

## 336 TENANTS CORP. - WINDOW PROGRAM

### TODAY (STATUS QUO)

### IF WINDOW PROPOSAL IS APPROVED

1 ***Why are we contemplating a window program?***

Like all co-ops from the early 1900's, our building has problematic windows that require ongoing costs to maintain. We name these "old" windows for the purpose of this discussion as they likely are the original windows in the building. These "old" windows today are the financial responsibility of ALL the shareholders. There is an ongoing cost to maintaining and/or replacing these windows. We as a co-op community ALL bear the cost of an "unknown" future expense to repair and replace "old" windows.

These "old" windows cost us money every year and will continue to do so. Unfortunately the historic costs to maintain/replace "old" and problematic windows over the years was not separately tracked and thus we cannot report accurately. It is worth noting beyond the cash cost to maintain "old" windows, these "old" windows potentially could present (1) compliance issues (Local Law 11), (2) larger damage risk to the building from rain leakage (costs even more money to fix), (3) heat loss in the winter, (4) poor cooling retention in the summer and (5) limited noise insulation. In short, it is a benefit to ALL shareholders to upgrade these "old" and problematic windows. For absolute clarity, it does not have to be done at once, but we recommend having a programmatic approach to addressing the situation over time.

2 ***What options exist to minimize the shareholder's liability?***

Some buildings have pursued an option of transferring window ownership to a new buyer when the apartment sells. Some transfer ownership to a shareholder conducting a major renovation. Through these methods, the shareholders' collective liability for the "old" window diminishes. Other buildings have sought to transfer the ownership from the collective shareholders to the individual apartment owner over time. The window proposal contemplates all of these approaches.

3 ***What are the other benefits of the window program?***

The window program (a) provides clarity for existing shareholders and for future buyers of apartments as to the window ownership, (b) removes the ongoing future expense to repair/replace "old" windows that is borne today by ALL shareholders, and (c) allocates the financial responsibility so shareholders are only responsible for their own windows, and not for any other windows in the building.

4 ***What information is known about the window status in the building?***

The Board conducted a high-level survey of the windows last year. It was conducted by Panorama windows. The purpose was to understand the magnitude of the cost IF we had to replace all the "old" and problematic windows at the same time (i.e. we wanted to understand the maximum cost, even in such an unrealistic scenario). We went in understanding Panorama is in the business of selling windows and thus their estimates are likely much higher than is the actual cost exposure. However, even with their likely inflated estimates, we still can absorb the costs of replacing all the "old" and problematic windows IF we had to do it at once. Our reserve fund balance (built over the years from transfer fees) is larger than the inflated cost estimate, and as such we do not have a financial issue and have no cause for an assessment. However, we believe this initial evaluation is inflated and it is not prudent to syndicate that information as it assuredly is inaccurate. Instead, we would want to have an independent engineer/expert conduct a window-by-window assessment and report on the vintage, functionality, and risk of failure of each window.

5 ***Is there a very simple way to think about this?***

Yes, you and every shareholder in the building are paying for ALL the repairs and replacements of "old" windows one way or another.

Yes, ultimately you only will be paying for repairs/replacements for your windows and your neighbors will be paying for repairs/replacements of their windows.

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If you believe all the shareholders collectively should continue to pay for fixing or replacing the "old" problematic windows in the building (either yours or anyone else's), then the status quo likely is appealing. We will continue to fix and replace windows as needed, the cost of doing that will be submitted as an expense to the co-op, and we will use the shareholder's operating cash (which is generated from monthly maintenance fees) to pay for this expense.

6 ***Do we have to change the way we are handling the windows in the building?***

No

7 ***Is this program for ALL windows?***

N/A

8 ***What is a "new" window and who is responsible for it?***

A "new" window effectively is any window that is not "old". Each shareholder with "new" windows already owns today the financial responsibility for any repairs or replacements of "new" windows. You may have changed windows, or the prior owner of your apartment may have changed the windows, or the owner prior to that may have done so. In addition, the building may have changed your window in the past. In all of these cases, the windows would be deemed "new" and the individual shareholder is responsible for these. "New" windows are EXCLUDED from the window program proposed herein. There is lingering confusion due to (1) a lack of clarity as to what is a "new" vs. "old" window and (2) whether an individual shareholder is responsible for the cost to repair or replace them in the future if they fail.

9 ***How does one know if their windows are owned by the building? Or by the Shareholder?***

There is no formula. It is a case-by-case evaluation. The building became a co-op in 1970, and the apartments have had numerous sales, combinations, and renovations, which in many cases has impacted the windows in each apartment. In order to determine the ownership, it will require an apartment-by-apartment evaluation with a professional architect/engineer/expert. At that point there will be an official "register" of each apartment and who owns the windows.

10 ***Are there any guidelines to help me assess whether my windows may be "old" or "new"?***

**For the purposes of simplicity, we are using "old" to indicate those windows where the building (i.e. all shareholders) may have a financial accountability, whereas "new" indicates the individual shareholder today has responsibility for such windows.**

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If you believe you only want to be responsible for your own windows and not be responsible for anyone else's windows, then the new plan is likely more appealing.

If approved, the proposal provides a valuable opportunity to bring clarity about who "owns" which windows and who is responsible to pay for fixing or replacing windows in the future if they break.

No. This entire initiative is only for "old" windows that have a functional problem requiring repair or replacement (e.g. windows do not open/stay open, have cracked glass, the sashes or frames are eroding, water is leaking through them, etc...). This program is not for windows that may be aesthetically unpleasing to you. If the window works or it is "new", it does not apply in this program.

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The following is only a guideline and does not stand as any record or obligation. The determination requires us to retain an independent professional to do the evaluation. However...

- If they are old wood or steel casement they likely are building's (i.e. all shareholders accountable).
- If they are on CPW and no longer are old wood or original steel windows (with steel grids/muntins), they likely were replaced at some point and hence are owned by the individual shareholder (*over the years the building only invested in repairs on CPW*).
  
- If the window(s) are the fire window in the "B" line (wire pattern inside the glass), most likely these are the original ones and likely are the building's (i.e. all shareholders accountable).
- If they are better quality aluminum from a manufacturer like Skyline or Panorama, it is likely the shareholder replaced them and thus the individual shareholder is accountable for them.
- If they are low quality aluminum then there is some question as to accountability, but likely these would not need to be replaced in the near future.

11 ***Am I required to replace any windows?***

No. The only time a repair or replacement is required is if the window presents a danger or it is leaking.

No. The only time a repair or replacement is required is if the window presents a danger or it is leaking.

12 ***Will this create any new, "out-of-pocket" costs to shareholders?***

No

No

13 ***Will shareholders be billed anything on their monthly statement?***

No

No

14 ***If my neighbor's windows are not functioning properly and need to be repaired or replaced, who is paying for it?***

If your neighbor has "old", original windows that need to be repaired or replaced, YOU, YOUR NEIGHBOR, AND ALL THE OTHER SHAREHOLDERS are paying a portion of your neighbor's window repair/replacement cost.

If your neighbor has "old", original windows that need to be repaired or replaced, YOUR NEIGHBOR ULTIMATELY WILL BE RESPONSIBLE to pay for his/her future window repair/replacement. Technically, each month into the program, your neighbor will be increasing the % of the cost they have to pay and you will be decreasing the % you are paying. After 5.5 years of the program, if an "old" window requires replacement, your neighbor will be 100% responsible for that cost.

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15 *How is this being paid?*

For any "old" window with problems, when your neighbor meets with Sergio, he determines if a repair or replacement is required. He consults with the Board and recommends a repair or replacement. He will have it repaired or have a professional window company repair or install a new window. The invoice for that work is submitted to the building as a repair expense and it is paid from the operating cash of all the shareholders. When you pay your maintenance each month, some portion of that is being used to pay for these repairs or replacements. That is, all shareholders are paying a piece of everyone's window repairs. If we do not adopt the new program, this will continue as the policy.

16 *What if my neighbor's windows are not "old" ones, but "new" ones that he/she or the previous owner(s) of his/her apartment replaced?*

If your neighbor has windows that are "new" (i.e. not original ones and not the responsibility of the co-op), your neighbor alone is responsible for paying for their windows to be repaired or replaced. However, even though your neighbor is responsible for their own windows in this case, your neighbor is also paying a portion of the other shareholder's "old" windows in the building when they need to be repaired/replaced. In such a case, your neighbor is contributing a disproportionate share to maintain windows in the building.

17 *Do we have a major window problem?*

Not really. However there are a number "old" windows in the building that are problematic and require continued expense to fix them or potentially replace them. This cost is borne by all the shareholders. Based on an initial survey of the windows, if we had to replace immediately all of those identified as having issues we could readily do that from our reserve fund and not need to have any supplemental assessment. Establishing a program and policy creates clear guidelines as to who is responsible for the windows, which provides clarity and ease in decision making.

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Essentially your neighbor will be responsible for the invoice to repair or replace their own windows. Your neighbor will receive an invoice from the window repair company and pay the window repair company directly. There is no invoice sent to the building and thus you, and the other shareholders are not responsible for paying for your neighbor's window needs.

Your neighbor is ultimately responsible for paying for any/all of their windows to be repaired or replaced.

Not really but there are a number of windows that require ongoing repair and potentially replacement. However, the plan would transfer the financial accountability for those problematic windows to those specific shareholders with the problematic windows. Over the course of apartment sales, significant renovations and/or the elapsing of 5.5 years, all shareholders will be assuming the financial accountability for their own windows at a rate of 1.5% per month (i.e. each year that elapses transfers 18% of the financial accountability for one's own windows).

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As a reminder, the reserve fund is principally generated from transfer fees (flip taxes) from prior shareholders selling their apartments. This is not money that is paid each month in maintenance.

18 ***Why don't we just transfer the window accountability immediately based on a vote? Why is the proposed responsibility transferred over 5.5 years?***

If your windows are "new", and they break or require replacement, you already are accountable to pay the full amount to a professional to fix/replace them. In addition, you also are paying for any ongoing repairs or replacements of all the other shareholder's "old" window problems. If you already "own" your windows you likely would be in favor of transferring the financial accountability for windows as fast as possible. It would be far easier to transfer the window accountability immediately but it could create a financial stress for some shareholders with "old" windows. It is this factor to which the Board wants to be sensitive.

19 ***Why is there a bulk purchase program?***

The bulk purchase program will not apply in the status quo.

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Example: Assume your neighbor has "old" windows that, after two years into the program, are deemed to require replacement due to a functional or safety problem. The cost of new replacement windows is \$4,000. In this case, your neighbor would be required to pay 36% of \$4,000 or \$1,440. The other shareholders (i.e. the building) would pay \$2,560. However, if the replacement was deemed to be required after 5.5 years, your neighbor would pay \$4,000 and the other shareholders would pay zero (\$0).

The proposed plan provides for a smooth transition of financial accountability for windows over 5.5. years so no shareholder with "old" windows incurs any undue financial burden in the event their windows require repair or replacement in the immediate or short-term. In the example above, if we transferred ownership immediately upon approval of the plan, your neighbor would incur \$4,000 of expense to replace their own windows and the other shareholders would incur zero (\$0). Hence, the proposal seeks to smooth this financial accountability over time.

If there are a large number of shareholders with "old", problematic windows that likely will require replacement at some point in the future, it is most cost effective to replace a large number of them all at once. The cost of replacing 50 windows is much cheaper per window than 10, or replacing 80 windows is cheaper per window than 50. Let's examine each parties' interests/incentive for participating in the bulk program:

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*The building (i.e. ALL the shareholders):* "Old" problematic windows are replaced in the short-term, which improves safety and reduces risks of leaks. Your neighbor will now own 100% of the responsibility for the replaced windows going forward. You will own zero responsibility for those windows once they are replaced. The building will use some of the reserve fund to pay for 50% of the "old" window replacements (which is better than today, where all shareholders are paying 100% of the costs to fix or replace "old" windows). It will use some of the reserve fund to solve the problem today, and thus is an efficient use of those funds. It will not require any assessments for the shareholders. It accelerates the clarity of who owns what windows and who is responsible for them going forward.

*The neighbor with "old" windows that are not functioning:* They can elect to replace their problematic windows in the short-term, they will get new windows but pay for 50% of the cost of those windows. However, they will assume 100% of the financial accountability for those windows going forward (i.e. you will have no responsibility for those windows).

20 ***Do I have to participate in the bulk window program?*** The bulk purchase program will not apply in the status quo.

No. It is not required but is offered as an optional convenience. One can think of this as an incentive to fix "old", problematic windows faster and the cost to do that is shared by the building at a lower cost per window. This will come from reserve funds and not create any assessments.

21 ***If my windows work but I want to replace them, can I participate in the bulk program?*** The bulk purchase program will not apply in the status quo.

Yes. If you want to replace your fully functioning windows, you can participate in the bulk program but you will incur 100% of the cost (not 50%). Your benefit in this case is a lower cost per window (bulk purchase).

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- 22 ***When I sell my apartment and I have "old" windows what happens?*** In the status quo, nothing. The new owner simply inherits the windows and if they are "old", all the shareholders will continue to fund any future repairs or replacements for these "old" windows.
- 23 ***When I sell my apartment and I have "new" windows what happens?*** In the status quo, nothing. The new owner simply inherits the windows and because they are "new", the financial responsibility to maintain, repair or replace continues to be borne by the new owner(s). In this case the other shareholders have no financial obligation for the windows.
- 24 ***What if I do a Class III (major) renovation?*** In the status quo, nothing. If you choose to replace the "old" windows, you then assume future responsibility what would be deemed "new" windows. If you choose to leave the "old" windows alone, all the shareholders will continue to fund any future repairs.
- 25 ***What if I do a Class II (medium) renovation?*** In the status quo, nothing. If you choose to replace the windows, you then assume future responsibility for the windows. If you choose to leave the windows alone, all the shareholders will continue to fund any future repairs.

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The program calls for the immediate transfer of window accountability by the Buyer in an apartment sale. That is if the windows require repair or replacement, the new owner is responsible. All other shareholders in the co-op are relieved of any obligation for the windows in this apartment. Of note, since there is a "flip tax" or "transfer fee" that is added to the reserve fund, the selling shareholder with the "old" windows will be contributing 2% of the sale price to the reserve fund to help the current shareholders maintain the building in good working order and invest further in improving the building.

The program calls for the immediate transfer of window accountability by the Buyer in an apartment sale. In this case the windows are "new" so the buyer already had assumed the responsibility anyway. All other shareholders in the co-op are have no obligation for the windows in this apartment.

The program calls for the immediate transfer of window accountability in a Class III renovation - whether or not the renovation calls for a replacement of the "old" windows. All other shareholders in the co-op are relieved of any obligation for the windows in this apartment.

Based on the Town Hall meeting, the program has been amended to EXCLUDE Class II renovations. That is, a Class II renovation will NOT accelerate the transfer of window ownership to the shareholder (if and as applicable)

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- 26 **What about the large casement windows on CPW that are landmarked?**

Historically the building has elected to repair these because (a) it requires landmark approval to replace them and (b) these are particularly expensive windows. All shareholders are incurring the costs to repair these windows on a pro-rata basis (i.e. A/B line and higher floors are paying more than C/D/E/F lines and lower floors)

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If "old" casement windows had to be replaced, the shareholder with this window would be assuming responsibility at a rate of 18% per year and at the end of 5.5 years, the shareholder with the "old" casement windows is 100% responsible. If the "old" casement window needs replacing, the shareholder can participate in the bulk program and pay 50% of the cost and the building the other 50%. The building would have to amend the Master Window Plan and re-submit it to the LPC (Landmarks). The window that would be approved for replacement is the window that would be specified for the bulk program. If the shareholder wanted a more expensive window, the incremental cost would be borne by the individual shareholder.

*Example A (for illustrative purposes only):* Assume "Ms. Jones" lives in the A line. She has an "old" casement window that requires continued repair. Option A: She decides to participate in the bulk window program to replace it. The building was able to get a Panorama aluminum casement window approved by landmarks. The cost to replace the window was \$10,000. However, Ms. Jones wants a fancier window that costs \$17,000. Through the bulk program the building (i.e. all shareholders) would spend \$5,000 from the reserve fund and split the cost with Ms. Jones. Ms. Jones would spend the other 50% or \$5,000 for the aluminum window or she could spend \$12,000 to get the fancier window she wanted. Upon installation, Ms. Jones "owns" the window as is 100% responsible for any and all future repairs/replacements.

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*Example B (for illustrative purposes only):* Assume "Ms. Jones" lives in the A line. After 3.5 years she sees her "old" CPW casement window is leaking and attempts to repair it have not worked. The building was able to get a Panorama aluminum casement window approved by landmarks. The cost to replace the window was \$10,000. With the new window program being 3.5 years old, Ms. Jones is responsible for 63% of the replacement cost (\$6,300) and the building (i.e. all shareholders) are responsible for 37% (\$3,700). Upon installation, Ms. Jones "owns" the window and is 100% responsible for any and all future repairs/replacements.

*Example C (for illustrative purposes only):* Assume "Mr. Smith" lives in the B line. The prior owner replaced the CPW casement window but he does not like it. Mr. Smith wants to replace the window. In this case, Mr. Smith is 100% responsible for the window replacement cost because it is a "new" window. Mr. Smith can participate in the bulk window program and purchase the Panorama aluminum casement window for \$10,000, which is cheaper than buying it as a once-off purchase. Mr. Smith pays the full amount, the shareholders have no cost, and Mr. Smith continues to own the window.

27 ***How big of an issue are the "old" casement windows?***

It requires a formal, independent evaluation. However, the initial survey estimated ~5% of the windows that were "old" and problematic were casement windows. Given these are expensive, it could be these 5% of windows are ~20% of the potential future replacement cost. We will continue to repair these if and as needed. Again, this is a rough estimate and it will require a formal, independent evaluation to have certainty.

28 ***How do I distill this information to a simple decision?***

You and every shareholder in the building are paying for all the repairs and replacements of "old" windows one way or another.

With the new program, ultimately you only will be responsible for paying for any future repairs/replacements of your windows and your neighbors will be responsible to pay for future repairs / replacements to their windows.

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