



History of Local Government Aid to Cities

1967: Tax Reform and Relief Act

- \$170m in new revenue from new 3% sales and excise tax
- $\frac{1}{4}$ of the sales tax revenues to be distributed to local governments
- Established new state aid program (at least \$37m each year to local government; \$40m in 1st year)
- Funds allocated on **per capita basis** using most recent Census figures
1st class cities: share distributed 1/3 to school district, 2/3 to city
Rest of funds: distributed $\frac{1}{2}$ to cities and townships; $\frac{1}{2}$ to schools (\$20 min. per student)

1971: County-Municipal Aid Fund Established

- New system for distributing municipal share of state sales tax
- Raised sales tax to 4%
- Replaced sales tax per capita and exempt property reimbursement programs
- Grandfather clause ensures municipals will get at least as much as in 1971
- Non-metro and metro **per capita** amounts set; central cities calculated separately
- Non metro area: \$25; metro area: \$26
- Money flows to counties which distribute it to cities based on share of countywide levy

1973: Changes to **per capita** aid amounts

- Amounts increased to \$35 and \$36 for 1973 and 1974, respectively (same for greater MN and metro)

1975: Increases total aid appropriation and changes to per capita aid amounts

- **Per capita** amounts increased to \$42/\$45 for 1975/76
- New formula for allocation considers taxable value, not just city levy amount
- Grandfather provision built in; 1975 aid amount set as minimum in 1976

1977: Increases the **per capita** aid amount to \$52 in 1978 and \$59 for 1979

- Distribution to counties is based on the 1976 population figures from the Census
- Distribution within counties is based on the greater of 1970 population or the average of 1970 and 1976

1979: Establishes a new LGA formula for 80/81

- The **per capita** distribution is calculated statewide instead of county by county
- Minneapolis gets equivalent of 1979 aid
- Aid increased to \$64 per capita in 1980 and to \$70 per capita in 1981
- Distribution takes into account mill rates
- Sets maximum aid increases for cities covered by levy limits

1980: Cuts to 1981 distribution

1981: LGA legislation revised

- Cities and counties to receive amounts originally certified for 1981 (an 8.3% increase over actual 1981)

1983: More changes

- Maximum aid amounts set at 106% of 1983 amount plus machinery aid plus reduced assessment credit
- Total aid appropriation set at \$293m
- 6% sales tax made permanent

1985: Omnibus tax bill

- New LGA formula for 1986
- **Fiscal need-capacity concept**
- Fiscal need defined as **3-year average of municipal levies** plus fiscal disparities distribution plus LGA
- Fiscal capacity defined as the 1984 adjusted assessed value
- Local effort mill rate defined by dividing fiscal need by population; per capita need below \$300 divided by 16 plus per capita need above \$300 divided by 14
- Appropriation for 1986 = \$286m (up 8% from 1985)

1986: Appropriation increased

- LGA appropriation increased 4% increase for 1987
- New maximum increase set at 5.8% if per capita LGA is less than \$200 and 4% otherwise
- Local effort mill rate calculation changed to: per capita need above 350 divided by 15 plus per capita need below 350 divided by 17

1987: Freezes the LGA appropriation for 1988/89

1988: Appropriation increase and new formula

- Total LGA appropriation increases by 25% to \$373m; old formula eliminated
- \$75M increase in basic LGA; sets guaranteed base aid per household; state makes up difference between what city can raise locally and the base aid; base aid set at \$160/household, increases by \$150 for every tenfold increase in the number of households; grandfathers 1989 amounts
- \$12.9m in alternative LGA; goes to 77 cities; formula designed by CGMC; none to SC; these additional payments are grandfathered into cities' base aid

1989: Tax bill vetoed by governor in regular session

- Would have increased LGA by \$30.3m (8%) to a total appropriation of \$406.7m; new maximum set at 15% of previous year's LGA and minimum of 2% increase for cities pushed off formula
- Shifted \$100m from cities and townships to schools (in a special session)

1990: State aids cut by \$46m for 1990/91

- Permanent cut of \$15.6 for 1990; LGA is frozen at reduced 1990 level for 1991
- Cuts in LGA for 1990 are 1.53% of revenue base; cuts taken first from LGA, then HACA, etc
- If city has no LGA to lose, levy authority is reduced by 1.53% of revenue base

- Eliminates inflationary factor in LGA for 1991 which means that cities forego \$15m
- Cuts state spending for 1991-93 by \$300million

1991: More LGA cuts

- LGA cut \$34m for 1991/92; aid cuts equal roughly 1.6% of revenue base
- HACA also increases due to payments for class rate reductions; complicated situation
- Establishes Local Government Trust Fund (LGTF): 1.5 cents of existing state sales tax plus new 0.5 cents local option sales tax dedicated to fund

1992: LGA increase of 3% for 1993; no funds available for additional 1994 increase unless the LGTF revenues exceed forecasts

1993: Omnibus tax bill

- **New LGA formula**
- For 1994 LGA payments, each city receives base aid equal to 1993 LGA + equalization aid + DRA
- Appropriation increases by \$8.75M
- Legislation eliminates equalization aid and DRA (city portion) (folded into LGA base)
- Starting with 1995 LGA, grandfathered base phases out and more LGA is distributed via formula
- HACA growth factor eliminated; cities lose \$2.5 million; large impact on rapidly growing cities

1994: Formula changes

- Establishes new inflationary increase for LGA (implicit price deflator index): cannot be less than 2.5% or greater than 5%
- Increases LGA appropriation by 2% (6.6m) from 1995
- Establishes grandfather based on sum of old aid programs (equalization aid and DRA)
- Establishes cap on LGA increase of 2% for Minneapolis, St Paul and Duluth
- Additional LGA to cities that transferred large amounts of general fund revenues to sewer/water enterprise funds (18 small cities)

1995: Formula changes

- LGA growth factors retained; means \$10m more in appropriation for 1996
- Additional grandfather to cities that had received additional LGA in 1995 because they had done transferred general fund revenues to water/sewer enterprises; 1995 additional aid added to aid base (25 cities qualify)

1996: Abolish Local Government Trust Fund

- 2.5% increase to LGA appropriation for 1997 (\$10.7m) due to inflationary adjustment

1997: LGA increases \$9m due to inflationary adjustment

1999: 2.5% inflation adjustment for LGA means \$10m more distributed in 2000

2000: Inflation adjustment for LGA retained; provides additional \$14m for 2001

2001: Property tax reform

- General education levy takeover: reduce property taxes statewide by \$900m net
- Establishes LGA reform account with \$14m; no formula changes made during session

- LGA changes:
 - Increases LGA appropriation by \$140m
 - Increase in local effort rate to reflect the loss of HACA
 - Increases aid base for non-metro cities over 10,000 by lesser of \$60 times population over 5,000 OR \$2.5m
 - Increases LGA for certain cities (Osseo, Hopkins, Newport)

2003: Formula reform

- **New formula** for cities over 2,500; updated formula for cities under 2,500
- Permanent reductions to LGA appropriation (\$150m)
- Eliminated grandfather; transition mechanisms to new formulae
- LGA cuts midyear 2003; cuts for 2004

2005: Appropriation increase and formula changes

- \$48 million in funding added for 2006 and beyond; new small cities per capita base
- New small cities aid base of \$6 per capita

2008: Appropriation increase, more formula changes

- Funding increased \$42 million
- Small cities per capita aid base increased from \$6 to \$8.50
- New jobs aid base for cities over 5000
- Volatility-reducing measures
- LGA reform commission