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THE CITY AND BOROUGH OF JUNEAU, ALASKA BOARD OF EQUALIZATION

June 6, 2007

- I. CALL TO ORDER:** The Board of Equalization meeting of the City and Borough of Juneau, held in the Conference Room #224 of the Municipal Building, was called to order at 5:00 p.m. by Chair Michael Boyer.

II. ROLL CALL

Members Present: Jaqueline Fowler, Michael Boyer and Scott Novak (Panel 3).

Members Absent: None.

Staff Present: John Hartle, City Attorney; Laurie Sica, Municipal Clerk; Kenneth Miller, Appraiser; John Skan, Appraiser.

Others present: Jack McGee, Attorney representing Telephone Hill Neighborhood Non-Profit Management Corporation; and Maureen Connerton, a representative from Telephone Hill Neighborhood Non-Profit Management Corporation.

III. PROPERTY APPEALS

Appeal #1

Subject Property: Parcel #'s 1C070A060010, 1C060A010060, 1C070A010050, 1C070B0E0010, 1C060B0E0020, 1C070B0F0010, 1C070B0C0020, and 1C070B0D0010, located at 124, 125, 128, 135, 139, 204, 211, and 214 Dixon St.

Appellant: Telephone Hill Neighborhood Non-Profit Management Corp.

2007 Preliminary Assessed Value:

Site: \$86,400	Improvements: \$90,300	Total: \$176,700
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Owner's Estimated Value:

Site: \$0	Improvements: \$0	Total: \$57,943
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Assessor's Recommendation:

Site: No Change.

Ken Miller, CBJ Appraiser, provided the information that was in the packet. He said that the assessment was not of property value but of possessory interest value.

Mr. Boyer asked if he was using the reversionary method, and Mr. Miller said yes, in tandem with the rent savings method. He reviewed the Assessor's Analysis provided in the packet.

Mr. Boyer asked if Mr. Miller was reviewing the lease value or the more vague possessory interest. Mr. Miller said both.

Mr. McGee said the issue was whether the city had calculated the possessory interest as property leased from the state. The facts were not in dispute and he referred to Exhibit 1 in the Appellant's packet. There was a five year lease with the state which expired in 2006. Since then, they have had a month to month tenancy governed by the terms of the old lease

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which allowed the state to regain possession upon six month's notice. The city, under its cooperative use agreement with the state of 1986, could develop the site for open space and parking, and could demolish any building on the site. The duties of the tenants were burdens. The reversionary method had been recommended by the state for valuing all private possessory interest. The possessory interest must be valued by Jan 2007. Mr. McGee said the problem with the calculations was that the assessor assumed a one year lease, not a one month lease. Also, they assumed the state had to wait one year, not six months, to end the tenancy. Mr. McGee said the Assessor had not valued the burdens to the tenants correctly, which they had estimated were valued more correctly at \$163,557.

Mr. McGee reviewed the burdens, saying it was an unusual lease. The tenants had to pay all heating, maintenance, electric, garbage, water and sewer costs, also to defend and indemnify the state harmless for the lease. If a state inspector inspected the property and there was a worker working on the property, and the inspector caused an injury to the worker, the tenants would be liable. Also, there is a 24-hour notice period for site inspections of the property with out mutual agreement. There was also the duty of paying the cost of the accountant for the non-profit corporation. The fee arrived at was a reasonable value. He said the lease would be difficult to sell with all the burdens.

Maureen Connerton referred to her second letter to Jim Canary, referring to her discussion with a city engineer regarding plans to blow up part of the hill for the city parking garage. This site was meant to be the capitol site, not a residential lease site, and she asked the board to factor in that this was a unique situation. She said the tenants had attempted to be good stewards of the land and they had rented to legislative staff at comparable rent rates as other properties.

The board discussed the various methods used to make the calculations of the value.

Mr. Novak said it seemed that the only disagreement was on the list of what were appropriate to put on the list for the value of burdens.

Mr. Boyer asked if they were paying market rent now. Ms. Connerton said no, as an average. However, what would normally be a management set up, with much of the maintenance provided by the leasing company, was done by the individual residents. When maintenance and upkeep was done, the residents did this themselves. Mr. McGee said that most rentals did not include major maintenance. The state had a property manager and they lost money, then they did an in-house manager, then they put out a bid to see who of the property managers in town wanted to pick it up – about eight years ago, and no one wanted it. They paid possessory interest on a vacant lot, which they kept clean of trash from the vagrants. It was not a normal lease. We finally, after many years of doing this, started a small .02 repay fee from our rentals. Now we can reimburse for materials for major repairs from our rental fees.

Mr. Boyer asked for evidence of the market value of the eight rentals. He said it would be easier to find this objective value as some of the issues were so intangible; it was difficult to value the burdens of the lease.

Mr. Novak asked Mr. McGee for his source for what the value of the burdens were. Mr. McGee said he referred to the court case, and also common sense.

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Mr. Miller presented further information regarding possessory interest which was provided in the packet. He spoke to the state assessor about whether there were any similar situations in the state and he could think of none. The properties required the same services in the community as other privately held properties. He reviewed the Assessor's Analysis. The recommendation was no change from the valued initially recommended by the Assessor.

Mr. Miller referred to the expiration of the lease, and said he had spoken with the State DOT ROW section which was working to obtain a new lease, and a property manager for the properties. This was not unusual to have expired lease, and all were still assessed for having a lease, and they had valued this property at what was normal and common. He provided a list of 178 current CBJ properties which were taxed for possessory interest, not including Telephone Hill. The undue burdens have been considered by the Assessor in his valuation. It was common for tenants to maintain property, and to have a 24 hour notification. The market rent was \$17,700 and they were being charge \$4000, which allowed them to compensate for such burdens. He also contacted the city engineer Rorie Watt regarding blasting and was told that no part of the properties in question would be touched. There may be times when the access was limited, however, the parking lot would not impact the properties. He had reviewed the Fairbanks North Star Borough case and what he gathered was that in every case the assessor was upheld.

Ms. Fowler said the situation seemed to be more similar to a condominium situation in which the owners had more burdens, and did they look at anything similar. Mr. Miller said he assumed the assessor looked at normal monthly rentals for normal monthly leases for individual homes.

A representative said she had asked Larry Spencer what a normal monthly rent on a single family home of similar size, and he said that \$2200 seemed to be the high end the market would bear. Mr. Boyer said that he thought \$3500 rent was high on a property. Ms. Fowler said she thought there was not sufficient information on the comparable rental rates.

Mr. Miller explained that all properties were broken down with land value and improvement value – which was anything else on the property including pavement, homes, etc.

Mr. Hartle said that interests less than full ownership were taxable according to state law.

Ms. Fowler said that value was driven by the market, however the comparables were comparing apples to oranges. Mr. Miller said that this was recognized by the state, and that the properties required the same services as private properties. Ms. Fowler said that she did not feel the burdens were reflected in the values.

Mr. Boyer said that the board had additional questions and the Assessor, Mr. Canary, had prepared the assessment and was not in attendance. He asked about the possibility of continuing this hearing to a later date. Ms. Fowler said she was amenable. Mr. Novak was opposed.

Mr. Novak said it appeared that the only point of contention was the cost of the burdens. Ms. Connerton said she agreed. Mr. Novak asked how the Assessor had arrived at the value of the burdens.

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Mr. Miller said he was not aware of the specifics of the \$34,800 of burdens.

Mr. McGee the burden to pay rent was \$48,000 alone.

Mr. Hartle said that every lease had a burden of payment. Most of the listed burdens were similar to all homeowners. Mr. McGee said they played a factor.

Mr. Novak said the value of the lease was basically all the tenants' out of pocket expenses. Ms. Connerton said they were paying less in rent because they agreed to other expenses, and they could be paying more in rent. The difference was how the costs were split out.

Mr. Boyer suggested again a continuance as there was not sufficient information.

Mr. McGee agreed with Mr. Novak that the question was the value of the burdens.

Mr. Boyer wanted more information on the value of the burdens and the value of market rents. He questioned the appropriateness of using the reversionary method on such a short term lease.

MOTION, by Fowler, to continue to a time when Mr. Canary could be present.

Mr. Novak opposed the motion to continue as there were opinions about the values of the burdens provided by the appellants, but no proof, and he felt that the appellant had not met the burden of proof, so there was no reason to continue.

Ms. Fowler said that she was concerned that the assessor may have overlooked information.

Mr. Boyer was in favor of continuance.

With two in favor, Fowler and Boyer, and one opposed, Novak, the board voted to continue the hearing.

Mr. Miller said that it was possible that settlement could be reached before the next hearing.

IV. ADJOURNMENT – The meeting adjourned at 7:05 p.m.

Submitted by Laurie Sica, Municipal Clerk