

Minutes

Housing Committee
Monday, February 2, 2015
6:30 p.m.
Police Training Room, 4th Floor
Municipal Building, Jamestown, New York

MEMBERS PRESENT: Chairwoman Marie Carrubba, Councilman Brent Sheldon, Councilwoman Maria Jones

MEMBERS ABSENT:

OTHERS PRESENT: Council President Greg Rabb, Director of Development Vince DeJoy, Stephanie Wright, Greg Lindquist, Peter Lombardi, Dr. Lillian V. Ney, Councilman Tony Dolce

Chairwoman Carrubba called the meeting to order.

The minutes from the January 5, 2015 meeting were approved.

Remarks from Community Members/Committee Members

REAL PROPERTY TAX LAW 485-a

Mr. Lindquist: First of all, thank you for the opportunity to speak before the Housing Committee. It's an honor to be able to be here and present an idea that we originally heard about in a trip to Batavia a number of months ago that members of Jamestown Renaissance, Strategic Planning, Department of Development and IDA attended to see how they were progressing in the City of Batavia and the County in which they reside.

One of the items that we brought back was the Real Property Tax Law 485-a. What I'd like to do is to distribute a couple of items at this point. The first is the actual law as it was enacted in New York State in 2002. The other is a brief power point that we'll go over. I'd like to keep this open to discussion so as we go along, if the committee has questions certainly we'd like to entertain questions as we go along and then have further conversation afterwards.

On the first page, there is some of the background on RTPL 485-a. It was enacted into New York State Law in 2002, it's by local option and it authorizes a declining 12 year partial exemption from real property taxation levies. It's associated specifically with non-residential property that's converted to a mix of residential and commercial uses. Eligible conversion, according to the law that was enacted in 2002, the cost of renovation of a property has to exceed at least \$10,000.00 and that amount can be increased based upon the local resolution that adopts the law.

On the next page is some additional background information. The exemption applies only to construction started after the law is adopted by the city or other municipality. It does not apply to hotels or ordinary maintenance and repairs. The proposed Hamister Project, if this

is adopted, would not be an eligible project. It does not apply to the conversion of nursing homes to mixed use. I know that there is a Department of Tax and Finance legal opinion of counsel that there was a municipality that a developer attempted to do a conversion of a former nursing home into mixed use and legal opinion of state tax and finance was that they were ineligible. So it's a very targeted use. County and school district may also adopt, one provision that in order for a county to adopt a municipality or a village or a city or a township within the county must first adopt it. The county cannot adopt it individually. There must be an adopting municipality within said county. A school district can adopt by resolution as the city can.

So what does it hold for potential for this area? The exemption year 1-8 is 100% of exemption base and I did want to review exemption base. That would be the increased assessed value attributed to the conversion so it does not reduce existing property taxes by one penny.

Mr. Dolce: So it would just stay the same?

Mr. Lindquist: Yes for an 8 year period and then it's a quick ramp up from year 9-12, in year 9, 80% of exemption base; year 10, 60%; year 11, 40% and year 12, 20%. It can't be concurrent with or subsequent to any other exemption for the same improvement. We currently have 485-b on the books. It could not be used in conjunction with that or subsequent to the 485-b.

In the article that Peter and I drafted that appeared in the paper a couple of weeks ago, we used an illustrated project and the next few pages go through the detail of that. This is an actual project that we looked at in conjunction with the Department of Development in downtown Jamestown. I don't want to, for reasons of property ownership and project development, we really can't release where it is, but if you look at the sources and uses and again, please take into consideration that these are initial first blush looks at costs and uses of funds, but it was based on an acquisition cost of \$20,000.00, total construction rehabilitation costs of \$460,100.00 and soft cost of \$93,500.00 for a total development budget of \$553,600.00. That project would have yielded 2 apartment units, one on the second floor, one on the third floor, loft style units and two residential commercial units on the street level. Each commercial unit yielding about 700 square feet and at the market rate right now for downtown commercial leases is anywhere from \$8.50 to \$11.00-\$12.00 a square foot. Some of the new builds like the BWB can command \$14.00 - \$15.00 a square foot, but we don't currently see that in the renovated structures. It was calculated out with a vacancy rate of 5% loan servicing calculated in a 20 year mortgage for \$194,560.00 at 5.5% fixed rate and total net rental revenue on an annual basis of \$21,374.00. Some assumptions that were made in this calculation, we assumed that the property would command a full market value of \$300,000.00. That would have to be born out over, once the actual costs were identified and what the assessor's numbers came in at. This also is based on the City, county and school all adopting in tri-form the RTPL 485-a and it's also premised on tax rate remaining level at \$50.92 per thousand of assessed value.

On the next page gives you kind of a glimpse of year 1-10 of what a developer might realize on that project without a 485-a and as you can see in year one going down to the bottom, net operating income is at a loss and year two is at a loss, year three they begin to realize some benefit, in year ten \$4,600.00 in net income. Return on investment really isn't there for an investor to invest that kind of money and that is taking into account everything that we currently have available we can throw at it, the historic tax credits, maximum CDBG, ADA and façade, maximum JRC grant influx and an \$80,000.00 cash equity injection by the owner and \$196,000.00 mortgage. So it just doesn't make sense. The numbers don't work. Even with the 485-a it's really not a panacea for this developer. Year one, net operating income projected at being \$13,000.00 a little over a thousand dollars a month in net income off of the project. ROI is still fairly minimal even with a 485-a in place. It does give some incentive above and beyond what we currently have in our toolkit in order to do some of these smaller projects. The larger ones, such as the Wellman Building and the M&T Bank project, they can stand on their own with the existing programs that we have. The smaller projects, the ones that where there might be an owner occupant of the building that wants to renovate the upper floors or it's a totally vacant building that just has one or two commercial units on the street level and maybe one floor above. There's just not sufficient return on investment for anybody to invest the money that it's going to take.

Ms. Carrubba: Greg when you are talking about a larger project and a smaller project, I'm assuming you mean dollar value.

Mr. Lindquist: Yes dollar value with a threshold of \$1.2-1.5 million.

Ms. Carrubba: Is that small or large?

Mr. Lindquist: That would be a larger project. Smaller projects would be anything less than \$750,000.00.

Mr. DeJoy: So if this is enacted, this isn't basically something that could be used at the discretion of the City? It would be available to anyone, any developer.

Mr. Lindquist: It would be available to any developer so if it were a larger project and I'll throw one out there right now, the Hotel Jamestown. If that one came forward, that is probably the last large project that could take advantage of this. If we take a look back at the Wellman Building project, that would not have happened if it weren't for \$1.2 million in state grants going into it. The state doesn't have those grant sources available anymore.

Mr. Dolce: The other municipalities that have this, have their counties and schools all done this or is it kind of a mix?

Mr. Lindquist: It's a little bit of a mixed bag. There are a few and we're still doing the research on those that have adopted both at the local, the county and the school district level.

That would be the next step to do deeper research into those communities that have fully adopted it.

Mr. Dolce: It'd be interesting to see if it's across the board, or are they kind of a mixed bag.

Mr. Lindquist: There has to be a municipality that adopts first. The city or the village or the town has to take the first step. But I think in this case, if it's something that went forward, it would probably be done in a collective fashion with discussion with the school district, discussion with the county. It wouldn't make sense for the City to do this individually. It would only make sense from the City's perspective if the county and the school district also bought in.

Ms. Carrubba: If the county and the school didn't buy in, how would that affect - would the taxes go up based on the improvements during that time that the county and the school didn't buy into it? It would go up just as it would so they could be taxed at two different levels.

Mr. Lindquist: It could be potentially taxed at two different levels, actually three different levels. So that's why it would be important if this is something that City Council chose to pursue that we would have to research a little bit more and then work with the school district and with the county to test the waters and see what their appetite is in regards to this being adopted both at the county and the school district level.

Mr. Dolce: Are there any other in some of those municipalities that had it for a period of time was there success, benefits, problems...

Mr. Lindquist: Again it's just anecdotal at this point in time. We've researched some that have had success, others that tried it for a pilot period and let it sunset. One of the items and we'll go into it a little bit deeper is that this could be adopted as a five year pilot. If the city county and school district decided to see what the impact it could be with all three, it could be enacted with a sunset period of five years.

Mr. Rabb: Do we know what cities have had it and stopped doing it? I know you said you're still doing some research.

Mr. Lindquist: We're still doing research and the state tax and finance department did not have that available for 485-a. They did have it available for 485-b. There are some municipalities that have now eliminated 485-b and some that have reduced the percentage of exemption.

Dr. Ney: Which communities do that? What cities still have it?

Mr. Lindquist: 485-a? Batavia, Cohoes...

Mr. Lombardi: Oswego County. I think we're waiting for more information from real property about the total number and geographic distribution of those communities.

Mr. DeJoy: It's a long period to basically keep it at that same base level. When you think about it, the City is putting in their funds to make a project like this work and believe me I like to make these projects work. \$75,000.00 and then basically giving up any potential gains that we can get in an assessment so there are concerns. 485-b, we think that's probably a better way to go and perhaps use some of our other tools that communities such as Batavia don't really have such as our UDAG funds which we use for JLDC.

Mr. Lindquist: But again, that's more lending...

Mr. DeJoy: It's more lending, but there are different ways of structuring it that could probably be helpful to get a positive cash flow. We're just concerned about eight years at that same base level and then phasing in over the next five years...

Mr. Lindquist: My only concern and rebuttal would be that we're not earning on it now and the building that we're looking at is actually assessed at less than \$10,000.00 so what are we getting on that now? And how many years are we going to wait to get something on it? It's already been 15 years as far as I know in this building so how many more years? We've gone 15 years without realizing anything at all.

Mr. Rabb: I guess the ideal would be if we could get these projects done and still even incrementally add to the tax base. One of the reasons we're in trouble is because our tax base isn't growing so I think getting these projects done is important, but I think equally important is, if possible, slowly adding to the tax base. I'm not ruling out 485-a, but I'm just wondering if there's a, through b or other things if there's a better way to get the projects done and incrementally add to the tax base because if we wait eight years... I would like to see if we could find, without - I'm not saying reject this - I think it's great that you brought this to our attention, but I'd like to see if there is a way to try to do both because it's just going to get worse I think if we don't.

Mr. Lombardi: I think you could say that the tax base does get added to incrementally indirectly, if a property like this is improved, that improves the properties around it, you're likely to see an improvement to the assessment of those surrounding properties, potential for increases in sales taxes so I think there is the potential for revenue gains even if it's not from that improvement, from taxing the improvements on that property. I think if you think about the block or so around a building like that that gets improved, that's where you realize you're gaining in the first eight years.

Mr. Rabb: Except, I don't think, the value of the properties near these projects might go up, but that doesn't necessarily affect our ability to tax it.

Mr. Lindquist: It does on a re-val. How often is a re-val done for commercial properties? Every five years. It would be similar to the approach that the City and JRC and the County have taken with eliminating blight. Except we're not eliminating the blight, we're trying to improve the blight by improving the market value of the surrounding properties. So very similar to what's being done in a neighborhood, but not demoing.

Dr. Ney: So regardless of the beautification project or the reuse project or a better block, the taxes would stay the same. So the taxes stay the same, but you get value out of that. But the tax base does not rise until eight years. In the ninth year I guess, is that it?

Mr. Lindquist: I think for the average property that we'd be taking a look at, if this were going to be a panacea and the developer was going to just garner tons and tons of cash off of it, I don't think I'd be sitting here. We don't live in an area where we can command that type of lease rate. That's why I took a look at the possibility of Council taking a look at a five year sunset clause, reevaluated after five years. Who knows what lease rates could be downtown in five years from now. It may not warrant the addition of this any longer. Therefore, I wouldn't recommend that the City, the County or the school district take it as an indefinite exemption.

Mr. Dolce: If you put a sunset in after five years that would still be under the plan.

Mr. Lindquist: Yes, it's just that there would be no new entrance into...

Mr. Dolce: No new entrance in the fifth year and people that are already in it would be in it.

Mr. Lindquist: Correct. There was another legal opinion that was drafted by state tax and finance that identifies that even though it's not specifically identified in RTPL 485-a that that can be done, that there's nothing that identifies that it cannot be done either. As a matter of fact there is a municipality that did institute a sunset clause.

Mr. Rabb: I know you said you're still looking into this. I'd be curious about communities that tried it and then said that it's not worth it. I know you're still looking into it, but I'd love to know what their experience has been like if they aren't doing it anymore.

Mr. Lindquist: The uniqueness I think that we possess is that the projects that probably would be able to take advantage of it are in the historic district that was recently established. So this would not be the only thing that would make a project work, but it may be the last piece that pushes a project from not making sense financially to making sense financially to do.

Mr. Rabb: If I can still play devil's advocate, maybe I shouldn't align myself with the devil, but one of the places, even if you go to a bigger city like Buffalo where they've done projects in an area like ours that isn't growing, what often has happened is that you get people moving from one existing building into this one, whether it's commercial or residential and then you end up with those properties going down in value and that they can challenge their

assessment and get a reduction. If you go up to Buffalo where they're building new office buildings and I think it's wonderful, but every time I drive over that Skyway and I look at that old Marine Midland building, there's forty floors of totally empty office space because it was too attractive to move out and I'm sure the assessed value on that must have plummeted. They're crazy if they didn't. I'm not arguing against this, I'm just trying to think of everything that we might want to think about unless some of these projects did draw in some new people from outside whether it's residents or businesses, whether it's from the surrounding area or other places.

Mr. Lindquist: And again, the whole point of this is not to try to promote it, it's to try to educate and try to have some open discussion and see if it is something that is worth pursuing. Your comments are well taken Greg.

Mr. Rabb: I think it's worth looking into and I'm glad you came and I'm glad we got it on the agenda.

Mr. Lindquist: The next page, just to give you an idea, did do a quick down and dirty on it on what the project would look like with a 485-b. On that, there still is some net operating income in year one, but it's \$7,000.00 of net income for a twelve month period for a quarter of a million dollar investment. I don't know about anybody else's ROI calculation, but to me that's not a very positive rate of return.

Mr. DeJoy: It's not a quarter million dollars of his money. A lot of it's foundation money, City money, historic tax credits.

Mr. Lindquist: No actually it's calculated on \$80,000.00 cash equity investment by the project owner and \$194,000.00 commercial bank loan. So it is a quarter million dollars in owner equity.

Dr. Ney: What's the difference between a and b?

Mr. Lindquist: 485-a is year one through eight is 0%. 485-b is 50% in year one and then 5% reduction every year thereafter through year ten. The City still realizes 50% of the taxable assessment increase in year one. We currently have that and...

Mr. Dolce: It's still a break.

Mr. Lindquist: It's just not as deep a break.

Dr. Ney: It's just a hit the first year.

Mr. Lindquist: And it applies to all commercial property whereas the 485-a is extremely focused to property that is mixed-use. We're utilizing 485-b, but again probably not to the maximum that we can. Right now the City throughout the entire city there's only 31

exemptions and the exemptions amount to less than 1% of the total exempt value of the City. The big bulk of the exemptions come in the residential property classification. So the commercial industrial property classifications even with the IDA pilots calculated in is only 4.77% of the total exemptions for the City.

Mr. Dolce: How does that fit in urban design in terms of residential possibilities in the downtown area? Do you think that would have any kind of an effect on other housing, other patterns?

Mr. Lombardi: I think this fits in with the urban design plan that Jamestown promotes as the mixed activity downtown where you have a combination of commercial, retail, office, attraction and residential. I think something like this, especially with the sample project where you're getting two new upper floor apartments, I think this would be helpful on these small projects where you're getting one apartment here, two apartments there so that rather than - it's not a big thing, you're not creating a new Wellman Building, you're more evenly distributing units throughout the downtown. That's where I think this came out of a renewed focus on smart growth in Albany a decade ago and so I think this fits into that concept of trying to promote mixed use downtowns and that's why this is so targeted, that it's not all commercial property, it's just these special conversions.

Dr. Ney: A lot of people that move in downtown are from out of town too which is good. That's growth.

Ms. Carrubba: Buffalo has been doing a lot of articles about loft living and how they're taking old commercial buildings and converting them into loft space and the younger individuals working downtown are all - those rents are going from \$1000.00 and up for some of these units. But again, they want to live downtown, they want to be where the activity is.

Mr. Dolce: Do you have statistics on residential use downtown? Do you have anything like that?

Mr. Lindquist: Like the number of units?

Mr. Dolce: Yes in comparison to ten years ago, since the Wellman Building and a couple of the other things that have happened downtown.

Mr. Lindquist: Over the last ten years when the Wellman came online with 43 units and then Gary Lynn's building came online with another 11 units. There have been a couple of one offs.

Mr. DeJoy: Jim Mason, Jim Walton, even the Civic Center.

Mr. Lindquist: So 65 units probably since 2010, 60-65.

Mr. Dolce: I'd love to know what the statistics are or the demographics or age groups.

Dr. Ney: You remember 10 years ago, nobody would have lived downtown. It probably went from 0 to 65. There were a few people at the Reg I mean, ... on the Arts Council those apartments came online.

Mr. Sheldon: Tom Turner building.

Mr. Dolce: It'd be interesting to know how many are new people to the City versus people that have moved from a specific home or neighborhood to the inner city.

Mr. Lindquist: I can't answer for any other than the Wellman, but I've had an inside look at their lease tenancy and a number are either physicians that have moved into the area, a couple of the administrative personnel that work in healthcare and a number of engineers from Cummins that they've recruited in from RIT that are residents there.

Mr. Lombardi: I think that's been helpful when Cummins has come to us and said can you give so and so a tour. To give someone who's enjoyed an urban lifestyle in a place like Rochester, Buffalo, New York or Boston, to be able to show them some downtown living options in some cases might be an extra reason to come and work at Cummins in Jamestown rather than work at some other company in a bigger city.

Mr. Dolce: Because they may or may not be interested in permanent residency.

Mr. Lindquist: It's summarized on the last page. Why should we even look at adoption and it points toward smart growth. In 2002, that was beginning the era of smart growth principles becoming prominent not only nationwide, but in New York State. Back then I believe the governor even had a Smart Growth Implementation Council. It supports Western New York regional economic development strategic plan through smart growth principles. It will not reduce current property tax revenues we're receiving. It will assist new businesses and residents downtown and actually should create additional sales tax revenue through those residents and businesses. This kind of goes to your point, Greg, as of the last research that we could pull up there are only 44 RPTL 485-a exemptions in New York State. So it's not a panacea that large developers are glomming onto, that it's very focused, smaller one off projects. With that being said JRC would be more than happy to work with the Housing Committee with Finance Committee, with Finance Director, just to take a deeper dive into it to get to some of the numbers that Council President brought forward that he'd like to see and that Councilman Dolce, Chair of Finance would like to see before proceeding.

Ms. Carrubba: I would like you to come back and report again when you have some of the numbers on communities that have used it. What their success has been, who sunseted it and why. I'm not pushing this as you have to get back by a certain time, but when you do have that information, I would really like you to get in touch with me so that we can reconvene and

maybe that would answer some of the questions that people have had, give you time to go back and bring that information back to the committee if you're willing. We would appreciate it. Does anybody have any other questions? If there aren't other questions, if there's anybody from the community who would like to speak to the committee, I apologize that I didn't ask for that before, but we had planned this discussion around this information.

Ms. Wright: I think I've met everyone here, I'm Stephanie Wright I'm the Economic Development Coordinator here at the City, but I am here as a citizen tonight. I actually specifically came to hear about 485-A.

Ms. Carrubba: I just wanted to make sure in case you had an issue that you wanted to bring before the committee that you were not ignored or neglected. Thank you for that. Any other questions or comments from anyone? I really appreciate this. This has been a very well attended committee. I appreciate the dialogue in getting information. I think this is really vital to the City to get new ideas and to hear about them. It comes down to making any kind of decision we at least know what we're talking about. I really appreciate it. Thank you for taking the time Greg and Peter and Lillian I appreciate it.

Dr. Ney: I always learn when I listen to them.

Ms. Carrubba: Because both Greg and Lillian and Vince as well are members of the JRC so we appreciate the time and everything you've been doing in the community so thank you very much.

There being no further business, the meeting was adjourned.

James N. Olson
Director of Financial Services/City Clerk