

History of Local Government Aid to Cities

Updated August 2023

1967: Tax Reform and Relief Act

- \$170m in new revenue from new 3% sales and excise tax
- ¼ 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 ½ to cities and townships; ½ 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

December 2008: Unallotment

- Governor reduces December payments of LGA (by \$53.5m) and MVHC (by \$12.5m) reimbursement through power of unallotment due to short-term state budget deficit

June 2009: Unallotment

- Governor uses unallotment power to balance biennial state budget, reducing cities' LGA and MVHC reimbursement payments by \$193 over the 2009-2010 biennium.
- 2009 cuts are: \$44.6 million from LGA and \$19.6 million from MVHC reimbursement
- \$102.3 million in LGA and \$25.9 million in MVHC reimbursement is unallotted for 2010
- Cities under 1000 population (2007 population estimates) with a below average net tax capacity per capita were exempted for both years
- The 2009 cut was computed as 3.31 percent of each city's levy plus aid. The percentage reduction for 2010 will be 7.64 percent
- Losses were capped at \$22 per capita in 2009 and \$55 per capita in 2010

April 2010: Supplemental budget bill contains cuts

- Governor signs supplemental budget bill further reducing 2010 city aids and credits by \$52.5m and 2011 aids and credits by \$56.5m
- 2010 supplemental cuts are calculated as lesser of 3.4287 percent of city's certified levy plus certified LGA and taconite aid OR \$28 per capita
- 2010 supplemental cuts are taken first from MVHC reimbursement and then from LGA to the extent necessary
- 2011 MVHC cuts are an extension of the Governor's unallotments to that program for 2010; the supplemental cuts are not carried forward
- 2011 LGA is reduced via a cut to the appropriation of \$31 million (leaving \$527.1m)

2011: Regular session ends without a budget agreement; special session follows state government shutdown

- Final budget agreement includes \$102 million in LGA cuts to cities. Cities receive the lesser of their 2010 actual LGA or 2011 certified LGA. Cuts are extended for 2012.
- Total LGA appropriation for 2013 and beyond is reduced to \$426,438,012.
- 2010 supplemental MVHC cuts are extended for 2011. This \$48 million cut is in addition to the \$25 million permanent cut enacted last year, meaning that cities will only receive about \$12 million, or 15 percent, of the actual reimbursement due in 2011.
- The MVHC program is eliminated for taxes payable in 2012 and beyond. Qualifying homes will instead receive a market value exclusion.

2012: Legislature passes an LGA freeze for 2013.

- Cities with a population of 5000 or more will receive a 2013 aid payment equal to what they received in 2012.
- Cities under 5000 will receive the greater of their 2012 amount or the 2013 estimated amount.

2013: Legislature passes significant LGA reforms and increases appropriations.

- Three new need formulas implemented for aid beginning with 2014 payments.
- One need formula for cities under 2500, one for cities between 2500 and 10,000 and one for cities over 10,000.
- For 2014, cities received \$507.6 million. The future appropriation was initially set at \$509.1 million for 2015 and \$511.6 million for 2016 and thereafter (see 2014 actions below).

2014: Appropriation increases

- The legislature increased the appropriation by about \$7.8 million, to \$516.9 million in 2015 and to \$519.4 million for 2016 and thereafter.
- For 2014 only, no city can receive less in LGA than it did in 2013.
- Beginning with aids payable in 2015, no city's aid can decrease by more than 5% of its previous year's levy or \$10 per capita.

2015: No changes were made this year.

2016: No changes were made this year.

2017: Appropriation increases and formula tweaks

- The 2017 Legislature increased the total appropriation by \$15 million, to a total of \$534.4 million for 2018 and beyond. Lawmakers also made several tweaks to the distribution formula:
- Modified the transition provision for cities with population changes that move the city between the medium and large city formula. The transition range will now be from 10,000 to 11,000 population rather than the current range of 10,000 to 10,500 population. Effective beginning with aids payable in 2018.
- Added a sparsity adjustment factor to both the medium city revenue need formula (cities 2,500 to 10,000 population) and the small city revenue need formula (cities under 2,500 population).
- The new sparsity adjustment for medium and small cities (all cities under 10,000 population) equal to \$200 per capita for cities with a population density of less than 30 per square mile. There is a current sparsity adjustment of \$100 per capita for any large city

with a population density of less than 150 per square mile. Effective beginning with aids payable in 2018.

- Corrected the formula to use certified aid, minus special adjustments, from the previous year as the starting point for calculating a city's formula aid. A city's formula aid (aid increase) is equal to a percentage of the difference between a city's unmet need and its certified aid, minus special adjustments, for the previous year. If a city's aid from the previous year is less than its unmet need for the current year, its new aid amount will be its certified aid, minus special adjustments, from the previous year plus its formula aid, plus special adjustments for the current year. If a city's aid in the previous year is equal to or greater than its current unmet need, its new aid amount is the greater of:
 - Its current unmet need; or
 - Its aid from the previous year minus the lesser of: (1) \$10 per capita; or (2) 5 percent of its net levy in the previous year. These are the decreases allowed under current law.
- Accelerated the LGA payment for 2019 only. 14.6 percent of the total aid certified to each city (or 29.2 percent of the first-half July payment) will be paid a month early—by June 15, 2019. The December payment remains unchanged. Effective for aids payable in 2019.
- Created an aid reduction if a county or city is found by the courts to have operated a pre-trial diversion program not authorized under Minn. Stat. § 169.999 or another statute or law, the county's county program aid (CPA) or city's local government aid (LGA) will be reduced by the amount of fees that the county or city collected under the program while it was in operation. This section also allows a taxpayer to challenge the legality of a pre-trial diversion program in court. Effective beginning with aids payable in 2018.
- Increased the LGA appropriation permanently by \$15 million (from \$519.4 million to \$534.4 million). Effective for aids payable in 2018 and thereafter.
- Base year formula for newly incorporated city (Rice Lake). Effective for aids payable in 2018.
- Oslo 2013 city aid penalty forgiveness. Effective May 31, 2017.

2019: Total distribution amount for 2019 was increased to \$540 million. The Legislature set the 2020 funding level at \$560 million and for 2021 and beyond increased it by another \$4 million.

2022: The Legislature considered formula changes based on an update of the regression model but those changes did not become law. The distribution for 2022 and 2023 was set at \$564 million.

2023: The Legislature made some formula changes based on an update of the regression model used to predict city need and increased the distribution to \$644 for aids payable in 2024 and beyond. This is an \$80 million increase to the total appropriation.