

S.F. No. 1828 – Local government aid formula modification; local government aid and county program aid increases (as proposed to be amended by A-2 amendment)

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The bill proposes updates to the local government aid (LGA) revenue need formulas with regression coefficients revised for more recent data, introduces new independent variables to the formula, removes other variables from the formula, and eliminates the sparsity adjustments and other aid adjustments from the LGA formula. A current-law aid adjustment for the City of Mahanomen would be transferred to an existing aid reimbursement program for local governments in Mahanomen County.

Additionally, the bill proposes to increase annual LGA and county program aid (CPA) by \$150 million each beginning for aids payable in 2024. In 2025 and later years, the aid amounts for LGA and CPA would be annually increased by an inflation factor.

Section 1. Population age 65 and over. Recodifies an existing definition from the county program aid (CPA) section for general use in the revised local government aid (LGA) formula.

Sec. 2. Transformed population. Defines “transformed population” to mean the log base 10 of the population.

Sec. 3. City revenue need. Modifies the calculation of revenue need for small, medium, and large cities. Adjusts the base year for the annual inflation adjustment for revenue need.

For a **large city** with a population at least 10,000, updates the formula constant and the formula coefficient on the pre-1940 housing independent variable, and introduces three new independent variables: city age index (defined below), commercial industrial utility percentage (defined below), and peak population decline (already used in the current-law

medium city formula). Removes two current law independent variables and the sparsity adjustment from the calculation.

For a **medium city** with a population between 2,500 and 10,000, updates the formula constant and the formula coefficient on the pre-1940 housing and peak population decline independent variables, and introduces one new independent variable: commercial industrial utility percentage. Removes the sparsity adjustment from the calculation.

For a **small city** with a population less than 2,500, updates the formula constant and substitutes “transformed population” for population in the small city formula. Eliminates the current law cap on small city per-capita revenue need.

Sec. 4. City age index. Defines “city age index” to mean the percentage of the population of the city that is age 65 or older.

Sec. 5. Commercial industrial utility percentage. Defines “commercial industrial utility percentage” to mean the percentage of the total estimated market value of real and personal property in the city that is class 3 property under section 273.13.

Sec. 6. Definitions [applicable to CPA]. Makes a conforming change to the recodification provided in section 1. Defines “Group A offenses” and “adjusted offenses” for the purposes of the CPA formula. (Beginning with data reported for 2021, the FBI and Bureau of Criminal Apprehension no longer classify crimes as “part I” or “part II” crimes. Instead, crimes are classified as “group A” and “group B” offenses. In general, group A offenses include all the part I crimes plus additional types of serious offenses. The language proposed here will transition to the CPA calculation to use a count of “group A” offenses.)

Sec. 7. County need aid. Provides for a transition from using annual counts of “Part I crimes” to “Group A offenses” as an input to the calculation of CPA.

Sec. 8. City formula aid. Makes a conforming change to the elimination of aid adjustments under the proposed LGA formula.

Sec. 9. City aid distribution. Makes a conforming change to the elimination of aid adjustments under the proposed LGA formula. Eliminates other obsolete language.

Sec. 10. Calculations and payments; adjustments to computational factors. Removes specific references to obsolete and unneeded LGA computational factors. Clarifies the commissioner’s authority to adjust computational factors in cases of city annexations. Makes other technical changes.

Sec. 11. Cities [aid amount]. For aid payable in 2024, increases the amount of local government aid to \$714.4 million, an increase of \$150 million over current law. For aid payable in 2025 and later, provides for an annual inflationary increase in the aid amount.

Sec. 12. Counties [aid amount]. For aid payable in 2024, increases the amount of total county program aid to \$414.7 million, an increase of \$150 million over current law. For aid payable in 2025 and later, provides for an annual inflationary increase in the aid amount.

Sec. 13. Inflation adjustment. Provides a calculation for the annual inflation adjustment applied to LGA and CPA amounts under the bill. The adjustment is equal to one plus the sum of (1) the annual percentage increase in the implicit price deflator (IPD) for state and local government purchases, and (2) the annual percentage increase in the total city population in the state. The inflation adjustment cannot be less than 1.025 nor greater than 1.05.

Sec. 14. Mahnomen property tax reimbursement aid. Codifies an existing annual aid payment for local governments in Mahnomen County. Increases the amount for the City of Mahnomen by \$160,000 over current law—this increase is equal to the current-law aid adjustment for the City of Mahnomen that would be eliminated in the proposed LGA formula.

Sec. 15. Mahnomen county property tax reimbursement. Consistent with the codification of the Mahnomen aid program in section 14, expires the current-law uncoded Mahnomen aid program for aids payable after 2023.

Sec. 16. Repealer. Repeals definitions of independent variables and the sparsity adjustments that are no longer used under the proposed local government aid formula. Repeals the city aid adjustments (the only remaining adjustment was for the City of Mahnomen; that adjustment has been transferred to the reimbursement aid program under section 14).

EFFECTIVE DATES. Section 10 of the bill is effective July 1, 2023. All other sections of the bill are effective beginning for aids payable in calendar year 2024.