



LOCAL GOVERNMENT AID Q&A

LOCAL GOVERNMENT AID (LGA) STABILIZES LOCAL PROPERTY TAXES AND ENSURES THAT QUALITY BASIC CITY SERVICES ARE AVAILABLE IN ALL MINNESOTA CITIES.

Question: Why do we have local government aid in Minnesota?

Answer: Local government aid (LGA) stabilizes local property taxes and ensures that quality basic city services are available in all Minnesota cities—that things like roads, sewer, public safety, and fire service can be maintained from city to city regardless of population size or property tax base.

Consistent LGA funding takes pressure off property taxes and makes it easier for city officials to plan their budgets and forecast revenue. When LGA funding was cut in the early 2000s, cities were forced to rely more heavily on property taxes and cut services.

Property taxes and LGA are the two major revenue sources for most Minnesota cities. Cities usually need authorization from the state to create other revenue sources, like a local sales tax.

Question: Where does the money come from?

Answer: Local government aid comes from state general fund dollars that are collected by the state through sales and income taxes. LGA returns these dollars back to communities.

Though LGA is an important revenue source for most city budgets, it is a small portion of the state's biennial budget spending—just over 2 percent.

LGA funds are not earmarked by the state for a specific use so that local elected officials can make budget decisions based on the needs of their community and city budget.

Question: Where does the money go?

Answer: The LGA formula directs resources to cities with less ability to raise property taxes compared to their need, such as cities with smaller tax bases due to housing stock or other factors such as concentrations of tax-exempt property.

Some cities that are state and regional tourist centers or are home to major area employers have a greater need to provide basic services and to maintain infrastructure for non-residents. LGA also helps these cities to fund services for visitors and employees who do not pay property taxes in those cities but are an important part of the community.

Some cities in the state with larger property tax bases receive no LGA. Residents from those cities still benefit from the effect that LGA has on the quality of life in cities where they shop, work, travel through, or visit.