

LGA – Where Are We and How Did We Get Here?

Presentation to the Local
Government Aid Study Group

December 7, 2011

Distribution of Certified and Final 2011 LGA

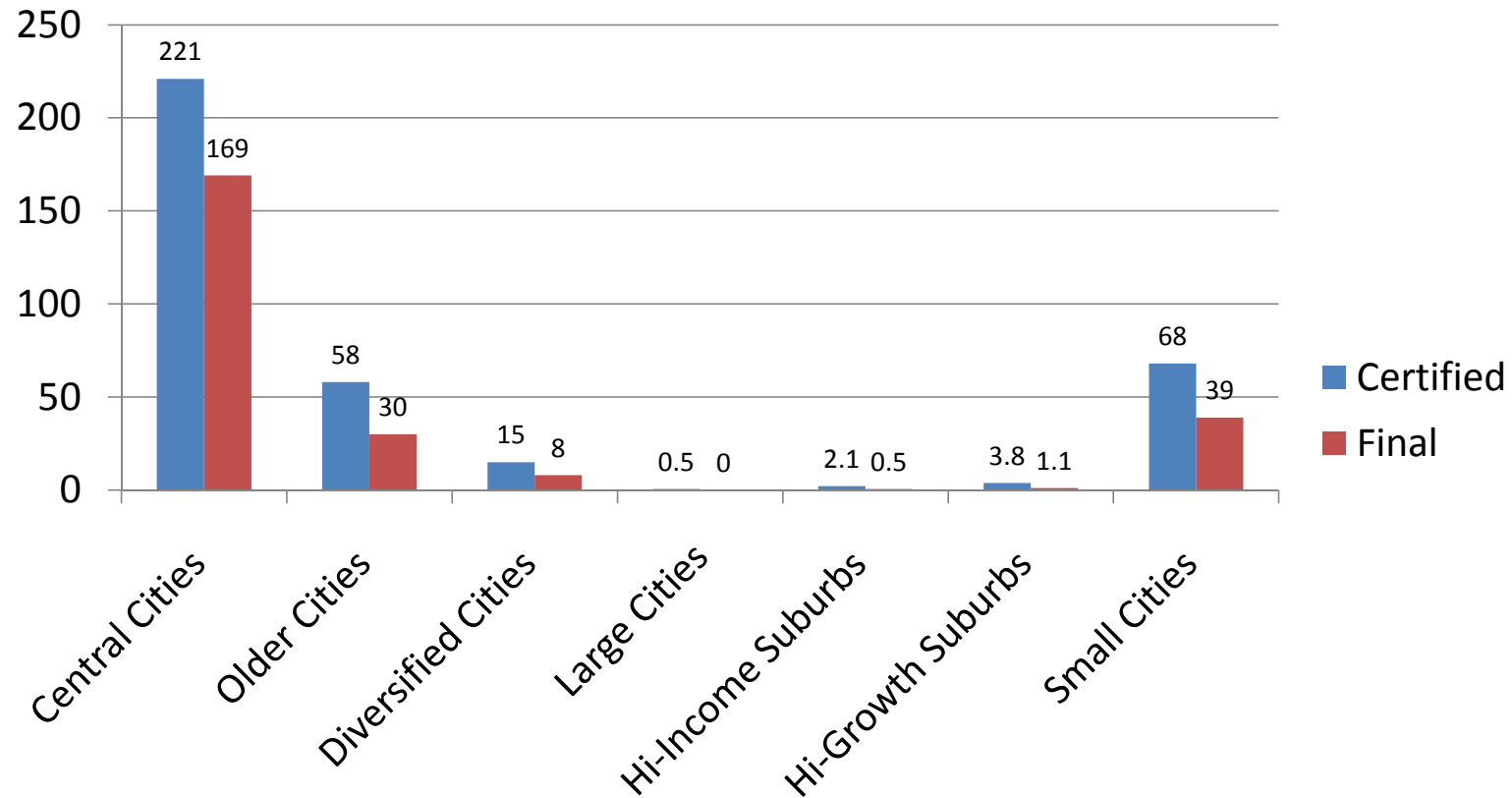
	7-County Metro Area	Greater Minnesota	State Total
2008 Population	2,779.4	1,536.2	4,315.6
Certified 2011 LGA (Millions)	\$184.9	\$342.2	\$527.1
Final 2011 LGA (Millions)	\$132.5	\$292.9	\$425.3
Cert. LGA per capita	\$67	\$223	\$122
Final LGA per capita	\$48	\$191	\$99

Difference between Certified and Final LGA

- Certified 2011 LGA determined by formula; certified to cities in August 2010
- Final 2011 LGA is the actual amount paid in CY 2011 - equal to the lesser of 2011 certified LGA or 2010 final LGA*
 - Final 2010 LGA was based on certified 2010 LGA minus aid reductions equal to a percent of each city's total levy plus aid amount (about 11% for both 2010 reductions)
 - Most small cities under 1,000 population only subject to 3.4% levy plus aid reduction

* Except for the city of Houston

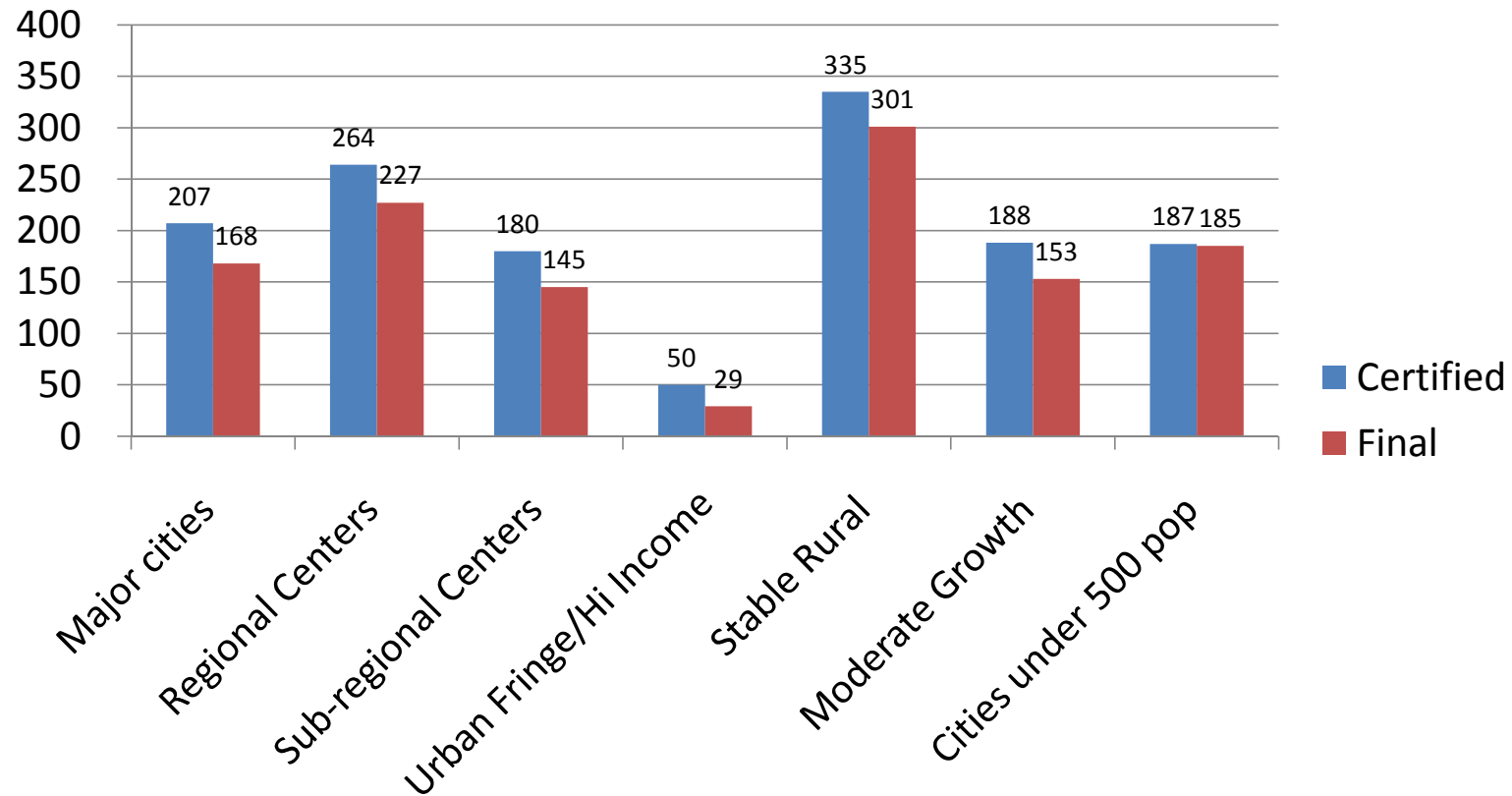
Distribution of 2011 LGA Per Capita By City Type – Metro Area



Metro Area Distribution of Final 2011 LGA

City Type	Final LGA	2008 Pop.	Final LGA Per Capita	Tax Base Per Capita
Central Cities	\$114,462,756	678,186	\$169	\$1,110
Older Cities	\$8,892,839	295,469	\$30	\$1,062
Diversified Cities	\$1,660,309	208,607	\$8	\$1,505
Large Cities	\$0	751,201	\$0	\$1,487
Hi-Income Suburbs	\$33,574	63,844	\$0.53	\$2,868
Hi-Growth Suburbs	\$677,585	610,966	\$1.11	\$1,337
Small Cities	\$6,734,479	171,132	\$39	\$1,170

Distribution of 2011 LGA Per Capita By City Type – Greater Minnesota



Greater Minnesota Distribution of Final 2011 LGA

City Type	Final LGA	2008 Pop.	Final LGA Per Capita	Tax Base Per Capita
Major cities	\$42,620,435	253,307	\$168	\$916
Regional Centers	\$89,525,644	394,787	\$227	\$749
Sub-regional Centers	\$14,644,317	100,702	\$145	\$1,054
Urban Fringe/Hi Income	\$6,539,382	222,756	\$29	\$1,234
Stable Rural	\$102,936,496	341,578	\$301	\$526
Moderate Growth	\$22,625,199	147,456	\$153	\$843
Cities under 500 pop	\$13,992,333	75,646	\$185	\$639

Cities Receiving LGA in 2011 vs. Cities Not Receiving LGA

Cities in 2011	Number	2008 Pop.	Percent of Total Pop.	LGA Per Capita	City levy Per capita	Tax Base Per Capita	City Tax Rate
Receive LGA	760	2,727,903	63.2%	\$193	\$381	\$919	41.474%
No LGA	94	1,587,734	36.8%	\$0	\$452	\$1,544	29.259%
Total	854	4,315,637	100.0%	\$122	\$407	\$1,149	35.436%

Based on 2011 Certified LGA

1971: LGA Was Part of the Minnesota Miracle

- Enacted during the 1971 special session, with first payments in 1972
- Replaced a number of smaller “tax sharing” programs with one larger significant state program
- Goals were to:
 - Provide property tax relief
 - Ensure sufficient revenue for local government needs
- Tradeoff—prohibited new local sales or income taxes (Minn. Stat. 1971, §477A.01, subd. 18)

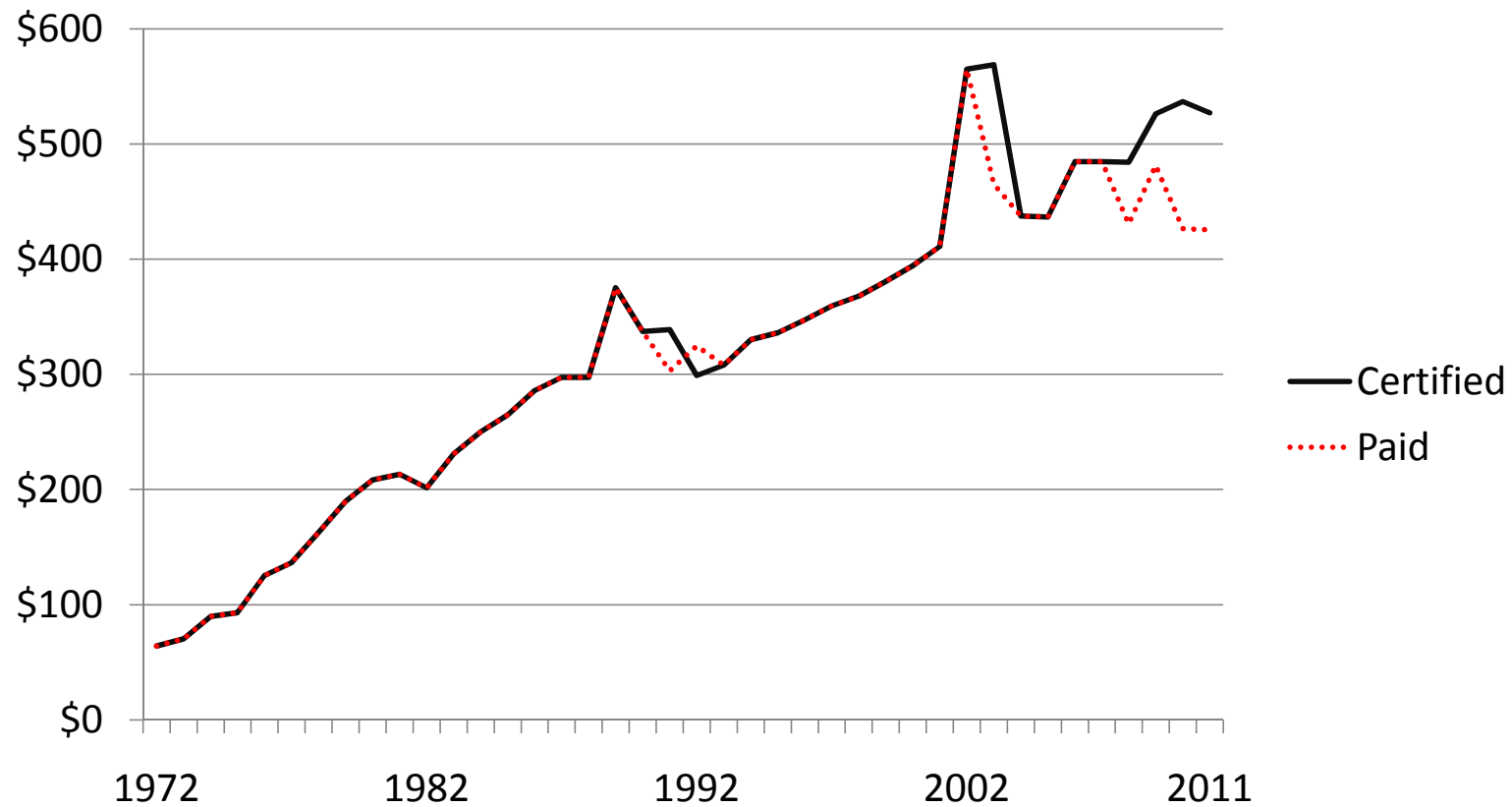
Original LGA Structure

- Went to all forms of local government except schools
- Distributed to counties based on population
- Distributed within counties based on “fiscal need” as defined by previous property tax levy
- Included guarantees that each local government would receive at least what it had received under the old system

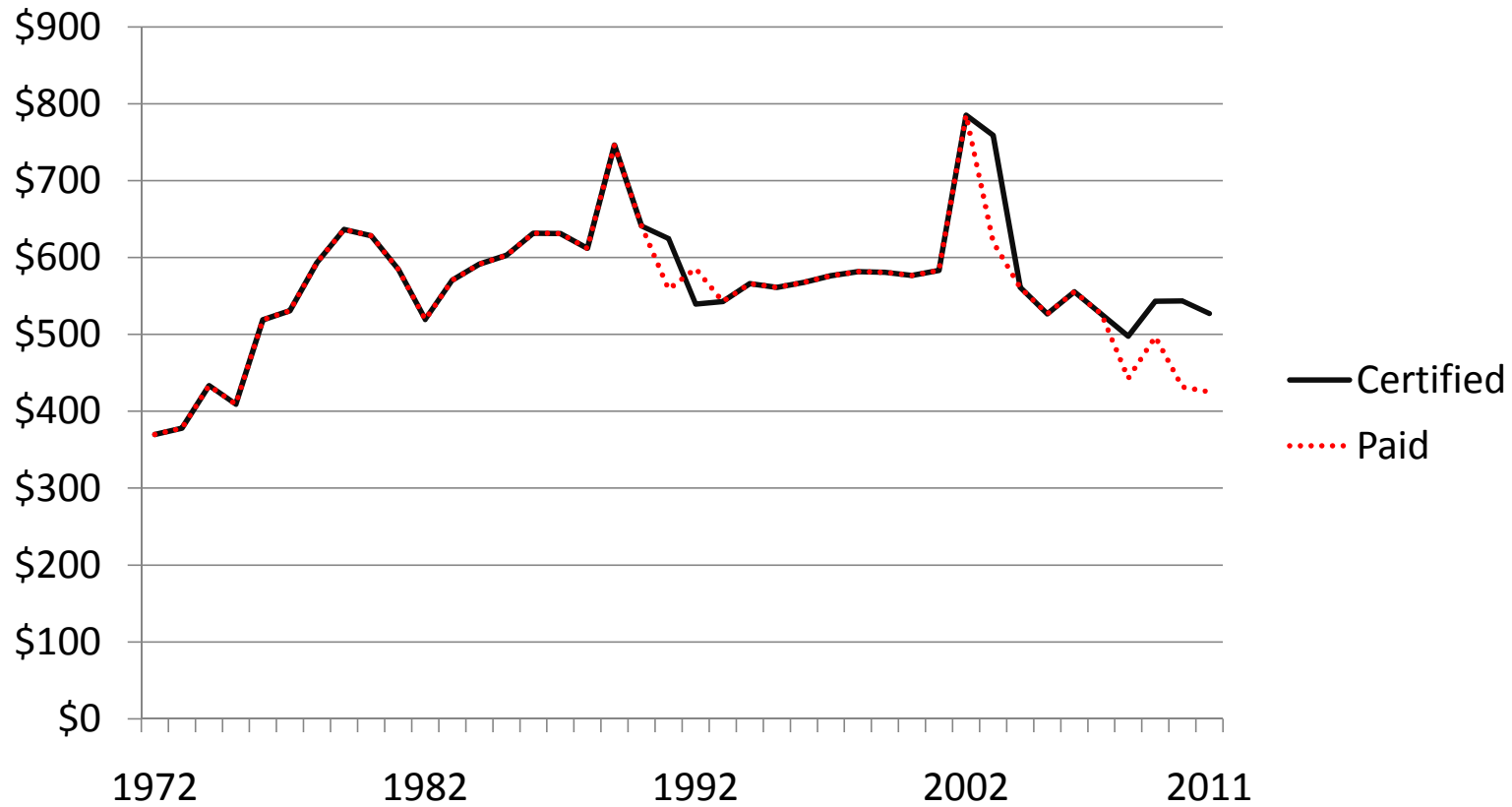
LGA Became a City Program

- Payments to special taxing districts were eliminated in 1979
- Payments to counties were eliminated in 1991
- Payments to towns were eliminated in 2002

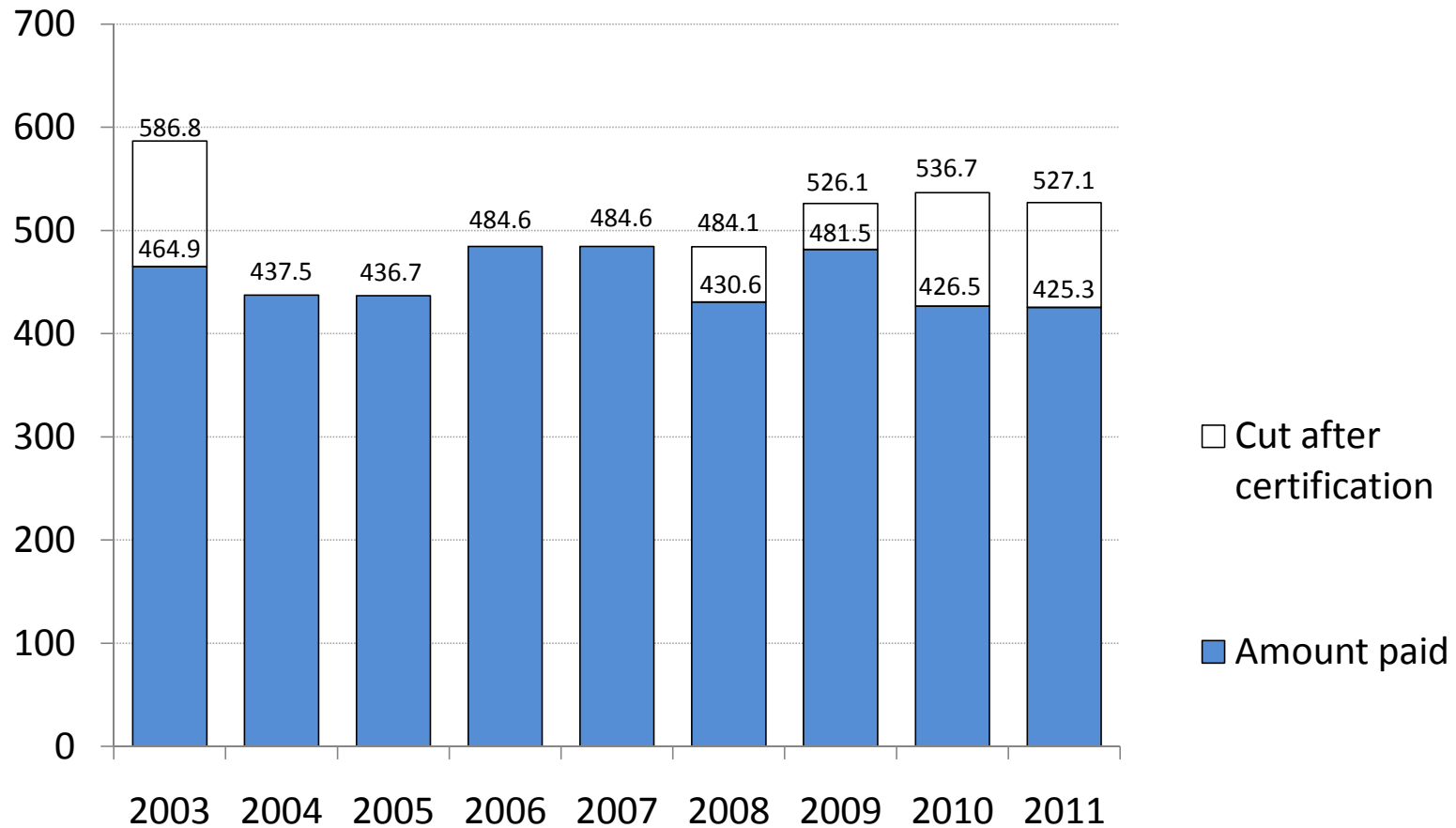
City LGA Funding over Time (in millions of nominal \$)



City LGA Funding over Time (in millions of 2011 \$)



City LGA: Certified vs. Paid Amounts (in millions \$)

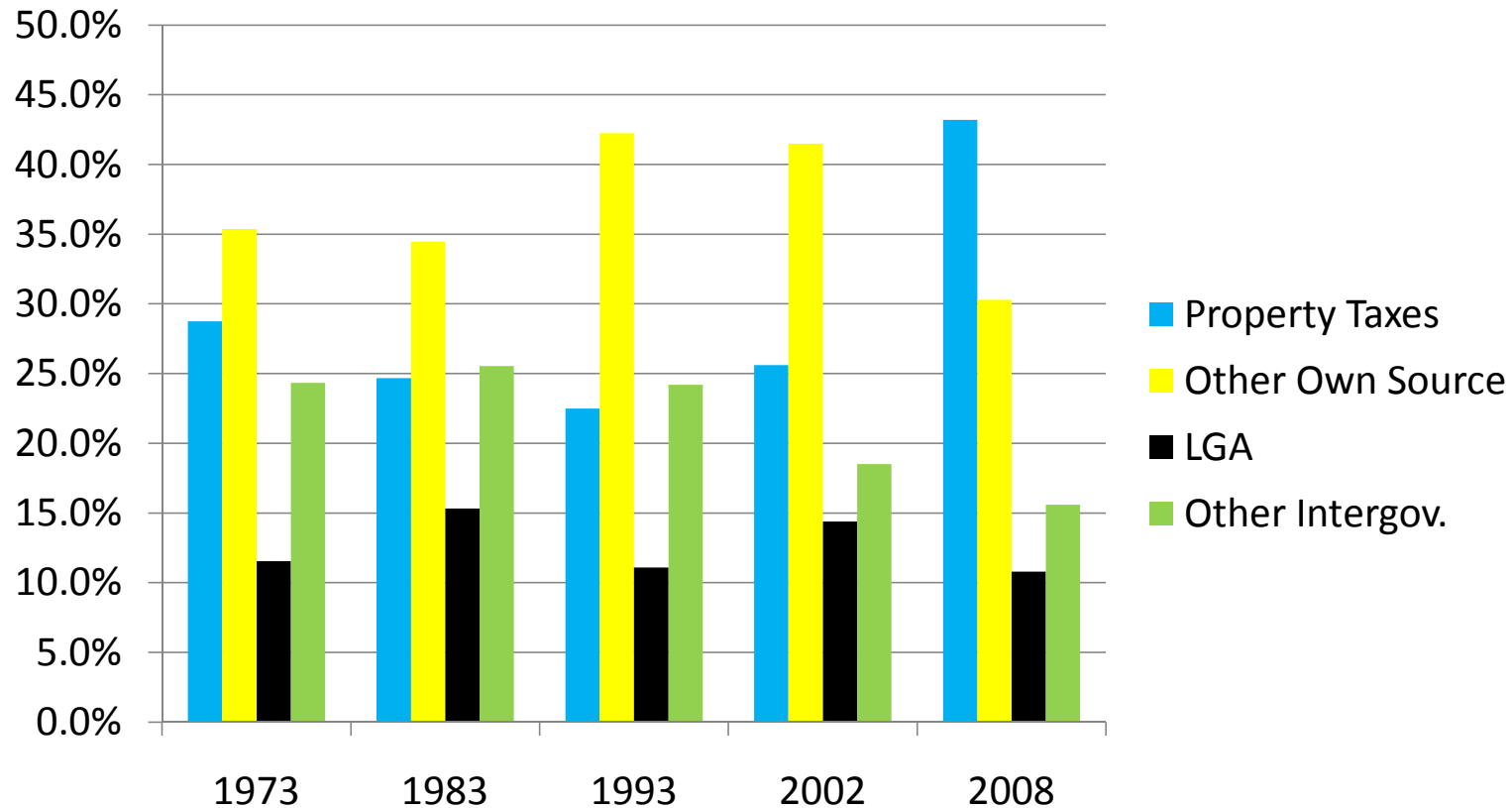


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House Research - Senate Counsel & Research

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LGA and Other Revenue as a Percent of City General Revenue Funds

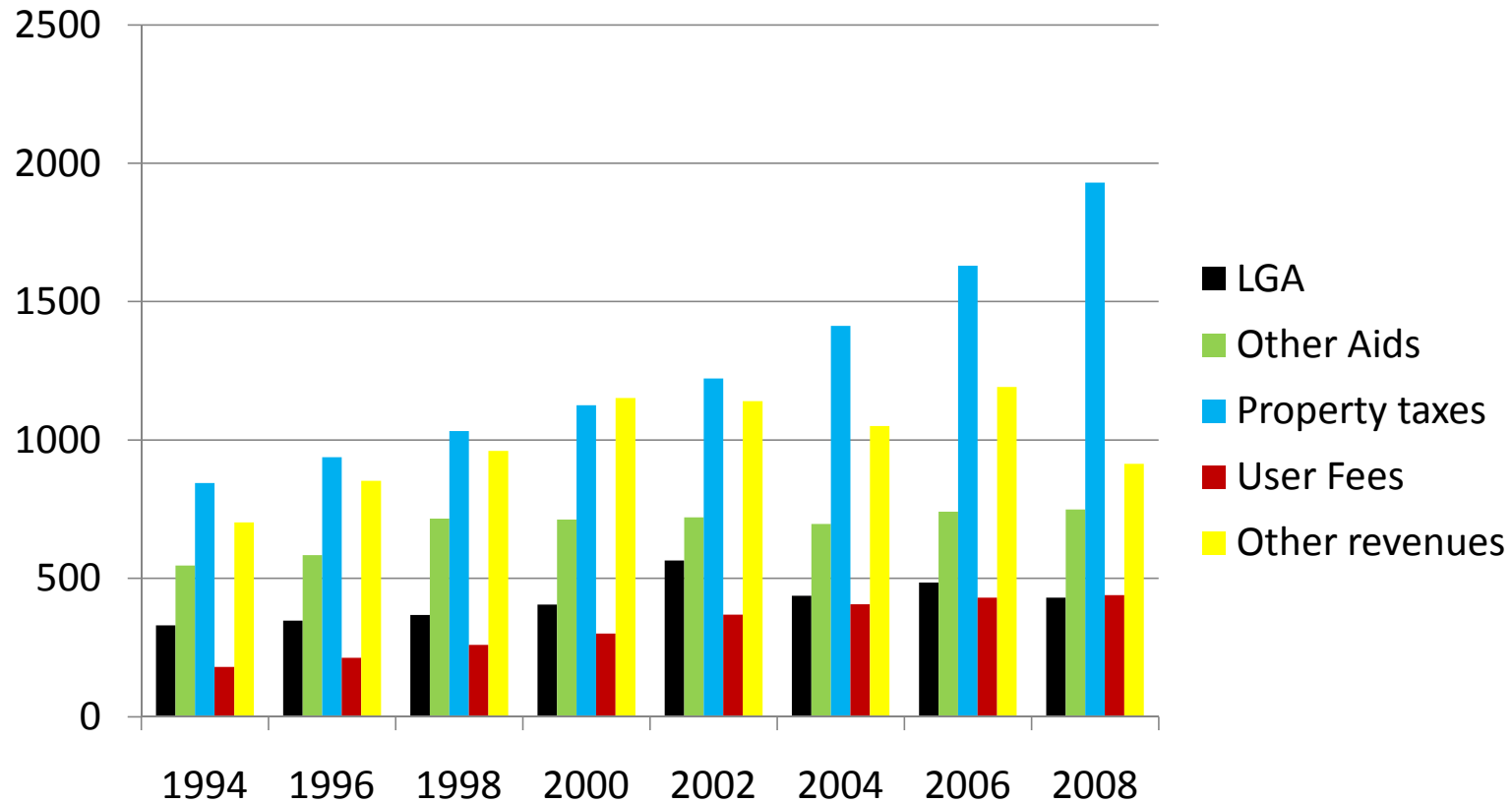


Source: State Auditor Reports – various years

City General Fund Revenues over time (in \$ millions)

	LGA	Other Aids	Property Taxes	Other Revenues	Total General fund
1994	\$330	\$546	\$845	\$883	\$2,603
1998	\$368	\$716	\$1,032	\$1,221	\$3,337
2002	\$565	\$721	\$1,122	\$1,508	\$4,016
2006	\$485	\$741	\$1,630	\$1,621	\$4,447
2008	\$431	\$749	\$1,930	\$1,354	\$4,464

Change in City general fund revenues over time (in \$ millions)



Change in City LGA Formulas 1972-2002

	1972-1979	1980-1989	1990-1992	1993-2002
Formula structure	To counties by population, within counties by need	Fiscal need – fiscal capacity		
Need measure	Previous year levy or average mill rate	Local effort mill rate	Ad hoc - based on city characteristics	Statistically determined independent factors
Capacity measure	Equalized tax base (beginning 1975)			
Stability guarantee	Rolling grandfather			Guaranteed 1993 aid; caps on changes
Amount	Set annually	Set annually	Based on sales tax collections	2.5 - 5% annual growth based on inflation

LGA Studies 1991 - 1993

- **Ladd Study (1991)**- Used regression analysis to identify factors that explained variations in spending by type; controlled for “want” as well as “need”
- **LMC study(1992)** – Used regression analysis to identify factors explaining variation in “levy plus aid” as a proxy for spending; no control for “want” vs. “need”
- **CORE Report (1993)**- Used “representative expenditure” methodology to identify workload factors associated with “basic, minimum and adequate” service delivery by type

- 1993 LGA formula used LMC “need” factors

Why a New LGA Formula in 2003?

- The existing formula was based on 1990 data and at minimum the coefficients on the need factors needed to be updated for new census
- There was some thought that the existing formula did not capture all types of need (e.g. the increasing amount of additional ‘ad hoc’ aid to individual cities)
- Desire to eliminate the “grandfather”
- A state budget crisis of \$4 billion

Basic Need Per Capita Measures For LGA

Large cities (Population >= 2,500)	Small cities (Population < 2,500)
% of housing built before 1940 (+)	% of housing built before 1940 (+)
% population decline over last 10 years (+)	% population decline over last 10 years (+)
Average # of road accidents per capita for most recent 3 years (+)	% of property value classified as commercial or industrial (+)
Average household size (-)	Transformed population (+)
Minus \$35/capita if located in the 7 county metropolitan area	

New LGA Formula 2003

- 2003 session-
 - Development of new need measures based on more recent data;
 - Elimination all but \$30 million of “grandfathered” aid with virtually all LGA distributed via the formula
 - Inclusion of taconite aids into the measure of “fiscal capacity”
 - Caps on annual increases/decreases to individual cities to mitigate volatility
 - Elimination of automatic growth in appropriation

Dissatisfaction with 2003 Formula

- New formula too volatile
- Formula didn't recognize needs of certain types of cities (i.e., taconite cities, older suburbs)
- New large city need factors were less intuitive; small city need formula explained little of the actual variation
- Reduced funding with no annual increases

Formula Changes 2004 - 2010

- Need is based on average for 2 years' worth of data and uses data available January of year in which aid is certified
- Additional aid base adjustments added
- Taconite payments removed from fiscal capacity measure
- Appropriation increases in Pay 2009 – 2011 before reductions authorized in 2010 session

LGA Formula

2011 LGA=

Average “unmet need” for last 2 years

+ small city aid

+ jobs base aid

+ city aid base (grandfathered aid)

“Unmet need” = $x\%$ (“need” x population – fiscal capacity)

Additional Aid Base Adjustments added to the LGA Program

- Small city aid (cities less than 5,000 population) = adjusted \$8.50 x population
- City jobs base aid (cities \geq 5,000 population) = adjusted \$25.20 x jobs/capita in city x population; max of \$4,725,000; small reduction if also getting regional center aid
- Regional center aid (outstate cities with 2000 population \geq 10,000) *part of grandfathered aid*

Fiscal Capacity and Unmet Need

- Fiscal capacity = adjusted net tax capacity x average city tax rate from previous year
- Percent of unmet need paid in aid based on LGA appropriation (79.5 % for certified Pay 2011)
- If unmet need < 0 , small city aid and jobs base aid reduced

Final Aid and Limits on Annual Changes

- No individual city LGA amount can increase over previous year amount by more than 10% of previous year's levy
- Several alternative caps on annual decreases depending on city size

Cities Helped by Different Parts of the LGA Program

- Fiscal capacity measure – helps Greater Minnesota, particularly smaller rural cities
- Jobs base aid – helps fully developed cities with a large economic presence (older suburbs, diversified suburbs, regional centers)
- Need factors
 - Pre-1940 housing, household size, population decline target aid to older cities
 - Accident rate factor targets cities with a lot of nonresident traffic (center cities and cities with colleges)

LGA 2012 and Beyond under Current Law

- Certified 2012 LGA to cities = 2011 paid LGA*
- CY 2013 and thereafter:
 - Distribution reverts back to current ‘formula’ including all the current additional aid base adjustments
 - Total Appropriation stays at 2012 amount
 - Formula recognizes the change in tax capacity due to substitution of homestead exclusion for the homestead credit

*Except for the city of Houston