



TROY TOWERS

Board of Directors

23 January 2015

Shareholders of Hudson Troy Towers Apartment Corporation
380 Mountain Road
Union City, NJ 07087

Re: 2015 Budget and Maintenance Charges

Dear Fellow Shareholders:

We hope you had an enjoyable holiday season and your 2015 is off to great start! We have completed the budget for 2015, and would like to share the results and revised maintenance charges with you. After **five** years of flat maintenance increases, a combination of factors have required us to increase maintenance charges to cover increasing operating expenses and to ensure sufficient funds to **begin** several key capital projects at our 50 year old home.

The 2015 budget reflects an increase of \$5.15 per share to **\$35.92** or approximately 16.7%. This increase represents less than 2.6% per year since the end of 2008. Importantly, this budget adds \$200,000 to the annual capital fund contribution, which **will help ensure we have sufficient funds while we assess the upcoming projects and funding options**. Exclusive of the additional capital contribution essential to the continued integrity of our building, the increase in costs of 12% is closely in line with inflation over the past **six years** despite increases in utilities (**mainly water and sewer**), taxes, and other costs in excess of inflation over that time. It is also important to note that **by** keeping maintenance flat, vs. small annual increases, each shareholder has saved the equivalent of almost \$13 per share over the 2010-2014 timeframe.

As shareholders ourselves, we of course seek to limit and put off increases whenever possible, as demonstrated by a period of operating surpluses through 2013 while holding maintenance charges flat and nevertheless completing several key capital projects without assessments including in excess of \$1MM of façade improvements. Careful expense control and significant income derived from high tech financial companies leasing our rooftop space provided the funds **to keep maintenance flat and run** operating surpluses **while** prudent operating and financial management permitted cost-effective repairs to key mechanical systems, a refreshed ground floor and lobby, and improvements to the soffits at the entry and exit of the garage.

Now, we are **beginning** to replace our obsolete HVAC risers to ensure the continued soundness and comfort of our building with improved heating and cooling output and increased energy efficiency as ancillary benefits, and have a major garage repair and overhaul project anticipated to begin in late spring.

* * *

Looking at the budget, some key items become apparent:

- **Utilities.** We have benefitted from energy prices that retreated since a spike in natural gas in 2008, but other utility costs have increased, with water and sewer charges doubling from **\$160,000 in 2008 to \$320,000 budgeted for 2015**, wiping out the savings in pricing and usage on electricity, gas, and telecommunications. Exclusive of water and sewer, utilities are down approximately 10% and bulk cable is essentially flat, despite more HD channels and an increase to include two free cable boxes per unit.

- **Real Estate Taxes.** Real estate taxes since 2009 have increased by 14%, faster than inflation and above the 12% maintenance increase excluding the additional capital reserve funds that reflect several projects required once every 25-50 years.
- **Capital Contributions.** As of 2015, we will be setting aside almost \$400,000 per year more in capital contributions than we did in 2009. This amount is on top of surpluses, **\$125,000 in 2013 alone**, from past years that we moved to capital. This level of funding has helped **build** cash that ensures we have the funds to plan and commence key projects when needed.
- **Insurance.** From **Feb 2012 to Feb 2015**, we had a multi-year insurance program which provided certainty and insulated Troy Towers from costs associated with our own riser breaks and the increases all insurers imposed after Hurricane Sandy to make up for their losses in that disaster. Unfortunately, the insurance costs in the coming year are expected to be over 2.5x what we spent in 2009 after the previous increase. **This year alone we expect insurance to more than double and are still negotiating the deductibles.** We hope to reduce our insurance costs upon completion of the riser project as our history of losses is limited except in conjunction with out HVAC plumbing that is at the end of its expected life.
- **Personnel.** Despite inflation in salaries and benefits and increasing costs for taxes and benefits associated with our staff, we will have a budget of \$901,500, down slightly from 2009 at the last maintenance increase. We have held this line item by reducing head count and driving our management and superintendent to work more efficiently while also increasing wages for our security guard staff to provide effective 24-hour protection.

* * *

Suffice it to say, we remain committed to find expense savings and new sources of revenue. Every contract, every tenant, and every space **in** our building is consistently reviewed to find ways to minimize the burden on each shareholder. We hope to be able to announce further savings and revenue initiatives in the coming year. For now, it is important to note that with this budget and our current capital reserves, we have funding **to pay a significant portion** of the riser project which is so critical to quality of life and reducing costs due to insurance premiums and staffing for restoration of riser breaks.

We have worked diligently to minimize this increase and appreciate your support and understanding as we work to maintain our home and major investment in top condition.

* * *

On the monthly statements you will receive next week, you will **have** a charge that includes amounts retroactive to the January 2015 bills. In other words, your bill due at the beginning of February will include the increase for the months of January and February and your bills for March through December will reflect a somewhat lower amount that will be level through December of 2015. Please note these changes when sending in a check or making adjustments to any online or automatic bill payments.

* * *

As always, if you have any questions or would like a copy of the 2015 budget, please contact the Management Office. The budget will be discussed at the next open board meeting. We wish all fellow shareholders a safe and healthy new year.

Sincerely,

The Directors of Hudson Troy Towers Apartment Corporation

Enclosure