

UNCOMMON COMMON SENSE

“ASK QUESTIONS NOW, AND THERE WILL BE FEW SURPRISES LATER,”

says one of the 57 top management executives who responded to our 24th annual management survey. That may seem like common sense, but you’d be surprised at how uncommon some common sense ideas are.

We asked the executives, **“What is one step that you would recommend co-op/condo buildings take in any of these three areas:**

greening, energy efficiency, or financial

health?” The answers revealed a great deal

of common ground. On the financial side, a number suggested revisiting the budget periodically throughout the year, while an almost equal sampling said boards should be aggressive in controlling costs. On the energy efficiency/greening side, many suggested buildings sign up for energy audits and changing to energy-efficient lightbulbs. Then there were those with other ideas: converting from oil to gas, using light timers for less-frequently visited areas, employing a dual-fuel boiler, searching for hidden tax credits, and even changing the flip-tax calculation to bring in more money. If experience is wisdom, these responses offer something for everyone.

KEY TO ACRONYMS IN SURVEY

NYSERDA:

New York State Energy and Research Development Authority

ESCO: Energy Service Company

NYMEX: New York Mercantile Exchange

PHOTOGRAPHS BY BERNARD VIDAL

ABM Management Corporation

Barry Manson, President

I have encouraged the boards of the properties we manage to convert from oil to gas as the primary heating source. While natural gas prices have increased minimally since the end of the last heating season and natural gas futures have remained fairly stable, oil futures have moved from \$100 per barrel to over \$135 per barrel. There does not appear to be a cap to the cost of oil and the cost of a changeover from heating with oil to heating with natural gas will potentially pay for itself over the course of the 2008-2009 heating season. Additional large savings have been found in our conversions from one central boiler for hot water to the installation of separate hot water heaters, without tanks. This eliminates the necessity of running the boiler throughout the summer. In addition to reducing wear on the equipment, the installation of hot water heaters per unit also significantly reduces energy consumption, resulting in lower operating costs.

AKAM & Associates

Michael Berenson, President

Nothing is more important to a co-op or condo’s future than an accurate perspective on long-term finances. To achieve this, a co-op/condo board should arrange for a comprehensive full-property inspection ideally every three years or at least every five years. This inspection should include all mechanical, structural, and aesthetic aspects of the property. It should take into account the remaining useful life of such high-ticket items as the roof, water tank, boiler, elevators, and façade, and it should show a detailed schedule of current usefulness, anticipated remaining usefulness, rough maintenance costs, and expected replacement costs.

As a result of such a report, a long-range capital plan can be prepared to lead the property forward confidently. A property’s management company should be able to perform this inspection and prepare such a report, and actually should be proactive about recommending it to the board. Where this isn’t the case, the board should engage an outside professional (e.g., an engineer or project management group) to do the inspection and prepare the report. Prudent boards are committed to ensuring their properties’ quality of life and investment value far beyond their own tenures. A comprehensive long-range capital plan is the best way to accomplish this.

Alexander Wolf & Company

John D. Wolf, President

As the price of energy continues to soar, we often find ourselves in a difficult position in handling budgetary discussions with clients. Higher energy costs place a greater burden on our clients. This leaves the focus on restricting consumption in order to maintain reasonable operating costs. We recommend to all clients that they periodically review energy consumption and consider new opportunities to reduce it. Starting in 2004, we began a pilot program and installed energy-saving devices manufactured by Intellidyne and installed by Energy Conservation Services. The device serves as a governor over the typical heat-timer device, which controls the boiler. Following the heating season, we measured consumption against prior years, and found consumption down 12 to 14 percent. The payback period was only a few months, and also part of the cost may be offset by incentives offered by the city and state. Similarly, we have had a positive



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BRIAN RAFFERTY, DIR. OF OPERATIONS
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CHARTER MGMT

operating income and expenses. **Set up escrows.** Mortgage-holders escrow for taxes and insurance, so why shouldn't your co-op? If your bank is not escrowing for these large expenses it is important that the funds for taxes, insurance, water, and sewer be segregated from other operating funds every month. The establishment of an operating escrow will give you a clear picture of what cash you have available for other expenses and discretionary projects you may be planning.

Follow your budget. Although budgets are meant to be a guideline and not necessarily written in stone, they are compiled using historical data combined with the forecast of future expenditures by your professionals. Variances in the budget are inevitable. If we have a large expenditure well in excess of what was anticipated, we need to make adjustments in spending or income to absorb the expense. If these adjustments are not made, a balanced budget can quickly show a deficit position.

Be careful of "while we are here" expenditures. For example, a discretionary project is started in the building, such as marble refinishing. The original cost is proposed at \$2,800. It is suggested that "while we are there" why not do the lobby staircase to the second floor for an additional \$3,200? Then someone says, "Since we are doing the second floor too we should also do the elevator brass and floor for an additional \$2,500." Soon, a relatively small project is three or four times the anticipated cost. If the funds are not there, they must be found elsewhere or the work should be budgeted for another time. Unless there is some great cost benefit to expanding a project, it is best to stick to the original scope of work. Questions asked now will always help avoid financial surprises later.

Charter Management

Michael Richter, President

Reducing the carbon footprint of our buildings has become a focus of Charter Management since the beginning of 2007. Recently, we have dramatically reduced our electric bills for many of our clients by upgrading the hallway, garage, basement, and utility area lighting, replacing the magnetic ballast with new

electronic ballast and installing highly efficient T8 bulbs in place of the old fluorescents. Everyone likes the new, brighter lights and, in many buildings, the savings paid for new, more attractive fixtures. In one building of 128 apartments, the upgrade cost \$17,811 and our electric bill has dropped over \$700 a month. That's an annual savings of \$8,400 bringing us to a 2.1-year payback. In five years, this building will save \$42,000, based on the current electric rates. We have already completed this upgrade in four properties and have one underway. If you are not considering this type of renovation, you are paying more for electricity than you should.

Citadel Property Management

Michael Crespo, President

Greening co-ops and condos doesn't always have to entail a major renovation or costly capital improvement. There are several cost-effective changes that a building could implement that are better for the environment and the general health of its inhabitants. A simple, yet effective, entry point is to have a policy in which sustainable products are used for day-to-day cleaning. The simple use of degreasers, disinfectants, general purpose cleaners, and paper products that have "Green Seal" or "Environmental Choice" approvals improve air quality and the health of a building's tenants while not dramatically increasing the expense of supplies to the building's bottom line. This is an easy way for buildings to become actively involved and play their parts.

Cooper Square Realty

Dan Wurtzel, Chief Operating Officer

The continued rising trend in energy costs has caused boards and management to look more closely at energy-related expenses as they consume a larger portion of the annual budget. At this point, energy costs may make up between 20 and 25 percent of a property's operating expenditures, while only five years ago the percentage was half of what it is today. Especially during this time of ever-increasing power expenses, a co-op/condo board as well as its management company must be proactive and attentive in



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managing the building's energy costs. There are two simple approaches that should be taken together in order to have a total energy-management program. First, it is important to have an energy-management specialist review the building's energy costs for pricing, rate class, billing errors, and reasonableness. Fuel and electricity supply can be purchased in a more economical manner by utilizing the leverage that your management company brings to the table. Second, ongoing monitoring of and reporting on a property's energy expenditures by an energy specialist is essential for a co-op condo in order to track usage and cost in real time and thus be able to react to changes in the marketplace and in usage patterns immediately.

Douglas Elliman Property Management

James V. O'Connor, President

We recommend that all our buildings check that their furnaces and boilers are in good working order and operating at maximum efficiency. This can make an enormous difference in controlling fuel consumption and results in substantial savings. Boilers and furnaces should be tuned up, with filters and burners cleaned or replaced, on a regular basis. We also use only reputable fuel suppliers to make sure our buildings receive the proper quantity and quality. We change traps in all heating units as needed, and make sure that all buildings are equipped with heat sensors to avoid overheating. While there are numerous

CONVENTIONAL WISDOM



TOPIC *Finances*

WISDOM Important events, like an insistent alarm clock, demand attention.

TRANSLATION With many building systems requiring attention, prioritizing projects is a must.

RESULT The board can assign levels of urgency to different items and will then be better able to budget for the long term.

alternative-energy options coming to market, and many "green" and efficient products available, unless basic steps such as furnace and boiler maintenance are followed, any new efforts will not have maximum impact.

ETC Management Corporation

Edmund T. Coviello, President

Presently and especially for the immediate future, all residential housing should stress the monitoring of the financial budget. The significant fuel cost increases and their adverse impact on operating expenses which must be offset by the imposition of an increase in maintenance/common charges or an assessment.

Well-managed buildings develop an annual budget based on revenue receipts equivalent to the operating expenses with some modifications; however, today's financial climate with its extraordinary increases in operating expenses requires careful oversight. Otherwise, the board may have to impose emergency increases to cover the building's operating expenses; and remember, the board must also pay these increases too.

To mitigate the impact of a necessary increase to the owners or the tenants, analyze operations to pinpoint operating expenses that may be reduced: consider refinancing or lines of credit for easy and immediate access