

790 Riverside Drive Owners, Inc.

To: 790 Shareholders
From: Riviera Board
Subject: Update on Finances & Projects
Date: November 21 2007

Greetings and a happy Thanksgiving to all. We wanted to take the opportunity to update you on the Board's recent efforts on behalf of the co-op. Please note there will be a meeting as well, on Tuesday, December 11th, at 7:30 pm in Apt. 12A, where you can raise questions about the information below, or other questions you might have.

2008 Operating Budget

On November 20th, the Board approved the co-op's 2008 Operating Budget, which is attached to this newsletter (**NOTE: Deleted for web site copy. If you need a copy, please send an email requesting it to webmaster@790rsd.org.**)

Note:

The Operating Budget pays ongoing monthly bills and expenses associated with the day-to-day operations of the building, including but not limited to:

- Mortgage
- Taxes
- Staff Payroll
- Utilities

The Operating Budget is financed principally through our monthly maintenance payments. As we want to keep maintenance increases to a minimum, we also apply interest income (from our unspent capital reserves) and flip tax income to our operating budget for 2008.

The first draft of the budget, prepared by Orsid and our accountant, contained an 8.52% maintenance increase effective January 1, 2008. Many revisions were made to the original draft by the Finance Committee, and we are pleased to report that **the adopted budget reduced the required maintenance increase to balance 2008 to 4%**. As you will recall, this is lower than our projection presented to shareholders in June 2006. At that time, we told shareholders that our 2008 financial needs would require a maintenance increase of on the order of 5%.

Here are highlights of the 2008 budget:

Income

- As part of minimizing the maintenance increase, laundry room fees will be increased by 10% effective January 1, 2008. Note that this increase has no bearing on the laundry room upgrade, but rather, reflects the fact that these fees have not changed in at least a decade, whereas, utility rates have gone up significantly.
- The 2008 budget also has a 10% increase for storage and other rental fees. The board is looking to increase the number of storage lockers to generate this income.
- Transfer fees, or flip tax, was reduced 33% from \$176,000 in 2007 to \$118,000. This reflects a slower housing market and the realistic need for us to reduce our reliance on this source of income in our operating budget.

- Interest earnings from our unspent capital reserves were also reduced 33%, from \$270,000 in 2007 to \$180,000. This reflects significantly lower interest rates, as well as a lower balance for our capital reserve fund. [Our beginning-year balances in 2007 and 2008 were \$7.68 million and \$5.06 million, respectively.]
- As part of our agreement with National Cooperative Bank (NCB), the lender for our first mortgage, we received a dividend of \$92,500 in 2007 – the first year we were eligible for this payment. In 2008 through 2011, this payment is equal to 25% of the first year's figure, or \$23,125.

Expense

- Heating oil expense is projected to increase just over 19% from 2007's average of \$1.97 per gallon to \$2.35. The 2008 budget includes an initiative to offset this increase by reducing consumption 5%. This is to be achieved by optimizing our boiler operation. We expect to end up with a net increase of just under 12% in fuel expense in 2008 versus 2007.
- Based on our assessed valuation, real estate taxes are projected to increase just under 23%, to \$772,000. This amount is without any J-51 real estate tax rebates. (J-51 rebates are based on capital improvements, such as our façade and roof work.) While we submitted a timely application for J-51, the decision was made to not count on this credit for 2008, because the City has a huge backlog of J-51 applications, and, in all likelihood, we may not receive a rebate until spring 2009.
- We project a 4% reduction in payroll expense, through better management of staff overtime, particularly during the summer months when almost all vacation time is taken.
- We reduced telephone expense 46% from \$2,9350 to \$1,600 by switching to an Internet-based telephone service. A land-line will be maintained at the front desk for emergency backup.
- Insurance expense is budgeted to increase over 14%, from \$82,307 in 2007 to \$94,135 in 2008.
- We reduced the cost of photocopying and messenger services 57%, from \$9,376 in 2007 to \$4,000 in the 2008 budget. This will be accomplished by greatly reducing the need for hard-copy document distribution through greater reliance on electronic distribution.
- Lastly, legal expense, an item for which this Board has great concern, was cut 73%, from \$114,456 in 2007 to a level we have been advised to be most adequate for a building the size of the Riviera: \$30,000.

Operating vs. Capital

The maintenance increase is the result of higher operating costs for the corporation. It is **not** the result of costs associated with the ongoing capital improvements. The funds for capital improvements are drawn from the corporation's reserves account, which was funded with the refinancing of the corporation's mortgage in 2006. Since then our mortgage costs as they relate to the debt service have remained constant.

Since that time we have invested the unspent reserve funds, which earn interest, until such time as we need to pay for the ongoing capital improvements. Only this interest income helps defray our operating costs. The reserve funds themselves are not used to cover operating costs. And vice-versa, capital costs are not paid for by raising maintenance.

It should also be noted that one-time or limited-time infusions of funds should not be used to balance the operating budget, since by their very nature they need to eventually be replaced with permanent revenue sources. Such one-time or limited-time revenue sources are best suited to paying down our mortgage.

Capital Budget

Our Capital Budget pays for large one time expenses, usually associated with improving the building infrastructure. Major items in the 2008 Capital Budget are:

New Roof Final Phase	\$ 450,000
Local Law 11 (façade work)	894,922
Elevator Replacement	299,180
Children's Room	2,500 – 10,800 TBD
Roof Deck Development	TBD

New Laundry Room

The laundry room has been renovated with new equipment and floor, and is in operation. The step into the room will be fixed shortly so it will once again be flush with the floor. We hope that you are finding the new company and their equipment to be an improvement over what was here previously.

New Mailboxes

The new mailboxes are in use, and the hallway in which they are located will receive low-cost cosmetic improvements. A bulletin board has been mounted opposite the new mailboxes, for use by all residents. We ask all residents to use this new bulletin board, and not post messages elsewhere in the building. Jon Esman is researching new lighting fixtures for the old mailbox hallway.

Major Construction Update

The Local Law 11 façade work continues on schedule, and should be completed by April 2008. New parapets, similar to the originals on the building, will be installed.

After this work, the final phase of the roof will be done, scheduled to be completed in late summer.

New Garbage Procedures

In order to eliminate the smell from garbage bags in between pickups, eliminate the courtyard eyesore for residents whose apartments face that end of the yard, and fix the rat problem in our alley, a sealed storage space was built to house garbage bags. This, combined with rigorous cleaning of the compactor, has almost eliminated the rat problem. Thanks to Juan Delgado for initiating this.

Elevator Renovation Update

The renovated south passenger elevator is in service, and the north passenger elevator is scheduled to be completed just after the New Year. New control panels for the lobby and upper floors will be installed. The doors on the upper floors will be painted dark brown to match apartment doors. The wall finish between the elevators including the button panels will also be replaced. Lobby doors will be replaced with more appropriate traditional doors and the button panel will be replaced with a brass panel in traditional design as well. We are ordering new smaller luggage carts that will fit in the elevators better.

Roof Development

The Building Assets Committee has been working hard to identify ways to better utilize our building, and has recommended developing both common and private roof decks as part of the final phase of the new roof. Current plans call for a large common roof deck, available to all residents. Additionally, we plan to sell smaller private roof decks to those shareholders who want them.

Sales of these private roof decks will provide revenue to pay down some of the principal on our mortgage, and will provide additional maintenance revenue, which will help us balance future operating budgets. The common roof deck should be a boon to the market value of all our apartments, and a great quality of life improvement for us all.

In order to provide access to the roof compliant with the Americans with Disabilities Act (ADA), we will renovate the service elevator in 2008, making it self-service. (The service elevator reaches the roof level, while the other elevators do not.)

Midtown Preservation is currently working up prices on different sets of specs for the underlying materials that will support these new roof uses. Details on this project should be available early in the new year.

New Staff

We welcome temporary new staff: Esad "Eddie" Radoncic, a porter who has also been doing shifts on the door, and doorman Luis Menjibar.

Children's/Community Room

The Building Assets Committee is finalizing plans to put in place a Children's/Community room. The Children's/Community room will be off the lobby, where Juan's current office is. Many thanks to the group of parents who initiated this.

Beyond 2008: Resource Use and Cost

In addition to hoped-for reduction in fuel oil consumption for winter 2007-2008, Bill Way has recruited several shareholders with specific expertise to investigate how we might achieve more substantial future reductions in both the building's resource use and cost. We hope to make significant improvements in oil, water, and electricity use, and take advantage of programs available to reduce the per-unit cost of these resources as well..

Beyond 2008: Long Term Financial Plan

The Finance Committee is updating our long term financial plan, to identify revenue that can be used to pay down some of the principal on our mortgage between now and 2016. Prime candidates for this are the flip tax, private roof deck sales, J-51 tax abatements, and interest income from our unspent reserve fund.

Beyond 2008: Technology

We are researching ways to reduce the cost of running the building, while improving our operations, through better use of technology. Low-cost systems are now available that can improve operations, including system maintenance, work orders, staff scheduling, package receipts, visitor access, communications, and security.

Shareholders Informational Meeting Tuesday December 11th at 7:30 pm

There will be a Shareholder Informational meeting on Tuesday December 12th in apartment 12A, to discuss all the items in this newsletter, as well as any other shareholder concerns.

Holiday Party Friday December 14th at 5:30 pm

All residents are invited to join us for a Holiday Party in the Lobby on Friday, December 14th from 5:30 to 8:00 pm. We hope to see everyone there.