



2012 First Special Session
Fiscal Summary of Disaster Relief

Money Matters 12.09
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Flood Disaster Relief 1
Windstorm Disaster Relief..... 6
Fiscal Summary 7

Fiscal Analysis Department
Minnesota House of Representatives

Article 1 – Flood Disaster Relief

On June 19, 2012 torrential rains deposited as much as ten inches of rain in the Duluth area and surrounding communities. The resulting flooding damaged over 1,100 homes and several businesses and caused hundreds of millions in damage to public facilities in northeastern Minnesota. The area was declared a federal disaster area. Governor Dayton called the legislature into special session to enact a relief package to deal with the disaster.

The Legislature met in Special Session on August 24, 2012 and approved an emergency flood relief package (2012 Laws, First Special Session, Chapter 1) for the flood victims and local governments in the 15 counties and 3 tribal governments named in Presidential Disaster Declaration DR-4069 issued July 14, 2012. Counties in the initial declaration include Aitkin, Carlton, Cass, Cook, Crow Wing, Dakota, Goodhue, Itasca, Kandiyohi, Lake, Meeker, Pine, Rice, Saint Louis, Sibley. Dakota, Goodhue and Kandiyohi counties are not in northeastern Minnesota but are included in the disaster declaration because they were affected by flooding earlier in June. The declaration also included the tribal governments of Fond du Lac Band of Lake Superior Chippewa, Grand Portage Band of Lake Superior Chippewa, and the Mille Lacs Band of Ojibwe.

These governmental units qualify for federal public assistance through the Federal Emergency Management Agency (FEMA) but homeowners and businesses are not eligible for individual assistance through FEMA. However, business and homeowners are eligible for assistance through the Small Business Administration (SBA).

Article 1 contains \$172,327,000 for flood relief. The appropriations for the different categories of relief are shown in Table 1 on the next page. The table also shows the sources of funding used to pay for the items in the flood relief package. All appropriations, except one for City Tax Base Replacement Aid (\$80,000 in FY 2015), are made in fiscal year 2013 and are one time. Bond fund appropriations result in debt service costs to the general fund and trunk highway fund in FY 2014 and beyond. General fund and trunk highway fund appropriations are available until June 30, 2015.

Unexpended general fund appropriations in Chapter 1, Article 1 for any program that are not needed for that program are available for other programs in the flood relief package for DR-4069 or for the match required by the FEMA for its programs.

Table 1 – Article 1 – Flood Disaster Assistance – FY 2013 Appropriations

Program (Dollars in thousands)	Appropriated Amount	Funding Source			
		General Fund	GO Bond	Tr Hwy Fund	Tr Hwy Bond
Federal Emergency Funds Match (DPS)	24,975	22,690	2,285		
Debris Removal (DPS)	500	500			
Long Term Recovery (DPS)	500	500			
State Roads Operation & Maintenance (MnDOT)	3,000			3,000	
Local Roads & Bridges Assistance (MnDOT)	30,000		30,000		
Program Planning and Delivery(MnDOT)	11,000			11,000	
State Highways and Bridges (MnDOT)	35,000				35,000
Minnesota Investment Fund Grants (DEED)	15,000	15,000			
Public Infrastructure Grants (PFA)	6000		6000		
Housing Assistance Challenge Program (MnHFA)	12,200	12,200			
Homeless Prevention (MnHFA)	250	250			
Capacity Building Grants (MnHFA)	250	250			
Historical Society (MHS)	250	250			
Facilities Repair (DNR)	6,855		6,855		
Flood Hazard Mitigation (DNR)	10,000	1,000	9,000		
Debris Removal & Flood Gauge Repair (DNR)	2,000	2,000			
Reinvest In Minnesota (RIM) (BSWR)	1,500		1,500		
Erosion, Sediment & Water Quality (BWSR)	11,000	11,000			
Various Agriculture Assistance Programs (MDA)	600	600			
Disaster Enrollment Impact Aid (MDE)	61	61			
Disaster Relief Facilities Grants (MDE)	700	700			
Various Health Related Assistance (MDH)	565	565			
Bond Sale Expenses (MMB)	101		61		40
Totals – Article 1 – Flood Assistance	159,656	67,586	55,701	14,000	35,040

Public Safety (DPS)

\$22.69 million in bond funds and \$2.285 million from the general fund are appropriated to the Department of Public Safety to fully pay for the state and local match of federal disaster public assistance funds. The federal disaster program pays 75 percent of eligible costs, the state match is 15 percent and the local share is 10 percent. An additional \$500,000 for debris removal and \$500,000 for long term recovery is appropriated to the department.

Transportation (MnDOT)

The flood relief package provided a total of \$79 million in FY 2013 for roads and bridges. Of this, \$3.0 million in Trunk Highway Fund cash will be targeted to state trunk highways for operations and maintenance. The bill also included \$30.0 million in General Obligation bonds to demolish, design, replace, and reconstruct city, county, and township roads and bridges. The Department of Transportation plans to use \$11.0 million in trunk highway cash for advance design and program delivery an additional \$35 million in Trunk Highway bonds for reconstruction of damaged trunk highways.

Employment and Economic Development (DEED)

\$15 million is appropriated from the general fund for grants to local units of government for locally administered grants or loan programs for businesses directly and adversely affected by the flood. Criteria and requirements for loans or grants must be locally established and approved by the commissioner and businesses must set goals for jobs and wages. The commissioner must report on criteria and requirements to the chairs of the Senate Finance and House Ways & Means Committees. Recipients are exempted from various standard limitations on the size, purpose and administrative requirements for the Minnesota Investment Fund.

Public Facilities Authority (PFA)

\$6.0 million in bond funds is appropriated to the Public Facilities Authority (PFA) for grants to local units of government to assist with the cost of rehabilitating and replacing publicly owned infrastructure. The infrastructure includes storm sewers, wastewater and municipal utility service, and drinking water systems. Grantees are exempted from the regular criteria, limitations, and repayment requirements of the PFA's financing programs.

Housing Finance Agency (MnHFA)

\$12.22 million is appropriated from the general fund to the Housing Finance Agency for the Economic Development and Housing Challenge Program, to provide assistance in counties where SBA assistance is available to homeowners. Assistance will be in the form of no interest loans that are forgivable after 10 years. The match requirements for housing assistance are waived. In addition, the bill also includes \$250,000 for capacity building grants and \$250,000 for homelessness prevention. Both appropriations are from the general fund.

Historical Society (MHS)

\$250,000 is appropriated from the general fund for historic structure cleanup, repair, and replacement costs.

Natural Resources (DNR)

The Department of Natural Resources received \$6.855 million from the bond proceeds fund to rehabilitate and replace state facilities and to restore natural resources in the area included in DR-4069 that were damaged by the floods.

\$9 million from the bond proceeds fund and an additional \$1 million from the general fund are appropriated to the DNR for the state's share of flood mitigation grants. These funds may also be used to buy out substantially damaged structures.

The DNR also received a general fund appropriation of \$2 million to be used for flood response and recovery expenditures that are not eligible for bond fund expenditures. These expenditures include removal of flood debris from public waters and replacement of flood warning gauges.

Board of Water and Soil Resources (BWSR)

The board received an appropriation of \$1.5 million from the bond proceeds fund to be used to acquire Reinvest in Minnesota (RIM) conservation easements on lands within the DR-4069 disaster area. The funding must be expended in accordance within the requirements of the current RIM

program in Minnesota Statutes, Section 103F.515.

An additional appropriation of \$11 million was made to the board from the general fund to be used for erosion, sediment, and water quality control cost-share projects within the disaster area.

Agriculture (MDA)

\$600,000 is appropriated to the Department of Agriculture for assistance including livestock investment grants, organic certification assistance, forage production offsets, disaster recovery loans, mental health counseling and other costs related to the disaster.

K-12 Education (MDE)

\$761,000 is appropriated from the general fund for education related purposes in the flood disaster area. In this disaster school districts are expected to be eligible for per pupil enrollment impact aid, provided to compensate districts for lost revenue associated with pupils leaving the district after the floods and facility grants, for facility repair and cleanup.

The Moose Lake School District was the only district expected to receive per pupil enrollment impact aid (\$61,000). The pupil aid is calculated as the number of students who left the district due to the floods multiplied by \$5,224.

\$700,000 from the general fund for facility grants is also included in the relief package.

Health (MDH)

\$565,000 is appropriated from the general fund to the Department of Health for well water testing; technical assistance, training inspections and support for individual and groups (public facilities, schools, day cares, non-profits, well owners, and food, beverage and lodging facilities) that may have to deal with health risks; and for behavioral health volunteer teams

Pollution Control Agency (PCA)

The Pollution Control Agency estimates that it will use \$100,000 from the petroleum tank release fund to provide grants for rehabilitating buildings that were damaged by petroleum contamination. The grants are limited to only the extent that the damage is directly attributable to petroleum contamination. The funds may also be used to buy out properties substantially damaged by a petroleum tank release. These funds are appropriated under current law.

Minnesota Management and Budget (MMB)

\$101,000 is appropriated to Minnesota Management and Budget for bond sale costs for the general obligation bonds authorized in this article.

Property Taxes

Chapter 1, 2012 First Special Session and existing Minnesota Statutes (M.S. 273.1231-1235), contain four property tax relief and local government aid provisions that address disaster recovery for communities and property taxpayers. While current law provides property tax abatement and disaster credits for significantly damaged property (more than 50 percent destroyed), two provisions— city replacement aid for flood loss and agricultural homestead extension—mirror past assistance made

available to victims of natural disasters. Another provision—the waiver of property tax penalties for business and damaged property—addresses timing issues associated with end-of-the year tax law deadlines. A fourth provision waives the need for a taxpayer to apply for a property tax abatement or credit for property damage related to the flood.

Current law assistance to *individuals* includes:

- *Abatement of 2012 property taxes* – In CY (calendar year) 2012, a county may grant a tax abatement on a property located in a disaster area. To qualify for an abatement, a property with a structure must have lost at least 50 percent of its market value due to flood damage. The amount of the abatement is equal to 50 percent of pay 2012 taxes on that parcel. Preliminary estimates have identified over 1,100 damaged homes and several affected businesses that may qualify for this provision. Abatements do not include special assessments and property tax payers are not required to apply for the abatements.
Note: The fiscal impact of this reimbursement to counties is an existing statutory and open appropriation, which will be reflected as an adjustment to the November 2012 forecast.

New provisions providing assistance to *individuals* includes:

- *Delayed payment for 2012 property taxes* - Owners of commercial and industrial property located in the flood counties (all class 3 property) who are unable to make their second-half property tax payment because of flood damage may delay that payment without penalty until December 28, 2012. To qualify, a property owner must have made a first-half property tax payment on-time and must attach to the second-half payment a statement declaring that the property is located in the disaster area. Local governments are not required to allow delayed payment for special assessments. This provision is expected to help businesses that do not qualify for the aforementioned abatement provisions, e.g. those with structural damage of less than 50 of market value, and also businesses that suffer decreased demand for products or services due to their location in the disaster area. In addition, because the new payment deadline remains within CY 2012, there is no additional fiscal impact.
- *Preservation of agricultural homestead classification* - Class 2a agricultural homestead properties (which includes a house, a garage and the surrounding one acre of land) that experienced damage due to the 2012 floods, can keep their homestead classification. This "flooded-off-the-farm" provision is valid if 1) the owner abandoned the homestead due to damage caused by the flood, 2) the building and property remain under the same ownership, 3) the dwelling is located in one of the affected 15 counties and is within 50 miles of one of the parcels owned by the taxpayer, and 4) and the owner notifies the county assessor (for taxes assessed in 2013 and 2014) that the relocation was due to the 2012 floods.
- *Waiver of application for property tax abatement and credit* - As a measure to expedite property tax relief to flood victims, Chapter 1 requires county assessors to reassess all qualifying properties in a designated disaster area, regardless of executive council approval. Each county assessor shall notify the taxpayers or owners of the damaged parcels by December 14, 2012.

Current law assistance for *local governments* includes:

- *Disaster Credits for Damaged Property* – In FY 2013, up to fifteen counties may receive reimbursement from the commissioner of revenue for each qualifying local taxing jurisdiction in which flood-damaged property is located. The county board may grant a credit for revenue losses due to damaged homestead, non-homestead residential or utility property that meets the requirements under the law. The county auditor certifies the credits granted to the commissioner of revenue for payment to local taxing jurisdictions.

Note: The fiscal impact of this reimbursement to local taxing jurisdictions is an existing statutory and open appropriation, which will be reflected as an adjustment to the November 2012 forecast.

New provisions providing assistance to *local governments* includes:

- *Flood loss city replacement aid* - In CY 2014, each city located in a disaster county that lost five percent or more of its tax capacity due to 2012 floods will receive additional state aid. The amount of additional aid will be equal to the loss in net tax capacity multiplied by the city’s average local tax rate for payable year 2012. Preliminary estimates for this provision anticipate that about \$80,000 in tax base replacement aid will go to cities in the disaster area. The commissioner of revenue will make these aid payments between July 1 and July 20, 2014 (in state fiscal year 2015).

Article 2 – Windstorm Disaster Relief

Article 2 provides disaster relief for communities affected by windstorms on July 2, 2012. The counties of Beltrami, Clearwater, Hubbard, Itasca, Koochiching, St. Louis, Cass, and the Leech Lake and Bois Forte bands of Ojibwe tribal governments qualify for aid. The windstorms did not receive a federal disaster declaration and do not qualify for federal disaster funds.

The appropriations for the different categories of relief are shown in Table 2 below. The table also shows the sources of funding for the appropriations. All appropriations are in fiscal year 2013 and are one time. General fund appropriations are available until June 30, 2015.

Table 2 – Article 2 – Tornadoes and Storm Disaster Assistance – FY 2011 Appropriations

Program (Dollars in thousands)	Appropriated Amount	Funding Sources		
		General	G.O. Bonding	Trunk Hwy
State and Local Assistance (DPS)	5,800	5,800	0	0
Reforestation (DNR)	994	0	994	0
Lost Revenue and Salvage Timber Sale (DNR)	1075	1075	0	0
Totals – Article 1 – Flood Assistance	7,869	6,875	994	0

Public Safety

\$5.8 million from the general fund is appropriated to the Department of Public Safety (DPS) to fully pay for the state and local costs for cleanup and repair. State funds will pay the estimated entire cost of all public damage caused by the windstorm.

Department of Natural Resources

The Department of Natural resources is appropriated \$2.069 million for damage caused by the storm. The DNR will undertake reforestation programs in the affected areas with \$994,000 in appropriated bond funds. The DNR will also receive \$1.075 million from the general fund to compensate the department for lost revenue due to the decreased value of timber to be harvested (estimated \$600,000) and funds required to hold a timber sale (\$475,000).

Fiscal Summary

General Fund

The cost to the general fund in FY 2013 of the changes in Chapter 1 is \$71.85 million. There are three components to this amount, Article 1 (Flood Disaster) appropriations of \$67.586 million, Article 2 (Windstorm Disaster) appropriations of \$6.875 million, and cancellations of previous unused disaster appropriations of \$2.611 million.

Chapter 1 also increases spending commitments in FY 2014-15 by \$5.963 million. All but \$80,000 of this cost is debt service costs for bonding authorized in the bill. Table 3 shows the costs to the general fund of the disaster relief bill.

Table 3 – General Fund Changes

	FY 2013	FY 2014	FY 2015
Article 1 – Flood Disaster*	67,586	892	5,071
Article 2 – Windstorm Disaster	6,875	0	0
Article 1 – Appropriation Cancellations	-2,611	0	0
Total Spending Changes	71,850	892	5,071
*About 1.7% of the FY 2014 and 2015 debt service cost is due to bonding in Article 2.			

The general fund cost of Chapter 1 is paid for using a \$26.468 million general fund balance that remaining at the end of the 2012 regular session and with a \$45.382 million transfer from the state budget reserve. After the transfer, the budget reserve has a \$612.236 million balance. Table 4 shows the net effect on the general fund of the changes in Chapter 1.

Table 4 – General Fund Balance – FY 2012-13

Spending – Chapter 1	71,850
End of 2012 Regular Session Balance	-26,468
Transfer in from Budget Reserve	-45,382
Net Changes	0

Trunk Highway Fund

Chapter 1 appropriates \$11 million from the trunk highway fund for program planning and infrastructure related to the disaster. The bill also authorizes \$35 million in trunk highway bonds. The bonds will have a cost of \$4.786 million for debt service in the FY 2014-15 biennium. Table 5 shows the costs to the trunk highway fund of the disaster relief bill.

Table 5 – Trunk Highway Fund Changes

	FY 2013	FY 2014	FY 2015
Trunk Highway Fund Spending	11,000	0	0
Trunk Highway Fund Debt Service	0	578	4,208
Total	11,000	578	4,208

This publication was prepared by John Walz (disaster relief), Katherine Schill (property taxes) and Bill Marx (fiscal summary) of the House Fiscal Staff. For more information contact John Walz at john.walz@house.mn or 651-296-8236, Katherine Schill at Katherine.schill@house.mn or 651-296-5384, Bill Marx at bill.marx@house.mn or 651-296-7176) or other House Fiscal Staff.