

**CITY COUNCIL WORK SESSION
CITY OF WATERTOWN
SEPTEMBER 10, 2012
7:00 P.M.**

Mayor Jeffrey E. Graham Presiding

Present: Council Member Roxanne M. Burns
Council Member Joseph M. Butler Jr.
Council Member Teresa R. Macaluso
Council Member Jeffrey M. Smith
Mayor Graham

Also Present: Sharon Addison, City Manager

City Staff Present: Brian Phelps, Jim Mills, Ken Mix, Kurt Hauk, Elliott Nelson, Chief Comins

Presentation- Maple Court Apartments PILOT Proposal

Mayor Graham welcomed Alison Kunis, of The Related Companies, Munesh Patel of Harris Beach Law Firm, and Dave Zembiec of the Jefferson County Industrial Development Agency.

Ms. Kunis thanked the Chair for the opportunity to meet with Council and mentioned a recent meeting with Ms. Addison and staff to discuss a possible project with Maple Court Apartments. She noted that The Related Companies is a New York City-based affordable housing developer which is interested in purchasing Maple Court Apartments, which is a 92-unit Section 8 assisted complex for families. She said it is her hope to keep the project affordable and put slightly over \$2 million dollars worth of rehabilitation into it. The financing proposed, she said, is from the Jefferson County IDA, whom her company has been working with for a while. She noted that a formal application has been made to them for financing, they have subsequently passed a resolution supporting tax exempt bond financing for the project and submitted an application to the State for a tax exempt volume cap. Ms. Kunis said one of the things that is financially critical to the project is that the company get the benefit of a PILOT, or tax abatement agreement, just as the existing owner had had. She added that it is very important for the new lender to know what the taxes are going to be, at some predictable number annually. The project's rents are capped by the U.S. Department of HUD and they will continue to be. The PILOT that was proposed was a year-one, starting at a base number of \$24,000 and increasing annually by three percent, and Ms. Kunis added that the three percent increase is not contingent upon the income of the project. The existing PILOT expired, which was a flat \$12,000 per year. She referred to the packet given to Council to illustrate what it would look like to the City. Without the PILOT, she said, the financing is virtually unattainable.

Mayor Graham commented that when the complex was on the PILOT, it was assessed for roughly \$2.5 million, which translates to about \$27,000 per unit. Last year when it came off the PILOT in 2011, the Mayor said, the assessment went down to \$1.5 million, which was because the project qualified for a Section 581, an alternative way of calculating assessment to provide an incentive for affordable housing. The tax levy against \$1.5 million would be approximately \$36,000 per year. The Mayor told Ms. Kunis that what she is proposing would be about \$12,000 less than what it would be with the current assessment. The Mayor said that amount does not seem to be so crucial that it would make or break a project of this scope. That amounts to about \$120 per year, per unit, he said.

Ms. Kunis replied that her company is not related to the existing owner, but rather a third party company coming in to purchase this from the existing owner. She noted that they are asking for a new PILOT because they cannot get financing without it. A \$12,000 difference in annual taxes is about \$150,000 in bond proceeds, which would be that much less than they could put into the project. The higher the expenses, the less money can be taken out, she said. She added that this is a project that they want to own for a long time, potentially another 30 or 40 years and it has not had any major systems replaced in 40 years and ordinary wear and tear has taken its toll on systems of the building. There has to be some financial incentive, she said, to buy the project and put money into it for preservation. She noted that this property is not going anywhere in its current state and said she would like the opportunity to make it better.

Mayor Graham noted that because of the nature of affordable housing, it already gets a break under Section 581. This is an additional accommodation ahead of that, he said, and there is another housing complex called Clinton Courts, where the units were assessed at the same \$27,000 as Maple Courts until last year's adjustment.

Council Member Butler inquired about financing, saying that \$4.8 million is going to be raised from a municipal bond offering through the JCIDA and asked about the rate of low four percent.

Ms. Kunis said it would be about five percent with servicing fees. The bonds will be credit enhanced by Fannie Mae, with mortgage insurance.

Council Member Butler asked if the five percent matches with the schedule shown on debt service. He noted that his math shows a percentage of 4.3 % on \$4.8 million.

Ms. Kunis replied that it is five percent, all in interest rates, and there is a bond rate of about four, then a bit less than one percent in servicing fees.

Council Member Butler asked what the anticipated credit rating would be.

Ms. Kunis responded that they would most likely get a Moody's rating of AA or AA- but because there will be mortgage insurance on it by Fannie Mae, the bonds will not be hard to sell.

Council Member Butler noted there would be about \$2.1 million that would be raised through the tax credits.

Ms. Kunis explained that tax credits would be generated by buying the project and doing rehabilitation, and said a developer such as her company has no use for them, meaning they would sell to a tax credit investor.

Council Member Butler noted that puts the project at roughly \$7 million in raised capital and asked for a breakdown of figures.

Ms. Kunis said the acquisition cost is \$3.1 million. She noted the rehabilitation figure is at \$2 million with a base cost of \$1,675,000 plus contingency and overhead.

Council Member Butler inquired about the architecture and engineering costs, being \$1.3 million.

Ms. Kunis noted that soft costs are about \$1.4 million, which includes architect, engineering, legal fees, surveyors, title, the IDA's issuance fee and Fannie Mae's costs, basically every single cost in the deal.

Council Member Butler said it seemed high.

Council Member Smith said the details are listed in the soft costs, but asked if part of those costs would be architect/engineering fees at \$1.3 million and the issuance of the bond at \$140,000, plus construction loan fees of \$210,000, and if those would all be soft costs.

Ms. Kunis replied they would all be soft costs. She added there are also reserves that are funded at closing for taxes, insurance, replacement reserves.

Council Member Smith noted that the figure stands at roughly \$1.8 million for soft costs, if reserves are included.

Council Member Butler said that is a lot of soft costs on a \$5 million dollar deal.

Ms. Kunis said the tax credit program has certain costs and a lot of those costs are based on percentages. She added that these are very typical tax credit acquisition soft cost amounts.

Council Member Butler commented that Ms. Kunis mentioned there would be no rent increases, but on the 30 year projection figures the gross rent does go up every year, starting at \$918 and asked what the increase in rent can be attributed to.

Ms. Kunis replied that the Section 8 program works by having a contract with the government every year, based on geographic location of the project, HUD issues automatic adjustment factors, which cover developer's inflation costs. Every municipality is assigned a certain

percentage each year by HUD which would be the automatic rent increase. Three percent, she said, is just a good way to underwrite a deal.

Council Member Butler asked if the tenants would see a rent increase.

Ms. Kunis said that the increase would not come from the tenant's pockets but rather from the Section 8 subsidy.

Council Member Butler commented that the vacancy rate is five percent.

Ms. Kunis replied that it is.

Council Member Butler asked for clarification regarding ownership. Right now, he said, it is owned by Maple Courts Apartments and the new owner is Maple Courts Preservation.

Ms. Kunis said that is the name picked to form an entity.

Council Member Butler inquired if the new owner has anything to do with The Related Companies.

Ms. Kunis said she has never met the new owner.

Council Member Butler said The Related Companies is completely out of the deal, the limited and general partners have nothing to do with the new ownership structure.

Ms. Kunis replied they have absolutely zero to do with them.

Council Member Butler referred to the organizational chart, and asked for clarification on the relationship between PNC and Pathfinder Banks.

Ms. Kunis explained the general partner is proposed to be Related or an affiliate of Related. Maple Court Preservation GP, which is the general partner entity, is a Related entity, that she would be the owner of.

Council Member Smith asked if her company would be the sole general partner.

Ms. Kunis said the sole general partner would be Maple Court Preservation GP, LLC, which is 100% owned by Related Companies.

Council and Ms. Kunis reviewed the organizational chart and discussed the companies involved.

Council Member Smith asked what specific rehabilitation needs to be done.

Ms. Kunis responded that what her company plans on doing is the interior portion of the apartments, every kitchen and bathroom, including cabinets, flooring, lighting, painting, all new energy efficient appliances, fixtures, all new windows, landscaping and paving.

Council Member Smith asked if there would be any new construction.

Ms. Kunis said they will not be doing construction but rather replacing old with new systems.

Council Member Smith expressed concern with the soft cost amount and the scope of work to be done.

Ms. Kunis reiterated that the cost total is related to doing the transaction, not just the rehabilitation.

Mayor Graham asked Mr. Zembeic about the length of the proposed PILOT.

Ms. Kunis replied they had asked for a 30 year PILOT. She said the tax credit program is a way to attract private capital to deals that would not ordinarily get an investment. While the soft costs may look high, she said this is the nature of this type of deal.

Attorney Patel said as bond counsel to the IDA, Harris Beach has done many deals across Western New York, including deals with The Related Companies.

Council Member Burns said she would like to hear from Mr. Zembiec how the IDA came to decide that this is something that would be beneficial if the City was willing to agree to the project and grant a PILOT in the amount of \$12,000.

Mr. Zembiec noted there has been a housing crisis in the City for a while. He noted this is an opportunity to incentivize someone to come in to rehabilitate this property and to serve people who need housing.

Council Member Burns responded that the IDA is of the position that if the City does not grant this PILOT then that property will fall into disarray.

Mr. Zembiec said if someone is not found to come in and do the reinvestments needed to keep that property up to decent livable standards then that would eventually happen.

Council Member Burns asked how long the property has been on the market.

Ms. Kunis said she did not know and that information had not been disclosed to her company.

Council Member Burns asked if that was a consideration when the IDA decided to endorse this project.

Mr. Zembiec said the consideration was the existing housing situation within the community and the need for housing.

Council Member Smith noted that this is existing housing and new housing is not being created, and asked about a constituent who may own two or three rental income properties that they have to keep up. He asked if the IDA would propose PILOTs for them if they plan to rehabilitate their properties to provide low-income housing to be able to be competitive. He noted that it is more likely for single family homes to fall into disrepair.

Mr. Zembiec replied that the IDA is limited to commercial scale projects. Home owners, he said, have other programs available to them.

Mayor Graham mentioned the consolidated funding application and asked about its status.

Ms. Kunis said that was the application that the IDA submitted on The Related Companies' behalf to the State to request a volume-cap. Every state, she explained, is awarded a volume-cap and every fall the governor announces volume-cap allocation. The IDA did not have enough existing cap to be able to fund the \$4.8 million so in turn, it had to make a funding application to the state. She added that the governor has not yet announced any IDA allocations across the state.

Mayor Graham asked what the IDA's fee is for this transaction.

Ms. Kunis replied it is one percent of the bond amount, or roughly \$48,000.

Council Member Butler asked about the amount of rental revenue, mentioning the total of \$900,000, and stated it is a fairly high cap rate.

Ms. Kunis responded that the rents are not \$900,000 now, but rather about \$700,000 and the plan is to renew the existing Section 8 contract, which expires in two years. She said they will apply to HUD to renew the contract early, upon closing, for twenty years. Ms. Kunis mentioned a program called the Mark up to Market, where they will consider issuing rent increases for people who are buying housing and want to rehabilitate it. This is a proposed rent which has not yet gotten any approval from HUD.

Council Member Butler asked if the average rent would be approximately \$800-\$900 dollars.

Ms. Kunis replied it is a little less than that.

Council Member Butler commented that low income tenants are not paying that figure per month.

Ms. Kunis noted that is not what the tenant would pay but rather what the contract rent is. The tenant, she said, is only paying up to thirty percent of their income as rent and the subsidy is the

difference. She further explained that no one will be qualified to live in the project that makes more than sixty percent of the area median income.

Council Member Butler commented that they get some arguments saying people should pay their fair share. He added that the complex is a demand on the school district and City's resources as a lot of school-age children live in that complex and the City's emergency services respond there. He said that they will get grief from people if the City is only going to be paid a portion of what would have been paid on the full fair share on the assessed value, which he said he believes is not much different. He noted that future revenue numbers will be burdened in the next ten years.

Council Member Smith asked if there is anything structured into the deal in terms of mortgage tax and sales tax on products purchased for the rehabilitation, and if they will be abated.

Ms. Kunis replied that by virtue of the IDA financing, they will be applying for mortgage recording tax exemption and sales tax exemption.

Mayor Graham noted that is about \$3,000 or \$4,000 dollars but then the sales tax is over \$100,000, which if the City's share of that is computed, there is a cost there as well. He asked how the figure of \$24,000 came to be.

Ms. Kunis said there was some financial analysis done.

Mayor Graham noted that it is the confluence of the abatement requests that come in, which erode the revenue stream. He noted retirement costs of City employees and that by 2014, the City will be paying 28% of salary for a fireman to enter the retirement system, compared to 14% one year ago.

Ms. Kunis asked Council if they were in support of the project if they are satisfied tax-wise.

Council Member Smith said he would support it but asked why a private developer would purchase a piece of property far above its assessed value when it has been stated that it is in terrible shape.

Ms. Kunis said it has been very well maintained but systems can only last so long. She said a deal cannot be reached without having some predictable future annual tax payment.

Mayor Graham said the financing of the City is not through property tax it is through the hydro-plant and sales tax revenue. It becomes a problem, he said, when the legislature passes an exemption and then more exemptions or abatements are added on to it.

Council Member Butler stated that paying the full taxes on the 581 assessed value would make Council happy, instead of paying \$24,000 it would be \$36,000.

Ms. Kunis asked for a predictable amount of taxes, and said the project would be taken out of Section 581.

Mayor Graham noted there is an assessed value applied to exempt properties.

Council Member Burns said she did not want to downplay the importance of the assessed value on the property regardless of what the taxable value is or if there is a PILOT or not. She added that even if full taxes may not be paid on the total assessed value that is something that is important when it comes down to the proration at the County level with sales tax revenue. Assessed value, she said, is something that is key even for properties that are wholly exempt.

Mayor Graham commented that, in essence, there would be a seventy year PILOT on the property. He said taxes, if assessed at the real value of \$2.5 million, would be roughly \$54,000 per year.

Mr. Phelps told Council it would be closer to \$60,000.

Mayor Graham noted that the proposal of \$24,000 is a 60% reduction from what it would be normally.

Ms. Kunis asked if it would be on the 581 rolls as it is now. The taxes that the current owner pays now are \$36,000 per year.

Mayor Graham said he understands that the \$36,000 figure is an achievable number in any negotiation.

Council Member Smith said the City has a stable tax rate and if existing taxes were examined and the three percent escalator was applied, it would probably be fairly safe, especially with a tax cap.

Council Member Butler said he would like to see \$36,000 paid.

Ms. Kunis stated she would like to have a number somewhere between \$24,000 and \$36,000, with three percent annual increases and keep the project out of 581. She asked if a PILOT agreement could be agreed to now.

Mayor Graham and Council Member Burns concurred that they did not come to the meeting to negotiate another figure and asked for the City Manager's input on the matter.

Ms. Addison replied that this was set up as a work session to provide Council with information and a conclusion on the matter was not anticipated unless Council was happy with the proposal.

Mayor Graham asked if it was fair to say that there is not sufficient support for what was proposed.

Council concurred.

Council Member Smith asked for hard numbers on mortgage and sales tax.

Mayor Graham replied they are in the packet.

Ms. Kunis added that they also anticipate creating about 75 construction jobs. She said she wanted to propose what her company would like and answer questions and perhaps some number can be met at closer to \$36,000 to achieve the goal.

Council took a brief recess.

Mayor Graham asked if there was any follow up discussion on the previous topic, and said the take away for him was that he did not know why they would not take the 581 and questioned that there had to be a reason other than just filing a form every year.

Mr. Phelps said there are no requirements in 581 other than filing the financial statement each year with the Assessor's office. The only condition is that it has to be some form of subsidized housing.

Mayor Graham replied that typically the reason one would not want to be in that is that it locks a person into affordable housing, which is how the tax break would be achieved.

Council Member Smith inquired if a developer could go for the increased rents that Ms. Kunis was talking about through HUD, if the developer stayed with 581.

Mr. Phelps replied that they would be able to. He added that the 581 is not that advantageous because HUD is making up a rent up to the market level, where 581 A is quite beneficial for people if they are in an agreement in which they charge less than market rent and they do not receive a subsidy that is under some other programs. Mr. Phelps mentioned the properties on Kieff Drive across from this project are owned by Neighbors of Watertown, those properties are in 581 A. He added that he does not agree with their idea that the assessment could go up to nine million dollars next year and said if it does and he is working the way he is supposed to under 581 A, that means that either their expenses went to nearly zero or their rents went way up.

Mayor Graham questioned the commitment to 30 years of affordable housing due to the location and added that if it were market rate housing it would be fairly attractive as it is on a golf course and in a pretty prestigious part of the City. He remarked that he finds it hard to believe that the guests from the previous presentation seemed rather oblivious to 581s, especially when the counsel present works for a firm that does deals for IDAs.

Mr. Phelps replied that it could be because 581 A does not require IDA participation whatsoever. He quipped that he did find it funny when they used the term 'archaic' as it is only a five year old law.

Council Member Burns spoke about the comment that was made as far as the company not being able to get financing through Fannie Mae or any other avenues if they do not have a locked in guarantee that they will not have an increase in taxes over the next several years. She said it is an affordable housing project that is no different, in her opinion, than if there was an individual who was looking to purchase a four or five unit commercial rental complex and went to obtain financing through a bank or mortgage company, the individual would never get any sort of promise or lock in on what the taxes would be for the next several years. She stated the only thing those lending agencies do is to call the assessor's office or real property tax services and get an average tax figure for the year. Council Member Burns said she cannot believe there would be any expectation for a guarantee of what the tax rates will be years from now and said it cannot be known what the tax rates will be decades from now.

Council Member Smith commented about the possibility that the company may not intend to keep the complex as affordable housing, especially if the golf course comes up for sale.

Mayor Graham noted that perhaps companies such as this one are finding local elected officials, like the school board, are asking tougher questions on these types of matters.

Western Boulevard Update

Kurt Hauk, City Engineer, presented to Council updated information on the Western Boulevard project. He reviewed a fact sheet provided to Council and mentioned the budget sheet on the project as well. He said at the last meeting with Stateway Plaza representatives a negotiated corridor for a street was worked on. He referred to an aerial map of the Plaza. Mr. Hauk said it is proposed to be three lanes wide, north and south bound, and a turning lane. The length of the street is 1,400 linear feet, he said, and the price was bumped up a little to make the estimate approximately \$1.75 million. He reviewed the breakdown of the actual estimate on the budget sheet. If the corridor length or direction changes, Mr. Hauk said the figures will have to be recalculated.

Mayor Graham asked about removing a building in the Plaza for the boulevard.

Mr. Hauk replied that originally the plan was to make more of a curve at that point to avoid that building but the owners of Stateway Plaza want to keep the path of the boulevard so the building will have to be torn down. He mentioned the possible options for moving forward, including re-opening negotiations with the owners of Stateway Plaza, proceeding with eminent domain or the owner could build the street to City specifications then dedicate it to the City. Mr. Hauk said there is nothing to stop them from building that road, which could be built cheaper and faster, then dedicate it to the City. The issue with signage could be solved now if they went to the Planning Board and made themselves a Planned Development District, like the neighboring developer. He added that the road will not cause a parking problem and said the Plaza owners have a concern on that matter. Mr. Hauk said this is a lot of money and the project is not eligible for federal funding because it is not on the National Highway System.

Council Member Burns said she cannot speak for Council, but she cannot imagine agreeing to the \$1.75 million cost. She said she agrees with Mr. Hauk and re-opening negotiations would make sense, with the new City Manager at the helm. She asked about the cost of the land acquisition.

Mr. Hauk replied he made an educated guess, explaining that he used the same methodology when negotiations started for right of ways using figures from the appraised or assessed value and square footage.

Council Member Burns asked if there was any agreed upon potential between the City's negotiating team and the property owner.

Mr. Hauk replied there was not, saying it never came to the point to talk about hard numbers. Council Member Burns questioned the need for a three-lane, two way road through there and asked if a two lane road would be sufficient.

Mr. Hauk said as buildings get rebuilt or expanded over the years, the access to those new points is critical. Rather than trying to put designated entrances in, he said a turning lane is more flexible so entrances could be anywhere in the future. At this point, Mr. Hauk said there is no information on actual turns and when that point comes in the design, someone may have to go to the Plaza and do turning counts.

Council Member Burns remarked that the reason this discussion is being held is because the City has been approached by the Donegans, which is really the successful party in that area, and she said she would support Mr. Hauk's suggestion to reopen negotiations with the property owner. In doing so, she said she would also like to have City staff come back to Council with a potential number for the road as presented tonight but also a potential figure if the road is reconfigured slightly.

Mayor Graham said he thinks the process will end up in eminent domain. He said he thinks Council Member Burns is right in her idea of extending Western Boulevard to provide access to the parcels in question.

Letter From Watertown Urban Mission

Council Member Smith noted that the City is in the design phase of Factory Street and perhaps some of the Mission's concerns about the parking lot entrances could be addressed as long term solutions when the street is redone.

Mr. Hauk replied that the project is in the very preliminary part of the design right now but he said their entrance will be redesigned because of the way it currently is arranged. He said work will possibly start in July of 2013.

Mayor Graham said this makes sense and asked if parking could be banned between the two openings. He said he is inclined to yield to Ms. Flint's request.

Council Member Smith asked how far down the parking ban would extend.

Mr. Hauk responded it would just be the spot by the parking lot entrances.

Mayor Graham asked that an Ordinance be drawn up for the next meeting.

Police Department Hiring

Mayor Graham brought this to Council's attention.

Ms. Addison said there are two anticipated retirements and by hiring cadets in advance of vacancies helps ensure that costly overtime and overworking of officers is avoided.

Mayor Graham said this has been done in the past.

Council Member Smith said this option makes sense, as opposed to paying the overtime.

Letter from Community Action Planning Council of Jefferson County, Inc.

Mayor Graham said this was an informational letter.

Decking at Maggie's

Mayor Graham asked about this matter and noted the decision that came from the Department of State regarding a concession certificate. He asked if the information will be communicated to the people who request it or might they already know.

Ms. Addison replied that Mr. Mix already sent an email to Reg Schweitzer and a memo will be drafted with all of the information. She added that they have not heard back from Mr. Schweitzer.

Manager Update – Money due to Parks and Recreation

Council Member Smith mentioned the money due from the Watertown Wizards.

Ms. Addison said it is over \$6,000.

Council Member Smith asked if the City has been able to get in contact with Mr. Kirkby.

Ms. Addison said he has requested a meeting with her.

Property Auction

Mayor Graham said there will be a resolution at the next meeting to send some properties to auction. For disclosure, Mayor Graham said as President of the Watertown Local Development Corporation that organization has had dealings with the same individuals and that may color his outlook on the matter.

Ms. Addison said she has not heard back from Neighbors of Watertown on their list. She said there has been interest from Habitat for Humanity and a letter will be prepared for the next Council session. She asked what Council's interest was in touring the tattoo building.

Council Member Macaluso said she was not interested.

Ms. Addison said the recommendation was to demolish the structure.

Council Member Smith suggested bringing it to auction to see if it can be sold.

Mayor Graham said someone may bid a grand or two then the decision has to be made to turn down the bid in good faith because the conclusion has been made to tear it down.

Council Member Smith reminded the Mayor that the policy in place now allows the owner one year to bring the structure into compliance with Codes.

Mayor Graham said the property is still in the resolution but it can be deleted with a majority vote. He said he strongly recommends that Council members avail themselves to the opportunity to see it if it is safe to go in there. He said he would take a look at it.

Council Member Butler and Council Member Smith said they would tour the building.

Council Member Burns said she did not want to go.

Meeting ended at 8:45 p.m.

Amanda C. Lewis
Deputy City Clerk