HOUSE RESEARCH
Bill Summary

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Subject: New city LGA formula and increased appropriation

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Overview

Replaces the current LGA formula with a new formula that makes adjustments to an individual's city aid based on its 'aid gap" or the difference between its current aid and its unmet need as measured by the formula.

"Unmet need" retains its current definition of the difference between (1) a city's need per capita times its population and (2) its adjusted net tax capacity times the average city tax rate.

There are three measures of need per capita depending on city size with a transition mechanism for cities transitioning from one formula to another. The need measures are:

- For small cities (under 2,500 population) need is between $410/capita and $630/ capita depending on population.
- For medium cities (between 2,500 and 10,000 population) need per capita is based on three factors – (1) percent of housing built before 1940, (2) household size, and (3) percent decline in population, if any, from the highest census population count in any census on or after 1970.
- For large cities (over 10,000 population) need per capita is based on three factors – (1) jobs per capita, (2) percent of housing built before 1940,and (3) percent of housing built between 1940 and 1970.

For aids payable in 2014, no city's aid may be less than its 2013 LGA amount. Beginning in 2015, a city's aid may decrease if its current aid amount exceeds its

Section

unmet need amount. Decreases are limited to 5 percent of a city's levy in the previous year.

The LGA appropriation is increased from the current $426 million amount to $... million for 2014. The appropriation is increased annually beginning with aids payable in 2015 by between 2.5% and 5.0%, depending on the annual growth in (1) inflation for state and local governments, and (2) annual change in total city population.

The new formula is effective beginning with aids payable in 2014.

Section

1 **Pre-1940 housing percentage.** "Pre-1940 housing percentage" is defined as 100 times the ratio of total occupied and vacant housing units built before 1940 to the total number of occupied and vacant housing units in the city. For East Grand Forks, the ratio of pre-1940 housing units as of the 1990 census to the total current number of housing units is used to adjust for past floods in the city. This is a need factor for medium and large cities.

2 **Percent of housing built between 1940 and 1970.** "Percent of housing built between 1940 and 1970" is defined as 100 times the ratio of total occupied and vacant housing units built in 1940 and later, but before 1970, to the total number of occupied and vacant housing units in the city. This is a need factor for large cities.

3 **City Revenue need.** Defines city revenue need per capita for each size of city:

- For cities with a population over 10,000 (large cities): Revenue need =1.15 times the sum of (1) 4.59 times the pre-1940 housing percentage, (2) 0.662 times the percent of housing built between 1940 and 1970, (3) 169.415 times the jobs per capita, and (4) 307.664.
- For cities with a population between 2,500 and 10,000 (medium cities): Revenue need= 1.15 times the sum of (1) 572.62, plus (2) 5.026 times the pre-1940 housing percentage, minus (3) 53.768 times household size, plus (4) 14.022 times peak population decline.
- For cities with a population less than 2,500 (small cities): Revenue need = 410 plus 0.367 times the city population over 100. But the Revenue need for these cities cannot exceed $630 per capita.

Paragraph (d) provides a transition mechanism for cities between the three need formulas. For the population between 2,500 and 3,000, a city's need is based on both a percentage of its need under the small city formula and a percent of its need under the medium city formula with the percent based on the medium city formula increasing as the population nears 3,000. A similar transition is provided between the medium and large city need formulas for populations between 10,000 and 10,500.

Retains an inflation index for need measures similar to the one in current law.

4 **Jobs per capita.** "Jobs per capita" is the average number of annual employees from the Quarterly Census of employment and wages divided by a city's population. This is a need

Section

factor for large cities and the Department of Employment and Economic Development will be required to calculate this every two years for the 95 large cities.

5 **Peak population decline.** "Peak population decline" is a city's population decline, if any, from its highest population listed in a decennial census from 1970 or later. This is a need factor for medium cities.

6 **City formula aid.** "Formula aid" for Pay 2014 is city's 2013 certified aid plus a percentage of the gap between its unmet need and its 2013 certified aid. For aids payable in 2015 and thereafter, "formula aid" is the city's formula aid from the previous year plus the gap between its unmet need and its certified (total) aid from the previous year.

7 **City aid distribution.** A city's total aid is equal to the sum of its formula aid plus or minus any adjustments in section 8. For aids payable in 2014, no city's total aid may be less than its 2013 aid. For aids payable in 2015 and thereafter, no city's total aid may decrease from the previous year by more than an amount equal to 5 percent of its level in the previous year.

8 **Certified aid adjustments.** Provides for two aid adjustments from the formula. Paragraph (a) continues to provide the city of Warroad an extra $150,000 per year for the next five years to compensate them for a commercial property devaluation. This had been a permanent adjustment under current law.

Paragraph (b) makes an adjustment for three cities that were given temporary aid increases that end in 2013 or 2014 under current law. The reduction is gradually phased in due to the annual cap on decreases in section 7. Affected cities are Newport (an extra $75,000 for 6 years related to the Wacouta bridge), Crookston ($100,000 for 5 years related to building on a flood plain), and Mendota ($25,000 for 5 years related to sewer infrastructure costs).

9 **Cities.** Sets the total city aid appropriation at $... for aids payable in 2014. The appropriation increases for inflation and population growth under section 10.

10 **Inflation adjustments.** Increases the city LGA appropriation by between 2.5% and 5.0% per year based on the growth in the inflation rate for state and local government purchases and the annual growth in total city population.

11 **Repealer.** Repeals a number of provisions needed for the current LGA formula that are no longer used in the new distribution formula as well as obsolete provisions related to aid reductions over the last several years.