



## **111 E. Chestnut Condominium Association Newsletter Summer, 2014**

August 10<sup>th</sup>, 2014

Dear Homeowners:

Our building has seen a major renewal and transformation over the past few years as several long-overdue improvement projects and infrastructure upgrades have successfully been completed. The Board closely analyzed, and was guided by, our recent reserve study, which was prepared by an independent engineering firm experienced in assessing high-rise buildings such as ours.

As was the board's intent and vision, our Association benefited significantly from reduced contractor fees and low interest rates available during our nation's recent economic recession. More importantly, we were able to address our building's most critical concerns in a cost-effective and organized manner, rather than on an emergency basis. Prolonged neglect would have undoubtedly cost us more money in the future and not afforded us this luxury.

Fortunately, our most crucial building improvements are behind us now. The Board will continue our efforts to address several important topics in the months ahead in order to enhance our operations and security while keeping our expenses (and therefore assessments) reasonable.

Below is a summary of our Association's recent and current activities, finances, and efforts to oversee the management of our building in an effective and transparent manner:

### **I. Recent Activities:**

As our passenger elevator modernization project was concluding in 2012, contractors started replacing our building's severely degraded outdoor window sealants. While this work was underway, our building's façade was thoroughly inspected by an

independent engineering firm, as the construction scaffolding necessary to conduct this investigation was already in place. The few faulty areas of concrete identified by our consulting engineer were repaired at that time. We're pleased to report to you that our building's façade is in excellent condition and should remain so for the foreseeable future.

We installed new, state-of-the-art domestic hot water boilers and building-wide water circulation pumps last year at about the same time that our chronically leaking roof was replaced. This new equipment should deliver reliable, fuel-efficient service to residents for years to come.

We completely refurbished two malfunctioning rooftop air handler units while they were disconnected during our roof construction last fall. More recently, we installed a variable frequency drive (VFD) on our north tier air handler unit. This now matches the configuration of our south tier unit. A "VFD" is a device that speeds or slows the movement of outside air over the air handler's heating or cooling elements as necessary, so as to better regulate and maintain the temperature of air flowing out of our hallway registers. These devices are especially useful on very hot or cold days, when the temperature of outside air is far different than our desired hallway temperatures.

Our original, cramped, dingy bicycle room underwent a much needed expansion last summer. This new space affords more residents the convenience of storing their bikes outside of their units' living space or storage locker. Please contact the management office if you wish to store your bicycle in this room. New spaces continually become available.

We also replaced our crumbling, forty-year-old loading dock last year. Our new, upgraded version was carefully engineered and constructed and should not require reconstruction again for over thirty-five years. We enhanced our original loading dock design by including a dedicated pedestrian walkway area and relocating the commercial tenants' trash receptacles to the east wall.

In the upcoming months, the Board will be investigating various odor abatement options for the loading dock area. Many residents are interested in reducing the amount of unpleasant fumes that often make their way into our building as a result of air pressure fluctuations in the trash chutes and freight elevator shafts. This "vacuum effect" is a common phenomenon in many high-rise buildings and can be reconciled by various means.

Our new electronic package handling system has been in place for several months and is the subject of many compliments. This service will continue to evolve and

improve as our door staff gain experience using this system further and recommend additional innovations. The Board will also be considering other enhancements, such as:

- Moving package receiving and processing operations to a remote location in our building, away from the main door station. This will help to eliminate the growing backup of daily package deliveries in our entrance lobby.
- Eventually installing networked monitor screens in our mailbox rooms to replace the sheets of paper our staff continually need to update manually. This will provide residents instant updates on the status of their packages.
- Offering a package door drop delivery service to units for a modest fee.

As with the upgraded key fob transponder system we were required to install last year (due to expiring manufacturer support), we intend to harness modern technology in a way that affords us greater functionality and efficiency in our operations.

## II. Finances:

Three years ago, our Association had a \$1,600,000 debt upon which only interest was being paid. This sum was primarily related to cost overruns on prior building improvement projects from many years ago.

The Board wisely restructured this debt into a 5-year note at a fixed, 4% interest rate. We now owe about \$786,000 on this debt and continue to pay off the balance regularly, according to a structured payment schedule. This loan will be paid off completely in about 26 more months. At that point, we will be debt-free and our reserve account will begin to regenerate quite rapidly.

We intentionally elected to use reserve funds to pay for most of the improvement projects recently undertaken. The rationale for doing so was quite simple: We were only collecting interest at the rate of .25% on these funds. It made more sense to draw on our reserve account than paying an interest rate of 4% to borrow funds. We calculated that it was sixteen times (1,500%) more economically efficient to manage our funds in this manner.

We could have simply added to our 5-year note in order to finance our capital projects, as most condo associations do -- but we instead elected to use an additional line of credit established specifically to pay for these items. We did this because our line of credit only has a 3.25% interest rate, whereas our term loan has a 4% rate. The current balance on our line of credit is just under \$500,000. Our cash flow analysis indicates that this balance will be paid off early next year.

Our condo association is fortunate in that we receive close to \$100,000 per month in excess revenue over and above what's required to fund our normal operations. That represents over a million dollars a year! This gives us the unique ability to rapidly pay off any debt accumulated in our short-term credit account over a period of months, rather than years. By November of 2016 all of our loan obligations (5-year note and line of credit) should be paid off in full. By 2017, our reserve account is projected to far surpass \$1,500,000 once again.

Contrary to some incorrect rumors that a few misinformed people have been promoting, our Association will not require a special assessment now, or in the foreseeable future. The Board arrived at this position based on our assessment of the Association's known expenses and a detailed analysis of our reserve fund's projected growth trajectory.

### III. Current Projects:

The electrical contractors that many residents see milling about our hallways at this time are currently installing a building-wide fire safety (smoke detector and emergency voice communication) system. This is required by a City of Chicago ordinance (13-196-204) and must be in place by January 1<sup>st</sup> of 2015. Though this wiring and conduit now appears rather unsightly, the Board is working very closely with a professional interior design architect to devise a practical and visually appealing ceiling application that will conceal this wiring and blend harmoniously with our current hallways, as well as accommodate our future hallway modernization plans.

Mock-ups of various design options for our esthetic ceiling applications are now available for all to view on the 11<sup>th</sup> and 12<sup>th</sup> floors. Though the depth of both designs is identical (2" deep), the 11<sup>th</sup> floor soffit is wider, and follows the hallway in a more symmetrical manner than the 12<sup>th</sup> floor display. Photos of these mock-ups are also posted on our website. The Board welcomes your input on this. Please contact the management office if you wish to submit any comments.

Comprehensive renovation of our hallways is budgeted for 2016 and 2017; however, the Board is considering moving this project up to 2015. We intend to consult with a professional interior designer (as well as homeowners) in order to arrive at a cost effective plan that compliments the various Art Deco design elements featured throughout our building. We'll also be investigating the feasibility of installing energy-efficient LED hallway lighting fixtures when our hallway renovation project proceeds. Because these hallway lights are on 24 hours a day, they account for a significant amount of our yearly electric bills.

One can't overlook the substantial savings available through energy efficiency upgrades throughout our building. Our new domestic hot water boilers, for example, saved us over \$28,000 so far this year alone over our anticipated gas cost. Beyond that, we received an additional \$13,000 rebate from our natural gas supplier (Franklin Energy) for making this energy efficient conversion. Similar savings may be available to help defray some of our lighting fixture expenses. Management is now investigating this prospect on behalf of the Board.

Our much anticipated fitness center renovation is slated to start in September and should conclude 4-6 weeks later. The Fitness Center will be closed during daily construction but should be open for use early mornings times, evenings and weekends. The cardio room will remain essentially unchanged, except for the installation of new flooring. The biggest change will take place in the weight machine room. We'll be replacing our current multi-function weight machine with six commercial grade, dual-function weight machines. The dumbbells and free weights now in this room will be relocated to the space currently occupied by our sauna, adjacent to the stretching area.

#### IV. Conclusion:

By working in a focused, cooperative and productive manner, our Board has been able to achieve an extraordinary number of outstanding building improvements. Our Association will require the contributions of some intelligent and enthusiastic homeowners in the future so that we may continue to build upon our recent accomplishments.

I urge any interested homeowners to serve on our Board of Directors or one of our committees. These newly established committees will help to advise the board on various topics under consideration. We welcome your input regarding further infrastructure enhancements, operations and the maintenance of our building. Even if you choose not to join a committee, please do not hesitate to share your suggestions with the management office.

Thank you for your patience during our building's recent spate of improvement projects. These, along with the Board's other initiatives, will continue to enhance the living conditions and value of our building.

Sincerely,

Anthony G. Milazzo, Board President