paid the corporation's bills, while responsibly limiting any necessary increases of carrying charges to reduce financial strain on shareholders as we addressed these capital repairs.

While managing the operating expenses and capital projects, we were also laser focused on reducing expenses and therefore having additional funds available. Among some of these cost-effective initiatives were saving \$18 million in natural gas expenses since 2017 by hedging prices during the winter months when costs are the highest; and saving half a million dollars in fees each year since 2017 by hiring a different energy management consultant who advises us on natural gas purchases and hedges. The installation of the new boiler at the power plant meant that we didn't have to rent a temporary unit during the winter, which has saved \$400,000 a year since 2020 (approximately \$800,000 to date). We also commissioned the water treatment equipment at the plant, something that should have been done in 2010 when the cogen equipment was installed. That saved \$700,000 a year since 2018, or about \$2.8M to date. We have reduced our employee headcount by over 200 through a combination of outsourcing some services and implementing operational efficiencies and technology upgrades such as purchasing new equipment for the Janitorial Department that allowed tasks to be completed in much less time and the installation of a new access control system in the garages. There are other cost-saving measures we have implemented that I will detail in a future report to the community.

The point of me telling you this is that while we will need a significant carrying charge increase due to circumstances not in our control, I am sure there will be some who will create smoke screens to try to give the impression that Management is mishandling the corporation's funds. With the facts in hand, you will be able to weigh the integrity of those claims. Co-op City has a large and complex physical plant that was ignored for years. As a result, we are obligated not only to pay the expenses for maintaining current services, but also to continue to reinvest in the infrastructure to ensure that we remain a safe and viable community. The successful achievement of these goals requires an analysis of empirical data while being cognizant of national business and economic trends. In coordination with the Board of Directors, Management is committed to continue doing just that.