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Minnesota House of Representatives

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TO: Interested parties

FROM: Pat Dalton, Legislative Analyst

RE: LGA fluctuations between 2006 and later years

The 2006 special session tax bill increases the city LGA appropriation by \$48 million. However, because of limits on annual increases and decreases to payments to individual cities, the distribution of the extra money in 2006 will be concentrated in certain cities. In 2007 and future years, the aid will shift back from these cities to the cities that would have otherwise received the money if the limits had been increased or removed.

Background on aid limits

In 2003 the city LGA program underwent a major reform. Prior to 2003, about 60 percent of the appropriation was grandfathered to certain cities and the rest was distributed via a needs based formula. The 2003 reform eliminated virtually the entire grandfathered portion of the LGA and developed a new need based formula that now distributes 95 percent of the appropriation.

To aid in the transition to the new LGA distribution, and to mitigate some of the annual aid fluctuations that occur when more than \$400 million is redistributed annually based on a formula, limits were placed on annual increases and decreases in payments to individual cities. The law limits the increase in a city's payment in any year to an amount equal to 10% of the city's levy in the previous year. Likewise, no city with a population of 2,500 or more may have an LGA decrease greater than 10 percent of its previous year's levy. For cities under 2,500 the decrease is limited to 5 percent of the aid it was originally certified to receive in 2003.

Interaction of aid limits with increased appropriations

If the limits or caps on aid increases are not modified when additional aid is appropriated, the limits stop the additional aid from being distributed to some cities that would otherwise get the aid based on the formula. Since the entire appropriation must be distributed, the percent of "unmet need" paid to cities that are not at the limit on the annual increase goes up and they receive more aid in the first year that the additional money is distributed. An additional \$48 million, absent increase limits would have increased the percent of "unmet need" paid to cities

from roughly 84% about 90%. However, because the caps were not changes in the current LGA law for 2006, some cities will get aid equal to 100% or more of the “unmet need.”

This phenomenon is short lived, however. In 2007 the cities that had had been subject to the aid cap in 2006 will have a higher limit in 2007 and aid will shift back to those cities. Since the total appropriation does not increase in 2007, the aid will be shifted from the cities that received an unusually large increase in 2006.

Examples

The city of **Moorhead** receives \$7,585,565 in Pay 2006. They were projected to get \$8,059,758, or a \$474,193 increase in Pay 2006, before the addition of \$48 million to the appropriation. After the appropriation increase, the city is still projected to get the same amount; they would not benefit in 2006 from the extra money because they were already getting the maximum amount allowed under the annual limit on increases. In 2007, the city maximum LGA amount will increase by about \$500,000 (about 10 percent of their projected 2006 levy), and the city’s aid will increase by that amount. Since the total LGA appropriation has not changed, the \$500,000 will result in \$500,000 reduction from the cities that did get additional aid from the formula in 2006.

The city of **Minneapolis** is projected to receive an additional \$16,353,848 in LGA in Pay 2006 above the amount they would otherwise receive under current law. Roughly one-half of this amount is due to the amount of “unmet need” paid to the city rising to 100 percent, rather than to the 90 percent that would have occurred if other cities’ aid had not been capped. Only about one-half of this money is a “permanent” increase. About \$8 to 9 million will disappear in future years as money is shifted to other cities such as Moorhead.

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