



2010 Special Session
Fiscal Summary of Disaster Relief

Money Matters 10.07
October 2010

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Article 1 – Flood Disaster Relief

The Legislature met in Special Session on October 18, 2010 and approved an emergency flood relief package (2010 Laws, Second Special Session, Chapter 1) for the flood victims and local governments in the 21 counties named in Presidential Disaster Declaration DR-1941 issued October 13, 2010. Counties in the initial declaration include: Blue Earth, Cottonwood, Dodge, Faribault, Freeborn, Goodhue, Jackson, Lincoln, Lyon, Martin, Mower, Murray, Olmsted, Pipestone, Rice, Rock, Steele, Wabasha, Waseca, Watonwan and Winona. On October 19, eight additional counties were added to the disaster declaration: Brown, Carver, Le Sueur, Nicollet, Nobles, Redwood, Sibley and Yellow Medicine.

These counties qualify for federal public assistance through the Federal Emergency Management Agency (FEMA) but not for individual assistance. Business and homeowners are eligible for assistance through the Small Business Administration (SBA).

Article 1 contains \$73,563,000 for flood relief. The appropriations for the different categories of relief are shown in Table 1 below. The table also shows the sources of funding used to pay for the flood relief package. All appropriations, except one for City Tax Base Replacement Aid (\$50,000 in FY 2012), are made in fiscal year 2011 and are one time.

Table 1 – Article 1 – Flood Disaster Assistance – FY 2011 Appropriations

Program	Appropriated Amount (\$ in thousands)	Funding Source		
		General	G.O. Bonding	Trunk Hwy
Federal Emergency Funds Match (DPS)	12,000	10,000	2,000	
State Roads Operation & Maintenance (MnDOT)	5,000			5,000
Local Roads & Bridges Assistance (MnDOT)	10,000		10,000	
Minnesota Investment Fund Grants (DEED)	10,000	10,000		
Public Infrastructure Grants (PFA)	500		500	
Housing Assistance (MnHFA)	4,000	4,000		
Historical Society (HMS)	250	250		
Facilities Repair (DNR)	2,500		2,500	
Flood Hazard Mitigation (DNR)	10,000		10,000	
Debris Removal & Flood Gauge Repair (DNR)	500	500		
Dam Removal & Renovation (DNR)	1,000		1,000	
Reinvest In Minnesota (RIM) (BSWR)	10,000		10,000	
Erosion, Sediment & Water Quality (BWSR)	3,000	3,000		
Various Agriculture Assistance Programs (MDA)	4,000	4,000		
Disaster Enrollment Impact Aid (MDE)	30	30		
Disaster Relief Facilities Grants (MDE)	486	486		
Disaster Relief Operating Grants (MDE)	2	2		
Disaster Transportation Aids (MDE)	5	5		
Various Health Related Assistance (MDH)	250	250		
Bond Sale Expenses (MMB)	40		40	
Totals – Article 1 – Flood Assistance	73,563	32,523	36,040	5,000

Note: If general fund appropriations in Chapter 1, Article 1 for any program are not needed for that program, the unexpended amounts are available for other programs in the flood relief package for DR-1941 or for the match required by the Federal Emergency Management Agency for its programs.

Public Safety

\$2 million in bond funds and \$10 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.

Transportation

The flood relief package provided a total of \$15 million in the FY 2010-11 biennium for roads and bridges. Of this, \$5.0 million in Trunk Highway Fund cash will be targeted to state trunk highways for operations and maintenance. The bill also included \$10.0 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 an additional \$50 million in Trunk Highway bonds over five years for flood hazard mitigation related to trunk highways. The Department did not receive an appropriation in 2010 Second Special Session, Chapter 1 for these activities, but rather, will use previous appropriations made during the 2008 and 2010 Sessions for flood hazard mitigation.

Employment and Economic Development

\$10 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 and Finance Committees. Recipients are exempted from various standard limitations on the size, purpose and administrative requirements for the Minnesota Investment Fund.

Public Facilities Authority

\$500,000 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 Assistance

\$4 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.

Historical Society

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

Natural Resources

The Department of Natural Resources received \$2.5 million dollars from the bond proceeds fund to rehabilitate and replace state facilities and to restore natural resources in the area included in DR 19141 that were damaged by the floods.

\$10 million is appropriated from the bond proceeds 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 \$500,000 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.

\$1 million of bond funds is appropriated to DNR for renovation or removal of publicly owned dams.

Board of Water and Soil Resources

The board received an appropriation of \$10 million from the bond proceeds fund to be used to acquire Reinvest in Minnesota (RIM) conservation easements on lands within the DR-1941 disaster area. The funding must be expended in accordance within the requirements of Minnesota Statutes, Section 103F.515.

An additional appropriation of \$3 million dollars 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

\$4 million is appropriated to the Department of Agriculture for assistance including livestock investment grants, organic certification assistance, forge production offsets, disaster recovery loans, mental health counseling and other costs related to the disaster.

K-12 Education

\$523,000 is appropriated from the general fund for education related purposes in the flood disaster area. Grants fall into four major categories: per pupil enrollment impact aid, provided to compensate districts for lost revenue associated with pupils leaving the district after the floods; facility grants, for facility repair and cleanup; operating grants for added operating costs, and; transportation grants, to cover the added cost of moving students.

For flood related aid, the Truman school district was the only district to receive per pupil enrollment impact aid (\$30,000). The pupil aid is calculated as the number of students who left the district due to the floods multiplied by \$5,924. The NHREG (New Richland Hartland Ellendale Geneva) school district received a \$2,000 operating grant. The St. Peter school district received a \$5,000 transportation grant. Eleven school districts are expected to receive facilities

grants for unfunded capital costs: Mankato (\$2,500), Pine Island (\$125,000), Hendricks (\$2,500), Lynd (\$250), Stewartville (\$18,750), Medford (\$8,750), Maple River (\$1,250), NRHEG (\$74,688), Fairmont (\$6,250), Zumbrota-Mazeppa (\$4,500) and Windom (\$64,375).

Health

\$250,000 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

The Pollution Control Agency (PCA) estimates that it will use \$400,000 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

\$40,000 is appropriated to Minnesota Management and Budget for bond sale costs for the general obligation bonds authorized in this article and in Article 2.

Property Taxes

Chapter 1, 2010 Second Special Session, contains four property tax relief and local government aid provisions designed to supplement existing Minnesota Statutes 273.1233-4 that address disaster recovery for communities and property taxpayers. While current law provides property tax abatement and disaster credits for damaged structures, 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 2010 property taxes* – In FY 2011, an estimated \$175,000 will be used to reimburse up to eleven counties for granting abatements to property owners in disaster areas. 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 2010 taxes on that parcel. Preliminary estimates have identified over 600 damaged homes and 126 affected businesses that would 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 2010 forecast.

New provisions providing assistance to individuals includes:

- *Delayed payment for 2010 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 30, 2010. 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 2010, 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 2010 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 Blue Earth, Dodge, Faribault, Goodhue, Martin, Olmsted, Rice, Steele, Wabasha or Waseca or Watonwan County 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 2011 and 2012) that the relocation was due to the 2010 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 30, 2010.

Current law assistance for local governments includes:

- *Disaster Credits for Damaged Property* – In FY 2012, an estimated \$375,000 will be used to reimburse 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 2010 forecast.

New provisions providing assistance to local governments includes:

- *Flood loss city replacement aid* - In 2012, each city located in a disaster county that lost five percent or more of its tax capacity due to 2010 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 2010. Preliminary estimates for this provision anticipate that about \$50,000 in tax base replacement aid will go to three cities in the disaster area. The commissioner of revenue will make these aid payments between July 1 and July 20, 2012 (in state fiscal year 2013).

Article 2 – Tornado Disaster Relief

Article 2 provides disaster relief for communities affected by tornados and storms on June 17, 2010. The city of Wadena and Wadena County had the heaviest damage but 13 counties that had storm damage were included in Presidential Disaster Declaration DR-1921. Those counties are: Blue Earth, Brown, Faribault, Freeborn, Houston, Kittson, Nicollet, Olmsted, Otter Tail, Polk, Sibley, Steele and Wadena.

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 2011 and are one time.

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

Program	Appropriated Amount (\$ in thousands)	Funding Source		
		General	G.O. Bonding	Trunk Hwy
Federal Emergency Funds Match (DPS)	5,200	5,200		
Public Facility Design Grants (DEED)	7500		750	
Disaster Relief Operating Grants (MDE)	314	314		
Disaster Transportation Aids (MDE)	379	379		
Totals – Article 1 – Flood Assistance	6,643	5,893	750	0

Note: If general fund appropriations in Chapter 1, Article 2 for any program are not needed for that program, the unexpended amounts are available for other programs in the disaster relief package for DR-1921 or for the match required by the Federal Emergency Management Agency for its programs.

Public Safety

\$5.2 million from the general fund is appropriated to the Department of Public Safety (DPS) to fully pay for the state and local match of federal disaster public assistance funds. The federal disaster program pays 75 percent of costs, the state match is 15 percent and the local share is 10 percent. DPS estimates that \$3.8 million of this amount will be used in Wadena and Wadena County and the other \$1.4 million will be used in the other 12 counties included in DR-1921.

K-12 Education

\$693,000 is appropriated for assistance for the Wadena school district due to the June 2010 tornado. The district qualified for \$314,000 for a grant for added operating expenditures and \$379,000 for a grant to cover additional transportation expenses. The Wadena district is the only district of those affected by the June tornados to qualify for aid.

Property Taxes

Chapter 1, 2010 Second Special Session, relies on current law to provide property tax relief for properties affected by the Wadena tornado on June 17, 2010.

Current law assistance to individuals includes:

- *Abatement of 2010 property taxes* – In FY 2011, an estimated \$75,000 will be used for reimbursements to counties that grant abatements to qualifying property owners with property in a designated disaster area. To qualify for abatement, a property with a structure must have lost at least 50 percent of its market value due to tornado or flood damage. The amount of the abatement is equal to 50 percent of pay 2010 taxes on that parcel. The number of homes and businesses that would qualify for these abatements is not known at this time. 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 2010 forecast.

Current law assistance for local governments includes:

- *Disaster Credits for Damaged Property* – In FY 2012, an estimated \$210,000 will be used to reimburse 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 2010 forecast.

Articles 1 and 2 – Items Applying to Both Articles

Capital Investment

2010 Second Special Session Laws, Chapter 1, Articles 1 and 2 include a total of \$36.8 million in General Obligation (GO) bonds for disaster relief. This includes funding for the following agencies: Public Safety, Transportation, Public Facilities Authority, Natural Resources, the Board of Soil and Water Resources, and Employment and Economic Development. The bonding appropriations are described under each agency's section of this summary. In general, items were bonding for if there were eligible for bond funding. If items were not eligible for bond funding then general fund appropriations were used.

Debt service costs are not anticipated to begin until the FY 2012-13 biennium because MN Management and Budget is not likely to sell bonds until the summer of 2011; the general fund is likely to cover project costs until the summer 2011 bond sale upon which the general fund will be reimbursed. The current debt service cost estimate for the bonding in Chapter 1 is \$2.3 million for the FY 2012-13 biennium and \$6.3 million for the FY 2014-15 biennium. The additional debt service associated with Chapter 1 will have a minor impact on Minnesota's debt capacity, and estimates of this impact will be included in the November 2010 state budget forecast.

Response to Natural Disasters

In 2008 new law was enacted to provide a framework and procedures for state assistance in presidentially declared disasters. That law can be found in Minnesota Statutes, Section 12A. Most of the items included in Articles 1 and 2 are based on the framework in Chapter 12A. Other items that are included in this bill but not included in Chapter 12A may be considered for inclusion in Chapter 12A during a future legislative session.

Article 3 – Cash Flow and Budget Reserve

Article 3 makes several changes related to state cash flow

Appropriations to the Department of Human Services are adjusted to recognize enhanced FMAP (federal medical assistance percentages) for six more months. Public Law 111-226 extends the enhanced FMAP rates that were part of the American Recovery and Reinvestment Act (ARRA or stimulus) (but extended at a lower level) for six more months – January through June of 2011.

To recognize the higher federal participation in medical assistance, state medical assistance appropriations are reduced by \$230.91 million for the general fund and \$6.073 million for the health care access fund. As a result of the enhanced FMAP general fund revenue is projected to decrease \$788,000 so the net general fund effect is a savings of \$20.1 million.

The general fund change is a net change, the net decrease of \$230.91 million results from decreases of \$237.1 million and increases of \$6.2 million. Increases in some programs are necessary because eligibility changes that had previously been implemented in law must be delayed during the time that the enhanced FAMP funding is received.

Medical assistance appropriations in fiscal years 2012 and 2013 are projected to be \$18.2 million higher in the general fund and \$.6 million higher in the health care access fund as a result of the enhanced FMAP extension.

Article 3, Section 4 requires that any projected general fund balances for fiscal year 2011 are carried forward into fiscal year 2012. This is an exception to the current law provisions that direct any projected balances to the cash flow account, budget reserve, reduction of education shifts and other purposes. This exception is necessary to meet a requirement in federal law than any increased federal FMAP funding must not go to state “rainy day” funds

Section 3 requires that in fiscal year 2011, prior to unallotment, an amount equal to the general fund spending in Articles 1 and 2 (\$38.4 million) is transferred from the cash flow account to the general fund. This language has the effect of reducing any potential unallotment by \$38.4 million – the amount of disaster spending in this bill. If unallotment is not necessary, the cash flow account will remain at \$266 million.

Fiscal Summary

The net effect of the changes in Chapter 1 on the general fund is a positive \$191.706 million in FY 2011. \$38,476,000 million of new spending on disaster relief is offset by \$230,122,000 of reduced spending as a result of the state receiving additional FMAP funds from the federal government.

The net general fund effect in FY 2012-13 is a negative \$20,554,000. This includes debt service and tax costs of the disaster relief and additional cost related to the acceptance of FMAP funds.

General Fund Changes

	FY 2011	FY 2012	FY 2013
Article 1 – Flood Disaster	32,553	0	50
Article 2 – Tornadoes & Storms	5,863	0	0
Debt Service – Articles 1 & 2	0	294	2,048
Article 3 – FMAP	-230,122	16,236	1,926
Total	-191,706	16,530	4,024

Chapter 1 will save the health care access fund \$6,073,000 in FY 2011 and cost that fund \$630,000 in FY 2012.

Health Care Access Fund Changes

	FY 2011	FY 2012	FY 2013
Article 3 – FMAP	-6,073	630	0

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