Subject	Local government aid calculation, county program aid appropriation
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Overview

Modifies the calculation of city revenue need in the local government aid (LGA) formula. A city's LGA is equal to its revenue need minus its ability to pay. The bill changes the factors used to calculate each city's need. Changes to the city revenue need factors are summarized in the table below.

The bill also increases both the LGA and county program aid (CPA) appropriations by $150 million each, annually increases the LGA and CPA appropriations, eliminates sparsity adjustments in the LGA formula, and eliminates annual certified aid adjustments. The certified aid adjustment to the city of Mahnomen is replaced by a commensurate increase in property tax reimbursement aid to the city. Changes would be effective beginning with aids payable in 2024.

	Current Law Need Factors	**H.F. 1377 Need Factors**
Small Cities (under 2,500)	▪ Population over 100 ▪ Per capita need capped at $630	▪ Logarithm of population ▪ Per capita need is not capped
Medium Cities (2,500-9,999)	▪ Pre-1940 housing % ▪ Peak population decline ▪ Average household size	▪ Pre-1940 housing % ▪ Peak population decline ▪ % of tax base classified as Comm/Indust/Utility
Large Cities (10,000 and over)	▪ Pre-1940 housing % ▪ 1940-1970 housing % ▪ Jobs per capita	▪ Pre-1940 housing % ▪ % of population age 65 and over ▪ % of tax base classified as Comm/Indust/Utility ▪ Peak population decline

Summary

Section	Description

1   **Population age 65 and over.**

Defines population age 65 and over for the purposes of the LGA formula. This is used to calculate the city age index in section 4.

2   **Transformed population.**

Defines transformed population for the purposes of the LGA formula. Transformed population is equal to the logarithm to the base 10 of the population and is used in the need factor formula for small cities.

3   **City revenue need.**

Changes the city revenue need calculations for all cities. The new need formulas are:

Small cities (under 2,500)

$$Need = (220.877 \times transformed\ population) + 196.487$$

Medium cities (2,500-9,999)

$$Need = 1.15 \times ((6.667 \times pre-1940\ housing\ percentage)$$
$$+ (9.215 \times commercial\ industrial\ utilitiy\ percentage)$$
$$+ (16.081 \times peak\ population\ decline) + 497.308)$$

Large cities (10,000 or more)

$$Need = 1.15 \times ((8.572 \times pre-1940\ housing\ percentage)$$
$$+ (11.494 \times city\ age\ index)$$
$$+ (5.719 \times commercial\ industrial\ utility\ percentage)$$
$$+ (9.484 \times peak\ population\ decline) + 293.056)$$

4   **City age index.**

Defines city age index for the purposes of the LGA formula. City age index is the share of a city's population aged 65 and over and is used in the need factor formula for large cities.

5   **Commercial industrial utility percentage.**

Defines commercial industrial utility percentage for the purposes of the LGA formula. Commercial industrial utility percentage is the share of a city's tax base classified as class 3 property and is used in the need factor formula for medium and large cities.

Section	Description

6   **Definitions.**

References the definition for population age 65 and over in section 1 for the purposes of the county program aid formula. The definitions are the same and the county program aid calculation is unchanged.

7   **City formula aid.**

Removes a reference to certified aid adjustments, which are repealed in section 14.

8   **City aid distribution.**

Removes a reference to certified aid adjustments, which are repealed in section 14. This section also eliminates outdated language.

9   **Cities.**

Increases the LGA appropriation by $150 million to $714,398,012, annually increases the appropriation (increase is determined in section 11), and eliminates outdated language.

10   **Counties.**

Increases the CPA appropriation by $150 million to $414,668,444, annually increases the appropriation (increase is determined in section 11), and eliminates outdated language. The appropriation increase is spilt proportionally between the Need Aid and Tax Base Equalization Aid appropriations.

11   **Inflation adjustment.**

Determines the annual percentage increase for the LGA and CPA appropriations. The increase is equal to the greater of an annual inflation measure or the total statewide increase in city population. The annual change must be at least 2.5 percent but not greater than 5 percent.

12   **Mahnomen property tax reimbursement aid.**

Codifies the Mahnomen County property tax reimbursement currently in session law. The section creates a state aid that pays the same amounts to the same jurisdictions as the session law currently distributes, except that the distribution to the city of Mahnomen is increased by $160,000, an amount equal to the annual certified aid adjustment paid to the city, which is repealed in section 14.

13   **Mahnomen County; county, city, school district, property tax reimbursement.**

Conforming change related to section 12. This section sets an expiration date for the Mahnomen County property tax reimbursement currently in session law. These reimbursements are codified and converted to a state aid in section 12.

Section	Description
14	**Repealer.**

Repeals definitions of need factors no longer used in the LGA formula: percent of housing built between 1940 and 1970, household size, and jobs per capita in the city. This section repeals the definitions of sparsity adjustments, which are eliminated from the LGA formula. This section also repeals certified aid adjustments. Currently, the city of Mahnomen is the only city receiving a certified aid adjustment. This annual increase in LGA is replaced with an increase in property tax reimbursement aid in section 12.