

**JJ**

Feoffee Subcommittee

May 21, 2008

Numbers

Little Neck Real Estate is worth roughly \$36,000,000

Common lands are 10% of the total, taxes are \$40,000

Residents pay Home and Lot taxes on their property separately

Sewage project debt payment is approximately \$650,000 annually

Sewage operating costs are about \$80,000 annually

Operations Costs are \$150,000 annually

A sinking fund for major repairs should be about \$100,000 annually

Year round lessees pay \$10,800 (24 ultimately)

Seasonal Lessees pay \$9700 (143 ultimately)

Seasonal Renters pay \$5000 to the feoffees,

\$480 in sewage operating expenses

And \$4700 into escrow

Year round renters pay \$5500 to the feoffees

\$480 sewage

\$5300 escrow

What do we get if everyone signs today?

$10800 \times 24 + 9700 \times 143 = 1646300$  income 4.57% return but 5% of 2006 value

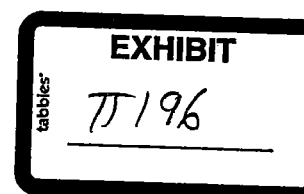
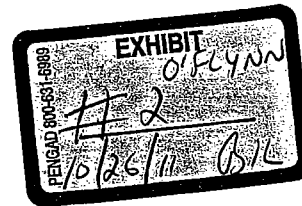
$1646300 - 650000 - 80000 - 150000 - 100000 - 40000 = \$626,000$  annually or 1.75% return on land

How much does each lesee pay the schools outside other Feoffee expenses?

$626000 / 167 = \$3577$  at a 5% return this values the land in each lot at 70K

If we sold to the residents at \$12,000,000 and got 5% return we'd do better

In short the rejected lease deal is a poor return for the schools and a bargain for the residents



HO 001

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The Feoffees Subcommittee met and had a wide ranging discussion on the Feoffees. Ed Traverso and I, along with two Little Neck residents started, followed shortly by Rick Korb, Jim Foley, and Bill Sheehan. We reviewed Ed's letters, discussed the legal status of the trust, the outcomes possible with the lawsuit, the costs of running Little Neck, the relative return on the land value and the rent level. We specifically reviewed the concepts of common land, taxes, responsibility for sewage costs, and future options for rents. We only touched on the revised trust.

Revised Trust document.

On hold until the lawsuit is settled

Financial status of the trust

Jim Foley will bring Dan Clasby to another meeting. The Escrow account has \$480k now

Legal status of the Trust

Private trust with transparency is the intent of the Feoffees, and the current status

Lawsuit status

Not good at legal terms, but the eviction proceedings will not evict anyone. There will be a decision this summer either favoring the feoffees or the tenants which will be appealed and either result in some settlement next summer without a trial or the following summer with a trial and the attendant million dollar expenses. Currently those who took the lease pay 9700/10800 and those who rent and are suing pay 5000/5500 making up the difference in an escrow account and also pay 480 of sewer operational costs

Tax Payment.

At this point the Feoffees don't want to see taxes. Both home and lot taxes are paid by the resident to the town directly. Ed brought up the tax deductibility issue and the idea that the Feoffees pay tax on common lands out of proceeds to the school

Common lands

There are three types of common land. The ball field, beach, parking lot, dock etc are truly common amenities which are shared. There are empty lots whose neighbors keep empty by paying the

taxes. There are empty lots which no one will pay for. There is one buildable lot. Jim would like to have abutters buy the empty lots. Common lands are considered by the feoffees to be part of the rent

#### Operational expenses

Sewage project debt payment is approximately \$650,000 annually

Sewage operating costs are about \$80,000 annually

Operations Costs are \$150,000 annually

A sinking fund for major repairs should be about \$100,000 annually

Ed and I would add taxes on common land of \$40,000

These fairly fixed costs, without any payment to schools, are divided equally \$6100/renter

These costs will be present as part of the overall costs no matter how the pie is sliced

#### Philosophy

The Feoffees believe that all taxes should be paid by the resident and that rent should cover everything else. Specifically subsumed in rent is operation expense, sinking fund, sewer debt and operations, common land tax, and a contribution to the schools. Ed believed that these items should be charged to the resident and rent should go to the schools. Ed considered common land of any sort a nonperforming asset that should be paid for by the tenants.

#### Top down

The feoffees charge 5% of the assessed value for rent. Backing out expenses, this leaves 1.75% for the schools. They came to the number through negotiation, but were rebuffed in spite of the very low real return on the land value. The Feoffees understand the issues Ed brings up on common land, sewer costs, etc, but say they believe these costs should all be part of rent. Rent is even at all cottages at the request of the Little Neck residents.

#### Bottom up

When we create a formula where the schools receive a fixed percent of the asset value for rent, and known expenses are then added, we can get a graph of rent vs value for any chosen return. I created a few of these graphs, which I also attached below, not separating seasonal and annual rent.

The Feoffees feel that whatever they charge the rent, it can only go up to what is reasonable and fair as rent, regardless of the return to the schools. They could have charged 7 or 8 percent but did not think this could lead to an agreement. Ultimately, they tried to charge what they believed would lead to an agreement.

