COMMITTEE ON FINANCE

March 1, 2011 **Upon Recess of BMA**

Mayor Gatsas called the meeting to order.

The Clerk called the roll.

Present: Aldermen Craig, Long, Roy, Osborne, Corriveau, O'Neil, Lopez, Shea, DeVries, Shaw, Greazzo, Ouellette, Arnold

Absent: Alderman Ludwig

Messrs.: R. Gagne, J. Minkarah

3. Communication from the Board of Assessors regarding changes in the anticipated 2011 tax base and the 2011 overlay projection.

On motion of Alderman Lopez, duly seconded by Alderman Shea, it was voted to discuss this item.

Mayor Gatsas stated I think you are all in receipt of the letter from the Assessors. I know that this is something that is done a little differently. We are bringing it out so that the discussion can be there and we can understand where we are with the overlay account and what our values seem to be. I think also in this is a discussion about values for FairPoint, their conduits and their wires. I think there is a piece of legislation in Concord that talks about rescinding the repeal that is in place that would generate to this community somewhere between $200,000 and $250,000 in revenue. I'll let the Assessor speak on that.

Alderman Lopez stated I think it would be good if we could get some highlights from the Assessor and that might generate some questions.

Mr. Robert Gagne, City Assessor, stated basically what I am trying to relay as far as increase of value is just on a relative basis and that would be on the $24 to $26 million based on new construction additions and new subdivisions. When I say a net basis, understand that with the update that is coming on board, our tax base is going to drop and we don't know what the final figure is going to be yet. All other the things being equal, that number will drop $25 million less than it would have if we didn't have new construction that we are picking up.

Alderman Lopez asked what have we done on River's Edge for taxes, anything?

Mr. Gagne replied we haven't seen Elliot's request yet as far an A9 exemption on that property. We believe one is coming, but we don't know yet what percentage of the property they are going to claim exempt versus taxable.

Alderman Lopez stated when this project was given to us, it was going to be fully taxed and I presume that they coordinated with the City Assessor at that time. Is that still true, Jay?

Mr. Jay Minkarah, Economic Development Office Director, replied while the potential tax revenue wasn't necessarily discussed in detail, there was discussion at the time that a for profit LLC corporation would hold the property and would therefore be taxable. I don't know that that was necessarily mandated or required as part of the process, but that was a discussion that we had at that time.

Alderman Lopez asked is the LLC holding the property today?

Mr. Minkarah replied I haven't seen anything regarding any kind of abatement request coming forward or any kind of exemption request. I've understood that that has been discussed, but I haven't seen anything so I really don't know what the status of that would be.

Alderman Lopez asked have you looked into this?

Mr. Gagne replied only in so far as we have heard that they may request that exemption, but we haven't seen it yet. Their deadline to request it is April 15th.

Alderman Lopez asked do you know anything, other than April 15th, that they will not pay taxes?

Mr. Gagne asked you mean officially? No, I don't. I can give you a rough estimate of the value of the property as it will be April 1st.

Alderman Lopez asked have you been down to the property and looked at the property whether it is doctor's offices that you are going to be able to figure taxes versus them not paying any taxes?

Mr. Gagne replied we have not done that inspection yet.

Alderman Lopez asked you have not followed the program?

Mr. Gagne replied we have listed the improvements. We have the building listed on the card and as a percentage of construction, as it existed April 1, 2010. We know what the makeup of the building is going to be as far as being medical space, but until they make a claim as to what is exempt, we don't have anything to verify as to the use. Walking through the property and seeing an exam room is not going to tell us whether it is a for-profit component or not unless they inform us of what that ratio is in their request.

Alderman Lopez stated I would think that you should work with Jay and get the minutes of the meeting when we approved this project. We were told that it was going to be 100% taxable. I hope that is still true.

Mr. Gagne stated as a Manchester taxpayer I hope that is true as well.

Alderman Lopez stated I presume you will look into it.

Alderman Shea stated what stands out is projecting an overlay required of $2 million. What are you basing that on? That is a pretty high figure for an overlay.

Mr. Gagne replied that is actually pretty low.

Alderman Shea stated by our standards it is pretty high because we usually appropriate $1 million normally and you are requesting $2 million.

Mr. Gagne stated last time we had a revaluation, the overlay was $3.2 million and it has averaged, over a 15 year period, $1.6 million per year. That is the amount that the City has set aside for overlay.

Alderman Shea stated right, but you are basing your overlay on the fact that you expect a lot of people to request abatements. They won't be heard until 2013.

Mr. Gagne stated right, but it is appropriate to set your overlay to address abatements that occur in that tax rate. We are doing an update for 2011 and the amount that we set aside for an overlay is supposed to address what is billed for 2011, even though it may take more than the next year to do those refunds.

Alderman Shea stated I don't ever remember that being the type of procedure that we followed. I'm not sure whether the Mayor…I don't ever remember that being the case for which we provided overlays.

Mayor Gatsas stated Alderman Shea, I can only tell you that I would love to see that number reduced too. Trust me. I have had conversations with the Assessors.

We don’t, even if it were a unanimous vote of this Board, have the authority to change the overlay or the evaluation that they set forward. That is why I thought it was important that this come forward because normally this doesn’t happen until much later in the process. I think that the number for the overlay, after discussions with both Assessors and sitting down and seeing where the numbers are, I would love to see it lower, but they are in line with what we are seeing. The Assessors could make an argument for it being higher, but because of some of the things that we are clearing out in 2007, 2008 and 2009, there may be some carry forward that we had in those overlays in those years which might help us in the year going forward.

Mr. Gagne stated correct.

Alderman Shea stated all I know is that when we have had reassessments, but we didn’t go for a long, long period of time, I don’t know how many years it was, and now the State requires us to go every five years. I can’t ever remember us providing this amount of money.

Mayor Gatsas stated I think the overlay last year was about $800,000.

Mr. Gagne stated that was the lowest it had been since 2006.

Alderman Shea asked are we making up for that this year?

Mayor Gatsas replied no, this is because of the revaluation.

Mr. Gagne stated I could explain that a little more. Since 2006, as we processed abatements especially on large commercial properties, we had signed settlement agreements that locked the taxpayer into that agreed number until the next reevaluation. We have hundreds of properties out there that have not been able to file an abatement for 2007, 2008, 2009 and 2010 because they had agreements carrying those years. All of those come off for 2011 so we have a lot of commercial properties out there that have been contractually unable to file abatements. They will be able to take a bite of the apple for 2011. We do expect an increase in the volume of abatements just from that.

Alderman Shea asked to help me out, if they do file abatements in 2011, our obligation towards them would be impacted in the 2012 tax rate?

Mr. Gagne replied when they file abatements, we begin processing them while we are processing 2010 abatements already and refunding money so a year from now we will be refunding 2011, FY2012, but 2011 tax rate.

Mayor Gatsas stated that $2 million will be paid next January to some people in the abatement process.

Alderman Shea stated but they have to go up to Concord. You are going to try to settle them locally?

Mr. Gagne replied we have to address them locally before they can appeal to Concord. We have until July 1st following their appeal to act or not act on the abatement. If we have acted and they are not satisfied with our action, they can appeal until September 1st either to the Board of Tax and Land Appeals or to the Superior Court.

Alderman Shea stated let's assume that you don't agree. It goes up to Concord and they then appeal it further. That doesn't come out until 2012…

Mr. Gagne interjected or 2013 or 2014. We have some 2006 and 2007 cases that haven't been heard yet and it is 2011 so it can take some time.

Mayor Gatsas stated this is kind of like the accrual process rather than the cash payment process. We don't have much choice. I would rather go on the cash payment, but the problem is…

Alderman Shea interjected you made the comment before, Your Honor, that we have to go along with what the overlay is, but we have always negotiated in terms of what they have come in with and what the discussion at the Board level has been and then they have come back and said that they could hold off on the overlays. I'm sure you remember that.

Mayor Gatsas stated I can tell you that I have had discussions with him and there is no question that their number may have been a little higher than the $2 million, but because of the carry forward that is coming in from 2007, 2008 and 2009 they are completing some pretty big cases that it looks like there will be enough to get them to a number that they feel comfortable with.

Mr. Gagne stated that is a fair characterization of what happened, yes.

Alderman Corriveau stated thank you for your report. One of the issues that I would like to ask you about that isn't addressed it in is the impact of the foreclosure crisis that has happened since the last revaluation. I know you mentioned a net change in the tax base attributed to new construction, additions and subdivisions and that will range anywhere from $24 to $26 million. Are there subtractions that also need to be taken into effect due to the number of foreclosures that have taken place since then?

Mr. Gagne replied our tax base is going to be reduced because our assessments are higher than market value right now. We don't have our official 2010 median ratio yet, but we already know it is going to be around 120%. All other things being equal, if we get to market value, which is 100%, our tax base is going to be 20% smaller. That having been said, the 120% doesn't apply to all types of properties. Multifamily properties are at approximately 135% for small multi-families, two to fours. Five to in the twenties family units are at 145%, so those types of properties are going to come down in value 45% or 35%. That is the impact of the foreclosure activity. That is what it has done to market values, but that is all taken into account in the shrinkage of the tax base based on the update. This time around, our values are coming down rather than going up as they do historically.

Alderman Corriveau asked is that in part due to the number of foreclosures that we have had since the last revaluation and do you have an estimate of how many foreclosures Manchester has had since the last revaluation?

Mr. Gagne replied I don't. I could put that information together, but it is more important to look at what the market values are. Just to give you an example, a foreclosure property may sell at a ratio that is half of the assessment, but that doesn't mean that is a market value. That is a forced transaction. It is not an arms length sale. We wouldn't use that as a comparable rate to set the values. That doesn't mean that we are ignoring the impact of the resale of foreclosures. The impact of all those transactions is reflected in those arms length sales that are occurring because they had to compete with those foreclosure properties in order to sell. Those are the sales that we are going to be looking at when we do our update.

Alderman Lopez stated I know you discussed this with the Mayor at some point, but could you give us a breakdown of the years that you are talking about and how much money you have left in the abatement account and the cases you are talking about? We used to get that type of report so we understand more clearly what you are talking about. You don't have to do it tonight, but get us that report so we understand how much money you have in 2008 and 2009.

Mr. Gagne stated sure. It would be 2006, 2007, 2008, and 2009. Some of those years are under and some are over.

Alderman Lopez stated any explanation that you gave the Mayor give to us too.

Mr. Gagne stated sure.

Alderman DeVries stated I don't know how much you are delving into this question of the charitable tax exemption for River's Edge, but that is obviously going to be very disappointing for us as a Board. Anyone who was here was well aware that we though there was going to be a pilot equivalent for the potential for taxes on that property. This is one of our economic development projects for the City. You are well aware of this and I'm sure you're all over this. Can you tell us what you expect to hear, what you are hearing and what your game plan is?

Mayor Gatsas replied let me tell you that I have a meeting set up the week of March 28th to have conversations with the Elliot and the developers because there is no question that I was under the same understanding that everyone on this Board was. Those conversations will be coming up. Until someone sends something in that says that they are looking for charitable status, there is nothing to talk about. I have been through the property. I can tell you that it is an unbelievable piece of property for people to get urgent care; there is no question. Is it a $100 million project? Yes, it is and it is probably more than that. I agree with you. I was an Alderman sitting here who asked that question a few times and the answer was pretty clear when it was sent back for a message. I can only tell you if I had any conversation with anyone and I have not.

Alderman DeVries asked you set up a meeting to discuss it March 28th with the developers as well as the CEO and CFO of the hospital?

Mayor Gatsas replied that's correct.

Alderman DeVries asked you will send something?

Mayor Gatsas replied I will do one of two things: either come back and report to you or make them come in and report to you themselves so you can ask whatever questions that you want to directly ask them if you are not satisfied with the answers that I can give you.

Alderman DeVries asked is it possible that we could be brought up to speed in this interim amount of time as to the process for determining for that charitable percentage? It is one of those pieces that many people have brought up with me that is very complicated to understand, how much of a hospital is charitable, what percentage are they are allowed, what is and what isn't charitable and how those determinations are made. Do you think we could get a tutorial to bring us up to speed in the interim time so we're ready for our April discussion?

Mayor Gatsas replied we will have another discussion with the budget items that are non-departmental and I will make sure the Assessors come in that evening to have a discussion. We will be in on March 8th to have those discussions on those items and certainly the Assessors can come in and have that discussion.

Alderman DeVries stated unfortunately that won't work for me that evening. I'm hoping you'll pick a different date. Your Honor, I guess I'm looking a little bit more about what the flexibility of the statutes are and what kind of give and take there is in this whole assessment process.

Mayor Gatsas stated for them to do that homework and come back and report back to this Board we need to give them a time.

Alderman DeVries asked would you pick a different date other than March 8th? I don't think that will work for me and it is really an important one.

Mayor Gatsas replied we can do it on the 7th.

Alderman Shea stated my understanding when that particular enterprise began was that there would be certain aspects of it that were not to be taxed, but there were certain aspects that would be taxed. Again, I'm not exactly sure what's there now, whether it is just urgent care, but I believe the intent was to build living quarters where people would live.

Mayor Gatsas stated I think that is in phase two and three. I'm not sure that they have gotten to that phase. The one thing that we can all agree on that is taxable is the garage.

Alderman Shea stated that is what I understood to be taxable, those assisted living quarters and so forth, but I don't think there was any discussion about whether or not their urgent care facility would be taxable.

Alderman Long stated I recall those conversations and I would also like to request the minutes because these tax revenues were contingent on the sale of the property and contingent on the money that went to the Planning Department for, I believe, $20,000 to expedite this process because of the tax revenue. I don't dispute that this is a needed facility, but I was told that this would be tax revenue and my vote was contingent on that language for the sale and also for the appropriation for Planning to expedite the process. I would like the minutes of our discussion and our vote on the sale.

Alderman Lopez asked what is going to be the assessed value? Is that the $26 million added to last year?

Mayor Gatsas replied yes.

Alderman Lopez asked you don't think that's going to change?

Mr. Gagne asked with Elliot?

Alderman Lopez replied no. Is that your final number for our budget?

Mr. Gagne replied for the net increase of the tax base, yes, that is a recent evaluation.

Alderman Lopez stated that is the earliest that we have ever gotten the tax base.

Mr. Gagne stated understand that that doesn't account for what is going to happen with the update.

Alderman Lopez stated I'm talking about for budget purposes going into 2012. You are saying that's it?

Mr. Gagne replied yes.

Mayor Gatsas stated then again, just for clarification, there is another $10 to $15 million for the FairPoint. That is not in the $24 to $26 million. Can you use the $15 million from the FairPoint deal and add it to $25 million to get to $40 million? Yes, in my budget I have used $40 million.

Mr. Gagne stated it doesn't include Elliot at River's Edge if that ends up being mostly taxable.

Alderman Lopez stated that's okay, but stay on top of it and it might get to $50 million.

Mr. Gagne stated if it ends up being taxable, we will get $50 million plus.

Alderman Roy stated you may want to watch the Planning Board on Thursday because River's Edge is coming in yet again with another plan that they want to change. This will be the third time back about changing things and you may want to watch it.

Alderman Lopez stated Alderman, you're our representative.

Alderman Roy stated yes, I am.

There being no further business, on motion of Alderman Long, duly seconded by Alderman Roy, it was voted to adjourn.

A True Record. Attest.

Clerk of Committee