



Members of the House Property Tax Division:

On behalf of the members of our organizations, we want to express our joint support for the update to the Local Government Aid formula contained in HF4064-Youakim.

The LGA formula update contained in HF 4064 reflects months of research by our organizations with the support of non-partisan staff from the House Research Department, Senate Counsel, Research and Fiscal Analysis, and the input of the Minnesota Department of Revenue.

Since the regression based LGA methodology was first enacted in 1993, the formula has been reviewed and updated roughly every decade based on current fiscal and demographic data from the US Census, American Community Survey, and current city tax base information. The last update was enacted in 2013.

Our working group began with a statistical analysis of the formula to determine the extent to which its elements continue to be a statistically valid predictor of differences in city need and spending patterns. We found the formula's ability to anticipate variations in city need and spending has diminished over time.

The group then set about updating regression formulas used to determine a city's revenue need per capita and to evaluate potential need factors to test their relevance in a new LGA formula. While roughly 40 potential need factors were evaluated, several emerged as being the most relevant.

As outlined in the summary prepared by House Research, some need factors in the three tiers of the formula were maintained while others were modified depending on their statistical ability to reflect variations in city needs. Additionally, HF 4064 includes an update to the base year for the annual inflation adjustment to city revenue need from 2013 to 2020 and moves a special appropriation for the city of Mahanomen and a related 2006/2008 separate session law into a new section of the statute.

The proposed formula in HF4064 also maintains several current formula calculations:

- City revenue raising capacity continues to equal each city's adjusted net tax capacity times the statewide average city tax rate.
- Unmet need continues to equal each city's revenue need per capita times its population, minus revenue raising capacity.
- For cities with unmet need in excess of prior year LGA, current year LGA equals prior year LGA plus a percentage of the gap between that city's unmet need and their prior year LGA. The percentage of the gap is uniform for all cities and depends on the size of the LGA appropriation (also called the "aid gap percentage").
- For cities with unmet need below prior year LGA, aid will continue to equal the greater of (1) city unmet need or (2) prior year LGA minus the lesser of 5% of city net levy or \$10 multiplied by the city's population.

In addition to the regression formula's improved predictive ability of differences among cities, the formula distribution has these outcomes:

- Only 42 cities lose aid under the new formula. Under current law, 112 cities are slated to lose aid in 2023.
- The number of cities that receive no aid is reduced from 110 to 91 under the new formula.
- Compared to current law for 2023, under HF 4064 716 cities see an increase in LGA; 11 see a decrease; 127 cities see no change, and 90 cities receive \$0 in LGA
- With an additional \$90 million and the formula proposed in HF 4064, 722 cities see an increase in LGA; 5 cities see a decrease, 127 cities see no change and 90 cities receive \$0 in LGA.

Thank you for your consideration of this proposal. We look forward to working with you as you consider provisions for a property tax division report.

Sincerely,



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