Community News

Amalgamated Housing Corp.
A.H. Consumers Society Inc.
Park Reservoir Housing Corp.

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Amalgamated President's Column

by Ed Yaker

Capital Needs

Introduction

How we address the maintenance of our property and the financing it requires will help shape Amalgamated's future. Not only will decisions be important, so will the process of reaching those decisions. As part of that process, I offer some thoughts.

Note: I was first elected to the Board of Directors in December, 1977. I do not claim my discussion of Amalgamated history to be complete or thorough, and it should not be relied upon as such.

Part I: How did we get in this condition?

At the first open meeting of the Long Range Planning Committee in October, 1994, slides showed roof and masonry conditions on Buildings 7 and 12. It was clear that repairs were long overdue, perhaps by ten or twenty years. "Why didn't they fix it sooner?" asked one cooperator.

Having wrestled with our need for very sub-

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stantial capital repairs in as short period of time, I've wondered about that myself. Based upon personal knowledge and some reading of our history, I offer these thoughts.

First, let us all understand that at no time in our history was the Amalgamated flush with money. It was never the right time to spend money if such expenditures could be postponed.

In the early days, just surviving as a cooperative took brilliant leadership and was a great accomplishment. Other cooperatives similar to ours failed during the Depression.

After Wrold War II, the co-op's energy (and financial resources) focused on new construction to house returning veterans. With the addition of today's "middle generation buildings" (8, 11, 12, 13 & 14), the Amalgamated about doubled in size.

By the early and mid 1960's, the roof of the First Building had severely deteriorated. Rather than spend the money to put a new roof on a four story walk-up, the co-op decided to replace it with two modern, centrally air cooled towers. The Towers would also provide a much needed increase in the number of larger apartments available. It made sense in terms of the economics and community needs.

With the First Building coming down and the Towers going up, our nation experienced an unprecedented wave of inflation. The cost of building the Towers increaased beyond what anyone could have reasonably anticipated. Mortgage interest rates increased, and leanders would offer only short term mortgages of five years. Cooperators faced substantial, unanticipated increases in carrying charges.

The oil embargo of 1973 caused the cost of fuel oil to more than double. From 1970 to 1975, the operating cost in three major categories (utilities, mortgage interest, and real estate taxes) just about doubled. That was not the end of it. Fuel prices continued to soar even higher. Two more mortgages had to be obtained by the early 80's, each at higher rates than before. Throughout the 70's and early 80s, cooperators faced very heavy increases just to tread water.

In the meantime, the buildings kept getting older. An additional two million dollars was added to the mortgage in 1976 for capital expenses, such as new plumbing and electrical rewiring in some of the older buildings, new intercoms and locking lobby doors for all buildings, refurbishing elevator cars, etc. Nothing was available for new roofs. Roof leaks were patched, but this band-aid practice had limited effect. Leaking conditions got worse.

By the mid 1980's economic conditions got a little better. Oil prices came down from their record high levels. Inflation eased to a manageable level.

But twenty years of postponing capital repairs (from the mid sixties to the mid eighties) had taken their toll upon our buildings. Several buildings needed new roofs, all at the same time. The board tackled the worst cases first. Building 13, then building 9, building 8 and building 6 got new roofs in that order. These were the first complete new roofs done in Amalgamated's history.

To pay for these the board used a variety of sources. We used savings as fuel costs declined, and built some funds for capital into a 1987 carrying charge increase. When we were able to prepay our mortgage in 1988 at a lower rate, we used the $120,000 lower mortgage cost for capital. These funds were not in a segregated account, and eventually mingled with operating expenses. Starting in 1984, we began collecting amortization funds, which also went to capital repairs. But the need for

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capital work continued to outpace available funds.

In 1993, with interest rates even lower, we were again able to negotiate a new mortgage at a lower rate. This time we borrowed about three million dollars more, while maintaining the same payment for debt service (interest and mortgage principal). Some of that money was used to repay short term loans to A.H. Consumers and Amalgamated Bank, loans necessitated by capital expenses. The rest of the money is dedicated to capital repairs through 1996, mostly on the roof of the Gale Place Garage (as required by the lender), and roof and masonry work on buildings 7 and 12.

The Reserve Fund Question

In most housing corporations, it is considered proper management to have a capital reserve fund. Some money is paid in rent to be set aside for future capital needs, such as a new roof or a new boiler. When major capital expenses occur, all or much of the money is thus available.

Park Reservoir has a reserve fund, which it has used for capital repairs. Amalgamated never established a reserve fund. I suspect it was thought that a reserve fund was like a rainy day fund, and cooperators always felt that it was rainy then, and that things would be better tomorrow.

Part II — Where do we go from here?

We believe that we have our work and our funding in place for the next two years (1995-1996). Our Long Range Planning committee has begun to consider what we do from 1997 onward. Part of the commitee's work involved three open meetings with cooperators at Vladeck Hall. The consensus at those meetings was to begin raising funds as soon as possible, and that a capital assessment was the preferred method.

Based upon current knowledge we expect to need the following work for the period from 1997 - 2002: Tower I roof and masonry; Tower II roof and masonry; Towers convector replacement; Building 14 roof and masonry; Building 11 roof and masonry; Building 10 roof and masonry; Terrace repairs for Buildings 8, 13 & 14. In addition, we will not know until specifications are drawn up and bids are received whether we will be able to complete buildings 7 & 12 withfunds available before 1996. Parts of those jobs may get continued into 1997. Also, we plan to handle only the most essential work for the Gale Place Garage at this time.Engineers estimate that we will need work there every three years to keep the garage safe and useable.

Management is now working with engineers to get the estimates of costs and priorities for the work listed above. We must also keep in mind that with systems as vast and complex as ours, it is possible that a problem not on current lists will demand attention.

Our goal is to get as clear a picture as possible of needs, priorities, and costs for the next five years. We will then address the problem of how to schedule and pay for required work. We will continue to keep cooperators informed and invite your comments.

Part III — Personal comments.

I believe the three open meetings held by the Long Range Planning Committee will be well spoken of for years to come. Attendance was disappointing at the first meeting but grew at the second, and filled Vladeck Hall at the third. At all three meetings, the problems were addressed cooperatively. Many people made good points and asked thought provoking questions. It was an exercise in cooperative democracy, and I compliment committee chairman Ken Solomon.

I'd like to address a few of the points which were raised.

1. Cooperator: "You fix what you really need to fix, and you postpone whatever can be postponed."

That's what was done in the past, and it will be done again now. There is more out there to be done than any of us could afford or manage responsibly all at once.

It also suggests another question of how to define need. At what point of cooperator discomfort does a condition change frombeing

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an inconvenience to being a need? I hope we never reach the extreme of having engineers tell us there is a hazardous condition posing imminent danger.

2. The point was made that a $500 investment per room in 1927, adjusted for inflation is worth over $4,000 today.

I checked on the cost per room for a new move-in today, using building 7 as an example:

Equity, $700; Amortization, $930; Painting, $195; Organization fee, $30; Reserve Fund, $405 (A.H. Consumers Society, to assure money to repurchase stock upon move-out, not for capital replacement. For original cooperators, the reserve fund came from dividends in years the co-op made a profit) There are a few other small expenses, but so far it's $2,260 per room. That's still less than $4,000, but cooperators in 1927 got brand new buildings for their investment. Today's new cooperators are getting much older buildings. If we raised another two thousand dollars per room to bring it over $4,000, that would give us about $12.5 million. It would address a great deal of capital work, but would still not make our buildings as good as new.

3. Cooperator: "Is this ever going to end? Are we going to be paying for capital work for the rest of our lives?"

I am afraid so. I hope it will not be as severe and critical as now, but even after our known problems are repaired, there will still be needs. The fact is, with a development as large and complex as ours, capital work should be an ongoing process. We must learn from the lesson of deferred capital maintenance.

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When we started, I thought of long range planning as planning for a few years at a time. I've come to realize that long range planning itself is also a never-ending, long term process.