

WEEKLY MEMO

Date: July 29, 2011

To: Mayor Lynn Stauss, Council President Craig Buckalew, Vice President Wayne Gregoire, Council Members Marc Demers, Ron Vonasek, Henry Tweten, Greg Leigh, and Mike Pokrzywinski.

From: Scott Huizenga

RE: Weekly Update

UPCOMING MEETINGS:

August 2, 2011 – 5:00 pm – Council Meeting – Council Chambers

August 9, 2011 – 5:00 pm – Work Session – Training Room

August 16, 2011 – 5:00 pm – Council Meeting – Council Chambers

August 23, 2011 – 5:00 pm – Work Session – Training Room

WEEKLY UPDATE:

Market Value Homestead Credit

Last week, I reported that the City would lose over \$200,000 of funds through the Market Value Homestead Credit (MVHC) in addition to LGA cuts as a result of the budget compromise at the state capitol. The final tax bill also changed the way the MVHC program will be allocated for 2012 and beyond. Previously, the MVHC directly credited primary residential properties; and that credit was offset by a payment directly to cities, counties, and school districts from the state. Each year the MVHC program was cut, property owners received the property tax credits, but local entities were not reimbursed the difference. Starting next year, the MVHC program will be a credit to residential property values. The good news for local governments is that they will once again receive full property tax value. However, the tax burden will be shifted to commercial and industrial properties along with high-value homes. As a result, those properties will see a property tax increase even if the City does not change its overall levy. I have attached an article from this week's *League Bulletin* that outlines how the changes will be calculated for the MVHC program.

Waste Water Interconnect

The working group of designated elected officials and staff will meet at Grand Forks City Hall on Monday, August 2 to continue work on a draft intergovernmental agreement. A joint meeting of the two City Councils is now proposed to take place in the later part of August.

Greenway Committee

The internal greenway committee met this week for the second time to discuss a potential comprehensive plan for the LaFave Park/Catfish Days area of the greenway. Planning is ongoing. And, the committee's next steps are to coordinate with the Grand Forks-East Grand Forks Greenway Technical Advisory Committee.

Coalition of Greater Minnesota Cities Fall Conference

Council Member DeMers and I are scheduled to attend the CGMC Fall Conference next week in Grand Rapids. In addition to the educational sessions and the CGMC general business meetings, the awards dinner will feature two items of local interest. The CGMC will present a lifetime appreciation award to the family of Council President Dick Grassel. Additionally, the CGMC will present a "Friend of the Greater Minnesota" award to the Grand Forks-East Grand Forks Chamber of Commerce for its support for Local Government Aid (LGA) in the recent legislative session. The Chamber will accept the award at the August 9 City Council work session.

DEPARTMENT REPORTS:

Police Department, Chief Mike Hedlund

Home & Vehicle Security –

The EGFPD would like to remind the residents of East Grand Forks to take precautions to help keep their property secure. Motor vehicle break-ins are one of the most common crimes in the Greater Grand Forks area and East Grand Forks has experienced a number of them in recent weeks. Locking your home and your vehicle is the best step toward keeping your property secure. In addition park your vehicles in the garage whenever possible. Do not leave purses, iPods, computers, GPS units or other valuable items in plain view in your vehicle. If you have to park outside try to park in a well lit area. In addition make sure that bikes, lawnmowers and other property are put away and that garage doors are kept shut – especially at night. In addition if you see anything suspicious in your area please call the police department (EGFPD – 218-773-1104). Even if it turns out that the suspicious activity is legitimate we would rather have our officers respond to a call like that than not be called and wind up with homes or vehicles that have been broken in to. Calls from the public often provide the tips that help us solve crimes.

AGENDA ITEMS:

The consent agenda contains two parade permits, a gaming permit, and a request to declare eighteen vehicles as surplus property for public auction.

Item 2 considers a resolution to accept the bid to construct bike/pedestrian trail Improvements in the Griggs/LaFave Park area. Bids were higher than originally anticipated. Therefore, staff recommends reduction of approximately \$25,000 by installing bollards with City staff. The proposed funding source is the Greenway Maintenance Fund.

Item 3 considers a resolution to accept the low bid for the Transportation Enhancement project to construct sidewalks and trails along DeMers Avenue and Central Avenue North. Bid opening is August 2. Therefore, the City Engineer will present the bid tabulations at the Council Meeting.

Item 4 is a public hearing to consider a local assessment for street improvements in the Club Acres Addition. Specifically, the proposed project is the reconstruction of three cul de sacs adjacent to 21st Street NW just south of the cemetery. The City Council is holding the public hearing without a petition from residents. Therefore, a supermajority of the City Council is required to proceed with the project. The Council can approve, reject, or suspend indefinitely the proposed project based upon public input.

Item 10 is the second reading of an ordinance that allows the City to locally conduct electrical inspections in the event of a future state government shutdown.

Item 11 considers awarding a consultant proposal for the Concept and Construction Facilitation Services to reconstruct the Sherlock Park Playground. The designated Sherlock Park Playground committee will review the proposals received on Friday afternoon. And, the committee's recommendation will be available for Council consideration at the City Council meeting. The current plan for the park is to utilize the design consultant for design and construction management. The playground committee will solicit service clubs and volunteers to provide labor for the project. The League of Minnesota Cities Insurance Trust (LMCIT) has authorized the City to reimburse service clubs labor. The City will procure materials through competitive bidding as necessary.



How Changes to MVHC Program Will Affect Cities

The Legislature repealed the market value homestead credit program, effective in 2012, and created a new market value exclusion for qualifying homes.

(Published Jul 27, 2011)

The recently enacted special session omnibus tax bill includes a number of changes to property tax aid and credit programs, but perhaps the one change that has generated the most questions from city officials is the repeal of the existing market value homestead credit (MVHC) system beginning in 2012 and the new market value exclusion for qualifying homes.

2011 Cuts

Before the MVHC program is eliminated for taxes payable in 2012, MVHC reimbursements due to be paid this year for cities and counties will be reduced. Essentially, the 2011 cuts in the reimbursement are an extension of the 2010 MVHC cuts. The language now signed into law states that “the reimbursement paid to each city and county . . . may not exceed the reimbursement payment received by the city or county for taxes payable in 2010.”

Unlike programs such as local government aid (LGA), where the state notifies each city of the precise amount it will receive (or is supposed to receive) each year, the MVHC credit/reimbursement allocation to each city, county, and school district is more complicated. Initially, the MVHC credit to the homeowner is computed as a reduction in the overall total property tax bill. However, that credit amount is ultimately allocated as a proportional reduction in the city, county, and school district taxes computed for that homeowner.

For example, if the city’s taxes for that homeowner are 30 percent of the homeowner’s tax bill, the taxes paid by that homeowner to the city will be reduced by 30 percent of the total MVHC credit. The state is then supposed to reimburse the city for that homeowner’s reduced tax bill through the MVHC reimbursement payments.

The allocation of the MVHC reimbursements among the local taxing entities cannot be computed until the property tax statements are processed each year and, therefore, the reduction in the city’s levy for the credit is not known until well after the levies have been certified in December. In fact, even though tax statements for 2011 have been distributed and the first half of property taxes have been collected, the state still does not have complete information from each county on the allocation of the 2011 MVHC reimbursement to each city, county, and school district. That final information is expected to be available from the Department of Revenue in the next couple of weeks.

Keep in mind that under the language in the new law, a city cannot receive more MVHC reimbursement in 2011 than it received in 2010. That is true regardless of whether the original computed reimbursement for 2011 increases or decreases. The table below illustrates how the computed cut can change from 2010 to 2011, depending on whether the city’s allocation of MVHC reimbursement increases or decreases.

How Changes in MVHC Reimbursement Can Impact the 2011 Reduction

	Pay 2010	Pay 2011 w/MVHC allocation increase	Pay 2011 w/MVHC allocation decrease
City MVHC Reimbursement	\$100,000	\$110,000	\$90,000
State Reduction	\$70,000	\$80,000	\$60,000
Paid Reimbursement	\$30,000	\$30,000	\$30,000

In 2010, the example city experiences a \$70,000 cut in its MVHC reimbursement under the state-imposed cut. If that city's reimbursement *increases* in 2011, the reimbursement remains the same (\$30,000) and therefore the cut increases to \$80,000. However, if that city's MVHC reimbursement *decreases* to \$90,000, the cut would be reduced to \$60,000.

For cities, this reduction for 2011 is estimated to total \$48 million statewide while reimbursements to counties will be cut by \$56.1 million.

Access estimates of the MVHC and LGA reductions from the Department of Revenue website (*Link to: http://taxes.state.mn.us/property_tax_administrators/Pages/2011_aid_credit_reductions.aspx*)

Please note that the MVHC reduction was applied to *all* cities that are still receiving MVHC, and that even cities under 1,000 in population, which were largely unaffected by the reductions in LGA, will experience MVHC reductions in 2011. The \$48 million cut is in addition to a permanent \$25 million MVHC cut that was enacted for more than 127 cities when Gov. Pawlenty's unallotments were ratified by the 2010 Legislature. In summary, after the \$48 million cut in the special session tax bill and the permanent \$25 million cut to some cities enacted last year, for the 2011 tax year, only about \$12 million, or 15 percent, of the actual reimbursement due to cities will be paid by the state.

As a result of the ongoing cuts to the MVHC program and confusion created when cities did not receive the amount of levy originally certified for collection, the League and other local government organizations supported the elimination of the program.

2012 and beyond

As indicated above, the entire MVHC credit and reimbursement program will be eliminated beginning with taxes payable in 2012. In place of the current MVHC program, homeowners will receive an exclusion of a portion of the market value of their house from property taxes. The exclusion is computed in a manner similar to the current market value homestead credit. However, the impact of the repeal of the existing MVHC program and the new exclusion will vary from community to community, depending on a number of factors, including tax base of the community and the local tax rate.

For cities and other local units of government, the elimination of the MVHC program will to a degree simplify and clarify the property tax process. No longer will a city's (or a county's or a school district's) certified property tax levy be reduced by the allocation of the MVHC credit with a "promised" reimbursement by the state for the loss of property tax receipts. In addition, the elimination of the program will also provide cities and counties with a small cash flow advantage. Currently, the first one-half of the MVHC reimbursement is not paid until Oct. 31 each year. Under the new system with no MVHC credit and reimbursement, each city will receive those revenues as property tax payments that will occur with the normal property tax distribution process, which will accelerate the first half of the payment by as much as three or four months.

For homes valued at less than \$76,000, the exclusion is equal to 40 percent of the home's market value. For homes valued between \$76,000 and \$413,800, the exclusion is \$30,400 minus 9 percent of the value over \$76,000. The table below illustrates how the new market value exclusion compares to the existing MVHC program.

New Market Value Exclusion Compared to Existing MVHC Program

Home Market Value	\$76,000	\$150,000	\$300,000	\$450,000
Current MVHC	\$304	\$237.40	\$102.40	\$0
MV Exclusion	\$30,400	\$23,740	\$10,240	\$0
MV After Exclusion	\$45,600	\$126,260	\$289,760	\$450,000

The new market value exclusion for homes will mean that beginning in 2012, each city's tax base will be reduced and the city's tax rate will rise to obtain the same property tax levy. Although the homestead exclusion is computed in a mathematically similar manner to the repealed MVHC, the new system will shift taxes among properties within each community, especially to commercial, industrial, apartment, and other properties that will not receive the benefit of the homestead market value exclusion. Keep in mind that the current MVHC program, if it was fully funded, would provide \$261 million per year in state-paid homeowner tax reductions. That \$261 million is being eliminated to balance the state's deficit, and the tax relief provided to homeowners under the new market value exclusion is in part due to shifts in property taxes that will occur.

If you have questions on the conversion of the MVHC program to a market value exclusion, please contact LMC staff members Gary Carlson, Rachel Walker, or Lena Gould using the contact information at right.

Read the current issue of the Cities Bulletin (*Link to: <http://www.lmc.org/page/1/cities-bulletin-newsletter.jsp>*)

Your LMC Resource

Contact Gary Carlson

IGR Director

(651) 281-1255 or (800) 925-1122

gcarlson@lmc.org (*Link to: <mailto:gcarlson@lmc.org>*)

Contact Rachel Walker

Manager, Policy Analysis

(651) 281-1236 or (800) 925-1122

rwalker@lmc.org (*Link to: <mailto:rwalker@lmc.org>*)

Contact Lena Gould

Policy Analyst

(651) 281-1245 or (800) 925-1122

lgould@lmc.org (*Link to: <mailto:lgould@lmc.org>*)