As we welcome the New Year and look towards what lies ahead, we would like to thank all our valued clients, business partners and industrywide professionals with whom we have worked for many years for contributing to our success. We also are grateful for our team whose unparalleled dedication and devotion to our clients and each other, has been instrumental to our success.

Some of the highlights of this Newsletter:

➢ Pending labor union contract negotiations
➢ New Government policies that impact buildings include:
  • Non-Smoking Policies
  • New Labor Laws
  • Conflict of Interest Rules for Board Members
➢ Changes Affecting Individual Unit Owners and Shareholders and real estate under the new Tax Law effective January 1, 2018

We encourage you to speak to Michael Bogart, our in-house counsel, and/or your corporate counsel and/or your accountant where applicable regarding these and other laws which affect how buildings and Boards operate.

We sincerely value our relationships and will continue to expand our partnerships as we move forward into the future continuing to provide our clients with the best services in the industry.

Wishing you and your loved ones a very healthy and prosperous 2018.

Very truly yours,

Robert Freedman and Eugene DeGidio
Principals

Recent News on New Real Estate Tax Legislation
Impact on Coops/Condos
See page 2
Impact of the 2018 Tax Law on Real Estate Owners

Congress approved sweeping tax cuts and tax reform which was signed by President Trump and went into effect on January 1, 2018. You should consult your building’s accountants and counsel as to how these changes affect your building, but the following is up-to-date information and summary of how the changes will affect Cooperative Shareholders and Condominium Unit Owners:

As a result of the doubling of the Standard Deduction to $12,000 for single filers and $24,000 for married filing jointly, many residents of your buildings may no longer chose to itemize their tax deductions. The increase in the Deduction eliminates a previous incentive to home ownership.

Mortgage interest, which includes loans to individual shareholders secured by their shares and lease, incurred before December 31, 2017 will continue to be eligible for the home interest deduction up to $1 Million, the current limit. Starting January 1, 2018, this limit which includes the individual share of the Cooperative’s mortgage is reduced to $750,000. Beginning in 2018, the deduction for interest paid on a Home Equity Line of Credit (“HELOC”) will no longer be eligible for the home mortgage interest deduction.

State and Local Taxes (referred to as “Salt”) can be deducted but are limited to a total of $10,000 as opposed to being unlimited. The 2018 law will allow homeowners to deduct property taxes and either income or sales taxes with a combined limit of $10,000 which may impact individual in Cooperatives and Condominiums since the effective cost of ownership may be increased. Although both the House and Senate bills included lengthening the time an individual had to live in their primary resident from the current two out of five years to qualify for the Section 121 tax exclusion, no changes were made in the final Law. Taxpayers will continue to be able to exclude from taxes up to $250,000 if filing single and up to $500,000 if married filing jointly if they have lived in the residence for 24 months in a 60 month time period.

We will provide updated information and commentary by professionals in the next Newsletter including attorneys, accountants; lenders and real estate brokers.

Real Estate Taxes

For 2017/18, property owners were billed at the “2016/17 final tax rate” for the first half (the first two quarters: July 1 through December 31, 2017) and will be billed at the “effective second half tax rate” for the second half of 2017/18, January 1 through June 30, 2018. The 2017/18 first half billed tax rates, the final tax rates and the effective second half tax rates for Class 2 and 4 are as follows:

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<tbody>
<tr>
<td>Class 2 Residential Apartment Buildings</td>
<td>12.892%</td>
<td>12.719%</td>
<td>12.546%</td>
</tr>
<tr>
<td>Class 4 Commercial Buildings</td>
<td>10.574%</td>
<td>10.514%</td>
<td>10.454%</td>
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You will note that the tax rate for 2017/18 for both Tax Class 2 and Tax Class 4 decreased.

Should you have any questions, please contact Stan Russo at srusso@maxwellkates.com or at 212-684-8282 ext 5669.
Tax Certiorari

As most of our clients are aware, Stan Russo, an experienced professional in Tax Certiorari, recently joined our team as Director of Property Tax Compliance as we offer additional services to our clients including: explanation of the overall process including annual filings; strategy to be pro-active by moving the protests forward within the Tax Commission and Law Department; complete review of new assessments and their impact on budgets and individual unit owners; work with counsel and accountants to provide data challenging the assessed values; and analysis and opinion with respect to acceptance or rejection of Offers.

For participating properties, Stan has appeared at numerous board meetings to go over the certiorari process and how it specifically relates to their building. He has had many conversations with Board Treasurers and other board members to help familiarize them with this very specific and somewhat confusing process which has a significant impact on Coop Budgets and Condominium Unit Owners.

We are pleased to report the overwhelming feedback has been very positive.

Stan provides in depth analysis for all offers made by the City through the building’s Tax Certiorari attorney. His insight into these offers, including discussions with the attorneys and the building’s accountant during the entire process leading up to the Offer, helps the Boards make a more informed decision to either accept or reject an offer of reduction. Our clients have endorsed the tremendous value in Stan’s comprehensive analysis which helped guide their evaluation and legal strategies.

With the budget season coming to a close, Stan has had valuable input in real estate tax projections and continues to monitor the impact of realized reductions in expenses. He will be providing regular updates to our clients as changes regarding real estate taxes develop and possible impact on our clients.

Please speak to your Account Executive if your building is interested in this important service or email Stan directly at srusso@maxwellkates.com.

Smoking Update

In an effort to further reduce exposure to second hand smoke, New York City enacted Local Law 147 earlier this year. The law requires every residential building establish a written policy stating where in the building smoking is permitted or prohibited. The policy must be adopted on or before August 28, 2018. The smoking policy must either be disseminated to all residents annually or displayed in a public area of the building. Further, the smoking policy must be incorporated into the building’s House Rules.

Maxwell-Kates, Inc. Master Insurance

Most property and general liability insurance policies have exclusions for nearly all environmental risks. This is due to increasing and prior claim histories, unless the insured was willing to agree to limited coverage and high deductibles. The result was a high level of uninsured risk for property owners, including cooperatives and condominiums, with often significant uninsured costs.

Maxwell-Kates has negotiated a Master Environmental Insurance liability policy for the properties it manages that combines a lower deductible with reduced premiums. MKI’s master policy provides coverage for environmental risks, such as fuel leaks from storage tanks or piping, hydraulic oil leaks from elevator wells, carbon monoxide or bacterial air released from faulty HVAC systems, contaminants from historical usage or neighbouring properties, doctor offices release of potentially harmful laboratory chemicals and medical waste and asbestos. Coverage is provided for first party clean-up expenses, as well as third party litigation expenses at limits of $2,000,000 per claim per property, subject to a $10,000 deductible.

Please speak with your Account Executive if your building is interested in this important program.

Conflict of Interest

In September, New York’s Business Corporation Law was amended to address procedures for boards of cooperative corporations to handle certain conflicts of interest. Each year, boards of cooperatives are required to provide each director with a copy of Section 713 of the BCL, which discusses “interested director” transactions. The Board must also provide annually to its shareholders a written report, signed by the directors, which enumerates such “interested director” transactions or confirms that no such transactions took place. Currently, the law does not apply to condominiums because most condominiums were created under the Condominium Act, an oversight we expect to be changed.
The labor contract governing the employment of apartment building employees (32BJ) is set to expire at midnight on April 20, 2018. The union contract covers all building service employees with the exception of Resident Managers/Superintendents, whose contract expires on June 20, 2018. We have spoken with Howard Rothchild, the President of the Realty Advisory Board and he has stated the following:

“The parties to the Agreement meet regularly to discuss industry issues relating to the collective bargaining agreement and issues related to the various Multi-Employer Funds and have a great working relationship. I anticipate that formal negotiations will commence in February or March and that there will be many items on the table for both sides. As always, I am hopeful that we will be able to reach a mutually agreeable resolution. As the negotiations progress we will provide additional information that will be posted on our website rabolr.com.”

Though we are hopeful a building employee strike will not occur, we will make preparations on behalf of each of our clients serviced by 32BJ employees, in the event a walk out does take place.

Strike preparation requires a substantial amount of administrative coordination and we will begin the process shortly. Preparation will include; the interviewing of security companies and securing commitments from security companies for coverage, arranging for identification cards for all building residents, familiarizing the resident manager/superintendent of strike coverage protocol and providing building residents with preparation information and regular updates.

Our Account Executives will begin discussions with all Boards by February 2018 to start making strike preparation arrangements specific to each building covered by this labor contract.

**New Labor Laws**

In May, New York City became the first jurisdiction in America to require contracts with independent contractors to be in writing when the compensation paid under such contract is $800 or more (or set of contracts in a 120-day period that has a value of $800 or more). Under proposed rules issued by the New York City Department of Consumer Affairs, the value of the contract includes “the reasonable value of all actual or anticipated services, costs for supplies, and any other expenses under the contract.” This law is most significant in that it provides significant consequences for non-compliance. For example, a freelance worker who believes his or her rights under the law have been violated may file a complaint with the New York City Department of Consumer or may bring an action in court for violations of the law. Even if no other violations of the law exist, a court can award a freelance worker $250 and costs and attorneys’ fees, or in certain situations can be liable for double damages, injunctive relief and other remedies.

Also, the New York City Human Rights Law was amended earlier this year to make it an “unlawful discriminatory practice” for an employer to inquire in any manner regarding an applicant’s salary history (including the applicant’s present compensation). Additionally, employers may no longer consider salary history when determining compensation for the position at issue. However, the law does not prohibit applicants from “voluntarily and without prompting” disclosing such information, nor does it apply to applicants for internal transfer or promotion with their current employer.

**Local 32 B&J Contract Expiration and Renewal Apartment Building Employees**

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Facade Inspection Safety Program  
(FISP - Formerly Local Law 11/98)

Starting with the 8th Cycle, the Department of Buildings has instituted many changes into the Facade Inspection Safety Program (FISP - formerly Local Law 11/98) including mandatory on-line digital submittals as a way to track the history of exterior reporting and repairs. In addition, the DOB has become much more rigid in their requirements for the repair and inspection of those buildings that have terra cotta and stone decorative elements. This change of approach regarding façade inspections is subsequent to the tragedy when a terra cotta sill fell and killed a little girl in May 2015.

An engineer, who works with several Maxwell Kates clients, reported to us on a recent meeting he had with Tim Lynch, PE, Chief Engineer Enforcement, and the group that oversees the FISP reporting., Mr. Lynch specifically stated that the Department of Buildings did not want a repeat of the May 2015 incident and buildings owners and the engineers working for them should anticipate a much higher level of scrutiny by the DOB. He explained that terra cotta stones throughout the city are failing due to their age and wearing, and that he is encouraging engineers and architects to inform their clients that even slightly cracked terra cotta stones must now be replaced. He indicated that patch repairs with patching mortar, and epoxy pinning, common repairs for terra cotta in the past, were no longer acceptable except in cases where the probability of a piece of stone falling is extremely low. He indicated that the stones, even when patched or pinned, are in a state of failure, and that only their replacement will be allowed. Buildings are now experiencing rejected Local Law 11/98 repairs performed using epoxy and pins. In addition, reports that indicate pinned and repaired stones from prior repairs are now being required by the DOB to replace these stones.

Complicating the issue is that failure of terra cotta, stone, and brick does not often present itself at the exterior until a catastrophic event occurs. The nature of the materials are brittle and cannot withstand strain, or elongation, similar to metals such as steel and aluminum. If a condition presents itself such as a hairline crack at the exterior of a stone, the terra cotta has already failed, likely continuing through interior of the stone. Additional forces such as freeze-thaw cycling, vibration, and steel rust jacking can in an instant, cause the stone to fall. Although repairs using epoxy were previously an effective repair method, it is true that the untreated portions of stone are subject to the same cracking and weathering as the repaired portion.

Based on these changes in the standard being used by the DOB, we are now advising our clients that budgets for anticipated FISP filings may be greater than initially anticipated. This is particularly true for buildings with terra cotta stones.

Resolution Energy Group

Maxwell-Kates recognizes that utility costs represent a significant portion of each building’s variable operating expenses. This reality often results in significant changes to the budgeted expenses, either reducing costs when fuel prices decrease, or increasing costs when the opposite occurs. While market and other factors affect these costs, there are steps available to mitigate risk and exposure.

Maxwell-Kates has partnered with Resolution Energy Group (REG) to combine our bulk purchasing power with their expertise to provide natural gas and electric pricing options to our clients as an optional way to hedge against spikes in energy costs. Though savings often are realized, the purpose of this is to create a degree of budgetary certainty. If your building currently participates in the program, you already have the ability to lock-in the supply portion of your building’s monthly utility bill for a specified period of time, facilitate energy aggregation options or utilize alternate strategies. Some of these alternatives include fixed oil contracts, energy curtailment programs and water meter analysis which are personalized depending upon each building’s unique energy profile. Our energy partner, REG, serves as the programs administrator to optimize your savings. REG is an industry leading energy advisory firm and recognized aggregators that actively manages one of the largest independent energy portfolios in the NY Metropolitan Area.
Maxwell-Kates' Information Technology Systems

Maxwell-Kates, Inc. has long recognized that one of the keys to a successful real estate management services company is the ability to provide immediate access to reliable information and the capability to efficiently and timely disseminate it to our staff and clients. To deliver these premium level services, we continue to invest in the most up-to-date computer systems employing a hybrid networking system that utilizes both Cloud and On-Premises infrastructure.

Last year we completed the migration of our accounting system, MRI, to the cloud. This year, to compliment that migration, we completed an integrated AP and payment automation solution. The benefits of this system to our clients include:

- Eliminate paper from your AP process
- Route invoices electronically for approval
- Reduce invoice processing time
- Eliminate manual tasks like data entry into MRI and check signing
- Facilitate 100% of your payments with a simple transaction in a uniform manner for all building vendors.

Our current IT initiative is the rollout of a secure online platform for the Closing Department. Our buildings boards will benefit from the digital delivery of all types of applications: sale, refinance, transfer, lease and sublease as explained in the adjacent column.

Our e-mail system is a hosted enterprise grade solution that is integral to our corporate communications. To that end, we regularly monitor for account breaches and elevation of privileges in addition to utilizing a security analytics tool that allows us to track and plan incremental improvements.

Having these two key digital assets in the cloud gives us an enterprise level of accessibility, security and reliability.

As part of their professional development and providing current best practices to our clients, both the CFO and CIO of Maxwell Kates regularly attend MRI and other professional conferences and meetings to increase the ability for data controls and reporting. This information is shared internally with the managers, Financial Analysts and others so that we can implement changes and enhancements. This on-going process enables us to produce reports and information that is accurate, timely and useful for the needs of our clients.

We are confident of our network security-to that end, the following are some of the steps we have taken to secure our network infrastructure:

- Network is protected by an Enterprise level firewall.
- Users must change passwords regularly.
- Users log on as a “Standard User” without the ability to make system changes to their PC’s.
- Individual workstations are kept current with the most recent and secure operating systems and security patches are installed automatically.
- PC’s have discrete antivirus and antimalware software that continually monitors for infection and antivirus signatures are updated daily.
- Users are restricted where they can browse on the internet.
- Incoming Email is scanned at multiple levels for virus’s, malware and spam.

MKI’s on premises computer systems are backed-up throughout the day and copies sent off-site nightly. These systems provide highly reliable, integrated services coupled with comprehensive security mechanisms that connect mobile employees and on-site management offices to our cloud based and main office resources. These systems enable Maxwell-Kates to minimize network interruptions to our staff and our clients for a complete business continuity solution.