Upcoming Challenges to Operations Budget

Management Report

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By now, I hope you have read or seen on the news that we have closed the refinancing of our mortgage. The new mortgage infused the corporation with $124M in funds that can only be used for capital improvements, such as work on the building and garage facades, garage elevators, water distribution system and other improvements to our physical plant. The funds cannot be used for our everyday expenses such as salaries, natural gas, insurance, labor and materials we purchase to operate the housing company and deliver services to shareholders.

Many of the statements made about this loan have created a misconception that it will prevent carrying charge increases. This is correct insofar as a part of any carrying charge increase won't need to include funds for capital improvements for several years. In fact, had we not refinanced the mortgage, we were facing a potential liability of collecting $40M to fund the replacement reserve per the terms of the prior mortgage. That would equate to roughly a 20% carrying charge increase. At the same time, we still have to deal with rising inflation, fuel and insurance costs, and supply chain disruptions which have driven prices up significantly and, in some instance, caused shortages – all of which impact service delivery to residents and our operations budget.

Riverbay Corporation has not been immune to these price increases that we all experience every day when shopping for our own household or buying gasoline at the pump. For instance, our expense for natural gas, which is the primary fuel used in the power plant, increased over $7 million from the prior year. Our property insurance premium increased by $3 million even with our history of very few claims and we have seen increases across the board for the supplies and hardware we purchase to maintain the community.

Late last year, I reported to the community that we projected our fiscal year 21-22 budget (which was only 8 months complete at the time) had gone from a $4 million surplus to a $5 million deficit. We took steps to attempt to bridge this gap, but inflationary pressures have continued to increase. We are preparing a financial report for the Board that will update the deficit for the entire fiscal year that ended March 31st.

Unfortunately, I believe that it will demonstrate that we will need a carrying charge increase in the near future and before the Board needs to approve a new two-year budget in March 2023. For example, we cannot go into the next heating season without additional funds. Two years ago, we paid on average $3 per dekatherm for natural gas. This past year, we paid an average of $6. Current forward pricing for the November 2022 to March 2023 heating season is $13 per dekatherm. We use almost 3 million dekatherms per year. This is just one of the more important expenses we have, but again, we are getting increases across all products and services.

We will keep the Board and community updated as we move forward. It is very important that we understand that these market pressures are being experienced worldwide and, unfortunately, Co-op City is not immune or insulated. We will continue to make fiscally responsible decisions working along with the Board as we have throughout the pandemic in order to maximize savings for residents and help keep any increases as low as possible.