The Town of Barnstable

Comprehensive Financial Advisory Committee (CFAC)

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CFAC Committee:

Chairman:
John Curtis, Chair

Members:
Bill Brower
Laura Cronin
Ralph Krau
Tom Michael
Jim Sproul

Staff Liaison:
Mark Milne

Councilor Liaison:
Richard Barry

CFAC MEETING MINUTES
10.20.08
7:00 PM
Selectman's Conference Room

CFAC Members Present: Bill Brower, Laura Cronin, Jim Sproul, Ralph Krau, Tom Michael, John Curtis

CFAC Members Absent: None

Councilors Present: None

Staff Present: None

1. Upon a quorum duly present, Chairman Curtis called the CFAC meeting to order at 7:05 PM in the Selectman's Conference Room.

2. **Approval of Minutes:**

   A motion was made and seconded to approve the minutes of 10.06.08.
   Vote: Unanimous

3. **Old Business:**
   Laura C. asked for some details about the field of Dreams presentation mad at the last CFAC meeting. Jim S. suggested that the committee discuss this again at the next meeting on 11.03.08.

   John C. said he received a call from the charter Commission's Chairman Richard Clark. They received CFAC's recommendation but have not had a chance to act upon them yet.

   Bill B. met with the director of Assessing, Jeff Rudziak, to review Jeff's responses to CFAC's questions. A copy of Jeff's responses is attached to these minutes. John C. asked what percentage of town property is tax exempt. Bill B. responded that about 12% of the total value and 24% of the land value is tax exempt.

   Ralph K. asked if there is a program in place for PILOT (payments in ;lieu of taxes). Bill B. said that there is not and he served on a committee to review this. They concluded that the best time to implement this was at the issuance of a building permit.

Jim S. talked about the Field of Dreams project. The FOD committee made a presentation to the School Facility Advisory Committee. They were requested that $1 million per allocated from the proceeds received from the sale of the former Grade 5 building to match $2 million they were raising from other sources. Jim S. was the only one who voted against this. From a facility standpoint it makes sense but considering the town's financial situation it may not be the best timing.

Jim S. asked Mark M. how the funds from the sale of Grade 5 could be used. By law they could only be used for a purpose for which the Town of Barnstable could borrow money for. This prohibits them from being used to fund operating costs. It was the town council and school committee's original intent to use these funds for school facility upgrades.

Jim S. and the rest of the CFAC said they supported the FOD project, but the financing needed further discussion.

Tom M. favors the project but was unsure how much influence CFAC could have over the project.

Ralph K. thinks the project has merit but the schools set their priorities.

Laura C. said she was concerned with the finances.

Tom M. and Jim S. were going to draft a response for the committee.

4. New Business:

John C. asked Mark if he would set up a meeting with the Town Manager to discuss what the TM's intentions are for CFAC's involvement in the FY10 budget process. Ralph K. asked to be part of the meeting with the TM as well.

5. Adjournment

Upon a motion duly made and seconded, it was voted to adjourn at 8:30 PM

VOTE: Unanimous.

1. Explain the 3 methods that can be used to value commercial property, the pros and cons of each, which is in most use in the state and why. What constraints does the state impose on Assessors?

Cost Method - The sum of money needed to buy land and build a building. The limitations on cost valuation rest mainly in measuring the depreciated value of the improvements. The positive aspect is that cost development data is readily available and reliable.

Market Sales Method - The sum of money that it would take to purchase an existing building on an appropriate site. This is done in competition with other potential buyers seeking a similar building and location. The limitation is the ability to ensure that the sale price represented a true arms-length deal; that is, that it was a deal between a willing and knowledgeable seller and a willing and knowledgeable buyer, both under no constraints or pressure to make the transaction and able to buy or sell elsewhere. The positive aspect is that, once the transaction is verified as arms-length, it can be relied upon as being truly representative of market value for the particular type of property involved in that time period.

Income Method - The capitalized value of a net income stream generated from the lease of a property. It is a measure of a return on investment and establishes what a property is worth on the market based upon the net income stream it can generate for an investor.
The limitations of this approach lay mainly in the quality of the income and expense numbers used, as well as the choice of an appropriate capitalization rate. The positive side of this method is that it is a fairly accurate measure of market value when using good data.
The market method is used the most in our state, and all other states, mainly because the vast majority of properties being sold are residential, and they can't be valued by the income approach. Single family homes are not purchased to generate an income but rather for family security and satisfaction. The income approach is most widely used in the state for commercial and industrial properties since the development of these properties is specifically for the purpose of generating an income stream, whether owner-occupied or leased to another party. An exception to that rule is when a property is 3 years old or less. In that case, no income history has been generated yet and the cost-to-build can be the most accurate indicator of value. Personal property is valued on the cost method, since these costs are readily identifiable, and then depreciated by established schedules.

State constraints start with the requirement that, whichever method is chosen for a commercial or industrial property type, say a retail store, that method then MUST be used for the rest of the retail stores in the jurisdiction as well. The Department of Revenue (DOR) also has statistical requirements and reviews that are performed every third year (recertification) that each taxing jurisdiction MUST satisfy or the municipality will not be allowed to issue tax bills. These reviews and requirements are among the most stringent in the United States, if not the MOST stringent.

2. You stated that you could not value commercial property at its "sale price". What impact does sale price actually have and is it the same for residential property?

Assessors administer a mass appraisal model. We try to model the behavior of the market for all property types based on sales in a particular timeframe, normally from a previous January 1 through December 31, in an effort to equitably value similar properties at a similar value level. ONE sale will never represent the market for a property type in general. It only represents one sale and you cannot build a model on one sale, anymore than you can build an airplane model with just one part like the propeller. However, as we record and verify sales over the year timeframe, we can establish a level of market value for different property types in different locations. The DOR requires that each property type, say ranch-style houses, be valued for tax purposes at a level that is no less that 90% of established market value and no more than 110% of that same market value. Additionally, all other property types, including commercial, industrial and vacant land, must then be valued within 5% or less of each other class. Specifically, if we have residential property valued at 95% of market, commercial, industrial and vacant land must be within the range of 90% to a maximum of 100% or the DOR will not allow us to issue tax bills.

3. Further explain the valuation process used for businesses not submitting I/E reports. What incentives are there for these businesses to submit the reports?

Assuming we are talking about land and buildings, not businesses, they are subject to the same valuation process used for those owners that DO submit their I&E forms. Barnstable has a return rate of around 40% of the forms yearly but only about half of those contain any useful information, for various reasons. Even so, that leaves around 300 local responses for all types of commercial & industrial property that can be used to calibrate the income model in the mass appraisal system. Just like residential property modeling, we are trying to model the income and expense structures of the various types of commercial and industrial properties to arrive at a generic net income for each type, which can then be capitalized to represent a present market value. This result is then also tested against the cost-to-build model and any sales that exist, which typically are few. Whichever model is then determined to best represent the market value of the property is then applied to all similar property types. This is a judgment call by the assessor, usually based upon experience and knowledge.
Unfortunately, there is very little motivation for property owners to submit these forms. The potential fine ($50) is usually less than the cost of having their accountants compile the data so, they accept the lesser cost. By statute, the owner should lose their right to appeal the valuation of their property for that same year at the appellate tax board (ATB) but we have consistently seen the ATB give owners second and third opportunities to submit the I&E information to the assessor late in the year and also retain their right of a hearing at the ATB. The reason property owners should submit these forms are so they can be more accurately valued for tax purposes along with their fellow property owners. It is just as reasonable to believe that commercial and industrial valuations may end up too HIGH without sufficient I&E information available to the assessor, as it is to believe they might end up low. By not submitting their data, these owners are taking that risk.

4. How would a small business exemption be defined?

The Commissioner of the Department of Workforce Development issues a list of qualified businesses in each jurisdiction every year. The business must not have more than 10 employees in the previous calendar year and the property must be worth less than

$1,000,000, as valued by the assessor. If more than one business occupies the property, all businesses in the property must qualify or the property is not exempted. All partnerships and sole proprietors must apply locally to the assessor and must meet the same standards. If this option is accepted by the town, each qualifying property would receive a 10% reduction in their taxable value. Just like the residential exemption, the exempted value is removed from the tax rate calculation and this typically will result in a $0.05 increase in the commercial, industrial and personal property tax rate in Barnstable. An important point to note, though, is that the tax reduction will go to the property owner, not to the businesses qualifying the property, unless the owner decides to pass the reduction through to them.

5. How do we make people really understand the pros and cons of a split tax rate, the residential exemption, and a small business exemption?

The simple answer is that there is no way to make anyone really understand the costs and benefits of these different options, especially if they don't wish to educate themselves by asking questions and listening impartially to the answers before forming an opinion. As is typical human behavior, the instinct is for an individual property owner to always ask "what's in it for me" first and stop there. The residential exemption has resulted in Barnstable homeowners, who qualify for the exemption, paying an average town tax bill that is among the lowest 25 average tax bills in the state, out of 351 communities. On the Cape, only Dennis is comparable. Of course, those second homeowners in town who can't qualify aren't seeing the same benefit and are, in fact, paying for the larger share of the exemption.
Every year, at the Town Council tax factor hearing and the fire district hearings, we present the potential impacts of all of these options in terms of dollars to taxpayers. These are not only attended by the public and press, they are televised on the local cable channel. By paying close attention to these sessions, any reasonable taxpayer should be able to grasp the ramifications of all the options. If they choose not to, there isn't much any of us can do about it.

Now a few questions that were not covered:

1. Property that is classed as agricultural - what defines that and how is it verified?

   Chapter property of all three types (forest, agricultural and recreational) is defined by state law and must meet statutory guidelines to receive the taxable value reductions for each. These are verified yearly through submitted applications by the property owner that identifies the parcels and acreage involved and those applications are then field reviewed to ensure that the acreage is actually being used in the manner described. After field review, the applications are presented to the Board of Assessors for approval or denial, based on the assessor's review and subsequent recommendation.

2. How is tax exempt status verified?

Certain tax exempt properties are not required to undergo yearly application for exempt status, like churches and municipal or state property. Others, like charitable organizations, are required to submit a 3ABC form annually by March 1 to the assessor's

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office, normally accompanied by a copy of their filing with the state Division of Public Charities. The 3ABC document is an application for exempt status for the coming fiscal year. Each application is then reviewed for compliance with the state statutes and, if necessary, the applicant is asked for further documentation of that compliance. Field reviews are conducted where appropriate.

2. How often is tax exempt property revalued?

Since exempt property is capable of becoming taxable at any time by a sale to a non-exempt entity, tax exempt property should be updated yearly based on the land value and construction style, like all other property is in Barnstable. However, being non-taxed, it has been sometimes ignored in the past as being irrelevant and thus left to languish in some cases. It is the policy of the current assessor to update <u>all</u> values every year.