

Aid Cuts to Local Governments in CY 2003 and 2004

In November 2003, the Minnesota Department of Finance projected that the state faced a deficit of \$4.1 billion for the fiscal year 2004-2005 biennium. As part of the effort to eliminate the deficit, the state cut general purpose aid programs to all local governments in calendar years (CY) 2003 and 2004. This information brief describes the mechanisms used to calculate aid cuts to different types of governmental units. The table on page 8 shows the amount each type of government was certified to receive under the various general purpose aid programs in CY 2003 versus the amount that will be paid under these programs in CY 2003 and CY 2004 after the reductions.

Cities

Most of the property tax aid that cities receive from the state is under the local government aid (LGA) program. Cities also receive a portion of the homestead and agricultural market value credits. The city aid reductions are taken from these two programs. The reductions were applied first to city LGA payments, and if necessary, to homestead and agricultural market value credits.

Market value credit reductions are not permanent and these payments to cities are fully restored beginning with credits paid in CY 2005. The reduction in the LGA appropriation is permanent, although the continued LGA reductions to individual cities after CY 2004 will be determined by the LGA formula.

2003 Aid Reductions

Generally, the aid reduction in 2003 to each city is equal to 9.3 percent of its certified 2003 levy and general-purpose aids. General-purpose aids include LGA, existing and new construction low-income housing aids, and taconite aids.

Reductions are limited to a certain percent of a city's total CY 2000 general fund revenues, as reported to the state auditor. The limitation is:

- 3.7 percent of revenues for cities with populations of 1,000 or less, or whose average annual growth in levy plus aid over the previous three years was less than 2 percent; or
- 5.25 percent of revenues for all other cities.

Actual 2003 city LGA payments were reduced by \$121.9 million from the certified amounts—from \$586.8 million to \$464.9 million. City market value credits were reduced by \$20 million. The mechanism for calculating aid reductions for an individual city is shown in Figure 1.

2004 Aid Reductions

In CY 2004, each city's total aid and credit reduction, compared to certified CY 2003 aids and credits, must be at least as large as its CY 2003 total aid reduction.¹ Each city's CY 2004 LGA amount is determined by the new LGA formula funded at \$427 million.² Each city's market value credit reduction is equal to its CY 2003 market value credit reduction. The city's initial aid and credit reduction is the difference between its CY 2004 LGA amount and its originally certified CY 2003 LGA amount, plus its CY 2004 market value credit reduction.

The final aid reduction to a city in CY 2004 is limited to a percent of the city's CY 2003 levy plus certified 2003 aids. The limits are:

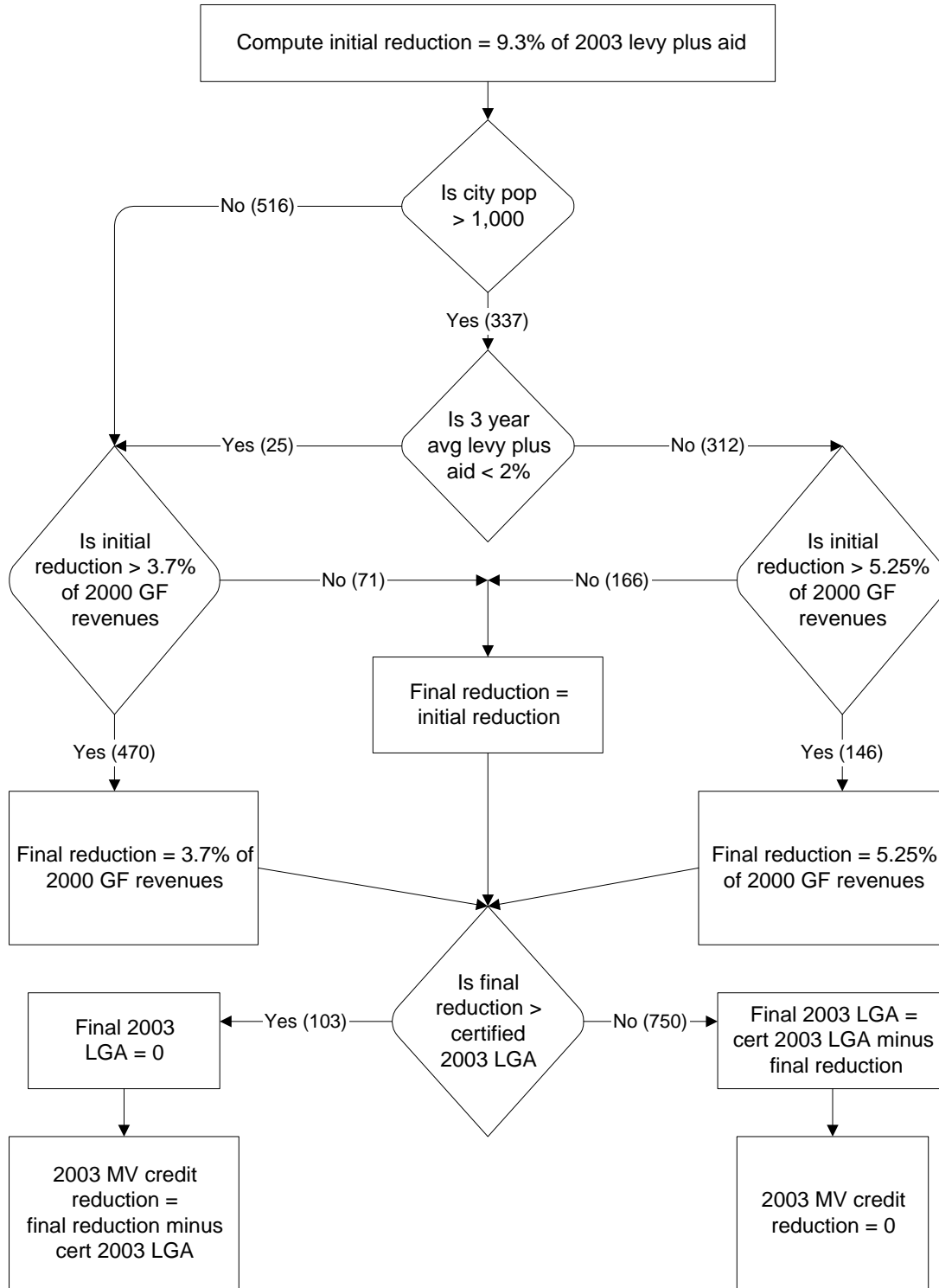
- 13 percent of levy plus aids if the city's adjusted net tax capacity (i.e., property tax base) is \$700 per capita or less; or
- 14 percent of levy plus aids for all other cities.

If a city's initial market value credit and LGA reductions would otherwise exceed this limit, the city is eligible for transition aid equal to the excess reduction amount. For CY 2004, city market value credit payments are reduced \$20.1 million and LGA payments are reduced \$169.7 million. In addition to the formula-determined LGA amount, cities will receive \$8.5 million in transition aid. The transition aid amount is folded into the LGA appropriation and distributed via the formula beginning in CY 2005. The mechanism for calculating a city's 2004 LGA amount is shown in Figure 2, while Figure 3 shows the steps in determining a city's transition aid.

¹ There are two exceptions to this rule—the city of Red Wing was granted an additional LGA payment of \$200,000 for CY 2004 only, and the city of Comfrey was granted a permanent additional LGA payment of \$10,000 annually because a tornado destroyed 40 percent of its pre-1940 housing stock. Pre-1940 housing stock is a factor used in determining city LGA.

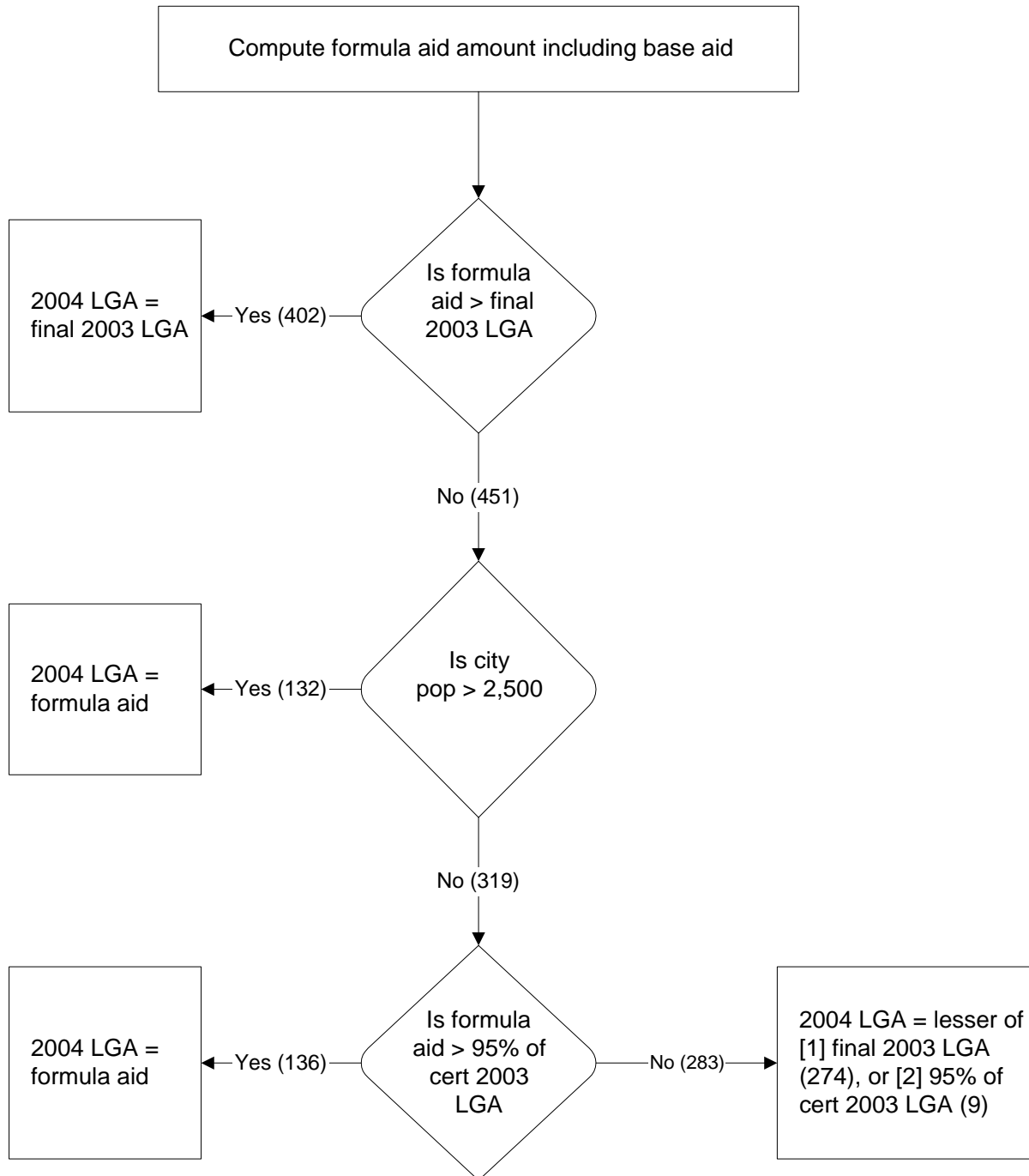
² See the House Research short subject *New City LGA Formula* (February 2004).

Figure 1
 2003 City Aid Reductions



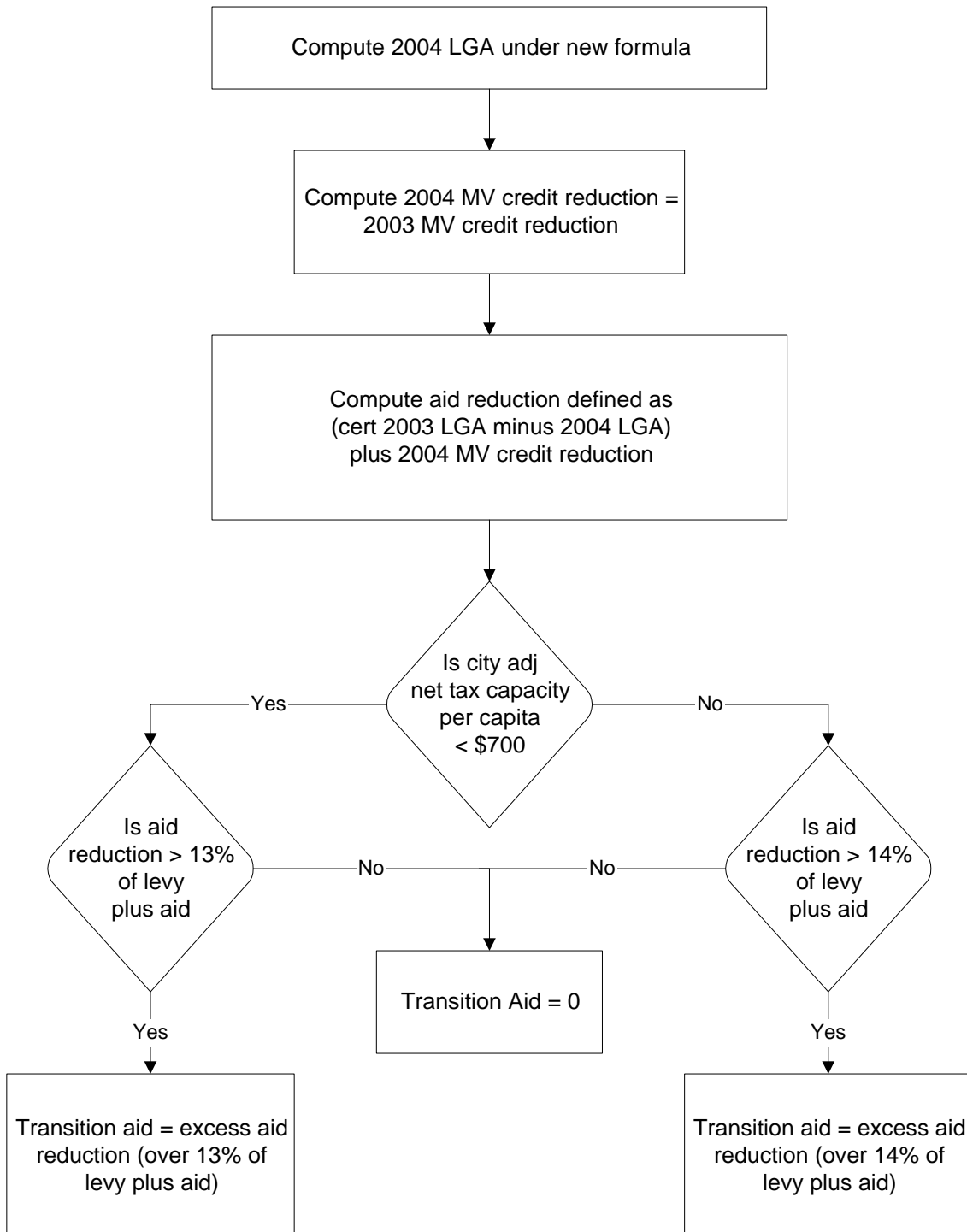
Numbers in parentheses indicate number of cities meeting condition.

Figure 2
2004 City LGA Computation



Numbers in parentheses indicate number of cities meeting condition.

Figure 3
2004 City Aid Reductions
(Transition aid calculation)



Counties

Homestead and agricultural credit aid (HACA) is the largest county property tax aid program, however counties also receive smaller amounts of attached machinery aid, manufactured home HACA, county criminal justice aid (CCJA), and family preservation aid (FPA). In addition, counties receive a portion of homestead and agricultural market value credits. County aid reductions are taken from all of the aid programs in CY 2003.

Beginning in CY 2004, all the aid programs, but not the market value credits, are combined into a new county program aid.³ CY 2004 reductions are made first from the new county program aid and then, if necessary from the market value credits.

Market value credit reductions are not permanent and those payments are fully restored beginning with credits paid in CY 2005. The appropriation for the new county program aid is less than the certified CY 2003 aids under the old county aid programs so the reduction in aid is permanent, although the continued aid reductions to individual counties after CY 2004 will be determined by the new program aid formula which is effective beginning with aids payable in CY 2005.

CY 2003 Aid Reductions

The reduction in a county's aids and credits in CY 2003 is equal to 3.21 percent of the county's certified CY 2003 levy plus general purpose aids. General purpose aids include HACA, less the amount already dedicated for the state assumption of court costs, manufactured home HACA, CCJA, FPA, and taconite aids. The reductions are made to the programs, as necessary, in the following order:

- attached machinery aid
- HACA
- manufactured home HACA
- CCJA
- FPA
- market value credits

No reductions were made in market value credits to counties because there was sufficient money in the other aid payments in each county to absorb the cuts. The total reduction for counties in CY 2003 is \$64.87 million in the various county aid programs.

CY 2004 Aid Reductions

In CY 2004, each county's initial amount of new county program aid is the sum of what it was originally certified to receive in CY 2003, before reductions, in HACA (excluding the amount already dedicated for the state assumption of court costs), manufactured home HACA, CCJA, and FPA. The CY 2004 aid reduction for each county is equal to 5.689 percent of the county's

³ See the House Research short subject *New County Program Aid* (forthcoming).

certified CY 2003 levy plus general purpose aids. The total reduction for counties in CY 2004 is \$114.97 million in county program aid and \$0.67 million in market value credits.

Towns and Special Taxing Districts

Towns and special taxing districts receive no general-purpose property aids although they receive a share of homestead and agricultural market value credits. All reductions are taken from market value credits. These are nonpermanent reductions, and market value credits to towns and special taxing districts are fully restored beginning with credits paid in CY 2005.

CY 2003 Aid Reductions

In CY 2003 each town's market value credits are reduced by an amount equal to 2 percent of its pay 2003 certified levy. Each special tax district's market value credits are reduced by an amount equal to 1.5 percent of its pay 2003 certified levy.

CY 2004 Aid Reductions

In CY 2004 each town's market value credits are reduced by an amount equal to 3 percent of its pay 2003 certified levy. Each special taxing district's market value credits are reduced by an amount equal to 2 percent of its pay 2003 certified levy.

**CY 2003 and 2004 Aid Reductions to Local Governments
 Compared to Certified CY 2003 Aids
 (\$ in thousands)**

Jurisdiction/Program	Certified 2003 (before cuts)	Actual CY 2003 (after cuts)	Certified CY 2004
Cities			
LGA ⁴	\$586,849	\$464,942	\$437,251
(LGA reduction compared to certified 2003 amount)	--	(\$121,907)	(\$149,598)
Market value credit reduction	--	(\$20,033)	(\$20,033)
Total City Reduction	--	(\$141,940)	(\$169,631)
Counties			
Attached machinery aid (reduction)	\$2,382	\$403 (\$1,979)	--
Adjusted HACA ⁵ (reduction)	\$164,300	\$101,822 (\$62,478)	--
Manufactured home HACA (reduction)	\$2,722	\$2,691 (\$31)	--
CCJA (reduction)	\$32,476	\$32,201 (\$275)	--
FPA (reduction)	\$23,991	\$23,883 (\$107)	--
<i>County Program Aid (new)</i>	--	--	\$111,623
Total county aids (reduction)	\$225,871	\$161,002 (\$64,869)	\$111,623 (\$114,248)
Market value credit reduction	--	(0)	(\$668)
Total County Reductions	--	(\$64,869)	(\$114,916)
Towns			
Market value credit reduction		(\$2,993)	(\$4,489)
Special Taxing Districts			
Market value credit reduction		(\$2,894)	(\$3,858)

For more information about local government aids, visit the state aids area of our web site, www.house.mn/hrd/issinfo/tx_aids.htm.

⁴ Includes transition aid.

⁵ Does not include the \$30.1 million of HACA earmarked for the remaining state takeover of courts. Temporary court aids, which are a substitute for a temporary increase in HACA to pay additional court costs until the state takeover is finished, are also omitted from this table.