BIG SIX TOWERS

FINANCE COMMITTEE RECOMMENDATIONS

October 2023

Introduction

- The Board are fiduciaries—our first responsibility is to ensure the financial viability of the Big Six
- We are accountable to our fellow shareholders
- This information is being shared with you as shareholders. It will be further discussed at upcoming Information meetings.
- Repeating half truths and slander only harms all shareholders.

RECAP:

- In February of 2023 we had a $2.6 million budget deficit due to:
- Increase in Fuel costs over budget $1,500,000
- Property Insurance Increase $400,000
- Shed rental cost $400,000
- Salary and benefit increases & other costs $280,000
- Additional Money needed: $2,580,000
- Base maintenance revenues: $12,284,900
- Percent increase needed to cover costs: 21%

HOW DID IT GET SO BAD?

- Costs rose sharply since Covid due to inflation, older buildings and extraordinary events such as IDA and sheds.
- Covid cost us about $1.0 million in lost revenues from commercial rents (loss of the gym, etc.) and shareholder maintenance. We have not recovered all of it.
- Hurricane IDA cost us also about $2.0 million—insurance did not fully cover the cost of the flood, nor did it cover the increased cost of fuel.
- Our insurance costs have doubled partly as a result of Hurricane Ida—from $700,000 to $1.4 million annually over the past two years.
- The cost of everything—supplies, etc—went up about 20% after Covid.
- The cash situation is worse because we had to front certain costs related to IDA before insurance would reimburse and we have certain shareholders who are in arrears.
- We have virtually no reserves upon which to draw—no “rainy day fund”

WHAT DID THE BOAR DO IN RESPONSE?

- Controlled the costs we can control—spending judiciously.
- We have cut costs by:
- Eliminating positions; changing contractors
- Looking at sources of revenue—i.e., commercial rents as they come up for renewal. The Board is committed to leasing out commercial space at market rates.
- Working with vendors to whom we owe large sums of money.
- Making politicians, HPD and HDC aware of our financial distress.
- Finding alternative sources of funding—green funding as it becomes available, etc.

WHERE ARE WE NOW? OCTOBER 2023

- The situation is worse.
- The $2.6 million in Payables (our bills we cannot pay) we had now approaches $4.0 million
- Why did this grow? Because the maintenance increase is monthly; we already had a $2.6 million deficit. It will take a year to “catch up”.

- We take in $1.36 million monthly.

- Fixed expenses total $1.3 million monthly:

  $462,000 Mortgage

  $440,000 Staff

  $218,000—fuel, gas, direct energy, workers comp insurance

  $150,000 for emergency power plant issues“emergencies”—power plant, etc.

That leaves us $60,000 monthly to pay other bills.

We cannot borrow to repay the bills we owe; they must come out of operating expenses.

WHAT MORE CAN WE DO? OPTIONS TO DISCUSS:

- capital assessment? Another maintenance increase? NOT OUR PREFERENCE
- Other options:
- Do a fuel surcharge—half of our payables are fuel.
- Sell the shopping center
- Keep the shopping center and upgrade the tenants
- Sell other pieces of real estate
- Work with HPD to build more affordable housing on our site in exchange for low cost financing
- Avail ourselves of more “green funding” as it becomes available (if we are connected to Con Ed, and on “the grid”, there are more options here).
- Pressure the politicians—we have $100mm of capital needs potentially; we cannot finance it at current interest rates and remain affordable.

The Power Plant—A PRESSING NEED

- Our Power Plant is old--it may not last until we figure out how to deal with Local law 97 and 38
- The age of the diesel engines makes it extremely expensive to maintain.
- The board has approved a hybrid plan which connects us to Con Ed as a backup and also keeps our power plant.
- Why did we approve a hybrid?
- We are extremely vulnerable as an island plant (no connection to ConEd). We are dependent upon private companies for oil; if we do not pay them, they will not deliver oil to us and we will have no power and no heat.
- DEP refused to extend our Certificate of Operation for the Power Plant unless we had a plan.

Infrastructure

- We need:
- New Roofs
- New Elevators
- Significant façade work
- Significant sidewalk repair
- We need to figure out how to afford it—with interest rates at 7% plus we cannot do it all on the backs of shareholders. We need below market financing.
- This is not as urgent as the power plant but does need to be addressed.

What is the Board Doing Now?

- Trying to control costs to keep the next maintenance increase as small as possible. That means:
- Working with our insurance broker to keep our insurance increase to a minimum. It will go up at least 20% which is another $280,000; it may increase more because of our claims.
- We have locked in our fuel costs to the extent possible at last year's prices.
- The Board and Management continue to look at all our costs to see where we can cut.
- We continue to need a temporary generator which pushes up our costs. But we must have power and heat in the complex.

What is the Board Doing Now?

- There is below market funding available. To get in the queue we need:
- Money to draw up plans and specs and send out RFPs so we have firm dollar amounts attached to these projects. We are working with HPD and HDC to get the money to draw up plans and specs.
- The Board has prioritized the Power Plant given its age and how critical it is.
- It may be necessary to do it in two steps: reconnect to Con Ed and then upgrade our existing plant.
- Why? Time is against us—reconnecting to Con Ed may be the quickest solution; it will still take several years.
- We need the help of politicians to get Con Ed to speak with us and also to push HPD/HDC.
- There is a path forward but it requires continual pressure on city officials and politicians.

Next Steps--Recommendations

- The finance committee recommends:
- Set up one or several committees of board and shareholders to examine options:
- Selling the shopping center and other pieces of real estate
- Explore building more housing on our existing facility
- Explore conversion to Article 11
- Set a timeline to receive reports from the committees
- Continue to work with HPD and HDC to get in the queue for below market funding
- We need to figure out how to afford it—with interest rates at 7% plus we cannot do it all on the backs of shareholders
- This is not as urgent as the power plant but does need to be addressed.