

DEPARTMENT OF CITY CLERK

CITY HALL

April 27, 1988

The Committee on Finance meets this day in Committee Room "A", City Hall, at 4:30 o'clock P.M. (EDT)

Present: Councilwoman Brassil, Chairwoman, Councilmen Dillon, Glavin and Farmer.

Also present are Council President Easton, Director of Finance Baron, City Treasurer Napolitano, City Internal Auditor Woerner, Carl Ericksen and Diane Kizirian from Peat Marwick Main & Co., Jack Hopkins and James Jackson, Bond Counsels, Frank Juchnik and Maureen Massiwer from Fleet National Bank, Robert Brooks, Deputy Chief of Staff (Rose M. Mendonca, Clerk and Eleanor Hayes Assistant Clerk).

SALE OF BOND ANTICIPATION NOTES

Councilman Farmer moves the foregoing matter be taken off the Agenda.

This motion is seconded by Chairwoman Brassil, put to vote and passed unanimously.

City Treasurer Napolitano informs the members the following proposals were opened in the City Council Chamber at 11:30 o'clock p.m. on April 26, 1988.

The Bank of New England - Old Colony and The Connecticut Bank and Trust Company - James F. Brady, Vice President

<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Premium</u>
\$1,000,000	4.77%	\$7.00
\$1,000,000	4.83%	\$7.00
Fleet National Bank - Frank Juchnick, Senior Vice President		
\$2,000,000	5.03%	\$9.00
Rhode Island Hospital Trust National Bank, Raymond F. Rose, Vice Pres.		
\$2,000,000	4.89%	\$0.00
State Street Bank and Trust Co, Ronald Kelly, Cheryl A. McCarty, Agent		
\$2,000,000	4.98%	0
Citizens Trust Company - Joseph T. Mullen, Vice President		
\$2,000,000	5.21%	0

City Treasurer Napolitano recommends the Bank of New England-Old Colony and The Connecticut Bank and Trust Company as the low bidder for the \$2,000,000.

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On motion of Councilman Farmer, seconded by Councilman Dillon, it is

VOTED: That consideration of the approval of the sale and issuance of \$2,000,000 Bond Anticipation Notes be added to the agenda for this meeting.

VOTED: That the sale and issuance of \$2,000,000 Bond Anticipation Notes of the City dated May 10, 1988, and payable November 15, 1988 to the following purchaser at par and accrued interest, plus the premium, if any, indicated below, and bearing interest at the following respective rates, are hereby authorized, approved and confirmed:

<u>Amount</u>	<u>Interest Rate Per Annum</u>	<u>Premium</u>	<u>Purchaser</u>
\$1,000,000	4.77%	\$7.00	The Bank of New England -Old Colony and The Connecticut Bank & Trust Company
1,000,000	4.83%	\$7.00	The Bank of New England -Old Colony and The Connecticut Bank and Trust Company

FURTHER VOTED: To confirm the consent of the City dated April 26, 1988 to Fleet National Bank, bidding for some or all of the Notes.

At this time Frank Judnick, Maureen Massiwer, Carl Erickson and Diane Kizirian are excused.

RELATIVE TO TAX FREEZE ORDINANCE

Glavin: Would it be practical to ask him what the intent was of the legislation. Was it to provide tax relief to people of low to moderate income with a cap of \$17,500. That is what the intent is. We were very concerned about the various forms of investment vehicles that people can realize income from, that they make their income from pensions, Social Security up to \$17,500 but because of some other type of procedures they could in essence be receiving more income than \$17,500. We're really just trying to address the needy, the people who really have a financial need, we're trying to help them freeze their taxes.

Brassil: There was also something else - I received a letter from an elderly party. They don't file an income tax form, they file a 1040H. If they have to bring something in to show that if they're homeowners a 1040H, does anyone know what that is? They are not required to file a federal income tax form and file a form 1040H. Those in that category qualify for RI Property Tax Relief and file a form 1040H.

Hopkins: That's a circuit breaker legislation that gives taxpayers relief in connection with their housing costs. It is done on a household income basis; it is a separate return.

Brassil: What do they use for income - proof of income?

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Hopkins: For people who have little or no income, you can actually get a payment from the state. It's a grant program but the maximum amount is \$200 which isn't a lot of money. If Social Security is included, the form would say - write down the amount of your Social Security.

Brassil: I think what we're trying to do is preclude anyone who has any other assistance and shows things as losses, now there's a Schedule A and you say it's on line 9 in Schedule A that would show your ---

Farmer: I think we ought to be told what it is we can do and what limitations there are in this statute. I think there are problems in the statute.

Easton: We did look at the statute a little bit and it seems to give us the authority to define the limits.

Brassil: Let's have Jack explain that. Jack, you drafted it.

Hopkins: The concept was a cash income concept not a federal tax return income and there are several income concepts, gross income and taxable income, adjusted gross income and taxable income. If you work your way through these concepts, they incorporate some of the non-cash deductions that Karl has talked about and Steve has raised in his list of questions. Our concept was to get away from that and talk about spendable cash resources available to households. If people have substantial cash resources, let's say on a cash basis \$25,000, they will not qualify for this. The cash income includes things that are not otherwise taxable for federal income, for example, Social Security, workers' compensation. If, on the other hand, in fact, on a cash basis they'd have less than \$17,500, then they will be entitled to this exemption. We drafted a definition of income.

Glavin: Can we have a copy of this legislation?

Brassil: It hasn't been changed since it was introduced. It has been changed? What is the change?

Farmer: Sub A includes the \$17,500.

Brassil: But other than that, it hasn't been changed.

Farmer: Jack, essentially we're given some authority to define income instead of cash, etc., but we really can't use the tax return.

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Hopkins: The anticipation is that there will be an annual filing requirement and this was discussed in the administrative offices. Obviously the council will have to decide, but the explanation will be that there will be an annual filing requirement and that to begin with the requirements would be to attach an income tax return if one is filed. The thing is he's got to go beyond income tax and require information on Social Security benefits, workers' compensation, public assistance benefits, etc. Many of them will not show up on the income tax. Let's talk about the real estate situation - if you have a (inaudible) complete copy of the income tax return, you can eliminate for purposes of calculation, for example, depreciation deductions which are not out of pocket expenditures and which will often reduce the income that is taxed to a real estate developer to a very low number or maybe even zero or a loss would show up. So given a copy of the tax return, he can make that adjustment and quickly determine whether somebody in fact has had income in excess of the number (inaudible) and bear in mind that this applies to the person who owns up to three family houses so you will have many questions coming in who live in one unit of the three units who are retired with a modest income, who if they use tax numbers might bring themselves below the \$17,500 but if you disregard depreciation, they would be eligible. I think there's a way of ~~sworn~~ ~~statements~~ of a sworn statement that will not be burdensome to people. After all, people are really entitled to these and we want them to get it. We notify them to file. They want to get it so we're not going to run around in circles. It will not be burdensome to file. They will have to attach tax returns. They will have to give and swear to the numbers on the non-taxable items, such as Social Security. I would assume that the filing will be based on a calendar year preceding the year when relief is sought. I don't know of any other way to do that. RIMFC has historically qualified persons for RIMFC loans. This means, of course, that someone who had low income in one year would qualify for the exemption the following year at a time when his income may be higher. I think that's unavoidable.

Brassil: Didn't we put a date in there? Wasn't there a date of December 1987 they had to qualify by. Didn't we talk about that. There's nothing in there. We need a qualifying date on

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that.

Jackson: It's got to be 87. I think it's going to be done by the council, and the ordinance that there should be an annual filing.

Brassil: Well, that's what we're talking about now, that's what we're trying to work on now.

Dillon: What happens if someone's on an off calendar year?

Jackson: You still have to report your income on a calendar year basis.

Farmer: Yes. So if someone owns a house and corporation, does the corporation qualify if it has less than \$17,500.

I think it says persons, household income.

Brassil: We're going to have to come up with an ordinance with parameters, Karl. We're going to have to draft an ordinance with parameters and that's what we're looking for. Any suggestions that will close this in. You just can't get carried away with the \$17,500. You might turn it over as a life tenancy to your mother or to a child.

Hopkins: My suggestion would be to ask the Assessor's Office to develop some thoughts on this and to make sure it is controlled and fairly administered with the benefit of the assistance of Karl Erikson and his associates.

Brassil: Mr. Farmer, what do you have there - an income tax form?

Farmer: I didn't realize what the statute said so I worked out something but I didn't realize it was talking about cash. The other question that occurs to me is that we already have the potential issue with regard to the abatement where if we don't require people to file a sufficient number of days prior to the second passage of the ordinance, we will not have an amount of reduction.

Simmons: We anticipated filing in July, after the budget.

Jackson: Much like we do now. If you have them coming in July filing it with the tax bill..

Farmer: So next year you would have to do it before June 15.

Simmons: Right. Next year we would prefile in March or June. In addition, we don't know, for insurance, the value of

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the property or the tax record. At least next year we would have a fairly secure value of property.

Farmer: So we're going going to add this to the abatement reserve.

Simmons: We have been talking to the Department of Community Affairs and the Department of Administration and Anthony Piccirilli about the tax future.

Jackson: We've gotten some information. The best we got was from the tax administrator was the 1980 Census.

Easton: Just a few thoughts. One thing is, in our discussions among Council people, I think we were pretty resolved and would like to take the initiative in developing the process and I think we envisioned Karl assisting us with that. I think what makes sense is to design some type of a basic cover form that hopefully would pick up all of the possible taxable and non-taxable incomes and then using that data both - I don't know what form the Social Security sends out on an annual basis, but maybe even check stubs from Social Security and/or an income tax return where the income tax return seems to be sufficient. If we develop something along those lines, and then submit it to the Assessor's office and asked - and anyone else that we can think of - and say, experts, if you know of loopholes that we haven't plugged here, try to help us plug them. That's how I think we envisioned proceeding.

Erikson: You want to focus on cash income.

Easton: I think Jack's point is well taken and I think the legislation has locked us in to some extent. What concerns me about that is you then get situations where people may well get income in-kind and we well might want to think about the implications of that. There's a lot of taxable benefits - for example - the coach at URI, Tom Penders, when they were announcing the package he got. It included not only his salary, but a zero % mortgage. I know that's taxable because it is in fact a benefit but it isn't a cash benefit. Maybe we should go back to Jack whether or not he anticipated that sort of thing.

Easton: Have you thought about that, Jack, and are we precluded from plugging that?

Hopkins: I do not know if you're excluded from (inaudible).

(?) Suppose you have a Sub Chapter S Corporation, have

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\$100,000 of income with no draw - no cash.

Easton: We're pretty convinced that a corporate ownership is totally excluded and if not (inaudible)

Dillon: No, I can have a Sub Chapter S. Corporation.

Brassil: We're not convinced of that at all.

Dillon: I have a Sub Chapter S and and I own my house in my own name.

Easton: That isn't the point.

Jackson: I understand your point. If you are a principal in an S Corporation, income is attributed to you as a paper transaction even though you don't get a dollar. Now the face of the matter is that there is an increase in your equity, ownership of the corporation by virtue of the fact that he had income, if you constructed a balance (inaudible). Again, these are kind of unusual features for people in this kind of income bracket but nevertheless following the concept of cash income, I would say that you would disregard the S Corporation distribution.

Hopkins: Let me give you a fair example, suppose you borrow money from your own corporation which would not for many purposes be treated as income. I would treat that as a cash receipt.

(?) So that would have to be a disclosure. You would have to ask on the form, did you borrow money from your corporation.

(?) Do we have the authority within the legislation to simply say that for purposes of this section, owner-occupancy will mean a property owned in the name of an individual or group of individuals or individuals names whether by joint tenancy all the various things and occupied by one or more than 50% of those individuals. Do we have the authority to do that?

(?) Even if you did, I think the answer to that is you have the authority to say whatever you want, it's when you pick these meetings, your authority is not the ultimate authority. I think though giving this act a fair reading, it is clear that we're talking about as lawyers call them, natural persons, not corporations.

Glavin: The definition

Dillon: What Karl is saying is you can have a Sub Chapter S Corporation and own your house in your own name and have no income from --

Karl: but you still show \$100,000 on your taxes.

Brassil: If you just have a disclaimer on the application that they file that they are not

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Karl: But they would have it on the tax return - show \$100,000 worth of taxable income.

Easton: We might not want to exclude all of those people because, for example, you may well have individuals like the guy that owns the Mom and Pop store and is starting out and is really struggling to get by and really did make for all intents and purposes only \$15,000 for that year so we may not want to close that loophole as tightly as we think, so I don't know.

Brassil: What about?

(?) They're not usually that sophisticated about tax laws.

Brassil: That's what I'm afraid of. What about something that is in three children's names. The parent has put it in three children's names and one of those children uses it - I'll give you a personal example. My father-in-law's house is in the three kid's names. My sister-in-law claims it on her income tax and she's under the \$17,500. We don't claim anything from that as a deduction - nothing. Is she eligible for that? My brother-in-law is a priest. My husband and Tricia. Now the only one that has any deduction on a claim to the house is my sister-in-law. We let her take everything.

(?) Who lives in the house?

Brassil: She does.

Farmer: Then she can take it, I guess.

(?) That's up to us to define, I guess.

Glavin: Is it combined income, though? If it says received by the owner or owners.

Jackson: It's household.

Glavin: The application says combined income.

Brassil: Because, I mean, it's really not fair. When anything happens to him, it will be left to us but I mean right now she's the one taking all the deductions on it.

Glavin: Your father-in-law is still alive?

Dillon: I don't think it says all those have to be counted necessarily.

Glavin: (inaudible) All monies received by the owner or owners.

(Several) Occupied.

Brassil: My sister is but my husband's name is on it. That could be another loophole.

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Glavin: I have the same situation.

Easton: Karl, do you have a problem with the world "income".

Karl: I'm not a practicing accountant any more but I have problems with the word "income" because there are so many different methods in accounting.

Brassil: We want to be very involved with that - the Finance Committee really and truly wants to be very involved in developing that.

Hopkins: Let's go back and draft something and then we can pick that apart.

Brassil: Cover all bases, you don't think?

Easton: Maybe the solution to that is to draw it up the best you can and highlight an attachment to that to questions that you perceive as emanating from that draft.

(?) We're going to have like another court.

Brassil: We do have a Tax Assesor and Board of Review, I suppose. They could be the ones that could arbitrate if there are any questions.

Easton: I think we ought to assign that in the ordinance. I have two other fairly separate issues that relate to this. Two other issues that ocured to me are one is the penalty. I assume it falls under the general statute of a false affidavit. Is that an assumption (inaudible) and we have the authority to do that.

Brassil: We can't penalize them under tax laws.

Easton: No, under the state false affidavit law is what I'm saying.

Farmer: There's a penalty for perjury - 7 years.

Easton: We have subpoena power. I mean the city does. My understanding is that we put a statement that says "under penalties of perjury" and if somebody files that, they're guilty of filing a false affidavit and pursue it in that way.

Brassil: Who has to approve it - us?

Glavin: It would have to be approved by someone.

Brassil: I would assume the Assessor.

Easton: On the last issue, I think we all ought to consider is what I call the phase-in issue. I think it's very conceivable

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that a laborer making \$17,500 a year even in 1988 and with a previous tax liability of \$1500 and a new tax liability of \$4,000 which is certainly conceivable. In other words a \$2500 break he's getting, gets off with a thousand dollar raise and has to turn it down. I think that's something we ought to consider whether or not you want to react to that.

Brassil: What do you do. You can't save the world. You have to make rules and regulations or it's not going to work. Is everyone satisfied with the way we're going? Will you contact me, Karl?

Farmer: (inaudible) Definition or are they really two components. The legislature has said so much that it has to be cash money and it has to be income. Your example of borrowing money from the corporation maybe wouldn't qualify. We have to define income.

Glavin: It says from whatever source derived and it goes on.

Hopkins: I don't see this to locking into federal tax concepts which are different from common sense nonsense. The federal laws are very complex (inaudible) plus the fact that the legislature has given this council the authority to provide rules for determining (inaudible). I don't think we're locked into concepts (inaudible). You can have income without dollars coming in and you can have dollars coming in without income. We want to get right into the cash, setting the income, maybe a cash receipt concept because people have the cash with which to pay taxes and be qualified for this. If they didn't have the cash with which to pay taxes, they don't qualify, within limits.

Baron: A very sophisticated example - someone with mutual funds reinvesting their dividends and receives capital gains. In theory, they're receiving cash from mutual funds and simultaneously (inaudible).

Glavin: Well, they are because they have the choice of taking that or reinvesting it.

Brassil: There's no cash transaction.

Woerner: (inaudible) the dividend line on the tax return and you want that line.

Brassil: What's the dividend line on your income tax so maybe that should be highlighted when we do it on line such and such.

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Brassil: Whatever the dividend line is. Maybe we can just spell out the dividend line. It should be --

(?) You want this line 7 which is the wages or you want the taxable interest which is line 8 - we can spell out the line.

Dillon: You'd have to change the ordinance every year.

Brassil: Yes, you would.

Dillon: It would be easy to interpret downstairs.

Farmer: How about picking up all total capital gains including losses?

(?) That's a thought.

(?) There's some problems with that.

Jackson: I have \$100,000 in cash exempt income. It's not going to show up on the 1040, it will show up on Schedule B.

Farmer: Is the Tax Assessor going to hire additional people to administer this?

Jack: I don't know how it's going to be done.

Brassil: Well, once we have Karl's input, we'll set up a meeting with Ted and the Finance Committee and Jerry and try to slip through something that makes sense, that's manageable, and it's going to be very difficult to manage something like this, I should think. And people are going to fall through the cracks. No doubt about it. If we can keep that down to a minimum, we'll be all set.

Dillon: Why would someone not, besides a Social Security recipient, why would somebody not file a tax return?

Brassil: Who has to file income tax?

Farmer: People over 65 with \$10,000 next to Social Security.

Brassil: What's the minimum Social Security - \$140 a month.

(?) It's about \$6,000 a year.

Brassil: Is that the minimum? Or is that the average?

(?) That's the average.

Farmer: But we're not going to include Social Security in our _____.

(?) You want to do that.

Brassil: We want to include Social Security?

Dillon: It's less. In other words I think it would be less. You'd have to file a tax return. No, I guess you wouldn't. No you wouldn't.

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Brassil: I think a lot of these elderly will come under this.

Farmer: We are going to have to require them(inaudible) where people don't have taxable Social Security benefits, they use a 1040EZ and leave the line blank.

Brassil: That's exactly what this person is saying.

Farmer: We'll have to make sure that we have a place for that.

Dillon: And the government doesn't call them on that. Will they get a W-2 - a 1099, that's what they get.

Brassil: So they could file with us with their 1099 form, a copy of their 1099 and that will break down Social Security and any other income. Just Social Security.

Jackson: You get a 1099 on interest, dividends, expense accounts.

Glavin: All miscellaneous income, anything that is not wages.

Woerner: It depends on your pension. When you get a city pension it breaks it down into what's taxable and what's non-taxable.

Easton: There's one other issue that I think remains and I think John Simmons is right. We probably don't have much choice but to, for this year anyway, send this form out after July 1st and give them the month of July to fill it out, but given that, it still leaves us with the difficult problem of estimating the cost of this.

Brassil: He said he would talk to us about that later on and they've already got estimates. I thought that's what he just said.

Easton: We can discuss that later. I have some thoughts on how to refine those estimates.

Brassil: Will you get back to me or we can leave a message with Rose and we'll set up another meeting and sit down with Ted Littler .

Farmer: We have to pass this, by the way. We're going to have to advertise it. We have to give public notice.

(?) So you'll have to go to the month of June.

(?) Don't we have to give public notice on the tax break, too?

Brassil: It's just a discussion. That's all we're looking for. We're looking for some direction on this.

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Jackson: And try to plug as many loopholes as we can.

Brassil: It's just a discussion. That's all we're looking for. We're looking for some direction on this.

Jackson: And try to plug as many loopholes as we can.

Brassil: I don't know if any other city or town does this? Does anyone have an idea.

(?) Not in this particular (inaudible) - Warwick, Cranston.

Brassil: Maybe we can go by their ads if we can get copies of their ads - Warwick and Cranston - and see what they plug into it, how they determine eligibility.

(?) I think they take it right off the line on the tax returns. I would assume that. Basically you think they take it from a line on the tax return.

(?) You've got to be very careful, Carolyn.

Brassil: I think, as I say, somebody will fall through the cracks.

Farmer: Somebody in my ward who's going to be a slum landlord and he will have no income.

Brassil: That's what - if he's a slum landlord, he doesn't live in.

Easton: In the other cities and towns that have it, for the elderly (Inaudible), you're talking about an income tax for the elderly exemption. We're talking about a reduction in your income tax - property tax of maybe 10%. Here we're talking a reduction of maybe 75% in many cases.

Brassil: I haven't gotten this clear in my mind either. Are the elderly going to be eligible, are they going to get the \$10,000 exemption also. They're going to be paying less taxes than they did last year.

Jackson: They don't apply. 5.5 means that you will pay no more than 5.5 of what you're paying now.

Easton: Actually they won't get the 10% exemption because the fact is that either one or the other will reduce your liability and whichever reduces your liability (inaudible)

Brassil: Let me give you an example - Antoinette Downing, her house went up to \$300,000. She called me. She said you

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people are going to save my home. She has under \$17,500 (inaudible) - that her taxes went up by \$200,000. It's \$250,000 over where it was.

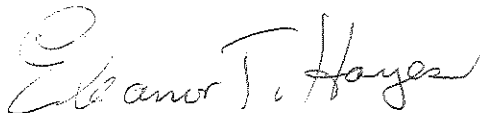
Jackson: In her case, the elderly exemption she would have gotten anywhere unless she's under 65.

Brassil: She would have gotten the \$10,000.

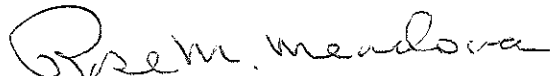
Easton: The \$10,000 exemption is an exemption from an assessment. What David and I are saying, if you're assessed at \$200,000 this year, you get \$10,000 off that, makes it \$190,000. If the circuit breaker law that the \$17,500 kicks in, you're locked in at the lower rate and never realize the advantage of the \$10,000 exemption, so it's really irrevelant. You can't really parlay the two.

Brassil: Thank you very much for coming in.

ADJOURNMENT: On motion by Councilman Farmer, seconded by Councilman Glavin, the meeting is adjourned at 5:45 o'clock P.M. (EDT).



Assistant Clerk


Clerk

Copies EH

Compared JB