LEAGUE OF MINNESOTA CITIES

LGA Key Terms and Definitions

Revenue need
A city's per capita need for revenue to deliver city services. Determined by one set of need factors for cities over 2500 population and one set of need factors for cities under 2500 population

Need factors
Demographic and other variables that are used to calculate the per capita revenue a city needs to deliver services. Each need factor is associated with a specific dollar impact on total need per capita. There is one set of need factors for cities over 2500 population and one set of need factors for cities under 2500 population

Small Cities Need Factors	*Large Cities Need Factors*
Pre-1940 Housing % of Market Value	Pre-1940 Housing % of Market Value
Population decline (%) over last 10 years	Population decline (%) over last 10 years
Commercial-Industrial % of Market Value	Accidents per capita (3 year average)
Population	Metro city or not
	Household size

Regression analysis (regression model)
The need factors were determined through a process called regression. This tool was used to explain the variation in city revenue base (defined as levy plus aid in 2000) by identifying the relationship between different factors and revenue base. The combination of factors currently used in the formula is the combination that the regression technique identified as doing the best job at explaining the variation. The regression tool determines, *on average*, how much impact each factor has on a city's revenue need.

Need factor coefficient (coefficient)
Through the regression technique, each need factor is assigned a weight that shows how much of an impact on city revenue need it has. The larger the coefficient, the more impact a change in that factor will have. For example, the coefficient on pre-1940 housing percentage for large cities is 5.07; for every one percentage point increase in this factor, a city's revenue need grows by $5.07. A pre-1940 percentage of 10% translates to $50.70 in revenue need per capita. If the percentage changes by one point to 11%, the revenue need per capita increases to $55.77 ($5.07 more).

Ability to pay
The amount of property tax dollars a city could raise if it were to apply the statewide average city net tax capacity tax rate to its tax base. A city's tax base is defined as the adjusted net tax capacity (ANTC). ANTC is calculated by applying the tax capacity classification rates for the year of the aid distribution to the estimated market values for taxes payable in the year prior to the aid

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distribution. Fiscal disparities distribution tax capacity for the previous year is added where applicable. The market value used to calculate ANTC is reduced by market value contained in TIF districts and by market value of transmission lines.

Statewide average tax rate
The result of dividing the total net tax capacity levy of all cities by the total tax capacity of all cities. The statewide average is used to calculate a city's ability to raise its own revenues.

Revenue need – ability to pay gap
LGA fills a portion of the gap between a city's revenue need and its ability to raise its own revenues from its tax base. The amount of this gap that is filled depends on the total gap for all cities and the amount of money available for LGA distribution in a given year.

LGA appropriation
The state legislature determines the amount of dollars available for LGA payments each year. For payments made in 2009, $526 million is available. The pool of money available does not change in response to city revenue need.

Aid bases
Aid bases are calculated separately from the revenue need calculation. There are four kinds of aid bases: regional center base aid (cities in greater MN with population over 10,000 in 2000), special base aid (e.g. flooded cities), small cities base aid ($8.50 per capita in cities under 5000), and jobs base aid ($25.20 per job per capita). For the first two, it does not matter what a city's ability to pay is—the aid bases represent a minimum. For the small cities and jobs base aids, the dollar amounts are tested against ability to pay. In other words, cities with relatively large tax bases may or may not receive these aid bases even if they otherwise meet the criteria for them.

Maximum/Minimum rules
There are rules limiting how much a city's LGA payment can go up or down from year to year. The rules are slightly different for cities over 2500 population and those below 2500 population.