



FISCAL ISSUE BRIEF

Flood Relief Primer Southeastern Minnesota Floods August 2007

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QUESTIONS

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BACKGROUND

This Fiscal Issue Brief summarizes relevant federal emergency funds match requirements and general law provisions designed to address various financial matters likely to concern property owners and local governments in the aftermath of a natural disaster. In addition, the Brief summarizes various types of state financial support that have been provided to flood communities in the past, as well as identifying an assortment of other provisions that lawmakers may wish to consider in light of the recent floods in Southeastern Minnesota.

FEDERAL EMERGENCY FUNDS MATCH

The Federal Emergency Management Agency (FEMA) typically provides the initial formal response to natural disasters following the immediate efforts of first responders, volunteer relief agencies, citizens, and state agencies under the coordination of the state emergency management. The Governor requested a federal disaster declaration on Tuesday, August 21, 2007 and FEMA has begun the preliminary damage assessment in order to recommend a course of action to the President (see enclosure). When a declaration is made, federal assistance may include individual assistance (temporary housing assistance, home repair or replacement assistance) and public agency assistance (first responder costs, debris clearance, infrastructure repair); both have been requested.

Federal emergency management funds require a 25 percent non-federal match. The state pays the match for individual assistance and state agency assistance, and typically funds 15 percent of the 25 percent local agency match requirement. However, state disaster relief packages commonly include additional General Fund appropriations for federal emergency funds match because, while the Department of Public Safety may have the flexibility to finance the full match on a short-term basis, the match requirements for significant disasters tends to far exceed the amount built into the base appropriation for this purpose.

GENERAL LAW PROGRAMS

The need for assistance to individuals and local governments often varies depending on the unique characteristics of a disaster. Nonetheless, the following general law provisions are in place to address financial issues likely to arise once clean-up is complete.

Disaster Credit and Homeowner Property Reassessment—M.S. 273.123 requires that homestead property values in designated disaster areas be adjusted for taxes payable the following year proportionate to time of the year for which the property is damaged. A state paid disaster credit reimburses local taxing jurisdictions for the difference between the amount of taxes that would have been paid on the original valuations and the amount actually paid based on the adjusted valuations.

Local Option for Other Property—M.S. 273.123 also allows the county board to grant reductions in property taxes paid in the year of the disaster and the following year for homeowners not qualifying for reassessment and other properties if at least 50 percent of the dwelling or other structure has been unintentionally destroyed and the dwelling is uninhabitable. These tax relief amounts are not reimbursed by the state but the county board may increase levies in the following year to recover the reductions granted under this authority.

Early State Aid Payments—M.S. 477A.015 directs the Commissioner of Revenue to pay second half (December 26) local government aid payments as early as practical for local governments that have been determined by the Commissioner of Public Safety to have suffered financial hardship.

Special Tax Increment Financing (TIF) Provisions—M.S. 469.177 allows for the reduction of the original net tax capacity of existing taxing districts, or a lower net tax capacity for new districts, to reflect the assessor's estimate of the effect of a natural disaster on the value of property located in a tax increment district.

In addition, many state agencies administer programs that could be drawn on for assistance to flood victims and affected communities, such as assistance for farmers and flood mitigation.

PAST FLOOD RELIEF PROVISIONS

Browns Valley floods, March 2007: \$2 million was appropriated from the state General Fund for a grant to the city of Browns Valley for unspecified purposes related to flooding. In addition, the Housing Finance Agency was authorized to use its disaster assistance contingency fund to assist with the rehabilitation and replacement of housing despite it not being located in a Presidentially declared disaster area, and the community was made eligible for the state flood mitigation program.

Roseau & Other floods, Summer 2002: \$31.8 million was appropriated for relief to 19 counties; the funding was appropriated from the General Fund and other funds, including \$16.3 million of GO bonding. The funding package included: \$8.3 million for federal emergency funds match; \$1.0 million for property tax abatement aid; \$3.0 million to Minnesota Investment Fund for grants to local units of government; \$2.0 million to the Public Facilities Authority for rehabilitating and replacing publicly owned infrastructure; \$1.0 million from the Petroleum Tank Release Cleanup fund, \$4.0 million for housing assistance; \$3.0 million for agriculture relief; \$8.0 million for state and local road and bridge assistance; \$1.4 million for property tax relief; and \$2.0 million for future flood prevention and control. The legislation also created declining pupil aid for affected school districts. Additional relief was provided in later years, particularly for the city of Roseau.

Minnesota and Red River floods, Spring 1997: In anticipation of and subsequent to the melt of record snowfalls, the 1997 Legislature appropriated \$24.0 million in two pieces of legislation during the 2007 regular session to provide support to over fifty Minnesota counties. That relief was followed four months later by special session that provided an additional \$56.3 million of relief. Of that amount: \$55.3 million was GO bonding including \$30 million to leverage FEMA public assistance for damaged public infrastructure such as schools, roads and bridges; \$13 million for flood hazard mitigation, loans to flood prove public buildings, and levee repair and ring dike construction; \$9 million to the Public Facilities Authority for loans to local governments for repair and replacement of damaged infrastructure; \$2.0 million to the Housing Finance Agency for local government loans for public housing; and \$1.2 million for loans to farmers to repair and replace damaged infrastructure. In addition, \$1.0 million was appropriated from the Petroleum Tank Release Cleanup fund to purchase or cleanup petroleum contaminated property. With better information available on the specific needs related to the flooding, \$20.3 million of the original \$24.0 million was cancelled and re-appropriated for Minnesota Investment fund locally administered operating loans for businesses, single and rental housing, property tax replacement aid and for other purposes.

OTHER OPTIONS

Based on the timing and preliminary information regarding the damage caused by the recent Southeastern Minnesota floods, legislators may also wish to consider:

- Second ½ property tax payments are due October 15. Although delay of property tax payments could limit important revenue streams for local governments, 2002 flood relief provisions authorized a delay until the following May 15 for affected businesses under certain conditions upon approval of the county auditor.
- The displacement of school children may result in lower pupil counts in school districts that experienced housing loss so near to the beginning of the school year. Past legislation has provided temporary declining pupil aid in such circumstances.

Finally, it might be useful to consider whether state reporting requirements (timelines) need temporary adjustments for affected communities.

Fiscal Issue Briefs offer background information and analyses on the budget process and specific budgeted issues related to matters that have been or are likely to be addressed by the Legislature. Senate Fiscal Issue Briefs can be viewed on the Office of Counsel, Research & Fiscal Analysis web site at www.senate.leg.state.mn.us/departments and follow the links to the Office of Counsel, Research, and Fiscal Analysis.