



Heidi Shaffer, Published June 13 2011

Finding a fair price: Buyout process a balancing act for cities, counties

FARGO - Since the record 2009 flood, Fargo, Moorhead and Cass County have paid more than \$62.4 million to buy out almost 250 flood-prone homes.

The taxable value of those combined properties is \$52.8 million.

The cities and county face a tough job in striking a fair price for homeowners who are leaving their neighborhoods while also wisely using taxpayer dollars for buyouts.

“It’s fair to those homeowners because they’re not paying a real estate agent, plus they’re getting a little more than what their house is actually worth,” said Moorhead Mayor Mark Voxland.

“I think it’s also good for the citizens of Moorhead, knowing that we aren’t giving extraordinary money out,” he said.

The cities and county all have voluntary buyouts and relied on appraisals to determine what homeowners would get for their properties. But each has different methods of funding and conducting acquisitions.

Fargo is the only jurisdiction to use solely local dollars – a half-cent sales tax approved in 2009 by voters – to pay for buyout properties.

Engineers identify priority areas, and homeowners are sent a letter saying the city is interested in acquiring the property, said Butch McConn, the assistant city attorney.

A private appraiser contracted through the city visits the home, gathers city and county data, and compares the home based on the sales of other properties on the market.

Fargo and Cass County both contract through Rose Hoefs, a Fargo-based appraiser with almost 30 years of experience and specializes in right-of-way acquisitions, including buyouts in Grand Forks after the 1997 flood.

Hoefs said the very complex process can result in an assessment report of more than 100 pages for more unique properties.

“Some people have swimming pools in the backyard, finished basements, finished attics,” Hoefs said. “They all contribute to value.”

Cass County has used federal funds to pay for the majority of its 79 buyouts.

The county gets two appraisals for each house and averages the two values to come up with the offering price, said County Auditor Mike Montplaisir.

Because the county is using federal funds, strict guidelines also dictate how an appraisal is conducted, Hoefs said.

The same guidelines are followed in Fargo's buyouts, despite the use of local funds, as a way of being consistent, Hoefs said.

Moorhead funded its 104 buyouts through both the Federal Emergency Management Agency and Minnesota Department of Natural Resources.

Homes are appraised by a city staff person who is licensed to appraise commercial properties, said Peter Doll, Moorhead's business and development services manager.

This year's buyouts were based solely on 108 percent of the home's assessed value – the past two years' buyouts averages – because of the tight timeframe as the Red River rose, Doll said.

Regardless of whether the appraiser works for the city or is contracted through a private company, values should be fairly close, Doll said.

Cass County and Moorhead don't negotiate on price after an appraiser goes through a home. Fargo seldom does, McConn said.

A Forum analysis of Fargo's buyout records found the city negotiated prices on nine properties over the past three years, for a total of about \$363,787 – or about 1.7 percent of the city's total buyout dollars.

Appraised vs. assessed

A home's assessed value is what a jurisdiction uses in calculating property taxes.

Assessments, conducted by individual city and township assessors, are generally done each year using mass appraisal, meaning the assessor isn't necessarily walking through and inspecting individual homes, Doll said.

Mass assessments are calculated using a formula incorporating sales research, lot size and several other variables.

In theory, assessed value should be close to an appraised value, Doll said, but appraisers for buyout homes are often required by federal guidelines to take in pre-disaster conditions into account.

Assessments will reflect market changes because of flooding while buyout appraisals generally won't, said Ben Hushka, Fargo's city assessor.

One-on-one appraisals are historically more accurate, Doll said, but both methods of finding value have strengths and weaknesses.

Minnesota state law dictates that assessments should be within 90 to 105 percent of market value, Doll said.

North Dakota requires 95 to 105 percent, Montplaisir said.

Cass County Assessor Frank Klein said there also might be a tendency for public assessors to be slightly more conservative and private appraisers to be more optimistic about market values.

In a couple of instances in Cass County, appraisals varied from assessments by upwards of \$300,000. Klein said most of those cases involved improvements that were made without a permit, so assessors were unaware of a change in value.

In addition, the more unique a home is and the higher it gets on the price scale, the more room there is for an appraiser's judgment on value, Doll said.

Fargo City Commissioner Mike Williams said the city paying an average of 128 percent of a home's assessed value isn't concerning, but he does question amounts paid for some of the higher-end homes.

"There seems to be a disparity there," he said.

In Cass County, the average buyout price in the past three years was 115 percent of assessed value.

Voxland said his goal with Moorhead buyouts – which average 108 percent of assessed value – has been to do them fairly for those moving and taxpayers.

"I want to make sure I can defend the money as well," he said. "I'd have a hard time defending 128 percent, I think."

Buyout costs vs. tax value

Fargo, Cass County and Moorhead each paid more for buyouts than what those homes were listed for on tax rolls. In theory, assessed and appraised values should be fairly close, said Peter Doll, Moorhead's business and development services manager. But having fewer comparable homes on both the high and low end of the spectrum leaves more room for appraiser judgment and variance, Doll said.

The following are the top 10 buyouts in Fargo, Moorhead and Cass with the largest difference between the purchase price and property tax value:

	Name	Address	Buyout amount	Tax value	Difference
Fargo					
	1. James and Margo McCulley	701 Harwood Drive S.	\$1.15 million	\$772,000	\$378,000
	2. Kathleen Hawken	503 Southwood Drive	\$700,000	\$491,200	\$208,800
		706 Southwood			

	3. Jerry and Jill Baldwin	Drive	\$450,000	\$264,300	\$185,000
	4. Mary Schlossman	1430 S. River Road	\$480,000	\$297,700	\$182,300
	5. James and Janell Wensman	4602 Rose Creek Parkway	\$719,000	\$538,600	\$180,400
	6. Paul Nelson	2853 Lilac Lane	\$850,000	\$692,600	\$157,400
	7. Francis Butler	4332 Timberline Drive S.	\$645,000	\$502,100	\$142,900
	8. Roger and Rebecca Gilbertson	515 Southwood Drive	\$590,000	\$398,800	\$191,200
	9. Son and Yvette Nguyen	618 Southwood Drive	\$430,000	\$292,400	\$137,600
	10. Nageswararao Chalasani	2130 Sterling Rose Lane	\$685,000	\$551,900	\$133,100
Moorhead					
	1. A. Cater	40 River Oaks Point	\$298,500	\$211,800	\$86,700
	2. L. and S. Boyd	3127 Rivershore Drive S.	\$263,100	\$222,700	\$40,400
	3. G. and L. Thrasher	3002 Rivershore Drive S.	\$225,900	\$185,600	\$40,300
	4. Paul and C. Hilleran	423 Elm St.	\$139,600	\$103,000	\$36,600
	5. R. Kragnes	3701 Rivershore Drive S.	\$296,300	\$260,300	\$36,000
	6. Richard and Jennifer Carney	2012 3rd St. S.	\$185,400	\$150,000	\$32,700
	7. C. and D. Nelson	515 9th St. N.	\$113,600	\$78,700	\$34,900
	8. M. and L. Carlson	4401 River Haven Road	\$258,200	\$225,500	\$32,700
	9. Mark and Rhonda Rice	3123 Rivershore Drive S.	\$270,100	\$238,200	\$31,900
	10. D. Gould	2001 4th St. S.	\$191,200	\$160,200	\$31,000
Cass County					
	1. Bobby and Jacqueline Hegg	21 Briarwood Place	\$950,000	\$560,100	\$389,000
	2. William Strehlow	606 Hillside Drive	\$674,250	\$317,200	\$357,050
	3. Ray and Katherine Kvalvog	16 Briarwood Place	\$602,500	\$312,900	\$289,600
	4. Gery and Kristine				

	Knuttila	17 Briarwood Place	\$632,500	\$383,800	\$247,700
	5. Stephanie Thorpe	7504 Chrisan Way	\$317,500	\$108,500	\$209,000
	6. Albert and Calette Frisinger	506 Hillside Drive	\$537,500	\$361,900	\$175,600
	7. Thomas and Tracey Frei	18 Briarwood Place	\$530,000	\$378,000	\$152,000
	8. Barry Olander	411 Hillside Drive	\$445,000	\$311,000	\$134,000
	9. Ronald and Ramona McClean	610 Hillside Drive	\$355,000	\$233,800	\$121,200
	10. Jeffrey and Anne Zarling	812 Orchard Park Drive	\$385,000	\$283,600	\$101,400

Sources: City of Fargo, City of Moorhead and Cass County

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