City of Auburn, NY
Assessor's Office

Memo

To: Honorable Mayor and City Council

From: Michael J. Burns, Assessor

CC: Jeffrey Dygert, Interim City Manager & Laura Wills, Comptroller

Date: 7/11/2016

Re: Requested Memo to Council Concerning Melone Village's PILOT Request

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Presently, Melone Village per housing law still in effect from the 1960's, pays taxes on a land value assessment of $35,990. This assessment multiplied by the total tax rate of $39.223492 per $1,000 equals taxes of $1,412. This is split among City 33%, School 46% and County 21%. Melone Village does not pay any special district charges because there are none. The CIP and the Seymour Library rate are built in to our tax rate and although separated on the bill are not considered "special district" charges. As structured, the City of Auburn is responsible to make up operating deficits for Melone Village should they occur.

Summarizing Executive Director of Auburn Housing Authority Stephanie Hutchinson's plan, Melone Village needs to change their ownership structure and partner with a for profit organization to obtain renovation funding by selling tax credits. **<u>This negates their eligibility for a non for profit exemption.</u>** However, an ownership structure change takes the City of Auburn "off the hook" for operating deficits. Additionally, they will not receive any ongoing support for the operation from the for-profit partner. They have been not-for-profit for years and per the law only pay land value taxes prorated as I outlined above. If approved the PILOTS payments would be $6,000 per year.

The current law that establishes the income approach as the method to assess these properties if they are not eligible for a not for profit exemption or a PILOT- is Real Property Tax Law 581-a. This law requires the assessor to value the property using the income approach to value with **annual net operating income (NOI) before debt service being the key variable.** According to the pro-forma (projected income and expense statement) presented by Stephanie Hutchinson, the numbers show an after project completion net operating income of $218,152. This NOI, as the valuation basis, shows a potential assessed value of around $2,000,000 after project completion. Property taxes under this scenario would be $80,000 per year. However from any property owner's perspective, net operating income is not the bottom line and is simply a valuation tool. From the NOI the debt service (mortgage principal & interest) of $205,000 per year must be paid. So, the real bottom line after making these required payments is a projected annual cash flow of $13,152. Additionally, because rental increases may not be possible or may be restricted and due to the unpredictability of expenses affecting the bottom line, a scenario-based on these numbers for the 581-a program is not a feasible option for the Auburn Housing Authority.

Therefore, because of no other feasible options that allow renovation, if a PILOT is granted to Melone Village, we must consider the PILOT two pronged effect. According to my interpretation of the tax cap law, because Melone Village is currently exempt and if awarded a PILOT they will still appear as exempt on the file, this arrangement will have no bearing on the tax base growth factor (prong 1). However, the PILOT payment factor (prong 2) of $6,000 will be used annually by the state in calculating the tax cap but will have minimal effect on the tax cap calculation because it is nominal.

Recap:
Under the 1960's housing law still in effect total taxes are $1,412 split among City, County and School and the City is responsible to make up operating deficits.

An ownership restructuring is necessary partnering with a for profit organization to obtain funding for renovations. This negates the not-for-profit exemption currently in place and takes the City "off the hook" for operating deficits.

If Auburn Housing Authority evokes the 581-a program due to ineligible not for profit status for Melone Village or the lack of a PILOT agreement, then the property is valued on the income approach to value. Net operating income- as shown by the Auburn Housing Authority- serves as the valuation basis for property taxes. This low cash flow due to debt service creates upward pressure on the affordable rents now in place which may be restricted. According to the "Auburn Housing Authority", this is not a feasible option.

If awarded, the proposed PILOT plan stabilizes expenses, demonstrates the City of Auburn is financially committed and allows the Auburn Housing Authority application to New York State for low income housing tax credits to be more competitive. The PILOT payment is $6,000 versus $1,412 land tax we now collect.