Seward Park State of the Coop 2016

In furtherance of the objectives of communication, transparency, and shareholder involvement, the Board of Directors is issuing this first annual State of the Coop Memorandum.

A brief financial history of Seward Park

Seward Park was incorporated in 1956 under the Redevelopment Companies Law of New York as a housing cooperative sponsored by local unions. As a limited equity coop, shareholders were given a chance to own jointly and to pay operational expenses jointly with the understanding that shares could only be sold back to the coop for no more than was initially paid for the unit. In 1996, a majority of shareholders voted to reconstitute as a general business corporation, removing Seward Park from Article 5 of Private Housing Finance Law to instead be governed by Business Corporation Law (BCL).

After some initial years of transitional price caps set forth in the reconstitution, the coop became an entirely free market entity. This allowed shareholders to sell their units for whatever price the market would bear. It also removed any protection from escalating costs, specifically real estate taxes that were theretofore not assessed under Article 5. In the intervening years, the value of our property has skyrocketed, meaning high returns on investments for shareholders who entered the coop through lottery, but a commensurately high market value determined by the Department of Finance when assessing our real estate taxes. No matter when or how you entered the coop, the responsibility for this tax burden is all of ours to share.

We do not pay real estate taxes directly; instead, they are paid by the coop via our maintenance fees (which also must cover other operating costs). Unfortunately, our maintenance fee revenue has fallen far behind the amounts needed to match our escalating costs. From 2008 to 2015, real estate taxes more than doubled: from $5,186,929 to $11,673,595, a 125% increase. In that same time period, maintenance increased only 14%.

Financial condition of Seward Park Coop

The first duty of the Board is to maintain fiscal solvency of our coop. Each year the Board is charged with evaluating our projected costs and identifying funds to pay for them. This year, our anticipated costs were approximately $25,000,000, but only $20,000,000 was projected for income. To avoid the 35.44% maintenance increase that would be required to overcome such a deficit, we resolved to find new ways to generate revenue.

For years, the fervent advice of both our former and current auditors, as well as our financial advisors at Greenthal, our attorneys, and other real estate experts, has been that we refrain from relying on transfer fee (aka flip tax) revenue to pay for operations. The simple reason is that flip tax revenue is never guaranteed in any year, and is certainly not a permanent, predictable source of revenue for years to come. While sales prices for apartments have reached record highs, fewer are coming to market: The number of units sold was 73 in 2013, 61 in 2014, and only 40 in 2015. We also have fewer apartments being sold by original owners who pay a significantly higher flip tax rate on “first time sale” units (17.5%) than owners of “subsequent sale” units (5%), and the number of 17.5% units will only decrease. A year of good sales no longer guarantees an adequate “plug” to cover the cost of our operations.

However, the precedent of using flip taxes to pay for operating expenses (without commensurately raising other sources of revenue, particularly maintenance fees) has been set for many years. The Board sought to reconcile its recognition of the inherent problems with allocating flip tax revenue to cover operating expenses with its objection to imposing a maintenance increase as drastic as 35.44%, and therefore allocated $3,250,000 in flip tax to the operating budget, as it did last year. In doing so, we brought the projected maintenance increase down to 10.34%, but at the expense of having funds available for capital projects, including emergency repairs, which is the recommended use for flip tax revenue. In fact, our $25,000,000, 60-year-old corporation does not even have a capital fund, due in large part to our history of spending all of our flip tax revenue on operations. That is the reason we are currently forced to pay capital assessments to fund emergency projects like our roof replacements.

NEW SOURCES OF REVENUE

Residential parking, commercial parking, playroom, bike storage, and gym fees
To find more reliable, predictable revenue streams and to further reduce the required maintenance increase, the Board looked at the assets and amenities currently available to us. Parking underwent its first fee increase in many years to a rate that is still about 50% of market value, providing us with an additional estimated $200,000 in annual revenue. The board also raised fees for playroom and gym memberships as well as bike storage by similar percentages to the parking fee increase. A number of our commercial tenants have parking spaces throughout our property as part of their leases; we increased their parking fees by 111%, which will generate $50,000 in additional revenue annually.

Sale of space not already under proprietary lease
During review of our governing documents we noted that Article 15 of our Proprietary Lease provides for the sale of space not already under proprietary leases at a fee to be determined by the Board. Since the Board had received several inquiries over the years about purchasing available hallway space in front of shareholders' own apartments, and given that we were seeking new and innovative income streams, we explored the feasibility of selling or leasing such space and how that could provide sustained income for the coop. Management and legal counsel provided examples of other coops that successfully allowed incorporation of hallway or other unleased space into an apartment. In order to guarantee that the pricing for hallway space is not set arbitrarily, and to ensure that the coop realizes the best financial advantage, the board voted to structure the pricing so that the price per square foot will always automatically match market rate prices (based on the price per square foot of the 10 most recent sales in the coop) and also resolved that maintenance per square foot of the additional space will always match current SP maintenance price per square foot, with an equivalent increase every time regular maintenance fees increase. The incorporated space will also be subject to assessment fees.

Eligible space is comprised of a limited number of square feet that is directly in front of a breakthrough apartment, most commonly at the end of the hallway. Purchasers of such space would be able to incorporate it into their apartment by moving their front door closer to the elevators, but otherwise maintaining the appearance of the hallway, similar to the layout on floors 18-20, where the original design has front doors closer to the elevators than on floors 1-17. Access to other apartment doors, storage or utility closets, elevators, stairways, and vents must be maintained in all cases and meet ADA and DOB requirements as evaluated by submitted alteration agreements that include architectural plans and engineer review. In addition to the purchase price paid to the coop, purchasing shareholders will be contractually obligated to pay all related costs (i.e., permit fees, cost of repairs to the hallway outside the incorporated space, etc.). Revenue will be immediately realized upon the alteration's approval, in addition to the ongoing additional maintenance (and potentially assessment) fees. There are currently 36 apartments eligible for such a reconfiguration; each has the potential to immediately earn the coop between $40,000 and $120,000 depending on the square footage available. Even if shareholders with eligible space do not choose to incorporate it themselves, their units are more valuable to potential buyers and will ultimately generate increased flip tax revenue.

Sublet fee restructuring
We also restructured sublet fees in a revenue-positive manner that addressed disparate concerns raised by shareholders and Board members about subletting; namely, retaining the ability to sublet at a non-prohibitive fee when life circumstances take you away from your home temporarily, versus disincentivizing shareholder absenteeism and the use of Seward Park as an income property. Owner occupancy is beneficial to our coop because it strengthens and stabilizes our community; lending institutions recognize this and require certain ratios of owner occupancy when evaluating loans. With 71% of sublessors in the higher fee brackets based on the length of time they have sublet, the change is also expected to reap $150,000 or more additional annual revenue. Owners who have been using their SP apartments purely as investment properties will pay increasingly high fees to the coop. They may also consider selling, which would generate flip tax revenue. The sublet fee plateaus at 300% of maintenance fees after 11 years of subletting—still a profitable option for some shareholders, thereby sustaining a pathway for long-term subletters who rent to residents who have enriched our community.

Fee for non-sale stock transfers
The Board instituted a fee for non-sale stock transfers because this was an area where, more often than not, the coop loses out on what it is due, and the Board ends up mired in family arrangements that are more appropriately decided privately with a lawyer and/or estate planner. The Bylaws say that all transfers are subject to a fee beyond the processing fee paid to management, but it does not specify how to calculate it or to what extent it should apply. In an effort to create a straightforward and maximally consistent policy, we initially resolved to have the fee apply to any non-sale stock transfer, for which we estimated $100,000 income for fiscal 2016. The $5,000 amount was determined by considering the $355 processing fee already in place and the value of the $500,000 to $1,500,000 asset being transferred. (Note that the processing fee is paid to Management, not the coop.) The Board subsequently revised the fee to apply to add-names only, with the exception of spouses or domestic partners who may be added with no transfer fee, and projects that this change will yield $25,000 annually in additional revenue rather than $100,000.

FINANCIAL OUTLOOK

With these additional sources of revenue, the Board was able to bring this year’s required maintenance fee increase from 35.44% down to 5.65%. Furthermore, all of these measures (other than allocating flip tax revenue to operations) will generate revenue for the coop in perpetuity.

N+1 budget
In instituting these changes, the Board hopes to provide a framework for responsible, forward-thinking financial and capital planning that serves the coop well into the future. Consistent with that goal, we have been working with our financial advisors to create what is known as an n+1 budget for the first time at Seward Park. An n+1 budget is essentially a template for predicting budgetary needs and adjustments for the year following an approved budget. Not only will this assist future boards in planning and achieving balanced budgets timely and efficiently, but it will also provide more transparency for shareholders into the budget process and its outcomes.

Along with this year’s 20% increase in real estate taxes being phased in over a 5-year period, another, separate real estate tax increase of 10% has recently been imposed by the city for the coming year. **Even after applying all of the aforementioned budget resolutions, including the new revenue sources outlined above and more described below, we are still projected to face an 11.65% maintenance fee increase to pay for next year’s anticipated operating costs.** (The n+1 budget includes the application of flip tax revenue equivalent to this year’s allocation, although ideally we would set these amounts aside for capital and/or emergency expenses for reasons previously described.) A maintenance increase of this magnitude next year would represent a major hardship for many of our shareholders, newer- and longer-term alike.

We therefore cannot be complacent and must continue to work toward raising additional revenue in order to minimize the magnitude of future maintenance fee increases. In addition the revenue-generating measures implemented this year, in recent years other amenities have been maximized, including adding new storage rooms (more than doubling the storage bins), a new indoor bike room (more than doubling the number of spaces), and two outdoor bike racks to accommodate more shareholders. Ten professional spaces that were vacant for many years are now rented out. We continue to look into areas and amenities that we can use to increase ancillary income to offset rising costs, but the work of recent Boards has nearly maximized those options.

Change to valet garage operation

In further efforts to achieve new sources of income and benefits to shareholders, the Board instituted a task force to research all options for our parking facility, including but not limited to reconfiguring the existing parking spots, leasing or selling spaces, installing lifts, contracting with a valet service, or a combination thereof. Research revealed that the nearest public garage to Seward Park is the municipal garage on Essex between Delancey and Rivington, 7 blocks away. Of the garages and lots in a one-mile radius, only a few had monthly spots available at the time of inquiry, with the average price of $371 for outdoor and $455 for indoor spots, plus tax. The lowest priced lot, at $244 per month on Montgomery Street, is scheduled to close in 2017 when a new Pier 42 park is created. We lost around 400 off-street spots when the outdoor lots on Broome and Suffolk became Essex Crossing construction sites, and several remaining lots will also close as Essex Crossing enters its second phase in a few years. Construction has eliminated on-street parking on the blocks adjacent to the construction as well. The Department of Transportation (DOT) installed a 2-way bike lane that removed 7 more on-street spots from Clinton Street. This scarcity of parking will only get worse as the many construction projects surrounding us are completed, which will bring several thousand new residents to our neighborhood over the next few years.

The Board hired a consultant to provide more specifics on each of the garage options and sent out requests for proposals (RFPs) to a number of garage operators, as reported in the December 8 Boardroom Report. As reported in our January 28 notification and further detailed in a FAQ issued on February 10, pursuant to the consultant’s conclusions and recommendations, the Board unanimously voted to change the garage to a valet operation and also selected Icon/Quik Park as our garage operator. The Board felt strongly that Icon/Quik Park had the best application among the vendors we interviewed and that they will provide excellent services to our parkers.

Shareholders will have the opportunity to give feedback and communicate directly with the garage operator, as well as the Board, Management, the garage consultant, and our attorneys, at the shareholder meeting being held February 24, 2016 at the Manny Cantor Center at 7 p.m.

Commercial leases

Another important revenue source is our commercial leases. The Board has renewed several leases for our commercial spaces in our 465 Grand building and our ground-floor office spaces. Of our approximately 50 commercial spaces, only 2 are currently not under long-term lease agreements. They happen to be two prominent spots in our Grand Street commercial strip that have been home to repeated business failures, making them visible reminders of lost income potential. However, the Board has been engaged in interviews with prospective new tenants for both spaces and in creative strategies for interim and long-term solutions. We approved a short-term agreement with the holiday pop-up shop that has livened up a portion of our property undergoing multiple renovations while providing needed income before a permanent tenant is selected. They have proven themselves as an asset to the neighborhood, motivating the Board to extend their agreement through April. Meanwhile, we are continuing the process of securing stable, successful tenants that will provide value and service to our community.

The Board also approved rental of the community room to a children's entertainment business for an afternoon a week during the winter. Many families in the coop have been enjoying their performances while the coop earns additional revenue.

Other contracts

The Board renewed a contract with Toshiba, which furnishes our copiers in the Management office. The contract allows for more printed pages under the fixed price, which supports Management's and the Board's communication efforts.

We also renewed our contract with the coop's insurance provider at a very favorable rate.

Capital reserve

We finished up fiscal 2015 slightly above what was budgeted for flip tax income to support capital and operating, but far below the record high totals of the prior 2 years. We're happy to report that fiscal 2016 started with strong sales of larger apartments, some at the 17.5% flip tax rate, giving us a total collected to date of $435,863.75, plus another $806,312.50 in approved sales awaiting closings. This reflects well on the coop's balance sheets, as well as its value and appeal on the market. Should we be fortunate enough to exceed the $3,250,000 budgeted this year, we plan to finally begin a capital fund that would offset the need for future capital assessments, high-interest borrowing, or depleting required cash reserves.

Debt servicing

With our line of credit coming due later this year and the reduction of prepayment penalty on our mortgage occurring in 2018, the Board is researching multiple financing options that could reduce our debt financing costs, provide cash for larger projects that have been put on hold, consolidate loan balances, and/or reduce debt obligations overall. With this important and nuanced undertaking, the Board strives to obtain all pertinent facts and figures before bringing any proposals. We will keep you apprised of our progress.

Energy savings

The Board has made significant strides in approving initiatives to improve efficiencies and reduce energy expenses and consumption. A campus-wide LED lightbulb retrofit, performed inhouse earlier this year and compensated by ConEd and Lockheed-Martin, will save hundreds of thousands of dollars over the life of the new bulbs. The success of the sample regenerative elevator drive installed last year has inspired ConEd to look into another incentive program to offset the cost of installation in the other 23 elevators. If accepted to that program, we would realize an immediate return on investment and an approximate $200,000 savings annually regardless of program acceptance. We are also exploring our eligibility in a new ConEd multi-family-dwelling program that would provide and install LED bulbs, radiator temperature-control valves and aerators, and low-flow shower heads to shareholders free of charge.

OTHER INITIATIVES TO BENEFIT SHAREHOLDERS

Washers and drying machines

In January 2005, the Board instituted a policy under which washer-dryer installation was permitted and with which illegally installed machines could be brought into compliance. A year later, the Board voted to put a temporary ban on such installations. This left many illegally installed machines noncompliant and prompted new illegal installations that posed potential plumbing and/or noise issues for neighboring shareholders.

With changes in technology and upgrades to infrastructure in the intervening decade, specific washers and dryers are much safer and more efficient and can be buttressed by new failsafes and other protections. The current policy that the Board is finalizing with the coop's engineer incorporates all of these conditions and specifies approved types of machines, installation parameters, plumbing requirements, liability agreements, future maintenance, and an ongoing monthly usage fee to be paid to the coop. Compliant washers are efficient to the extent that they use less water than a dishwasher. Moreover, our contract with Hercules for operating the laundry rooms is not affected by this change. In fact, shareholders who use the laundry room may find more availability of machines and folding tables. Additionally, the value of every apartment in the coop increases with the option of washer-dryer installation regardless of whether they are installed in a particular apartment.

Universal WiFi

In the interest of enhancing amenities for all shareholders, the Board sought proposals from internet providers for universal WiFi services throughout the coop. We approved a proposal from Time Warner Cable (TWC) to install and maintain universal WiFi in our complex as an extension of its current marketing agreement with the coop. That means that free WiFi service will be accessible on our grounds, lobbies, gym, playroom, playgrounds, community rooms, and public areas at no additional cost to the coop or shareholders. Customers of TWC will have free access to WiFi 24/7. Residents who are not TWC customers will have free WiFi access for up to one hour per day. The Board is pleased to introduce this amenity that will add convenience and opportunities for shareholders, as well as potential efficiencies and enhancements for our security, information, and communication systems now and in the future.

New lobby doors and access system

Our lobby doors were installed in the 1960s and beyond their useful lifespan. They are also not ADA-compliant, as is evident to anyone who has tried to maneuver a wheelchair or stroller through them. New lobby doors have just been installed in Building 2 and the other buildings will soon follow. Aside from the aesthetic improvement, the new doors are ADA-compliant and provide ample space for passage.

Accompanying the new doors will be a new access and security system that enhances convenience, safety, and upgradability. By passing an electronic fob near the entrance, the 2 sets of front lobby doors will automatically open in opposite directions in order to make ingress and egress easier and safer. Front vestibules will have a new intercom system currently being programmed with the phone numbers that residents have been requested to provided, giving all residents the ability to buzz in visitors and deliveries. If residents are not at their apartments, they can still buzz people in via cell phone, office phone, or any other number they listed to be programmed. Eventually this fob system will be expanded to include all entrances on our grounds and within our buildings, which will provide the ability to selectively turn on paid access to areas such as the gym and playroom. Only shareholders and their designees will be provided fobs. This feature offers additional security and efficiency in its ability to program each fob with days and hours of permission. Fobs can be remotely activated and deactivated, in contrast to a growing number of physical keys that have come into the possession of non-residents. Every door will also be equipped with a mechanical keypad to allow Shabbat-observant residents the option of using a combination lock that is programmed to function only during Jewish holiday hours. Combination numbers will be changed and communicated to residents on a regular basis.

Roofs and brickwork: Building 2's roof is complete, and Building 1 is underway. The Local Law 11 work on Building 3 is partially stalled due to delays in Department of Buildings site safety inspector schedules, but preliminary and visible work has progressed to the extent possible. On the bright side, pauses in project completion have allowed the assessment escrow account to accrue before invoices come due.

Inspections during this work have revealed that the installation and materials used on balconies and terraces were inapt and/or poorly chosen. The coping stone (the concrete border between the brick and the railing that is meant to divert water from the facade) is installed flush with the brick, allowing water and other elements to flow down and penetrate the porous surfaces. This has caused leaks into apartments as well as infrastructure damage and needs to be addressed immediately. The Board approved an extension of our contract with Titan Restoration, which is already engaged in the brick and roof work, to install aluminum covers over the coping that will protect the balcony walls and divert water from the building facade. Leaks stemming from large terraces on the upper floors are being addressed comprehensively to overcome faulty or incomplete work done in the past.

Community support and engagement

The Board has been actively involved in matters affecting the entire community. Members of the Board have been present at meetings of Community Board 3, 7th and 9th police precincts, Delancey Street Associates (Essex Crossing developers), SPaCE block association, SLA (state liquor authority) hearings, Parks Department initiatives, and the local NORC (naturally occurring retirement community) to advocate on behalf of shareholders on issues of health, safety, and quality of life. We have met with elected officials and community leaders and personally walked them through our streets in an effort to effect meaningful change in all our daily lives.

It is with great pride and relief that we report on the DOT's commitment to installing a mid-block crosswalk and traffic signal on Clinton Street between East Broadway and Grand. We can expect to see this important safety improvement in April of this year. Meanwhile, the Board continues its advocacy efforts on all matters affecting our community.