

The city local government aid (LGA) program annually distributes \$644.4 million in state aid to cities. The program has existed since 1972 and has gone through several changes. The current program uses a formula that was enacted in 2023.

The 2023 changes to the LGA program updated factors that determine “need” within the formula and increased the overall annual appropriation by \$80 million. Additionally, sparsity adjustments—which increased aid for certain cities with low population density—and certified aid adjustments were both repealed. Prior to these changes, the city of Mahanomen was the only city receiving a certified aid adjustment. This “off formula” additional aid amount was moved to a separate state aid payment and is no longer tied to the LGA program.

## LGA need formula and aid calculation

The LGA formula calculates increases and decreases in each city’s aid based on the gap between its “unmet need” (the city’s “need” minus its “ability to pay”) and its current aid level. Cities with large gaps will get larger aid increases, and cities whose aid is more than their current “unmet need” will gradually lose aid over time.

The measure of a city’s “need” depends on its population:

- **For small cities (population less than 2,500):** need per capita is based on the logarithm to the base 10 of the city’s population
- **For medium-size cities (population between 2,500 and 10,000):** need per capita is based on (1) percent of housing built before 1940; (2) share of the city’s tax base classified as commercial, industrial, or utility property; and (3) population decline from the city’s peak population in the last 40 years
- **For large cities (population over 10,000):** need per capita is determined by (1) percent of housing built before 1940; (2) share of the city’s population age 65 and over; (3) share of the city’s tax base classified as commercial, industrial, or utility property; and (4) population decline from the city’s peak population in the last 40 years

Each city’s unmet need is equal to the difference between (1) its need per capita multiplied by its population, and (2) its equalized net tax capacity multiplied by the average tax rate for all cities in the previous year. If the city’s “unmet need” is greater than the amount of aid it received in the previous year, its aid will increase.

The increase equals a percentage of the gap between the city’s unmet need and its previous aid amount. The percentage is the same for all cities and depends heavily on annual appropriation increases. For aid payable in 2024, this percentage is 12.44.

If a city’s aid in the previous year is greater than its unmet need, its aid will decrease; either to the unmet need amount or by the maximum allowed annual decrease (see next page).

A city whose current aid is far below its “unmet need” measure will see larger dollar increases than a city whose aid is close to its “unmet need.” Over time all cities will gradually move toward receiving aid equal to their unmet need amount. Because aid is based on each city’s need rather than on changes in need for all cities, payments to individual cities will be more stable, relative to previous versions of the LGA formula.

### Characteristics of the Current LGA Program

<b>Funding level</b>	\$644.4 million
<b>“Formula need”<sup>1</sup></b>	<p><b>For cities with a population of less than 2,500:</b> Need per capita = \$196.487 + (220.877 x logarithm of city’s population)</p> <p><b>For cities with a population of at least 2,500 but less than 10,000:</b> Need per capita = 1.15 x (\$497.308 + (6.667 x percent of housing built before 1940) + (9.215 x share of tax base classified as commercial, industrial, or utility property) + (16.081 x population decline from the city’s peak census population))</p> <p><b>For cities with a population of 10,000 or more:</b> Need per capita = 1.15 x (\$293.056 + (8.572 x percent of housing built before 1940) + (11.494 x share of city’s population age 65 and over) + (5.719 x share of tax base classified as commercial, industrial, or utility property) + (9.484 x population decline from the city’s peak census population))</p>
<b>“Unmet need”</b>	= (“Formula need” x population) – (city net tax capacity x average city tax rate)
<b>Formula aid</b>	<p><b>For cities whose unmet need is <i>less</i> than its previous year aid:</b> Formula aid = “unmet need”</p> <p><b>For cities whose unmet need is <i>greater</i> than its previous year aid:</b> Formula aid = last year’s formula aid + X% of the difference between its “unmet need” and its aid in the previous year</p>
<b>Final aid</b>	= Formula aid; subject to the maximum annual decrease
<b>Limits on annual decreases</b>	<p>No city’s aid can decrease from the previous year’s amount by more than an amount equal to the <i>lesser</i> of:</p> <ul style="list-style-type: none"> <li>▪ \$10 multiplied by the city population; or</li> <li>▪ 5% of the city’s levy in the previous year</li> </ul>
<p><sup>1</sup> To avoid sudden changes in city formula need measures, a city with a population between 2,500 and 3,000 or between 10,000 and 11,000, has a formula need based partially on the formula for its current size and partially on the formula for the cities of the next smaller size.</p>	



**MN HOUSE  
RESEARCH**

*Minnesota House Research Department provides nonpartisan legislative, legal, and information services to the Minnesota House of Representatives. This document can be made available in alternative formats.*