

The City LGA Program

City LGA underwent major changes in 2003

The city local government aid (LGA) program underwent major changes in 2003, including the elimination of most of the old city aid base (grandfathered aid) and an increase in the amount distributed via a formula based on “need” and “ability to raise local revenues.” New need measures were developed and taconite aid was added to the measure of ability to raise local revenues.

Changes were made in 2008 in response to criticisms of the new program

The 2003 program was criticized for being too volatile and not recognizing the need of certain cities, such as established suburbs. The appropriation was also lower than in previous levels. The LGA program was modified in 2008 to address all three criticisms—volatility, distribution, and the appropriation level.

Volatility was reduced by using earlier data and averaging it across years

Small changes in certain factors used to determine “need” often caused large fluctuations in a city’s aid. In addition, the actual certified aid amounts were different than the end-of-session estimates because some of the data used to calculate aid wasn’t available until July. Beginning with 2010, data used to calculate need is the data available as of January 1 of the year in which the aid is certified. Also the average of two years of “unmet need” (need minus ability to raise revenue) is used in calculating aid each year.

Maximum annual reductions to individual cities were also lowered to limit volatility

Decreases had been limited to 10 percent of the city’s levy in the previous year for large cities and to 5 percent of the city’s *certified* 2003 LGA amount (before 2003 aid reductions) for small cities. Beginning with 2009, decreases for each type of city are limited to the *lesser* of (1) \$10 per capita or (2) its old limit for decreases. For 2009 only, no small city’s aid could be less than its aid in 2008, unless its only 2008 aid was due to previously grandfathered small city aid, in which case its aid could decrease to zero.

New special aids and other changes were made to the formula to change the distribution

Previously, cities under 5,000 in population received a small city aid amount of \$6 per capita as part of their city aid base. Beginning in 2009, this amount was increased to \$8.50 per capita but moved from the city aid base and included in the LGA formula. A new aid for cities with 5,000 or more in population was added to the formula, based on a city’s jobs per capita. The city jobs aid is reduced by 36 percent of “regional center aid,” which is grandfathered aid paid to large Greater Minnesota cities. Both the small city aid and city jobs aid increase proportionately to increases in the LGA appropriation. A city’s small city aid or city jobs aid is reduced if its “need” exceeds its “ability to pay” measure. Taconite aid was removed from the “ability to pay” measure. These changes increased aid to established inner ring suburbs and mid-size cities in Greater Minnesota.

The appropriation was increased for the next three years

Prior to the 2008 change, the LGA appropriation was frozen at \$484 million annually. It was increased to \$526 million for 2009, and will increase by an additional 2 percent in 2010, and another 4 percent in 2011.

City LGA Formula – Old Law vs. Changes Enacted in 2008

Characteristic	Old Law (in effect in CY 2002)	Changes made effective CY 2009
Funding	\$484.5 million per year with no inflation adjustment*	\$526.1 million in CY 2009 Additional 2% increase in CY 2010 Additional 4% increase in CY 2011
City aid base (grandfathered aid)	\$30.4 million to certain cities based on specific criteria	\$26.1 million because small city aid is moved to the formula
City formula aid	\$454.1 million distributed based on a percentage of “unmet need,” which is equal to “need” minus “ability to raise revenue”	A city’s distribution is now equal to small city aid, plus city job aid (new), plus a percentage of its average “unmet need” for last two years
Large city need per capita measure	Based on (1) pre-1940 housing %, (2) pop. decline %, (3) road accident factor, (4) household size, and (5) if it is in the metro area	Data used is most recent data available as of January 1 of the year in which the aid is certified. May not be less than \$285 per capita
Small city need per capita measure	Based on (1) pre-1940 housing %, (2) comm'l/industrial, (3) pop. decline %, and (4) transformed pop	Data used is most recent data available as of January 1 of the year in which the aid is certified.
Ability to raise revenue measure	= Average city tax rate times adjusted city tax capacity (tax base) minus 100% of taconite for most taconite cities**	Taconite aid offset eliminated
Small city aid	\$6 per capita as part of grandfathered aid	\$8.50 per capita, increasing at same rate as the appropriation, now part of formula aid
City jobs aid (New)	-----	For city over 5,000 population: equal to \$25.20 times number of jobs per capita in the city up to \$4.725 million, adjusted for regional center aid and increases in the LGA appropriation
Limits on increases and decreases	No city’s aid can increase by more than 10% of its levy from the previous year No large city’s aid loss can exceed 10% of its levy in the previous year and no small city’s loss in any year can exceed 5% of its certified 2003 LGA	Beginning with CY 2009 aids, the maximum aid loss for large cities is the lesser of 10% of previous year levy or \$10 per capita For CY 2009, small cities’ aid cannot decrease unless due to the small city base change. For CY 2010 and later, the decrease is limited to the lesser of \$10 per capita or 5% of certified 2003 LGA

* In CY 2008 only, \$430.1 million of the \$484.5 million aid was paid; \$53.5 million of the December payment was unallotted by the governor.

** The taconite aid paid to the cities of Babbitt, Eveleth, Hibbing, Keewatin, Mountain Iron, Silver Bay, and Virginia are not included in calculating their ability to raise revenue measure.

For more information: Contact legislative analyst Pat Dalton at 651-296-7434. Also see earlier versions of this short subject.

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