

# Local Government Aid Historical Overview

---

MINNESOTA HOUSE RESEARCH AND FISCAL ANALYSIS  
DEPARTMENTS



# Overview

---

- History of LGA
- Current state of LGA
- Historical appropriations
- LGA formula

Resource:

[The Local Government Aid \(LGA\) Program: A History](#)

By Pat Dalton

# Establishing the LGA program

---

- First program described as "local government aid"
  - Revenue sharing program passed in 1967
  - Designed to share a portion of newly enacted state sales tax
  - New sales tax used, in part, for property tax relief
  - Counties, cities, towns, villages, and school districts
  - Greater of \$37 million, or 25% of state sales tax revenues distributed on a per capita basis
- "Minnesota Miracle" in 1971
  - Focused on reducing property tax burdens and reforming/equalizing school finance
- LGA modified from a revenue-sharing program to true state aid
  - Distributed money to all local governments except school districts
  - Levy limits to ensure property tax relief
  - Separate distributions for metro/non-metro areas

# 1972-1988 Aid shifted toward cities

---

- 1978 "rolling grandfather" guaranteed each city/town at least as much LGA as previous year
- Separate metro/non-metro amounts eliminated
- LGA became primarily a city program (county and town aid reduced)
- By 1984, a city's aid was based on its revenue (levy + aid) in the previous year minus what it could raise using a standardized tax rate
  - A city's aid would increase if its levy increased
  - Legislature tried to mitigate by using three-year averages and caps on growth
  - In 1988, this ultimately led to a freeze of payments at 1987 levels and the desire for a formula change

# 1989-1992 Major formula changes

---

- 1989 formula was first attempt to incorporate objective need measure. A city's fiscal need was based on:
  - Logarithm of its current population
  - Population loss over previous three years
  - Whether it was a first-class city
  - Whether it was located outside metro area
  - Number of households in the city
- **Goal:** move away from revenue sharing toward need/ability to pay
- 1990 saw first decline in city LGA payments
- Between 1991-1994, three major studies examined how the LGA formula measured need

# 1993-2002 Consensus-based formula

---

- New city formula developed in 1993; endorsed by all city groups
- Each city's need was based on:
  - Percent of housing stock built before 1940
  - Percent of tax base classified as commercial/industrial
  - Percent of population decline for most recent 10-year period
  - Population
- "Unmet need" =  $\text{Need} - (\text{tax base} \times \text{average city tax rate})$
- Each city was guaranteed a base amount, annual increases equaled a percent of unmet need
- Automatic growth in LGA appropriation, 2.5%-5% each year

# 2003-2012 A period of instability

---

- Demand for special aid to individual cities, state budget deficits, and outdated factors put pressure on legislature to develop new formula
- New formula went into effect in 2004
  - Need measures for cities over 2,500: pre-1940 housing stock, % population decline, average road accidents per capita, household size, whether city was in metro
  - Most "grandfathered aid" was eliminated, nearly all aid was distributed via the formula (aid = need – ability to pay)
  - Taconite aid added to "ability to pay"
  - Automatic growth in appropriation was eliminated

# 2003-2012 A period of instability

---

- Led to concerns among some
  - Increase in volatility; cities saw changes even if own factors were stable
  - Some new factors were less intuitive
  - Some felt new formula didn't recognize special needs of certain types of cities
  - Elimination of grandfathered aid reduced several cities' aid to zero
- A number of tweaks to the formula
- Instability in overall aid amount
- Study group met from 2009-2012
  - Formula was too complex, lacked predictability, out of date



# 2013-Present Second consensus-based formula

---

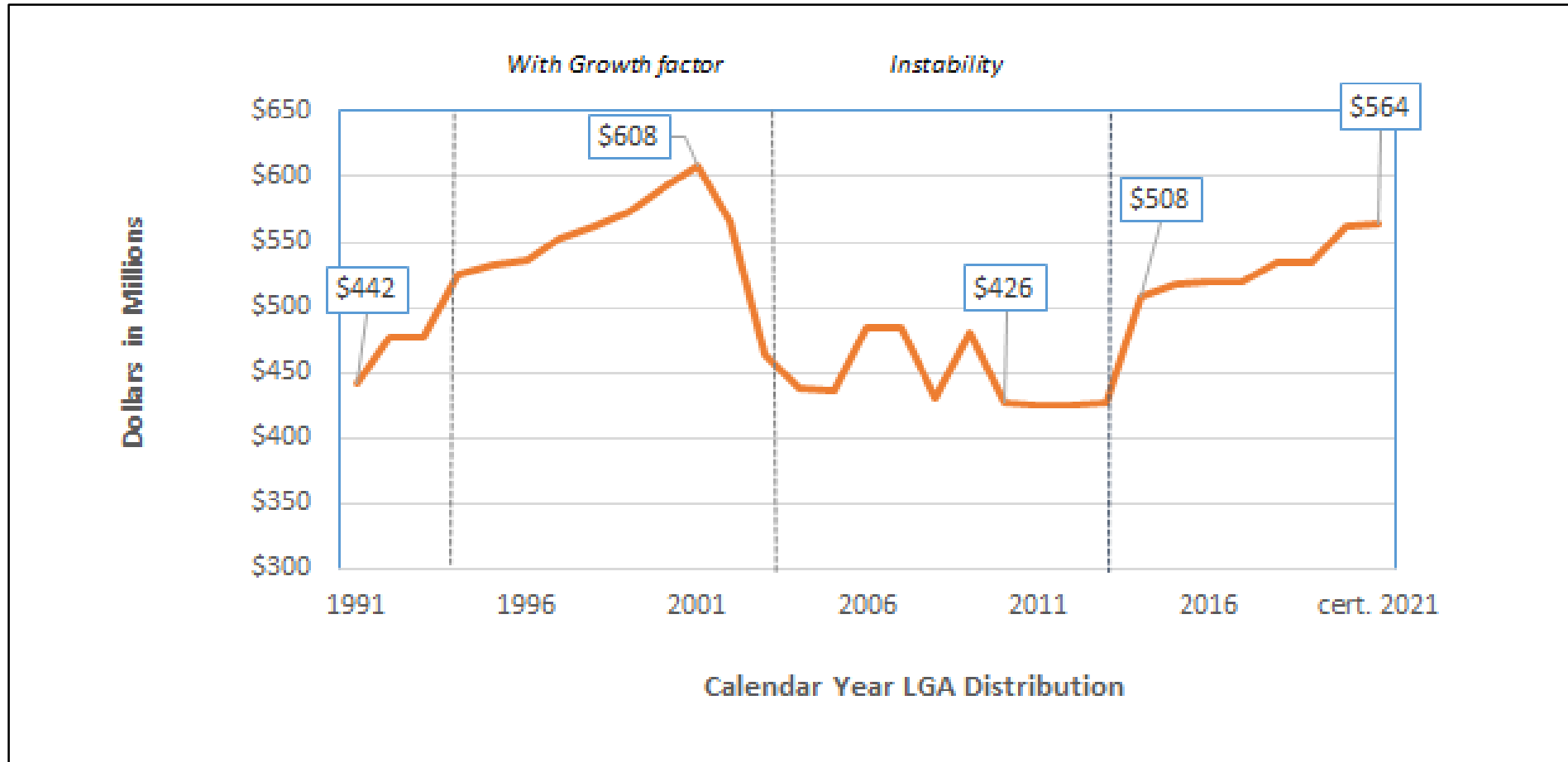
- 2013 city groups and legislative staff developed new formula
  - Eliminated majority of money distributed "off formula"
  - Need measures developed for three groups:
    - Small cities (under 2,500)
    - Medium cities (2,500-9,999)
    - Large cities (10,000 or more)
- New formula does not redistribute entire appropriation each year
  - Distributes any increase in LGA appropriation and any decreases in aid to cities that no longer need all the aid they received in the previous year
  - Decreased volatility of aid distributions
- Addressed some of the concerns
  - Simplified small city formula (population only)
  - A city cannot lose aid unless current aid exceeds need; losses are limited
  - Jobs/housing factors address concerns about suburbs
  - Set a roughly 50/50 split between metro/non-metro

# Current State of LGA

---

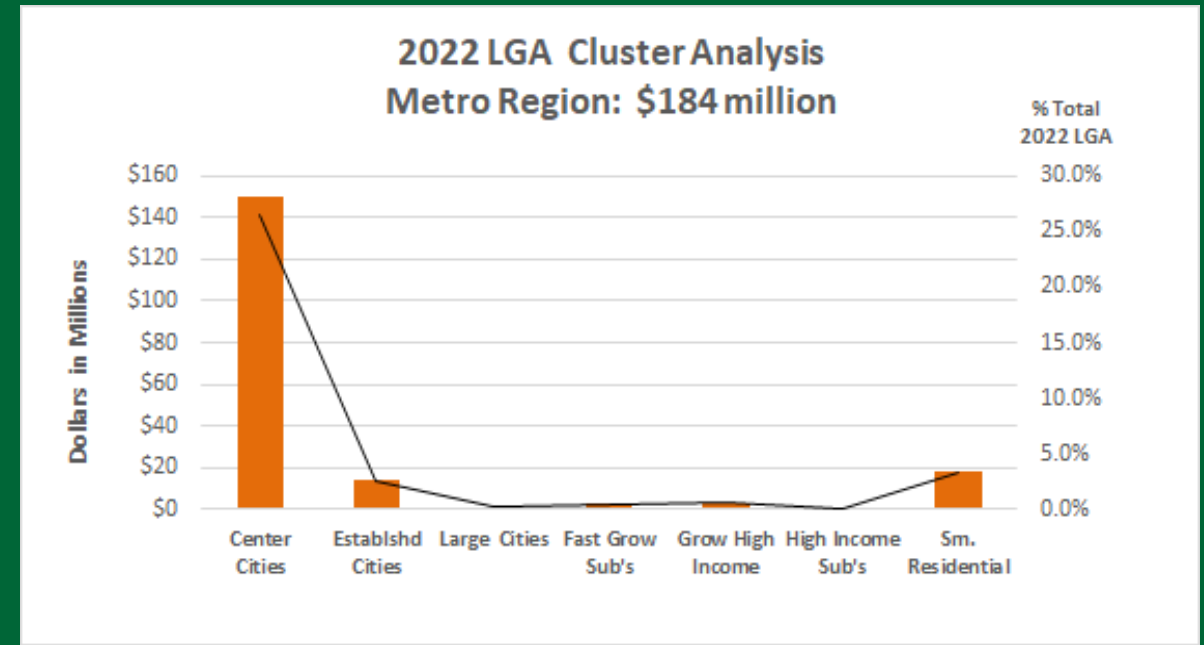
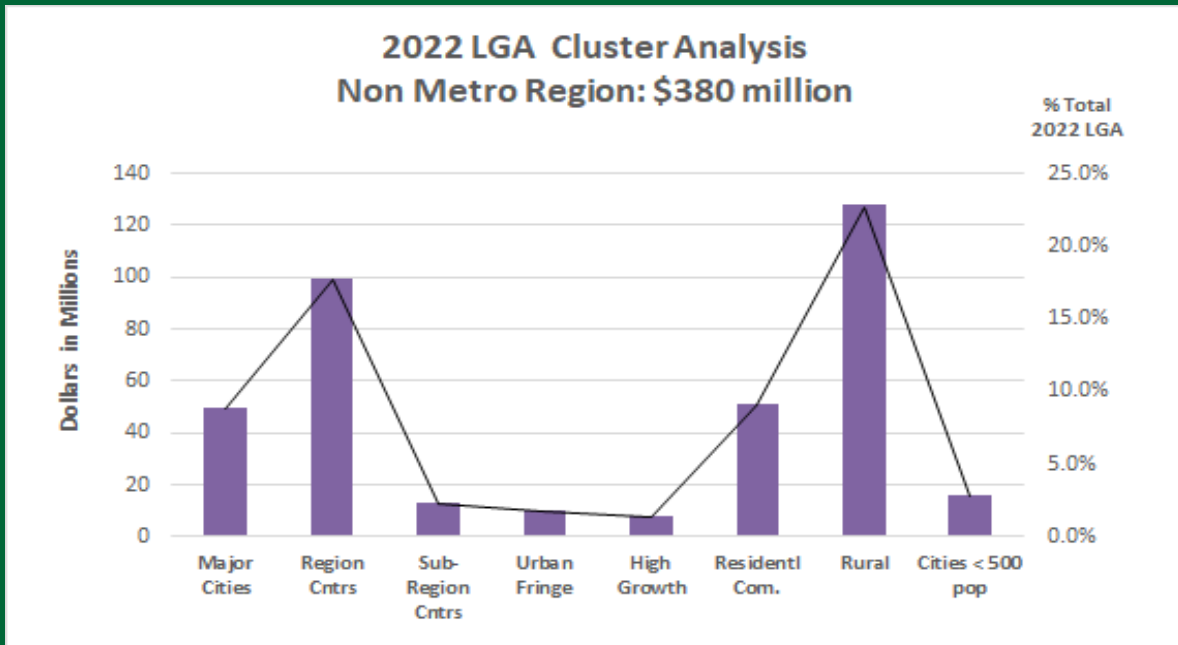
- Appropriation of \$564,398,012
- Distribution between metro/non-metro again shifting to non-metro
  - 2022 Distributions:
    - Metro \$184.3 million (33%)
    - Non-metro \$380.0 million (67%)
- More cities are "falling off" the formula
  - 854 cities eligible for distribution
  - 102 will receive \$0 in 2022 (after supplemental aid)
- Data used to determine current factors becoming dated

# 30 years of LGA



# LGA Distribution by Region

## CY 2022 \$564.4 million



# Current LGA formula

---

Unmet Need = Need – Ability to Pay

## Need

- **Small cities (less than 2,500):** need per capita is based on the city's population, including a sparsity adjustment
- **Medium-size cities (2,500-10,000):** need per capita is based on (1) percent of housing stock built before 1940, (2) household size, (3) population decline from a city's peak population in the last 50 years, and a sparsity adjustment
- **Large cities (over 10,000):** need per capita is determined by (1) jobs per capita, (2) age of housing stock (both housing built before 1940 and housing built between 1940 and 1970), and a sparsity adjustment

## Ability to pay

Adjusted Net Tax Capacity x Average Statewide Tax Rate

# Questions?

---



Minnesota House Research Department provides nonpartisan legislative, legal, and information services to the Minnesota House of Representatives.

[www.house.mn/hrd](http://www.house.mn/hrd) | 651-296-6753 | 155 State Office Building | St. Paul, MN 55155