LEAGUE OF MINNESOTA CITIES

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Local Government Aid 101: 2014 and Beyond

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The first official LGA program was created in 1971 and provided funds to counties on a per capita basis for allocation to cities in proportion to their property tax levy. Since its inception, LGA has undergone many changes—some minor and some bringing about significant reforms. LGA is distributed using a complex formula that compares a city's spending needs with its ability to raise revenue. After several years of cuts to the appropriation, the 2013 Legislature enacted the first significant reforms to the LGA program since 2003. Funding for the program increased in 2013 and 2014. The 2017 Legislature increased the total appropriation by $20 million for 2018 and beyond.

This document provides a brief overview of LGA's recent history and highlights the changes for aid payments beginning in 2014.

Funding Level

The 2012 legislature passed an LGA freeze for 2013 payments. The LGA appropriation grew by $80 million for 2014 to $507 million. The 2015 and beyond distributions were increased by about $8 million by the 2014 Legislature. In 2015, cities will receive $516.9 million; in 2016 and 2017, the appropriation was $519.4 million. The 2017 Legislature increased the total appropriation to $534.4 million for 2018 and beyond. The total LGA distribution is shown below for 2003 through 2018.

Year	Total LGA ($s)
2003 certified	586,848,950
2003 final	464,941,977
2004	437,466,461
2005	436,558,200
2006	484,558,200
2007	484,558,200
2008 certified	484,148,487
2008 final	430,638,682
2009 certified	526,148,487
2009 final	481,521,933
2010 certified	536,671,457

Year	Total LGA ($s)
2010 final	426,535,519
2011 certified	527,100,646
2011 final	425,345,348
2012 certified	425,237,611
2013	427,494,945
2014	507,598,012
2015	516,898,012
2016	519,398,012
2017	519,398,012
2018 and beyond	534,398,012

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Formula Basics

A city's share of the LGA distribution is determined by a complex formula that compares a city's *expenditure need* and its *ability to pay*. Each city's expenditure need is measured based on several statistical variables. These variables or factors attempt to identify characteristics that cause differences in the amount cities spend to provide the same level of service. Calculated expenditure need is then compared to the city's ability to pay or revenue-raising capacity (i.e., property taxes). This difference, or gap, is the city's unmet need. A city's LGA payment is a computed as a percentage of that gap The percentage of the gap that is funded by LGA is based on the total available appropriation for the program and is the same for all cities that receive LGA in that year.

Prior to the 2013 reforms, the factors used to calculate city need were largely based on 2000 Census data. The age of the data underlying the formula and the repeated cuts to the appropriation highlighted the need for significant reform.

Expenditure Need Variables

The 2013 reforms implemented three need formulas for cities.

For cities below 2500 population, need is defined by city population size only.

For cities between 2500 and 10,000 population, need is defined by the percent of housing built before 1940, household size, and population decline (%) since the peak population level of the last 40 years. The 2017 Legislation added a sparsity adjustment all cities under 10,000 population with fewer than 30 residents per square mile. This adjustment is effective beginning with the 2018 distribution.

For cities over 10,000 population, need is defined by the average number of jobs per capita, the percent of housing built before 1940, the percent of housing built between 1940 and 1970, and a sparsity adjustment for cities with fewer than 150 residents per square mile.

Calculating Unmet Need

To calculate a city's *need* the values for each variable are multiplied by fixed coefficients. These coefficients were determined by a statistical process called multiple regression. The coefficients weigh the variables according to their relative importance in explaining differences in city spending need. The sum of these products is a per capita dollar expenditure need. Multiplying the per capita need by the population gives the total expenditure need, which is then compared to an individual city's ability to pay.

Ability to pay is defined as a city's capacity to raise revenue via property taxes. This is calculated by applying the statewide average city tax rate based on the prior year's levy to the city's tax base.

The difference between a city's total *expenditure need* and its *ability to pay* is its unmet need. The portion of unmet need filled by LGA is adjusted so that the total of all distributions equals the current appropriation.

Aid Bases

As a result of the 2013 reforms, there are no longer any aid bases used in

calculating LGA amounts for cities. Some of the aid bases of the past were for regional centers, for small cities, and for specific circumstances, such as flood recovery.

Year-to-year changes

A city's LGA payment amount can change from year to year. For 2014 only, no city can receive less in LGA than it did in 2013. Beginning with aids payable in 2015, no city's aid can decrease by more than 5% of its previous year's levy or $10 per capita.

Timing of Payments

The Department of Revenue notifies cities of their LGA amounts for the following year by July 31st. Cities receive the aid in two equal payments—the first in mid-July and the second in late December.

Cities can request early payments of LGA when they face certain unanticipated costs, such as those for recovery efforts after a natural disaster.

Resources

League of Minnesota Cities
http://www.lmc.org/page/1/property-tax-state-funding-fiscal-issues.jsp

- LGA Key Terms
- LGA Timeline
- LGA Key Points

House Research: Basic Information on State Aids
http://www.house.leg.state.mn.us/hrd/topics.aspx?topic=32

Certified LGA amounts:
http://www.revenue.state.mn.us/local_gov/prop_tax_admin/Pages/lga.aspx

Additional information on the LGA formula and aid distributions can be obtained by contacting LMC Policy Analysis staff.