

**Budget & Finance Committee**  
Thursday, November 8, 2018– 5:30 p.m.  
1<sup>st</sup> Fl. Council Committee Room – City Hall  
**-Minutes-**

**Present:** Vice Chair, Councilor Scott Memhard; Councilor Ken Hecht; Councilor Jamie O'Hara (alternate)  
**Absent:** Councilor Cox  
**Also Present:** Councilor Lundberg; Jim Destino; Kenny Costa; John Dunn; Joanne M. Senos; Jill Cahill; Nancy Papows; Gary Johnstone; Tim Goode

The meeting was called to order at 5:30 p.m. Agenda items were taken out of order.

**1. Letter from Mass. Cultural Council designating an allocation of \$8,500 for FY19 Local Cultural Council funds**

**Kenny Costa**, City Auditor, advised that this is an annual grant the city receives which is then distributed through the Gloucester Cultural Council. He noted there is no match.

**COMMITTEE RECOMMENDATION:** On a motion by Councilor Hecht, seconded by Councilor O'Hara, the Budget & Finance Committee voted 3 in favor, 0 opposed, to recommend that the City Council accept under MGL c. 44, §53A a state grant from the Massachusetts Cultural Council in the amount of \$8,500 to the Gloucester Cultural Council for the purpose of supporting FY19 local cultural projects in the City of Gloucester by the Gloucester Cultural Council. The grant period is from July 1, 2018 to June 30, 2019.

**2. Memorandum and Supplemental Appropriation Budgetary Request (2019-SA-9) from the City Clerk**

**Joanne M. Senos**, City Clerk, advised the Committee of her department's need for a new desktop printer, to replace an aging printer and a surplus printer that the Clerk's office received from another department which isn't working properly. She explained that funds are available through the Receipts Reserved for Appropriation Fund. The approximate cost of the printer is \$1,400 with a Supplemental Appropriation. The IT Director has recommended this purchase and that the printer would be under the IT Dept.'s blanket supplies and service agreement.

**Councilor Memhard** congratulated the City Clerk and her staff for their successfully running the Mid-Term State Election in Gloucester. **Ms. Senos** noted the election brought out 63% of the city's registered voters through Early Voting and on Election Day.

**COMMITTEE RECOMMENDATION:** On a motion by Councilor Hecht, seconded by Councilor O'Hara, the Budget & Finance Committee voted 3 in favor, 0 opposed, to recommend that the City Council approve Supplemental Appropriation 2019-SA-9 in the amount of \$1,400.00 (One Thousand Four Hundred Dollars) from the City Clerk Dog License Receipts Reserved for Appropriation Fund, Transfers to the General Fund Account # 32145-596001, to the General Fund, City Clerk, Other Expense, Account #0116152-578000 for the purpose of funding the purchase of a high workload color printer.

**3. Memorandum from Assessor re: FY19 Tax Classification**

**Nancy Papows**, Principal Assessor recounted the four options to consider as part of the tax classification process none of which changes the total tax levy: 1) a residential factor must be adopted which determines the share of the tax levy that will be paid by each property class; 2) consider an Open Space discount; 3) consider a residential exemption; and 4) a small commercial exemption. She noted that values and new growth for FY19 were certified by the Department of Revenue on October 11<sup>th</sup>. NOTE: The adoption of different rates does **not** change the total property tax levy; rather, it determines the share to be borne by each class.

**Ms. Papows** then reviewed the Tax Classification Information for Fiscal Year 2019 (on file) with the Committee as follows:

Page 4 – A Comparison of Fiscal 2019 Values by Class: The Residential class this year represents 90.27% (\$5,970,388,157) of the total value of the City, and Commercial/Industrial/Personal Property (CIP) class represents 9.73 % (Commercial: \$359,687,243; Industrial \$168,574,400; Personal Property \$115,407,390) for a total of \$6,614,057,190. The taxable value of the city increased this year by 5.53 percent from FY18. Based on sales

analysis, the residential class as a whole saw an increase of 5.42 percent from last year. The individual classes within the residential class -- single family class, condominium class, two- and three-family and apartments all saw increases in the range of 1.0% to 7.7%. The commercial had an increase of 1.6% and industrial had 0.2% which is considered nominal.

Pages 5 – Fiscal Year Parcel Counts, Values, and percent of Total Taxable City Value: The table on this page shows the parcel counts and the assessed values of each class from 2006 to present.

Page 6 – Previous Classification Factors and Resulting Tax Rate: The table shows the historic shift factors adopted over the years, and the associated underlying residential shift factors. The 1.03 shift factor was adopted last year (prior to that for the last eleven years, shifts a portion of the residential tax burden to the CIP classes.

Page 7 – Calculating the Maximum Allowable Levy: The table shows the calculation of the maximum allowable levy for FY19. It starts with the levy limit from the prior year and added to that is the Prop 2-1/2 increase and new growth from Residential and CIP classes which results in the FY19 levy limit. Added to that is the Pole's Hill debt exclusion (which runs through 2019), the CSO debt exclusion, and the water debt exclusion, which results in the maximum FY19 allowable levy at \$84,206,254. That figure divided by the total value of all parcels in the city results in the FY19 tax rate at a factor of 1.0 which is a tax rate of \$12.73 (down 24 cents from FY18). The tax rate at a factor of 1.0 would result in all properties paying the same rate for all classes of property. At a factor above 1.0, a portion of the residential tax levy would shift to a different class.

Page 8 – FY19 Tax Rate at a Factor of One = \$1, Shift in Tax Rate: This shows approximate tax rates that would result from the various shifts to the CIP class. The maximum shift allowed by the state is 1.5 percent (represented by 150%).

Page 9 – Comparison of Levy by Class at Various Shift Factors: This further shows the levy by class and approximate shift of the levy and also shows the approximate excess levy capacity that results which is approximate based on a rounding of the tax rates when the tax recap is completed.

Page 10 – Change in Tax Dollars at Various Shifts: This shows the actual change in tax dollars for properties at different levels in terms of valuations (at various shifts). For instance, a property value at \$500,000 is the closest to the average single family home in Gloucester which is \$585,945 this year. At last year's shift factor of 1.03 that would save the residential taxpayer \$20 per year while the CIP taxpayer would pay an additional \$190. The extreme as shown at the bottom of the page shows that a \$500,000 property at a 1.5 shift saves the residential taxpayer \$340 annually while the CIP taxpayer would see an increase of \$3,180.

Page 11 – Open Space Discount and Residential Exemptions. This page explains the open space discount. There are no parcels defined as open space in the city at this time.

Page 11 and 12 Residential Exemptions and Page 13 – Small Commercial Exemption: The Mayor has not opted to adopt either the Residential or Small Commercial Exemptions.

#### COUNCILOR QUESTIONS AND DISCUSSION:

Responding to inquiries by **Councilor O'Hara, Ms. Papows** made the following observations: Values overall have been a 90% residential/10% CIP split generally for a long period of time. She noted the parcel counts on Page 5 saying the counts don't change drastically in focusing on the Commercial and Industrial because the Residential class is so much larger, and fluctuates more with the market. She described that in a decreasing market the residential percentage would be seen dropping and the CIP rising slightly. Conversely, when the market is increasing from FY14 forward, that's where the Residential was seen as rising and CIP dropping slightly. It is more a factor of what is going on with the market rather than losing parcels in terms of the CIP. **Councilor O'Hara** asked about comparisons with cities like Newburyport, with shifts onto the CIP, is it typical. **Ms. Papows** noted the DOR didn't update their website to FY18 data, but based on FY17: Ipswich, Marblehead, Rockport, Newburyport are all at 1.0 which she noted don't have large CIP percentages; Salem is 1.65 and Beverly is 1.67; Gloucester was the lowest shift. She suggested that there are a lot of different reasons officials choose to shift or not, and that there isn't consistency as to what people choose to do. **Councilor O'Hara** asked if there are any communities of any size that lighten the burden on the CIP to encourage business. **Ms. Papows** advised they could do that but she'd never seen that. **John Dunn**, CFO, noted he'd never seen a shift go the other way. It is either unitary at 1.0 or a shift of the burden. The cities along Route 128 have a much higher shift than Gloucester. In many cases it's because they have a bit more CIP value and try to be consistent through the years without jumping the rate up or down abruptly. The smaller towns that don't have very much CIP tend to go with 1.0 and more industrialized cities have more of a shift. Gloucester's shift is comparatively low, he reiterated. Boston shifts 1.75 because it can. From the Administration's point of view, they recommend keeping the tax classification at 1.03, and noting on Page 6 at 1.03 it would come to a 89.98% for residential versus 10.02% for CIP and there's only been three years over 20 years

where the CIP would be less than 10.02. In terms of consistency, keeping the rate at 1.03 with residential real estate values being more volatile, as those values increase the residential class will bear more of the dollar tax levy burden. If it is moved down it is shifting more onto the residential class. He pointed out the city had a rate of 1.06 for many years; and advised it is good to have consistency.

**Councilor Memhard** noted that the last two years the B&F Committee and the Council has voted for parity and the Administration felt strongly that it was an uneven playing field and the Mayor vetoed that for several years. That resulted in the Council trying to reach an equitable status and confirmed that the Administration is interested in maintaining the consistency of a 1.03 rate. **Mr. Dunn** advised at 1.03 the rate would still shift some of the burden to the residential class because of the valuations.

**Councilor Hecht** pointed out the actual money is very small, but is more “fighting for one side or the other.” He pointed out is that it is \$12.73 mill rate which is low compared to other communities on the North Shore particularly for the Commercial class. From the Commercial point of view, they want businesses to move to Gloucester which is at the end of the line, and they want tenants to move to Gloucester. He noted he sees the case for parity, and if the city is to get out of its \$400 million “hole” there need to be solutions. Growth in residential class is the driver -- as values go up and commercial class is stable, there is a natural burden already shifted over to the residential. He expressed he was torn on the shift but that the 1.03 shift is “symbolic” than it is real. When someone thinks about moving to Gloucester, they’ll look at the mill rate and cost in dollars per foot in taxes which are cheaper in Gloucester. He added that this is not a lot of a difference in actual dollars.

**Councilor Memhard** asked how they factor in the competitive advantages of some of the other costs of doing business such as water and sewer rates along with the tax rate. He advised it was his sense that it was high.

**Councilor Hecht** noted that an industrial user considers the water rate and sewer rate differently than a commercial user; but that the city has made the commitment to improving its infrastructure and as a result it has raised the city’s water and sewer rates but it has given business the necessary capacity. In order to have that capacity for the businesses they want to attract it raises the price for everybody, he added.

**Councilor O’Hara** conveyed his agreement with Councilor Hecht, noting he had spoken to the Mayor last year on this issue, and asked how innovative would it be. He pointed out that businesses don’t have an opportunity to vote, costing the city less and don’t have children in the city’s school system. He highlighted that early every morning he sees people streaming out of the city to go to jobs off of Cape Ann. As the city is at the end of the line they have to show how they’re open for business. He suggested they even consider dropping the residential tax classification factor to under 1.0. They need business in Gloucester with real jobs for Gloucester residents and have to offer something to businesses to spotlight the city, he added.

**Councilor Lundberg** noted on Page 5 residential property values -- from 2018 to 2019 residential parcels went from \$5.6 million to \$5.9 million in value and CIP went from \$351 million to \$359 million in value. The value increase on residential has already created a property tax increase to homeowners, which was confirmed. What they’ve tried to do over the years because they do have a unique situation with the residential and business how they play off one another. What they’ve done with the shift differential is to ameliorate some of that tax increase to the residents because their taxes are going up and to take just a little bit of the burden off residential. He agreed that the dollar amount was miniscule. He added that it seems that this is largely symbolic and are they sensitive to that dynamic with the residents.

**Councilor Memhard** expressed concern when the Council engaged in this debate that a lot of folks were mobilized last year to speak in opposition of a shift of 1.0. as he didn’t sense these folks grasped the concept of what they were encouraged to oppose as to the meaningful impacts. He explained that it is a complicated technical subject but people perceive it as impacting them. As business people as the Councilors at the table, he pointed out, who operate in Gloucester, there is a lot to struggle against. When real estate values for residential properties go up, it is because the values have gone up which “makes it tougher to live here.” He highlighted that their asset value has appreciated whereas the CIP is flat or not appreciating the way condominiums or two-family dwellings.

**Ken Riehl**, Cape Ann Chamber of Commerce, conveyed that by changing the tax rate it will attract more business to Gloucester although whether the rate is 1.0 or 1.03 it won’t make or break one business’s decision. He spoke of a major South Shore initiative “the Blue Economy” the South Coast led by UMass and a coalition of cities and towns that has garnered a great deal of attention and that the Chamber is looking to replicate that model looking to form a similar coalition which he explained that the idea is to get the North Shore leadership aligned to bring business to Gloucester as they have in the South Shore to develop maritime industries -- a marketing initiative focused on Gloucester and the North Shore. The city’s tax rate is relatively low, he pointed out but when they talk to businesses they talk about tax rates and tax classification is part of that conversation. If they could say they have parity, he advised it tells a much of a better story. At 1.0 it speaks favorably and will help with marketing the city,

and while symbolic, it is a message to attract more businesses to the area. There will still be a decrease in the tax rate even if they go to a parity level, he pointed out.

**Mr. Dunn** advised that the recommendation from the Administration is 1.03 and other Administrations have already done some things to make Gloucester more attractive that is already in the tax rate, which benefited the CIP and Residential classes. He recommended consistency. Other communities “down the line” have greater shifts but it isn’t inhibiting their ability to attract business --1.03 versus 1.0 won’t make a big difference, he added.

**Councilor O’Hara** noted the Route 195 corridor assets versus Gloucester struggling with its harbor, and competition from other cities and towns to attract business. He highlighted that they need to look to make the city “shine.”

**Councilor Hecht** advised that GMGI is a “gem,” life sciences moving to the suburbs. This will be something the city can build on. They’ll need a “catcher’s mitt” to bring in and keep these value-added businesses as GMGI spins companies off. If the city isn’t prepared those businesses will go elsewhere.

**COMMITTEE RECOMMENDATION: On a motion by Councilor Hecht, seconded by Councilor O’Hara, the Budget & Finance Committee voted 3 in favor, 0 opposed, to adopt a RESIDENTIAL TAX CLASSIFICATION FACTOR OF 1.0 for Fiscal Year 2019.**

**4. Memorandum from Community Development Director re: recommendations from the Community Preservation Committee for Round 9, FY18 funds -- to schedule applicants**

**Councilor Memhard** briefly discussed with Jill Cahill, Community Development Director a schedule of applicants recommended by the Community Preservation Committee to receive CPA funding to come before the B&F Committee to describe their projects. The agreed upon schedule is as follows:

To be taken up on Thursday, November 15:

<u>Applicant</u>	<u>Project Name</u>	<u>Recommended Amount</u>
Cape Ann Museum	White-Ellery House stabilization & preservation	\$50,000
Annisquam Village Church	Rehabilitation & preservation of church	\$30,000
Sargent Murray Gilman Hough House Association	Sargent House Middle Street façade preservation	\$ 800

To be taken up on Thursday, December 6:

Gloucester Meetinghouse Foundation	Rehabilitation & Restoration	\$131,000
Magnolia Library Center, Inc.	Handicap Access	\$ 90,000

**5. Update on the Outside Auditor’s Report (Cont’d from 10/19/18); Memo from City Auditor regarding accounts having expenditures which exceed their authorization & Auditor’s Report**

**Mr. Costa** asked that the Outside Auditor’s Report be continued to B&F’s Special November 15 meeting.

**A motion was made, seconded and voted unanimously to adjourn the meeting at 6:23 p.m.**

Respectfully submitted,  
**Dana C. Jorgensson**  
 Clerk of Committees

**DOCUMENTS/ITEMS SUBMITTED AT MEETING: None.**