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Minnesota House of Representatives

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TO: Interested Parties

FROM: Pat Dalton

RE: Unintentional error in LGA formula

With no new money in the LGA formula for aids payable in 2017, a “glitch” in the LGA formula has been discovered. The formula was intended to do the following:

1. The aid for each city whose current aid is less than or equal to its current “unmet need”¹ should remain the same as its aid in the previous year, or increase if there is additional money to be distributed. The size of its increase will depend on how far its current aid is below its “unmet need.”
2. Any city whose current aid is more than its current “unmet need” should have its aid reduced to its “unmet need” amount, subject to the limit that its decrease cannot exceed the lesser of \$10 per capita, or five percent of its previous year’s levy.

There are 20 cities that fall into the first group (LGA should be constant or increasing) who are instead losing LGA in CY 2017. The cause of this glitch is a 2014 change in the LGA formula that was intended to ensure that a city in the second group didn’t see the amount of aid it lost in any year increase if additional money was added to the appropriation.

The cities affected by this glitch were originally in the first group in 2013, but are now in the second group because their aid has declined since 2013 and each city’s circumstances have changed causing their “unmet need” to increase. The error is caused because aid in the current year does not start with a comparison of “unmet need” and the aid a city actually received in the previous year, but instead compares “unmet need” with what the formula said it should have received in the previous year, absent any limits on annual decreases.

¹ “Unmet need” is equal to a city’s need based on several city characteristics minus its ability to meet that amount by levying a tax at the average city tax rate.

The legislative fix would be to go back and use the difference between “unmet need” and the previous year’s certified aid for all cities who have an “unmet need” gap (first group) and to explicitly cap the aid to cities in the second group at the greater of: (1) its “unmet need”; or (2) its aid in the previous year minus the lesser of \$10 per capita or five percent of its previous years levy.

The table below shows the Pay 2016 LGA, the “unmet need” for Pay 2017, and the Pay 2017 LGA amount for the 20 affected cities.

Cities Affected by LGA Formula Error in Pay 2017				
City Name	2016 LGA	2017 LGA	Unmet Need	Difference between 2016 & 2017 LGA
ALDRICH	\$6,548	\$6,148	7,092	\$400
ARCO	\$23,155	\$22,375	27,440	\$780
BIWABIK	\$243,365	\$237,285	271,285	\$6,080
CEDAR MILLS	\$5,993	\$5,563	6,302	\$430
ELKTON	\$12,317	\$10,917	15,039	\$1,400
FUNKLEY	\$36	\$14	1,205	\$22
GRAND MARAIS	\$69,282	\$55,612	79,529	\$13,670
HERMANTOWN	\$163,261	\$66,001	546,946	\$97,260
LAPRAIRIE	\$66,559	\$59,849	153,173	\$6,710
LENGBY	\$21,232	\$20,947	21,381	\$285
MINNEISKA	\$4,599	\$3,990	5,045	\$609
ODIN	\$24,633	\$24,585	28,248	\$48
PEQUOT LAKES	\$27,956	\$5,306	242,783	\$22,650
PETERSON	\$41,815	\$39,915	54,302	\$1,900
REGAL	\$1,610	\$1,280	1,679	\$330
RIVERTON	\$4,148	\$3,554	6,518	\$594
SEDAN	\$6,145	\$5,963	8,474	\$182
SHELLY	\$62,818	\$61,493	67,000	\$1,325
SPICER	\$47,087	\$35,147	68,153	\$11,940
WANDA	\$22,039	\$21,346	22,124	\$693
Total needed to restore these cities to their 2016 LGA amount				\$167,308

Some of the cities affected by the error for aids payable in 2017 will start to once again see aid increases beginning with aids payable in 2018, but others will not. In addition some other cities will be affected in 2018 if the formula error is not fixed and the city LGA appropriation does not increase.

This second table shows the cities that would be affected for LGA payable in 2018 under current law. Cities in bold in this table are affected in both 2017 and 2018.

Cities Affected by LGA Formula Error in Pay 2018				
City Name	2017 LGA	2018 LGA	Unmet Need	Difference between 2017 and 2018 LGA
ALDRICH	\$6,148	\$5,832	6,898	\$316
ARCO	\$22,375	\$21,615	27,033	\$760
AVOCA	\$21,973	\$21,422	26,951	\$551
BACKUS	\$26,385	\$26,303	35,249	\$82
BRUNO	\$15,984	\$15,014	16,834	\$970
CEDAR MILLS	\$5,563	\$5,427	8,199	\$136
CLONTARF	\$20,691	\$20,414	25,368	\$277
COMSTOCK	\$14,380	\$13,612	17,551	\$768
DANVERS	\$6,677	\$5,960	8,343	\$717
ELKTON	\$10,917	\$9,567	19,620	\$1,350
EVAN	\$13,122	\$12,332	14,577	\$790
GRAND MARAIS	\$55,612	\$41,912	73,331	\$13,700
KILKENNY	\$31,954	\$30,985	32,358	\$969
LAPRAIRIE	\$59,849	\$55,295	173,520	\$4,554
LOUISBURG	\$7,332	\$6,902	7,356	\$430
MINNEISKA	\$3,990	\$3,351	5,725	\$639
NASHWALK	\$373,780	\$363,910	374,866	\$9,870
OGILVIE	\$114,395	\$114,122	115,683	\$273
PEQUOT LAKES	\$5,306	\$4,503	263,238	\$803
PETERSON	\$39,915	\$38,833	50,128	\$1,082
REVERE	\$19,637	\$19,314	20,294	\$323
SEAFORTH	\$15,876	\$15,376	20,933	\$500
SHELLY	\$61,493	\$60,168	68,686	\$1,325
WALKER	\$51,011	\$41,651	58,014	\$9,360
Total needed to restore these cities to their 2017 LGA amount				\$50,545