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Minnesota House of Representatives

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TO: LGA Working Group

FROM: Pat Dalton, Legislative Analyst

RE: Local general purpose aid to cities in other states

Attached is a copy of a memo written in 2005 that shows the per capita general purpose aids cities in the different states. The data is from a 2004 survey conducted by the Texas Municipal League. I have not been able to identify any more recent data.

The memo also indicates which states had a general authorization for cities to impose local sales taxes. The point of the memo was to indicate the general tradeoff between state aid and sales tax authority.

I also asked Paul Tiecher, a research assistant in our office, to look into the current level and distribution mechanisms used for general purpose aid to cities in some of the surrounding states that provide significant amounts of aid. The attached table summarizes his findings.

Several of the programs—the personal property tax replacement tax in Illinois, the commercial activity tax in Ohio, and the computer aid in Wisconsin—are aids used to replace lost revenue when those state discontinued the personal property tax on business property. This is analogous to the old Minnesota attached machinery aid.

The programs most like the Minnesota LGA program are listed in more detail after the table, along with information about revenue dedication and distribution mechanisms. Most of the states distribute the money based on population. Michigan's municipal formula is probably the most similar to the Minnesota formula since it includes fiscal capacity and a rudimentary "need" measure as factors used in distributing the aid.

Description of State Aid Program(s) in
Illinois, Michigan, North Dakota, Ohio and Wisconsin

State	Program Description	Amount Allocated
Illinois	Two Programs: 1) Local Government Distributive Fund: uses a portion of state income taxes to allocate funds to municipalities and counties based on population 2) Personal Property Replacement Tax: utilizes state corporate income taxes to allocate funds to local government entities	1) $1.22 billion in FY09 2) $1.14 billion in FY10
Michigan	Revenue Sharing Program: distributes a portion of the state sales tax to counties and municipalities based on a bifurcated distribution utilizing a per capita basis and a formula	$1.14 billion in FY10
North Dakota	State aid to counties and municipalities based on a population category matrix that separates counties and municipalities. Mostly utilizes a per person distribution	$91 million during the 2007-09 biennium
Ohio	Two Programs: 1) Local Government Fund: provides funds to counties and municipalities from a % of all state general revenue fund tax sources. The allocation is based on a previous formula, and partially uses population counts for counties only 2) Commercial Activity Tax: activity fee to conduct business in the state of Ohio that is given to local government entities to supplement the loss of taxes on business tangible personal property	1) $590.1 million CY09 2) $1.2 billion CY08
Wisconsin	Four Programs: 1) County and Municipal Aid: provides funding to counties and municipalities based on a previously created formula 2) Utility Aid: gives aid to municipalities and counties based on production plants located in the jurisdiction. Payment is based on plant capacity using a formula 3) Expenditure Restraint Program: provides funding to municipalities that limit budget growth, and distributes the monies based on certain eligibility requirements 4) Computer Aid: compensates counties and municipalities for property tax exemptions for computers and other goods	1) $829.8 CY10 2) $64.8 million CY11* *estimated 3) $58 million annually 4) $30.3 million FY09-10 (for counties and municipalities only)

Illinois

Local Government Distributive Fund

In the state of Illinois there is a Local Government Distributive Fund (LGDF) that allocates funds to counties and municipalities, and in Fiscal Year 2009 it distributed about $1.22 billion. The LGDF revenue is derived from 10% of the net revenue received from the state's income tax.[1] The LGDF funds to municipalities and counties are allocated based on population, with counties receiving funds based on the county population minus any individuals located in a municipality in the county. (For example, Chicago's residents would be excluded from Cook County's population amount).[2]

Michigan

Michigan has a revenue sharing program through the State Revenue Sharing Act (MCL 141.901) that distributes state sales tax to local governments as unrestricted revenue. Both counties and municipalities receive aid, although the municipalities receive the majority of the funding. In Fiscal Year 2010 the state of Michigan paid out about $1.14 billion in unrestricted state aid through the shared revenue program.[3]

The revenue sharing program has two sources of funding:

1) Constitutionally dedicated tax revenues: 15% of the 4% gross state sales tax collections
2) Statutorily dedicated tax revenues: 21.3% of the 4% gross state sales tax collections

Counties: Counties receive 25.06% of the constitutionally dedicated sales tax revenues which is distributed on a per capita basis.[4] In FY10 counties received $201.39 million from the shared revenue fund.[5] The formula for distributing the monies was not found in the time available.

Municipalities: In Michigan municipalities are divided up into cities, villages and townships. Municipalities received $938.65 million in FY10 (see tables M1 and M2).[6] Municipalities receive funding through the shared revenue program through two ways:

1) 74.94% of constitutionally dedicated tax revenues are distributed on a per capita basis to municipalities

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[1] State of Illinois Legislative Research Unit website. "Catalog of State Assistance to Local Governments." 2009 Edition Accessed on 2/10/2011 http://www.ilga.gov/commission/lru/SALG.pdf pg. 83

[2] Illinois Code of Statutes (30 ILCS 115/2) from Ch. 85, par. 612 Sec. 2. http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=472&ChapterID=7

[3] State of Michigan Department of Treasury Website. http://www.michigan.gov/documents/treasury/FY_10_Prelim_Allowable_Draw_Amounts_110409_299669_7.pdf and http://www.michigan.gov/documents/treasury/FY2010FY2011RevenueSharing_JanConsensus_343569_7.pdf

[4] State of Michigan Department of Treasury Website. "Michigan State Revenue Sharing" http://www.michigan.gov/treasury/0,1607,7-121-1751_2197-5658--,00.html Accessed on 2/8/11

[5] State of Michigan Department of Treasury Website. "FY2010 County Revenue Sharing Reserve Fund Allowable Spending Amounts" http://www.michigan.gov/documents/treasury/FY_10_Prelim_Allowable_Draw_Amounts_110409_299669_7.pdf

[6] State of Michigan Department of Treasury Website. "FY10 FY11 Revenue Sharing Consensus Revenue Estimated," published on 1/14/11. Accessed on 2/8/11 http://www.michigan.gov/documents/treasury/FY2010FY2011RevenueSharing_JanConsensus_343569_7.pdf

2) The statutorily-dedicated tax revenues are distributed to municipalities using a formula with four components:

   a) **% share of FY98**. A percent of what they receive in 1998 under a previous formula. The website said it was going to be phased out by the mid-2000s, but whether it actually was could not be confirmed.

   b) **Per capita taxable value**. Compares the statewide average taxable value per capita to the taxable value per capita of the municipality. Designed to measure "ability to raise revenue," it creates a weight for the locality.

   c) **Per capita by unit type**. Each municipality receives an amount equal to its population times a weight factor (see table M3). It is "an indicator of service needs."

   d) **Yield Equalization**. Offsets variances in taxable property wealth using a formula that yields a minimum amount for each locality. The formula is based on the amount that a locality's local property value per capita is below the guaranteed tax base versus the amount of local revenue it manages to collect for itself. This component can only increase revenue allotments by a maximum of 8% unless the municipality's population growth was 10% or higher (based on either the decennial census or a special census count).[7]

Table M1
Michigan Shared Revenue Pay-outs in FY10 and FY11 Projected
in millions of dollars

Total Summary	FY10 Actual	FY11 Projected
Constitutional	$629.18	$643.75
Statutory	$309.72	$300.90
Totals	$938.9	$944.65

Table M2
Michigan Shared Revenue Pay-outs in FY10 and FY11 (Projected), for Municipalities
in millions of dollars

Totals by Local Unit Type	FY10 Actual (in millions)	FY11 Projected (in millions)
Cities – not Detroit	$386.18	$386.3
Detroit	$239.21	$239.21
Villages	$22.22	$22.26
Townships	$291.3	$296.88
Totals	$938.65	$944.65

[7] State of Michigan Department of Treasury Website. "Michigan State Revenue Sharing" http://www.michigan.gov/treasury/0,1607,7-121-1751_2197-5658--,00.html Accessed on 2/8/11

Table M3
Michigan Population Unit Type Formula Weights[8]

Cities	Weight	Villages	Weight
5,000 or less	2.50	Less than 5,000	1.50
More than 5,000 but less than 10,001	3.00	More than 5,000 but less than 10,001	1.80
More than 10,000 but less than 20,001	3.60	More than 10,000	2.16
More than 20,000 but less than 40,001	4.32		
More than 40,000 but less than 80,001	5.18	**Townships**	
More than 80,000 but less than 160,001	6.22	5,000 or less	1.00
More than 160,000 but less than 320,001	7.46	More than 5,000 but less than 10,001	1.20
More than 320,000 but less than 640,001	8.96	More than 10,000 but less than 20,001	1.44
More than 640,000	10.75	More than 20,000 but less than 40,001	1.73
		More than 40,000 but less than 80,001	2.07
		More than 80,000	2.49

North Dakota

North Dakotas provides state aid to both counties and cities. The aid totaled about $91 million during the 2007-2009 biennium. North Dakota allocates 53.7% of the aid to counties, and 46.3% to cities. For county aid the counties are split between the 17 largest and 17 smallest counties. Within each of the two groups the counties have a percentage they receive equally and a percentage that is divided up based on population. For city aid, a certain percent of the allocation goes to groups of cities based on city size and is then allocated on a per person basis within each group. See table N1 for a breakdown.[9]

Table N1
Population Category Allocation Formula for County and City State Aids

County	Percentage	Cities (based on pop.)	Percentage
17 counties with the largest pop. (allocated equally)	20.48%	80,000+	19.4%
17 counties with the largest pop. (allocation based on pop.)	43.52%	20,000 – 80,000	34.5%
Remaining counties (allocated equally)	14.40%	10,000 – 20,000	16%
Remaining counties (allocated based on pop.)	21.6%	5,000 – 10,000	4.9%
		1,000 – 5,000	13.1%
		500 – 1,000	6.1%
		200 – 500	3.4%
		Less than 200	2.6%
Total	100%		100%

[8] State of Michigan Department of Treasury Website. "FY10 FY11 Revenue Sharing Consensus Revenue Estimated," published on 1/14/11. Accessed on 2/8/11
http://www.michigan.gov/documents/treasury/FY2010FY2011RevenueSharing_JanConsensus_343569_7.pdf

[9] North Dakota Legislative Council Website. "Report of the North Dakota Legislative Management." Published for the 2009-2011 biennium, accessed on 2/10/11. Pg.s 27-29
http://www.legis.nd.gov/assembly/61-2009/docs/pdf/2011finalreport.pdf

Ohio

Local Government Fund

The state of Ohio made changes in their state aid to local government starting in Calendar Year 2008. The state combined two existing programs, the Local Government Fund (LGF) and the Local Government Revenue Assistance Fund (LGRAF) into one: the LGF. The LGF funding is equal to 3.68% of all state general revenue fund tax sources (which excludes non-tax sources such as fees). In Calendar Year (CY) 2009 $590.1 million in LGF monies were distributed to counties and municipalities (this figure excludes LGF funds from local income tax collections and dealer in tangible tax allocations).[10]

The distribution formula is based off of old allotments under the previous formula. Each county and municipality receives a grandfathered amount equal to its CY 2007 LGF and LGRAF amounts. Any remaining monies are distributed to the counties based on a county's proportionate share of the state population. Municipalities do not directly receive aid above their 2007 grandfathered amount, although most counties have county-level formulas that partially redistribute their LGF to municipalities in the county.[11]

Wisconsin

There are three separate programs discussed: County and Municipal Aid, Utility Aid, and the Expenditure Restraint program. See tables W1 and W2 for figures relating to County and Municipal Aid as well as Utility Aid.

1) County and Municipal Aid

The program derives its revenue from state general funds. The distribution is based on a 2004 baseline that used the 2003 formula allocations it replaced in 2004. The 2004 baseline distribution amounts remained constant until 2009. Allocations through the program totaled $829.8 million in Calendar Year 2010, a reduction from 2009. The program benefits both counties and municipalities.

2) Utility Aid

Utility aid used to be one of the four components of the Shared Revenue program; however, in 2003 the 3 other components were suspended. The program compensates local governments for costs they incur in providing services to public utilities through providing aid for production plants. Beginning in 2009 the aid is based on the production capacity (in megawatts) of the production plants. Before 2009 aid was based on "mill rate per $1000 of net book value." In 2011 it is expected that utility aid will distribute $33.2 million to municipalities and $31.6 million to counties.

[10] Ohio Department of Taxation website. "Local Government Funds: Distributions to Counties and Municipalities, CY 2009. Accessed on 2/10/11
http://tax.ohio.gov/divisions/tax_analysis/tax_data_series/local_government_funds/lg12/LG1_2CY09.stm

[11] Ohio Department of Taxation website. From the Office of the Tax Commissioner. "Recently Enacted Changes to the Local Distribution Funds." Published on July 16, 2007. Accessed on 2/10/11.
http://tax.ohio.gov/channels/other/documents/explanation_of_local_distribution_fund_changes_final.pdf

The formula is as follows:

$2,000 X the # of Production Capacity (in Megawatts)

$4,000 X the # of Production Capacity (in Megawatts) for production plants that create power using "alternative energy"

If aid was higher under the old formula, that amount is paid instead.

The aid is distributed among governments as follows:

- -If the production plant is located in a city/village, the municipality gets 2/3 of the aid and the county receives 1/3 of the aid
- -If a production plant is located in a town than the municipality gets 1/3 and the county receives 2/3 of the aid
- -The amount of aid cannot exceed $425 per capita for municipalities or $125 per capita for counties
- -Additional aid is given for newly constructed production plants (after 2003)
- -$25,000 is given to the county and $25,000 is given to the municipality where nuclear fuel is stored[12]

Table W1
Amount of Funding from the County and Municipal Aid Program and the Utility Aid Program

Year	Amount to Municipalities	Amount to Counties	Total Amount
2010	708.1	181	889.1
2011*	711.3	183.4	894.7

* Estimate from the WI Dept. of Revenue in Sept. 2010

Table W2
County and Municipal Aid and Utility Aid Estimate for 2011 by Government Type and in Millions of Dollars

Government Type	County and Municipal Aid	Utility Aid	Total	% of Total
Towns	$50.4	$9	$59.4	6.6%
Villages	$67.4	$6.3	$73.7	8.2%
Cities	$560.3	$18	$578.3	64.6%
All Municipalities	**$678.1**	**$33.2**	**$711.3**	**79.5%**
Counties	**$151.7**	**$31.6**	**$183.3**	**20.5%**
Total	$829.8	$64.8	$894.6	100%

[12] Wisconsin State Legislature Legislative Fiscal Bureau. 2011 Informational Paper #18 "Shared Revenue Program." Accessed on 2/10/11 http://legis.wisconsin.gov/lfb/Informationalpapers/info.html

3) Expenditure Restraint Program

The expenditure restraint program provides unrestricted aid to municipalities that keep there spending growth rates low. The program distributes about $58 million to municipalities annually. The formula for distributing payments is based on municipal levy rates and property values. Eligibility is determined using two criteria:

A. The property tax rate must exceed $5 per $1000 of full value, determined using the property tax rate from two years prior

B. The municipality must restrict their year-to-year budget growth to less than 3% or the % change in CPI, whichever is higher, with an adjustment based on growth in municipal property values. There are certain expenditure items which are excluded from determining budget growth

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Enclosure