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The Local Government Aid (LGA) Program: A History

About this Publication

This publication provides a history of the local government aid program from 1967 to 2020, with a focus on aid to cities

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Executive Summary

The first program described as "local government aid" consisted of a number of revenue-sharing programs enacted in 1967. The current local government aid (LGA) program, begun in 1971, replaced this specific revenue-sharing program with a general aid program benefitting all types of local governments, except schools. Over the years, the program has transitioned to a city-only program. It is the largest source of general purpose state aid to cities.

The LGA program has often tried to serve several different policy goals simultaneously. In its early years the focus was on revenue sharing and property tax relief while in later years the focus changed to providing equity in the ability to provide city services. In addition, the formulas were often designed to meet other lesser policy goals of stability, understandability, and regional balance. The tensions between these policy goals has led to changes in the distribution formula over time. The formula continues to change as the goals of policymakers change.

The first part of this publication provides a history of the entire LGA program and describes the program and formula during different eras. A second part discusses specific topics related to the LGA program such as funding changes over time, special payments to individual cities, and miscellaneous program administration issues. The next section lists various policy goals that have been considered in the design of the LGA program and briefly discusses when each goal has played a more or less prominent role.

An appendix contains summaries of the actual law in place for calculating aid payments in each calendar year, from 1972 to 2020.

History of the LGA Program

LGA 1967 to 1971: Tax-sharing Programs

The first state program described as "local government aid" was a 1967 provision to share a portion of the newly enacted state sales tax with counties, cities, towns, villages, and school districts.[1] One of the main political arguments used to support the state imposition of a sales tax in 1967 was that some of the revenues could be used to fund local government property tax relief.[2] Tax advocates often used property tax relief as a rationale for imposing new state taxes. For example, the revenue from the state income tax, authorized in 1933, was originally dedicated to reducing local property taxes for schools. Portions of revenue from several other taxes, such as cigarette and liquor, mortgage, and bank excise taxes, were also shared with local governments—often based on the origin of the tax collected, or on population. These other shared taxes were never referred to as local government aid.

The 1967 law guaranteed that 25 percent of the net state sales tax revenues, or $37 million dollars, whichever was greater, would be used for the new local government aid program. The money was distributed across the state on a per capita basis and was further divided between school districts and the city or town government[3] in each area.

LGA 1972 to 1975: Replacement of Shared Taxes with Levy-based Distribution Formulas

During the 1971 session, LGA was modified from a revenue-sharing program to a true state aid program to local governments, funded from the state general fund. This change from a revenue-sharing program is viewed by many as the start of the modern LGA program. The sales tax dedication and a portion of the cigarette dedication were eliminated and the program was moved from the sales tax chapter to a separate chapter in the statutes.[4] This reform was part of

[1] Although the term "local government aid" was not used in statute, it seems to have been referred to as such. See *History of Taxation in Minnesota*, Tax Study Commission, September 1979, p. 41.

[2] Extra Session Laws 1967, chapter 32, was known as the "Tax Reform and Relief Act." In addition to enacting a new state sales tax, the law increased the real estate deed tax and the corporate income tax, and dedicated a portion of the railroad and telephone gross earnings taxes to fund property tax relief programs. The law reduced property taxes by (1) eliminating the state property tax levy to fund teacher retirements, (2) exempting certain agriculture and business personal property from the property tax and reimbursing local governments for the lost tax revenue, (3) instituting a number of new credits such as the homestead property tax credit, rent credit, and senior citizen income tax credit for property taxes, and (4) establishing the revenue-sharing local government aid program, which is contained in article V of that law.

[3] Prior to 1973, the state also allowed municipal governments to organize as villages and boroughs. In 1973, villages and boroughs were eliminated and became statutory cities. Villages and boroughs were treated like cities for LGA purposes, and all references to cities in this report for the period between 1967 and 1973 mean cities, boroughs, and villages unless explicitly stated otherwise.

[4] The LGA program in 1967 was originally codified as Minnesota Statutes, sections 297A.51 to 297A.59, part of the sales tax chapter of law. In 1971, these sections were repealed and the new LGA program was codified into a new chapter, chapter 477A.

a larger tax reform effort known as the "Minnesota Miracle," which was focused on reducing local property tax burdens and reforming and equalizing school financing across the state.[5]

In 1973, the state continued to move away from tax revenue-sharing programs and more toward general aid. The taxes for which revenue sharing was reduced or eliminated in 1973 are listed in Table 1. The general fund appropriation for the LGA program was increased to compensate for the lost revenue to the local governments. The distribution of the LGA was modified to ensure that all local governments received an aid increase at least equal to the amount they previously received under the repealed revenue-sharing programs.

Table 1
Revenue-sharing Programs Eliminated or Reduced Beginning in 1974 and Replaced with Additional LGA Funding

Program / 1971 statutory cite	Local distribution prior to elimination
Cigarette tax (§ 297.13)	10.59%[6] of the net revenue was apportioned to each city and town based on population with each county receiving the amount attributable to unorganized townships in the county.
Bank excise tax (§ 290.361)	45% of the net revenue was distributed among all local taxing jurisdictions in which the bank was located, based on each jurisdiction's share of the total local property tax rate.
Alcoholic beverage taxes (§ 340.60)	17% of the net revenue was apportioned to each city and town based on population with each county receiving the amount attributable to unorganized townships in the county.
Inheritance and estate taxes (§ 291.33)	20% of the net proceeds of the inheritance and estate taxes were paid to the county of probate. The 1973 law reduced this percentage to 10%.
Mortgage tax (§ 287.12)	One-sixth was retained by the county in which the property was located, while one-third went to the school district and one-third went to the city or town in which the property was located. Counties continued to get 5% of the revenue after 1974; with the remainder going to the state general fund.

[5] Extra Session Laws 1971, chapter 31, included the major provisions of this property tax and school reform effort. The new local government aid program was contained in article XXI of that law.

[6] An additional 5.5 percent of the net cigarette tax revenues had been distributed with the sales tax revenue to local governments prior to 1972 but this provision was eliminated with the elimination of the sales tax revenue sharing in the 1971 session.

Grossing earnings taxes[7] (§§ 276.15-276.18, 368.39-368.42, 373.20-373.21)	These receipts were deposited in the state treasury and any county, city with a population of 14,000 or less, or town could apply to the state auditor for a portion of the revenue based on its tax rate, and the amount of property in the jurisdiction paying this tax in lieu of property taxes.

The new LGA program distributed money to all local governments except school districts. Schools received general funding under other programs. Money was allocated to the seven-county metropolitan area as a whole and to each of the other 80 counties on a per capita basis. In an attempt to address regional balance, the new LGA program distributed different per capita aid amounts in the metropolitan area and in greater Minnesota as is shown in Table 2.

Table 2
Per Capita LGA by Area 1972-1975

Payable year	Seven-county metropolitan area	Other counties in the state
1972	$27 per capita	$25 per capita
1973	$29 per capita	$27 per capita
1974	$36 per capita	$35 per capita
1975	$37 per capita	$36 per capita

During this period, the emphasis on LGA payments began shifting away from special taxing districts and counties and more towards cities and towns. Beginning in 1972, the payments to special taxing districts were frozen at the amount they had received from each shared tax in the year prior to the elimination of the sharing provision.[8] LGA payments to individual counties were also set based on its 1971 payments in shared taxes.[9]

The remaining appropriation in each county or metropolitan region went to cities and organized towns in the county or region. Each city's and town's share of the LGA payment was based on its share of the total city and town levies in the county or region.[10] However, the

[7] This excluded the shared taxes from the gross earnings taxes on the taconite railroads, which continued to be shared through 1977.

[8] Payments to special taxing districts remained flat at about $600,000 annually until totally eliminated beginning with aids payable in 1980.

[9] For aids paid in 1972 and 1973, the amount paid to each county was equal to the amount it received in 1971 shared taxes. For aids paid in 1974 and 1975, the county share of the per capita payment was equal to 85 percent of the *percentage* that the county received of the nonschool portion of the 1971 shared taxes. Within the metropolitan region, this share was divided between the seven counties based on their relative share of total county levy in the region.

[10] For CY 1974 and 1975, the local government's levy limit plus its special levies outside of limits was substituted for actual levies. This reduced the ability of a local government to increase its aid by increasing its levy.

original formula in 1973 was weighted to give a slightly bigger portion of the LGA pool to suburbs in the metropolitan region. This was done by having the county share and the share for the cities of Minneapolis and St. Paul based on a pool that was $1 less per capita than the metropolitan region's total pool. This extra complication, again aimed at increasing regional balance across the state, was eliminated after a couple of years.

To guarantee that counties, cities, and towns used LGA to reduce property tax levies, the legislature also enacted general levy limits in 1971. This program imposed a limit on the total amount a local government could raise between its general property tax levy and its LGA payment.[11] A major component of the new LGA program was guaranteed minimum aid payments to each local government. For aids payable in 1972 and 1973, each local government was guaranteed to get at least as much in LGA as it had received under the old sales and cigarette tax-sharing programs. For aids payable in 1974 and 1975, they were guaranteed to receive at least as much as the sum they had received in 1973 in LGA, plus the amount previously received under the other repealed revenue-sharing programs. This guarantee of receiving at least the amount received in some previous year became known as "grandfathered aid" and remained a major feature of the LGA program until 2003.

Tradeoff between LGA and Certain Local Tax Authority

The 1971 statute authorizing the LGA program included a subdivision that prohibited local governments from enacting a new or increasing an existing tax on sales or income. This prohibition was likely an effort to both preserve state revenue sources and not increase fiscal disparities between local governments. Although the state had not previously granted sales or income authority to local governments, a few cities did have this power under their city charters.

The state has since enacted general authority for local lodging taxes and for county sales taxes for transportation purposes, but local sales tax for all other purposes requires special legislation before they can be imposed.

LGA 1976 to 1983: Mill Rate Formulas for City and Town Distributions

During this time period, the per capita allocation of the LGA appropriation to individual counties in greater Minnesota and to the seven-county metropolitan area continued but the regional differential was eliminated. Each county or region received the same per capita amount as follows:

- CY 1976 - $42/capita
- CY 1977 - $45/capita
- CY 1978 - $52/capita

[11] The state used levy limits to try to ensure that aid increases were used for property tax reductions from 1972 to 1993 when the state repealed general levy limits. Levy limits have been reenacted for a year or two a couple of times since then, normally during times of major property tax reform but have not been used since 2013. For a history of the levy limit law see *Levy Limits*, House Research short subject, January 2015.

- CY 1979 - $59/capita

Beginning with 1980, individual pots of money for each county or region were eliminated, and the LGA appropriation and appropriation increases were now distributed on a statewide basis. The 1980 and 1981 appropriations were still stated as a per capita amount statewide and were:

- CY 1980 - $64/capita
- CY 1981 - $70/capita

In 1982 the statute was changed to an open and standing appropriation with a limit on the total amount that could be paid out under the appropriation. This statutory structure is still used for setting the LGA appropriations in 2020. Information on annual appropriations can be found in Table 3 on page 18.

This period continued the shift from payments to all nonschool local governments to primarily an aid to municipal governments. From 1976 through 1979, payments to each special taxing district were frozen at 1975 levels. Special taxing districts' LGA payments were eliminated beginning in CY 1980.

Aid to all counties, except those with a city of the first class (Hennepin, Ramsey, and St. Louis counties), was also relatively flat for most of this period, and their annual payment was equal to their 1975 LGA amount. LGA payments to Hennepin, Ramsey, and St. Louis counties were reduced to zero.

The remaining LGA amount was distributed to each city and organized town in a region, based on two factors—its population and its average equalized mill rate for the previous three years.[12] The averaged equalized mill rate is the city or town's property tax levy divided by its property tax base, adjusted for its aggregate sales ratio.[13] The adjusted mill rate takes into account both a jurisdiction's levy as a rough proxy for its need to provide services, and its tax base as an indicator of "ability to pay" for those services. For LGA payments made from 1980 through 1983, there were two formulas based on mill rates to determine aid increases, one for smaller municipalities, generally with a population under 2,500, and one for larger cities and towns.[14]

Beginning with CY 1978, another change was added to the city aid formula—this was the introduction of what was often referred to as the "rolling grandfather." Every city and town was

[12] In CY 1978 and 1979, for the cities of Minneapolis and St. Paul only an artificial levy based partially on their levy limits was calculated and used. The calculation is described in those years in the appendix. The argument for using this instead of actual levies was probably to reduce the impetus for these cities to "levy to the limit" in order to increase their aid payment.

[13] The aggregate sales ratio for a jurisdiction is based on a comparison of assessed values by type of property and actual sales data for similar properties. It is a method to adjust for differences in mill rates or tax rates caused by differences in assessment practices.

[14] For 1980 and 1981, the formula referred to cities and towns subject to levy limits and not subject to levy limits, but only cities and towns with a population of 2,500 or more were subject to levy limits at that time.

guaranteed to get as much LGA as they had gotten in the previous year.[15] If a city's or town's aid increased in one year, it would have an increased guaranteed minimum payment in the following year. Prior to 1978, local governments did have minimum guaranteed aid amounts, but these didn't grow, unlike the new "rolling" grandfathered aids.

LGA 1984 to 1987: Focus on Fiscal Equity Formulas for Cities

During this period LGA became primarily a city program. In 1984 county LGA payments were reduced across the board by 40 percent and frozen at that amount. County LGA was finally eliminated in 1991.[16] 1984 aid payments to all towns were also reduced, to 50 percent of the 1983 aid amounts.[17] 1985 LGA to a town was the *greater* of (1) its 1984 aid, or (2) what it would get under the 1985 city formula. However, for the period 1986 to 1988, town LGA payments were again set at the 1984 aid amounts.

Beginning in 1984, the focus of city aid shifted slightly to try to address fiscal inequities not reflected in a city's property tax rate. Preliminary aid was based on the amount a city raised in levy plus aid[18] in the previous year, minus what it could raise using a standardized mill rate. The actual *increase* to each city from the previous year's aid amount was then adjusted to spend the allowed appropriation, but no city's aid could be less than its LGA in the previous year. For 1986 and 1987, the formula was modified to provide more aid to help a city raise up to $350 per capita of revenue (levy plus aid) and a smaller amount of aid for any levy plus aid over that $350 per capita amount.

The rationale for the property tax levy plus aid-based formulas was that this was a proxy for what a city "needed" and therefore these formulas provided more equitable aid distribution. Of course, cities levy for "wants" as well as "needs," and since a city's aid would increase if its levy increased, these formulas provided an incentive for a city to levy as much as possible (subject to levy limits) in order to maximize the aid it received. Legislators recognized this incentive and tried to minimize it by using three-year averages and caps on growth but these were only partially successful. For 1988, the legislature froze all LGA payments to local governments at 1987 levels.

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[15] Although the "rolling grandfather" remained a part of the LGA program until 1993, cities, counties, and towns did see aid decreases in certain years—mainly due to a state budget crisis when across-the-board decreases were imposed on all aid recipients. See 1982 for an example.

[16] The elimination of county LGA began in 1990. The cut was part of a state-county fiscal swap in which the state assumed most court financing previously paid by counties. Later, the legislature established other general purpose aid programs for counties called Family Protection Aid, Criminal Justice Aid, and most recently County Program Aid. These programs had separate appropriations and distribution formulas and are not described in this publication.

[17] Actually a town's aid was equal to 50 percent of its 1983 LGA, attached machinery aid, and low-income housing aid; the latter two separate programs were eliminated after 1983 (see footnote 58).

[18] Total city aid for 1983 included the sum of LGA, attached machinery aid, and low-income housing reimbursements. These last two programs were eliminated after 1983 and rolled into LGA payments beginning with 1984.

LGA 1989 to 1992: State Budget Crises and the Hunt for an Objective City LGA Formula

Many legislators felt that the LGA formulas used in the 1980s incentivized cities to maximize property tax levies in order to increase their LGA payments. Whether this was true was never tested empirically, but legislators began searching for a more objective measure of city "need" that could not be manipulated by city decision makers.

The city LGA formula for 1989 was the first attempt to incorporate an objective need measure. A city's fiscal need was based on the following factors:

1) the log of its current population;
2) if it had lost population over the previous three years;
3) if it was a first-class city[19];
4) if it was located outside the seven-county Twin Cities metropolitan area; and
5) the number of households in a city.

The ratio of a city's revenue (levy plus aid) from the previous year was compared to this measure of "fiscal need" to determine the percent increase in its LGA amount.[20] The total payment to each city was also subject to overall caps on increases and decreases. The formula had no real statistical basis, which raised questions about its validity, but it did eliminate the incentive for a city to raise its levy to get more LGA in the future.

The 1989 LGA formula had an additional complication because it provided extra aid to cities with a population over 2,500 based mainly on its tax capacity. This complication was eliminated beginning in 1990.

A new program called city equalization aid was enacted in 1990, which provided additional aid to all cities with a net tax capacity[21] of less than $900 per capita, except cities of the first class. Although this was a separate program, it was often viewed as a subset of LGA and was paid from the city LGA appropriation. It was eventually eliminated and rolled into LGA when a new formula went into effect for 1994 aid.

1990 was the first time that the city LGA payments declined from the previous year and these declines were due to two causes. The first cause was a major restructuring of state local fiscal relations that began that year—in which the state reduced aids to each city and town by an amount equal to 3.4 percent of its net tax capacity in order to fund additional aid to schools.

[19] A first-class city was defined statutorily based on population. There were only three first-class cities at the time: Minneapolis, St. Paul, and Duluth.

[20] For 1989 LGA, the increases ranged from 9 percent for a ratio of less than 0.75 to 2 percent for a ratio of more than 1.5. The increases were reduced in half for 1990 LGA and ranged from a high of 4.5 percent to a low of 1 percent.

[21] As part of a property tax reform effort that went into effect in 1989, Minnesota Statutes replaced the common property tax term "assessed value" with "net tax capacity" as the indicator of a city's tax base. Net tax capacity is the market value of a property multiplied by that property's classification rate.

The second cause was a state budget crisis in fiscal year 1991 that led to a cut in 1990 city aids after certification but before payment. The deficit continued into the next fiscal year and led to both a freeze in the certified 1991 LGA amounts to cities equal to their post-cut 1990 LGA and equalization amounts, plus a second cut in 1991 LGA payments, again after certification.[22]

British Prime minister Sir Winston Churchill is credited with saying, "Never let a good crisis go to waste." The budget shortfalls of this time period led the legislature to undertake two major policy initiatives in the LGA area. The first was to conduct serious policy research to reexamine the LGA formula and how it measures city need, leading to several studies and a major shift in the LGA program. The second initiative was an odd, short-lived requirement for local governments to impose a local sales tax to help fund state local aid programs. This is described in the box on page 11.

The following three major studies trying to measure city "need" for formula purposes were undertaken between 1990 and 1994:

- **The Ladd Study**[23] was commissioned by the Minnesota Legislative Commission on Planning and Fiscal Policy. The academics hired to conduct the study attempted to evaluate the LGA distribution at that time and also to develop a formula and city need measure for a more efficient distribution of city LGA to cities with a population of 2,500 or more.[24] The underlying hypotheses of the study assumed that *on average* cities provide a reasonable level of service at a reasonable price. Using adjusted city spending data from the reports to the state auditor, the study split city spending into four service areas and used regression analysis to develop measures of "need" for each service type. A critical component of the study is that the analysis controlled for variables (such as property wealth) that would cause a city to "desire" a higher level of spending.

  Part of the study compared the existing LGA distribution to a distribution under a formula based on the analysis and found no relationship between the two. Basically the authors concluded that the LGA distribution at the time was the same as "throwing money out of an airplane."[25] Although the study conclusions did not recommend an absolute dollar amount for LGA, it did state that the relative disparity in city fiscal conditions could be met with a smaller amount than the LGA appropriation at the time.

  Although the Ladd Study was well regarded by policymakers, the radical shifts in aid that would have occurred under the proposed formula was politically untenable and the formula was never adopted.

[22] A more complete description of the post-certification cuts is included in the detailed summaries of the relevant years in The appendix. These cuts also appear in Table 3, which list post certified aid (pre-cut) and paid (post-cut) LGA for the various years.

[23] The actual title is "Measuring the Fiscal Conditions of Cities in Minnesota," a report to the Minnesota Legislative Commission on Planning and Policy, Helen Ladd, Andrew Rochovsky, and John Yinger, March 1991.

[24] These 183 cities accounted for about 80 percent of the total LGA distribution at that time.

[25] Internal House Research file memo on LGA history by Pat Dalton, January 1, 2003.

- **The League of Minnesota Cities (LMC) Study** was in reaction to the radical change in LGA distribution proposed under the Ladd Study. This study was completed very early in 1993. It was an attempt by the organization to develop its own measure of city need that would be more palatable to its members while still addressing policymakers' concerns.

  This study also used regression analysis to develop two equations to measure need, one for large cities with a population of 2,500 or more, and another for small cities with a population under 2,500. The split between large and small cities was partially due to the fact that more data was available to analyze large city spending (see Ladd Study) and these larger cities accounted for the vast majority of LGA payments. Also, since cities in Minnesota can often be very small,[26] the "statistical noise" caused by including them in the analysis made it harder to define factors explaining differences in spending for the larger cities. This split between large and small city "need" formulas continues through to the present day.

  The analysis used each city's levy plus aid amount as a proxy for spending need. In addition to developing need measures, the LMC proposed a new formula that was a variation on the traditional "need minus tax capacity" formula, which eliminated all cities with a tax capacity above a certain level from getting any aid under the formula, regardless of the level of their need.

  The main criticism of the LMC methodology was that the analysis was not as sophisticated as in the Ladd Study and the regression analysis made no adjustments for factors that influenced spending "wants" rather than "needs." Policymakers rejected the proposed variation to combine the new need measure with tax capacity but liked the fact that the factors used in determining city need (population, age of housing stock, and percent of tax base classified as commercial or industrial) were generally outside of the control of city councils.

- **The CORE Report** was a product of the Governor's Commission on Reform and Efficiency and was started in 1992; however, it was not finished until January 1994, after a new LGA formula had been adopted. This study took a radically different approach to the analysis of LGA compared to the previous two studies. The first major difference was its goal to calculate an *absolute* amount of LGA necessary for cities to provide "minimum adequate levels of basic services"; the other two studies only measured *relative* need differences between cities. The CORE Study also was conducted from the premise that the state only had an interest in ensuring all cities could provide a minimal level of service, rather than an average level.[27] It also assumed that other current city revenues

[26] At the time the smallest city had a population of four and over 100 cities had a population of 100 or less.

[27] The final study estimated that cities with a population of 2,500 or more only "needed" about $280 million in total state aid in 1990, compared to the total $419 million actual paid to those cities in 1990 from LGA, equalization aid, homestead and agricultural credit aid (HACA), and disparity reduction aid.

such as user fees should be included in calculating a city's ability to fund those minimal services.[28]

The final major difference was the CORE Study used a "workload" methodology developed and used in the representative expenditure studies conducted for the National Advisory Council on Intergovernmental Relations (ACIR)[29] rather than regression analysis to determine city "need." Under this methodology statistical research and discussions with experts are used to develop a consensus on simple but appropriate workload measures for various government services. An example of a workload measure would be the weighted average number of students used in the state's general education formula. These measures were used to calculate needed spending per workload. The advantage of this methodology is that, when done correctly, the results may be easier to understand than the results of a multilinear regression analysis and there may be greater consensus on its fairness.

Unfortunately, one of the basic tenets of the representative expenditure methodology—simple workload measures, was ignored in the CORE analysis. The workload measures developed were complex multifactor equations. In addition, certain cities were eliminated from the analysis of adequate spending per workload factor as being "high spenders," while little attempt was made to eliminate cities that might have been providing "inadequate" service levels.

Due to the timing of the release of the final report as well as the shortcomings of the methodology, the CORE report results were never adopted by the legislature.

County Local Sales Tax and the Local Government Trust Fund

In 1991 policymakers decided to "enlist" local governments in generating additional revenue to address the budget shortfalls by authorizing all counties to enact a permanent one-half percent "local" tax. The revenue from the local tax plus an amount raised by 25 percent of the existing state sales tax of 6.0 percent went to a dedicated account called the Local Government Trust Fund (LGTF) (Minn. Laws 1991, ch. 291, art. 2, §2) that was used to pay certain enumerated aids to local governments, including LGA. If a county did not enact the local tax, it was penalized by eliminating all general state aid payments to the county, and the cities and towns located in the county. Needless to say all counties enacted the local tax.

Although the idea was for local aid payments to increase or decrease automatically based on the amount forecast to be in the fund, this rarely happened because policymakers would change the programs paid from the fund to avoid surpluses and extra payouts. The only extra payout of a surplus

[28] This assumption that all existing fees, enterprise fund transfers, interest earnings, and a substantial portion of special assessments ignored the fact that these revenues were currently funding services not included in the "minimal services" used by the study. It also dismissed the argument that user fees are the appropriate funding source for nonbasic or "extra" local government services rather than basic services.

[29] The major example of this methodology at the time was Robert Rafuse's "Representative Expenditures: Addressing the Neglected Dimension of Fiscal Capacity," Advisory Commission on Intergovernmental Relations, M-174, December 1990.

occurred in December 1992; the share of that surplus paid out as extra LGA to cities was $28 million. The LGTF and local sales taxes were repealed on July 1, 1996. The state sales tax was increased by 0.5 percent at the same time and the aid programs were once again paid from the state general fund.

LGA 1994 to 2002: The First Consensus-based City LGA Formula

During this period the focus was on city LGA. Town aid was flat, except for a 2 percent increase in 1975, and was finally eliminated in 2002.

In 1993, a new city LGA formula was adopted. It used the need measures proposed in the LMC Study while retaining a need minus tax capacity structure for distributing aid. What made this formula unique is that the final formula was endorsed by all of the city lobbying groups at that time.

The separate equalization aid program as well as the city portion of another program—disparity reduction aid[30]—were eliminated and rolled into LGA. Each city was guaranteed an aid base amount. For 1994 LGA, a city's aid base was equal to its 1993 LGA plus equalization aid, plus disparity reduction aid. The total aid base for all cities was originally scheduled to decrease proportionately over time as the LGA appropriation went up[31]; however, this provision of the formula was repealed before it went into effect. The base aid amount for most cities remained at the 1993 aid amount until a new formula was enacted beginning with 2004 LGA.[32]

Using the LMC need measures, an "unmet need" amount was calculated for each city equal to the difference between its (1) "need measure" multiplied by its population, and (2) its tax capacity multiplied by the average city tax rate for all cities. Each city's LGA *increase* was equal to a percent of its unmet need. The percent, which was the same for each city, was set so that total LGA paid to all cities equaled the appropriation.

The LMC "need measure" for each city was based on: (1) percent of housing stock built before 1940, according to the 1990 census; (2) percent of property tax base classified as commercial and industrial property; (3) percent of population decline, if any, for the most recently available ten-year period; and (4) a city's most recent population estimate. The weights given to the four factors in determining need differed depending on city size, with one weighting scheme for large cities with a population of 2,500 or more, and another for small cities with a population under 2,500.

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[30] Disparity reduction aid was a program that was part of an earlier general property tax reform effort that paid annual flat amounts of aid to all local governments in high tax rate areas in 1989. The goal of the program was to reduce the total tax rate throughout the state to 100 percent of tax capacity or less for taxes payable in 1989.

[31] The plan was that for every $1 increase in the total LGA appropriation, the total aid base amount for all cities would go down by $1; eventually eliminating the aid base entirely over time.

[32] Beginning in 1995, some cities were granted extra LGA, for various reasons which was added to the city aid base. The number of these grew over time. A complete list can be found in Table 4 on page 24.

Caps were imposed on the amount of aid increase any city could experience in any year. For cities of the first class, the percentage increase could not exceed the percentage increase in the overall city LGA appropriation increase. For all other cities the increase could not exceed a percent of the city's property tax levy in the previous year.

One of the aspects of the new LGA formula that most appealed to cities is that the law instituted an automatic growth factor in the total LGA appropriation. The appropriation automatically grew between 2.5 percent and 5.0 percent annually, depending on the growth in the implicit price deflator for state and local government purchases.[33]

This formula was used to distribute city LGA until 2002. With the exception of the removal of the gradual "ungrandfathering" provision for 1993 aid amounts, the only changes were the periodic granting of extra aid to individual cities that made a case that they had special needs not measured in the general formula. This extra aid would be rolled into that city's base aid amount. A complete list of cities who received this extra aid is contained in Table 4 on page 22. By the end of 2002, the city LGA appropriation had grown to $565 million; of this amount about $360 million was base aid, and $205 million was redistributed every year based on the unmet need formula.

LGA 2003 to 2012: A Period of Instability in the City LGA Program

By 2002 the increasing number of demands for special aid to individual cities, plus the fact that the data used to establish the need factors was now more than ten years old was beginning to put pressure on the legislature to develop a new LGA formula. Added to that was another series of state budget deficits, which increased the pressure to update the LGA formula.

In February 2003 Governor Pawlenty proposed major cuts to general purpose local government aids, including city LGA for CY 2003 and 2004. He also stated that a new LGA formula needed to be enacted during the 2003 legislative session that "distributes city aid to cities that need it the most based on a clear rationale and objective measures of city need" and warned that failure to enact a new formula during the session would result in further proposed LGA reductions in future years.[34]

The commissioner of revenue convened a working group that took testimony from a number of different city groups on the factors and issues they felt were important in designing a new measure of city need. Using regression analysis and the sum of each city's levy plus aid as a proxy for spending need, the group developed two new need measures—one for large cities and one for small cities. The methodology to develop need measures was remarkably similar to the methodology used by the LMC in developing its need measures in 1993.

[33] This is a measure of government inflation calculated by the United States Bureau of Economic Analysis.

[34] "Governor's Proposal – Aid Reductions to Local Governments (Summary Description)," handout, February 18, 2003.

The new LGA formula ultimately proposed by the governor's working group was enacted into law and went into effect for aids in CY 2004. The LGA program changed in the following fundamental ways:

- Most of the city aid base (grandfathered aid) was eliminated. The only part retained was the special aid amounts granted to individual cities. The number of these special aid amounts continued to grow throughout this period.
- All aid above the $36 million of remaining city aid base was redistributed via formula every year based on the difference between each city's "need minus ability to pay."
- The measure of a city's "ability to pay" included not only what the city could raise from its property tax base multiplied by an average city tax rate, but also the amount of taconite aid received by cities in the Iron Range.[35]
- The automatic growth appropriation mechanism was eliminated. The appropriation would remain frozen, unless explicitly changed in future law.

The new LGA formula did not enjoy much support from the city groups for a number of reasons. These included:

- increased volatility in aid distributions. Since virtually all aid was redistributed every year, the aid to each city could vary significantly even if the city had not changed much, due to relative changes in "unmet need" in all the other cities;
- although some of the factors used in measuring city need were the same as in the 1994 formula, some new factors such as accidents per capita, in the large city need measure were less intuitive;[36]
- some felt that the new formula did not recognize the special needs of certain types of cities such as small cities, older suburbs, or the cities receiving taconite aid; and
- a number of cities' LGA was reduced to zero with the elimination of the majority of grandfathered aid.

Because the 2003 formula did not have universal support, the formula underwent a number of changes in the following years. A few years after its enactment a side formula was added to give an additional $6 per capita in aid to cities with a population less than 5,000 beginning with aids payable in 2007.[37] During the 2008 legislative session, the small city additional aid payment

[35] Taconite mines are exempt from property taxes and are instead subject to state mining taxes. To partially compensate local governments for this lost tax base, the state makes aid payments to local governments and to homeowners in what is known as the taconite relief area. Although these payments had been made for years and were included in establishing local government levy limits, this was the first time they were included in calculating LGA payments.

[36] One legislator even joked on the House floor about setting extra stop signs in his city to increase the accident rate and thereby increase the city's LGA, until staff informed him that the amount of property damaged needed for a collision to count as an accident was about ten times more than the additional aid a city would get from the accident. The factor was actually a proxy for other factors like number of museums and other amenities, or an influx of daily in-commuters due to higher education institutes or a concentration of government buildings that might be difficult to measure individually, but all increased city road congestion and hence accident rates.

[37] See Table 4 on page 24. Although the reason for this aid was that these cities did not get transportation aid, the cities receiving this additional aid were not required to use it for roads. The side pot was originally added to the

was increased to $9 per capita, and a new side formula for aid for cities with a population of 5,000 or more was added, which was based on the number of jobs located in the city. Also, the inclusion of taconite aid was removed from the measure of a city's "ability to pay" measure.

The elimination of the growth factor in the LGA appropriation also added to the formula's instability.[38] Sometimes the legislature would enact a small appropriation increase in the current biennium with a larger appropriation increase in a future year. However, these future increases would often be eliminated through unallotments or legislative changes.[39]

Although the LGA formula remained in statute throughout this entire period, it had little impact on aids distribution during the last several years. An ongoing series of state budget deficits between 2008 and 2013 led to city LGA being decreased or frozen during the last five years of this period.

During the 2008 session, a study group made up of legislators and local government representatives was established to study and make recommendations regarding the current system of aids to local government. After meeting intermittently from 2009 to 2012 the study group concluded that the current LGA formula was too complex, lacked predictability, and was out of date. It recommended eliminating a number of the special aid base provisions for a number of cities, examining and correcting for instability in current need factors, simplifying the caps on increases and decreases, and suggested policymakers should take into account how service needs and available revenue sources differ between cities in developing a new formula.[40]

LGA 2014-2020: The Second Consensus-based City LGA Formula

In 2012, the governor directed the commissioner of revenue to initiate a task force of city mayors from around the state to listen to city concerns about the existing LGA formula and develop a new formula. The group held several meetings with city officials around the state, with much of the discussion focused on how to measure city overburden and what other factors to include in the LGA formula. Although the group did not reach unanimous consensus on a formula, Department of Revenue staff took the information from this group and used it to

city aid base (grandfathered aid) but was eventually moved out of that portion of the aid and made a separate part of the general formula.

[38] For example, about half of the LGA fluctuation between 2006 and 2007 was caused by the fact that the appropriation increased substantially, by $48 million, for 2006, but the limits on maximum annual increases was not adjusted to allow the money flow to some of the "needier" cities that were already at the aid increase cap. The result was that some other cities got large increases in 2006, which they then lost in 2007 when the money was distributed back to "needier" cities.

[39] For instance the 2008 legislation included appropriation increases in CY 2009, 2010, and 2011, but aid actually decreased during the time period instead due to unallotments and legislatively authorized post-certification aid cuts.

[40] LGA Study Group Recommendations, memo to Rep. Kurt Zellers, Speaker of the House, and Sen. David Senjem, Majority Leader, Minnesota Senate, dated December 17, 2012.

develop a new LGA formula that was included in the governor's budget recommendations in 2013.[41]

The governor's formula used an approach similar to the previous two formulas, using unmet need for each city to distribute the LGA appropriation. The calculation of city need was simplified to three factors—city population, amount of tax-exempt property, and percent of housing built before 1970 in each city. The tax-exempt property factor was a measure of "overburden to the city," while the use of housing built before 1970 factor addressed the issue of unmeasured need in certain older suburbs. Because the only need factor that changed every year was city population, the distribution of aid under this formula was more stable than under the existing formula.

In early January 2013, representatives of the city organizations approached a number of Democratic House members to also design a new LGA formula. The legislators directed the city groups to work together with legislative staff on a formula that all the groups would support. Legislators made it clear that they would only support an increase in the LGA appropriation if there was consensus among the groups regarding a formula. The group agreed on a formula and it was this proposal, rather than the governor's proposal, that was adopted and went into effect for CY 2014 LGA.

As recommended by the 2008 legislative task force, the majority of money distributed "off formula" was eliminated. New need measures were developed for three groups of cities—large (population of 10,000 or more), medium (population of 2,500 or more but less than 10,000), and small (population under 2,500).

Like the governor's proposal, the city's proposal used the same approach as the previous two LGA formulas to develop a measure of unmet need. However, unlike the previous formula, the new LGA formula does not redistribute all of the appropriation every year. The program distributes any increase in the LGA appropriation plus any money from decreases in aid to cities who no longer need all the aid they received in the previous year.

For CY 2014, no city could get less LGA than its 2013 amount. Beginning in 2015, a city's aid could decrease if its aid in the previous year was more than enough to fund its total unmet need. Decreases are limited to the lesser of 5 percent of the city's levy in the previous year or $10 per capita. No city's LGA should decrease below its unmet need amount.

If a city's aid in the previous year is less than its unmet need, its new aid is equal to its previous year's aid, plus a percent of the amount its unmet need exceeds its previous aid amount. In 2014, this percentage was about 19 percent. If two cities had the same unmet need measure but the previous LGA amount for the first city was only 20 percent of its unmet need and the previous LGA for the second city was 60 percent of its unmet need, the first city would get a

[41] The Department of Revenue staff considered a separate need measure for small cities based only on population (referred to as "foundation aid" for public safety and streets), but in the end opted for a single need measure for all cities.

larger LGA increase. If the LGA appropriation continued to grow, eventually both cities would reach the same LGA amount.

The new formula addressed many of the criticisms of the previous formula. It reduces volatility by allowing a city to keep its LGA amount as long as the formula indicated a city needed the aid, regardless of what is happening in other cities. It greatly simplified the small-city formula by making it dependent on city population only.[42] The addition of jobs and housing built between 1940 and 1970, as need factors for large cities addressed some of the concerns of the suburbs and changed the geographic balance in distribution of aid increases to be roughly 50 percent to greater Minnesota and 50 percent to the seven-county Twin Cities metropolitan area.

The new 2014 LGA has had some flaws however. Because of an error in the original language for calculating aid increases and decreases, the aid for a few cities decreased below their unmet need amount.[43] Although this language error was corrected in 2017, the LGA payments to some affected cities aid were not corrected retroactively. The other flaw is that the movement toward equal LGA payments for similar cities is highly dependent on appropriation increases. For CY 2014 the LGA appropriation was increased by $80 million, to $507.6 million. Most other years had some modest growth in the appropriation amount and the program increased by about $30 million in 2020. However in CY 2017 and 2019, there was no appropriation increase; the only money redistributed by the formula was about $2 million each year from decreases in cities whose unmet need had dropped below their previous LGA amount.

In addition to these issues, the need measure has been modified on an ad hoc basis to direct money to certain types of small and medium-sized cities. Beginning with CY 2018 aid, the need measure per capita in both of these formulas is increased by $200 if the city's population density is below 30 persons per square mile.

Also, since the formula was enacted, the tax capacity of cities in the seven-county metropolitan area has been growing faster than the tax capacity in many cities in greater Minnesota. This has caused the distribution of additional LGA to once again shift away from the metropolitan area and back to greater Minnesota, with an increasing number of metropolitan cities getting zero LGA. These issues, along with a likely budget deficit projected for the coming biennium will again put pressure on legislators to once again reexamine the city LGA formula.

[42] The regression analysis used to develop the previous small-city need measure explained less than half of the variation in small city spending (levy plus aid). The new small city need measure was developed using a graphical analysis of levy plus aid over city size, which showed a growth in per capita spending as city size increased up to a certain size at which point the per capita spending flattened out and remained relatively constant. Regression analysis was used to develop the medium and large city need measures.

[43] An explanation of the glitch and affected cities can be found in an interested parties memo dated March 8, 2017, and found in archived materials on the State Aids page of the House Research Department website.

Additional Information About the LGA Program

LGA Payments Over Time

Table 3 below shows the total LGA payments by type of local government from CY 1972, the start of the formal LGA program, to CY 2020.

Table 3
Distribution of LGA 1972-2020 (in millions)

Calendar Year	Counties	Cities*	Towns	Special Districts	Total
1972	$24.6	$64.1	$9.6	$0.6	$98.9
1973	26.3	70.5	9.2	0.6	106.6
1974	30.9	89.7	13.9	0.6	135.1
1975	31.3	93.0	13.9	0.6	138.9
1976	19.9	125.2	14.2	0.6	159.2
1977	19.9	136.4	14.4	0.6	171.3
1978	19.9	162.6	14.8	0.6	197.9
1979	19.9	189.8	15.5	0	225.2
1980	22.0	208.3	15.4	0	245.7
1981	22.3	213.2	14.3	0	249.9
1982	20.3	201.4	13.5	0	235.2
1983	24.3	231.0	15.5	0	270.7
1984	14.5	250.2	9.2	0	273.9
1985	14.5	264.9	9.4	0	288.2
1986	14.5	285.8	10.8	0	311.1
1987	15.4	297.4	11.2	0	324.0
1988	15.4	297.4	11.2	0	324.0
1989	15.4	376.2	11.9	0	403.5
1990	7.5	337.2	2.2	0	368.2
1991 (certified)	6.1	338.9	2.2	0	346.2
1991 (paid)	0	303.1	1.5	0	304.7
1992 (certified)	0	299.0	2.2	0	301.3
1992 (paid)	0	324.5	2.4	0	327.9
1993	0	308.0	3.1	0	311.1

Calendar Year	Counties	Cities*	Towns	Special Districts	Total
1994	0	330.1**	3.1	0	333.2
1995	0	336.1	3.2	0	339.3
1996	0	347.3	3.3	0	350.6
1997	0	359.3	3.4	0	362.7
1998	0	367.9	3.4	0	362.7
1999	0	380.6	3.5	0	371.3
2000	0	394.4	3.6	0	398.0
2001	0	411.0	3.8	0	414.8
2002	0	565.0	0	0	565.0
2003 (certified)	0	586.9	0	0	586.9
2003 (paid)	0	464.9	0	0	464.9
2004	0	437.5	0	0	437.5
2005	0	436.7	0	0	436.7
2006	0	484.6	0	0	484.6
2007	0	484.6	0	0	484.6
2008 (certified)	0	484.1	0	0	484.6
2008(paid)	0	430.6	0	0	430.6
2009 (certified)	0	526.1	0	0	526.1
2009 (paid)	0	481.5	0	0	481.5
2010 (certified)	0	536.7	0	0	536.7
2010 (paid)	0	426.5	0	0	426.5
2011	0	425.3	0	0	425.3
2012	0	425.2	0	0	425.2
2013	0	427.5	0	0	427.5
2014	0	507.6	0	0	507.6
2015	0	516.9	0	0	516.9
2016	0	519.4	0	0	519.4
2017	0	519.4	0	0	519.4
2018	0	534.4	0	0	534.4
2019	0	534.4	0	0	534.4
2020	0	561.4	0	0	561.4***

*Includes equalization aid from 1990 to 1993.

**Disparity reduction aid incorporated into city LGA beginning in 1994.
***$560.4 million in statute plus $1.0 million for a post-certification error correction.

LGA Reductions for Specific Purposes

Across the board, LGA cuts have generally been made for two reasons. Either policymakers decide to reallocate state and local service responsibilities, or the state is experiencing a budget deficit and policymakers decide that local governments should bear some of the cost of filling the deficit through aid reductions. The basis used for calculating the reduction to each local government and the timing of the reduction differs depending on the reason.

- **LGA reductions related to reallocation of state and local service responsibilities** generally occur prior to aid being certified for a given calendar year. If the reduction is due to reallocating state money to another property tax aid program (such as from LGA to the general education aid formula in 1990), the cut is done based on the relative tax base in each jurisdiction. This tends to keep the property tax relief provided by all local government aid programs relatively uniform across geographic areas. On the other hand, if the reduction in aid is due to the state assuming the ongoing funding of certain government services (such as the takeover of funding of district courts and county defenders), the reductions are typically made based on what the jurisdiction spent on those programs prior to the takeover.

- **LGA reductions related to a state budget deficit** can occur both before and after they are certified for any year. LGA is certified in August of the calendar year before the year it is paid but the payments are generally not sent to a local government until July and December of the payment year. This means there are almost 11 months between certification and payment—plenty of time for the state to discover a forecasted budget deficit. If the deficit is a multi-year deficit, the state may end up both reducing the LGA appropriation for a given year AND making a post-certification aid cut as new budget information becomes available.[44]

  Policymakers generally try to equalize the impact of deficit-related aid cuts on local government budgets for the jurisdictions subject to the cuts. Therefore the cuts are usually made based on a percentage of the local government's current property tax levy plus general purpose state aids and credits.[45] The percent of the cut may differ depending on the type of jurisdiction. For instance county aids have often been reduced by a lower percentage than city aids because counties have more mandated service costs and therefore less discretion over their budgets than cities. In 2013 and 2014, policymakers did not include smaller cities with below average property tax bases in the LGA cuts because they felt those cities had less ability to adjust budgets compared to larger and wealthier cities.

[44] This happened during CY 2010 and 2011.

[45] In addition to LGA, general purpose aids and credits include county program aid and town aid, taconite aids, disparity reduction aid, and market value credit.

Use of LGA Penalties to Encourage/Discourage Certain Local Government Actions

Specific grant programs are usually better than general purpose aid programs at encouraging or discouraging certain types of local government behavior. However, LGA payment penalties were used occasionally to encourage compliance with other state directives to local governments.[46] Some of the penalties that have been in place over time include the following:

- **1977** – Per capita aid reductions were imposed for local governments that did not properly assess property values within the assessment area, according to the Department of Revenue. The penalty ranged from $1 per capita to $5 per capita, depending how far off the assessed values were compared to actual property sales (the coefficient of dispersion). The reason given for imposing this penalty was because assessment practices had a major influence on assessed values and mill rates used in calculating LGA. (Laws 1977, ch. 423, art. 6, § 13; codified as Minn. Stat. § 477A.04; repealed in 1985.)

- **1983** – A provision was enacted requiring that local governments timely comply with annual reporting requirements in order to receive their LGA payment, beginning with reports due after June 30, 1983. The purpose given for imposing this provision was that in order for the legislature to determine the amounts of relief necessary each year, the legislature needs uniform and current financial information from the governmental units that receive aid distributions (Laws 1983, ch. 342, art. 5, § 14, codified as Minn. Stat. § 477A.017; still in effect).[47]

- **1990** – In an effort to ensure that cities using tax increment financing (TIF) bore a higher cost of using TIF, an LGA reduction was enacted. The reduction to a city was based on the extra education aid the state paid because the captured value of property in its TIF districts was excluded in calculating that aid. To prevent low tax base cities from suffering large reductions, if the reduction exceeded 5 percent of the city's tax base, the reduction above the 5 percent threshold was reduced by 75 percent. This LGA reduction was eliminated in 2001, as part of a general property tax reform that occurred that year. (Laws 1990, ch. 604, art. 7, § 1, codified as Minn. Stat. § 2977A.1399, repealed in 2001.)

- **2017** – LGA to a city or county program aid to a county may be reduced if the city or county operated a pretrial diversion program that is not authorized by law. The penalty is equal to the amount of fees collected by the local jurisdiction under the unauthorized

[46] Although not a penalty there were requirements imposed in different years to reduce all LGA payments proportionately to cover a portion of the costs of certain state agencies and programs that benefitted local governments. The programs included some state demographer's costs, a local government records program, and local government pay equity enforcement. These reductions were listed in Minnesota Statutes section 477A.014, subdivisions 4 and 5, which were repealed in 2008.

[47] Although this penalty is in effect, the legislature has often chosen to forgive it—and reinstate the LGA payment to a city if it works with the state auditor to file missing reports and shows that it has taken steps to correct the problem going forward. Examples can be found in Laws 2017, 1st Spec. Sess. ch. 1, art. 4, § 28, and Laws 2019, 1st Spec. Sess. ch. 6, art. 5, § 9.

diversion program. If the county or city's aid is insufficient to cover the penalty in the year in which it is imposed, the remaining penalty is applied to future aid payments until the entire penalty is paid. (Laws 2017, First Spec. Sess. ch. 1, art. 4, § 18, codified as Minn. Stat. § 477A.0175; still in effect.)

Additional LGA Payments to Specific Cities to Address Special Circumstances

Starting in 1995, the legislature began a practice of giving additional LGA to various cities to address certain city circumstances that were not addressed by the LGA formula. Although some of these decisions were often at least partially political, there was also recognition that some factors that truly influenced a few cities' "need" could be excluded as statistically insignificant in a formula based on statistical analysis.[48] The name of a city getting the extra aid was not explicitly listed in the statute due to some concern over whether doing so would violate constitutional provisions regarding special laws; instead, a description of city characteristics was used to develop a "class of one."[49] Below is a table of additional "ad hoc" aid increases to specified cities along with the year the increase was first paid. In 2014, as part of the new LGA formula, almost all of the previously authorized additional aid payments were eliminated. The two left in place were:

- the 2000 Warroad adjustment, which was allowed to continue through CY 2018; and
- the 2009 Mahnomen adjustment, which was doubled to $160,000 and made permanent.

Table 4
List of cities receiving extra LGA outside of the general LGA formula

Year first in effect	Affected cities	Amount and reason for additional aid
1995	Pillager	$40,000 permanent increase but no record remains for the reason behind it

[48] In multivariate regression analysis, the more variables there are in an equation, the more the equation will "explain" differences in the dependent variable. If there are x observations and x-1 variables in the equation, 100 percent of the differences are due to the differences in the dependent variables. However, in practical terms—an aid formula is only useful if it is relatively easy to understand. Limiting the number of variables used in the formula and picking ones that explain spending variation between most cities makes the most sense. The result is sometimes a variable that has a major impact on spending for just a few cities is not included in a formula to distribute aid to all cities.

[49] For this reason the cities in this list are not alphabetical; they appear based on the year in which they went into effect and the order in which they appeared in the statute. For additional aid authorized before 2013, these can be found in the definition of city aid base found in Minnesota Statutes 2012, section 477A.011, subdivision 36. Most of these were repealed when the new LGA went into effect for CY 2014 LGA. Any of these still in effect after 2013 are listed as certified aid adjustments in Minnesota Statute section 477A.013.

Year first in effect	Affected cities	Amount and reason for additional aid
1996	A number of cities[50]	Permanent increase equal to 50% of its 1995 formula aid if its 1992 or 1993 sewer and water infrastructure costs exceeded its total levy in that year
1998	Proctor	$20,000 permanent increase to put it on a more even footing with similar cities after they changed from being a town to a city
1998	Coon Rapids	A temporary increase of $450,000 per year for ten years as an alternative to allowing a local sales tax to help finance city road construction costs related to a state highway
1999	Oak Grove	$200,000 permanent increase to put it on a more even footing with similar cities after they changed from being a town to a city
2000	Warroad	$150,000 permanent increase to compensate for a loss in tax base when a window manufacturing facility in the city was devalued due to a court-ordered reassessment of a similar manufacturing facility in another city (This payment continued through CY 2018.)
2000	St. Francis	$200,000 permanent increase; no record of reason remains
2000	Baxter	A temporary increase of $225,000 a year for three years to fund the city cost of a highway interchange related to regional tourism
2000	Pine Island	$200,000 permanent increase to compensate for lower per capita grandfathered aid than "comparable cities"
2001	Kelliher	$32,000 permanent increase to compensate for lower per capita grandfathered aid than "comparable cities"
2001	Darwin	$7,200 permanent increase to compensate for a higher than average percentage of people older than 65 years, plus lower per capita grandfathered aid than "comparable cities"
2001	Osseo	$45,000 permanent increase to cover costs associated with an unusually large student to resident population ratio
2002	Osseo	A temporary increase of $50,000 per year for ten years to help finance city road construction costs related to a state highway
2002	Hopkins	$50,000 permanent increase as an alternative to allowing the city to impose a local sales tax to fund an art center
2002	Newport	A temporary increase of $150,000 per year for ten years to help while access to the city's main street was closed due to state bridge construction

[50] The following 24 cities qualified for this adjustment: Butterfield, Callaway, Calumet, Clark's Grove, Cook, Ellendale, Frazee, Hallock, Hartland, Iona, Keliher, Lake Wilson, Melrose, Motley, Odessa, Onamia, Rose Creek, St. Leo, Staples, Watson, Wilmont, Wood Lake, Young America, and Zumbro Falls.

Year first in effect	Affected cities	Amount and reason for additional aid
2003	Hermantown	$200,000 permanent increase to compensate the city for a loss in special homestead and agricultural credit payments (HACA) when HACA was eliminated
2004	Red Wing	$200,000 permanent increase to cover extra public safety costs associated with a nuclear dry cask storage facility
2004	Comfrey	$10,000 permanent increase because much of its pre-1940 housing, which was a factor in determining LGA "need," was destroyed in a tornado
2006	Cities with a population under 5,000	$6 per capita, to provide extra aid to cities that do not qualify for municipal street aid (this was repealed and moved to the general formula in 2009)
2009	Taylor's Falls	$30,000 permanent increase to compensate for extra public safety costs due to climbing accidents in the state park located in the city
2009	Mahnomen	$80,000 permanent increase to compensate for lost in-lieu of property tax tribal payments for the Shooting Star Casino. This was permanently increased to $160,000 in CY 2014.
2009	Rockville	$30,000 for one year only to cover residual costs related to the consolidation with the city of Pleasant Lake and the town of Rockville
2009	Browns Valley	$100,000 permanent increase related to flooding issues
2009	Crookston	$100,000/year for five years to cover costs of relocating buildings on the flood plain
2009	Mendota	$25,000/year for five years to cover some high sewer infrastructure costs
2009	Spring Lake Park	$90,000 for one year only to compensate for aid lost due to the change in the data year used in the formula to calculate aid
2009	Newport	$75,000/year for six years to cover additional costs to the city related to the extension of the Wacouta bridge project due to construction flaws
2010	Coon Rapids	$225,000 for one year only to compensate for the elimination of its last payment under its 1998 special provision due to the governor's 2008 December LGA unallotment
2010	St. Paul	$25,000 for one year only to allow the city to compensate certain farmer's market participants who were excluded, due to size, from farm relief hail damage compensation program
2010	Houston	$106,694 for one year only to compensate for a larger 2009 aid cut because 2007 rather than 2008 population was used in determining the size of the reduction
2014	Red Wing	$1,000,000 for one year only to deal with additional costs of securing nuclear power facilities and storage

Policy Considerations in Designing an LGA Formula

The local government aid program in Minnesota has always served several, often competing, political and policy goals. The form of the program has fluctuated over time as one or another goal has risen in importance. Often policymakers have attempted to meet several goals at once. These goals include revenue sharing, property tax relief, equity, municipal overburden, regional balance, stability and predictability, adequacy, and addressing unique circumstances.

- **Revenue sharing** – it is sometimes more efficient and leads to less economic distortion to collect certain taxes, such as sales and income, at the state level, but it is often more efficient to provide services at the local government level. LGA provides a means of moving the tax revenue from the collecting government to the level of government providing the services. This goal was the primary focus of the LGA program from 1967 to 1971 and remained a main goal during the period of 1972 to 1975. As more cities have fallen off the LGA formula and had their aid reduced to zero in recent years, the idea of providing at least a minimal amount of aid to all cities has once again emerged.

- **Property tax relief** – property taxes are often perceived as the most onerous of the three major taxes and local government aid has been used to reduce property taxes throughout the state. The largest differential in property tax levels generally occurs at the municipal (city and town) level, so a program aimed at that level can better target property tax disparities. This was a primary goal of the LGA program for most of the period from 1970s and the 1980s, which is demonstrated by the fact that levy limits were heavily dependent on aid amounts. However, beginning in 1984 the competing goal of providing equity began to gain prominence. Property tax relief has never completely been eliminated as a goal of the LGA program but it mainly has come into play during periods of major property tax reform such as 2001.

- **Equity** – local governments face different levels of services need, depending on a number of factors, including demographics, geographic area, population density, and age of infrastructure, and have different abilities to pay for those services locally through property taxes. LGA can mitigate these differences in both need and ability to pay. This has been probably the most important policy goal for the LGA program since the LGA studies in the early 1990s.

- **Municipal overburden** – this is related to equity. Some cities face higher costs because they provide city services to residents as well as nonresidents who commute into the city for a number of reasons, ranging from jobs, to cultural and recreational amenities, or educational opportunities. Overburden was the impetus for including motor vehicle accident rates as a factor in the 2004 LGA formula, and was a major focus of the 2012 mayors working group.

- **Regional balance** – major changes in state funding for many state/local programs, such as education and human services, can have different impacts on property taxes in different areas of the state. LGA can be used to balance out the property tax relief provided through other programs across regions. An example of this was during the property tax reform of 2001 when legislators were particularly interested in seeing how the distribution of increased LGA balanced out with changes in other aid programs by geographic regions. This was a factor in the LGA discussions leading to the 2014 city-designed formula and is becoming an increasing issue again.

- **Stability and predictability** – cities generally try to keep property taxes stable, without wild year-to-year shifts. If LGA payments are viewed as unpredictable or unreliable, a local government is more likely to use LGA to pay for onetime costs rather than reduce property tax levies. This became a particular issue with the volatility of the formula enacted beginning with aids paid in CY 2004 and was a major factor in the design of the new LGA formula that was used to distribute LGA beginning in CY 2014.[51]

- **Adequacy** – if the appropriation for the LGA program does not grow with the cost of providing local government services, either (1) the costs of providing those services get shifted to other local government revenue sources such as property taxes or licenses and fees, or (2) a local government may decide to delay certain spending, particularly in the area of capital maintenance. Adequacy of course is in the eye of the beholder and an LGA appropriation that a policymaker might consider adequate may be considered inadequate by a city lobbyist. During the 1990s there was general agreement between policymakers and city groups that the automatic appropriation growth was providing adequate growth with neither group proposing changes to the resulting funding levels.

- **Address unique circumstances** – no general aid program can adequately address every unique circumstance affecting the revenue and spending needs for more than 850 cities. At various times, portions of the total LGA appropriation have been specifically directed to certain cities or city types to address unique circumstances that affect only a subset of cities. Some of these "unique circumstances" may be more politically driven than policy driven, but generally since the middle 1990s, there has been a willingness to consider some additional funding for cities that make a compelling case for having special needs.

[51] It should be noted that there is a direct tradeoff between stability and equity since a stable formula will, by its nature, be less sensitive to changing circumstances for different cities.

Appendix: Summaries of LGA Provisions from 1972 to 2020

Note: These tables show the calculation for aids certified to be paid in the indicated calendar years. Because certification occurs in the fall prior to the year in which the aid is paid, any changes to the calculation usually occur in the prior legislative session, for instance the 1972 LGA amounts were based on the new LGA program passed by the legislature in 1971.

Table 1a
CY 1972 and 1973 LGA Program within the Nonmetropolitan Counties

Amount appropriated	For each county an amount equal to the greater of: (1) $25/capita in CY 1972 and $27/capita in CY 1973; or (2) the amount of tax-sharing revenues that went to nonschool governments in that county in 1971
Distribution to local governments within each county:	
Each county	A percentage of the total equal to the same percentage as the county share of the nonschool portion of the repealed shared taxes in 1971
Each special taxing district	The amount it received in shared taxes in 1971
Each city and town	The greater of: (1) the amount it received in shared taxes in 1971; **or** (2) a share of the remaining county appropriation (after the county and special taxing district distributions) equal to the ratio of its levy to the total levy for all cities and towns in the county

Table 1b
CY 1972 and 1973 LGA Program within the Seven-county Metropolitan Area

Amount appropriated	For the entire region an amount equal to: - $27/capita in CY 1972 and - $29/capita in CY 1973
Distribution to local governments within the region:	
Each county	The total distributed among county governments is equal to: - 18.5% of $26 multiplied by regional population in CY 1972 - 17.5% of $28 multiplied by regional population in CY 1973 Each county's share is based on the ratio of its 1971 property tax levy to the 1971 property tax levy of all seven counties
Each special taxing district	The amount it received in shared taxes in 1971
Each city and town	For Minneapolis and St. Paul: - For CY 1972, a share of the remaining allocation based on $26/capita after the county and special taxing district distributions

	The share is based on the portion of their levies to the total levies of all cities and towns in the region. - For CY 1973, a share of the remaining allocation based on \$28/capita after the county and special taxing district distributions. The share is based on the portion of their levies to the total levies of all cities and towns in the region. For all other cities and towns, the greater of: (1) the amount it received in shared taxes in 1971, or (2) a share of the remaining regional appropriation (after the county, special taxing district, and Minneapolis and St. Paul distributions) equal to the ratio of its levy to the total levy for all cities and towns in the region

Table 2a
CY 1974 and 1975 LGA Program within the Nonmetropolitan Counties

Amount appropriated	For each county an amount equal to the greater of: - \$35/capita in CY 1974 and - \$36/capita in CY 1975
Amount distributed to local governments within each county as follows:	
Each county	85% of the *percentage* that the county received of the nonschool portion of the repealed shared taxes in 1971
Each special taxing district	The amount it received in shared taxes in 1971
Each city and town	A share of the remaining county appropriation (after the county and special taxing district distributions) equal to the ratio of (1) its levy limit plus special levies, to (2) the total levy limit and special levies for all cities and towns in the county[52] for the previous year.
Adjustments for shared tax losses	If the amount that a county, city, or town receives under the formula is less than the following guaranteed amount, its aid is adjusted upward to that amount. The guaranteed amount is equal to the sum of its: ▪ 1973 LGA; ▪ 1973 cigarette tax and liquor tax distributions; ▪ November 30, 1972, and May 31, 1973, bank excise tax distribution; ▪ 50% of the county's 1973 inheritance tax distribution; ▪ 70% of the county share and 100% of the city or town share of the 1973 mortgage tax distribution; and ▪ 1973 gross earnings tax distribution to a city or town. If the total LGA allocated to a county is less than the guaranteed sum for the county, and all cities and towns in the county, the additional money is provided from the state general fund; otherwise, the payments to

[52] For cities and towns not subject to levy limits, their actual levy is used in place of their levy limit plus special levies.

	other jurisdictions in the county are reduced proportionately to fund the guaranteed amounts.

Table 2b
CY 1974 and 1975 LGA Program within the Seven-county Metropolitan Area

Amount appropriated	For the entire region an amount equal to: - \$36/capita in CY 1974 and - \$37/capita in CY 1975
Amount distributed to the region as follows:	
Each county	The total distributed among county governments is equal to 16% of the total. Each county's share is based on the ratio of its property tax levy in the previous year to the property tax levy of all seven counties in the previous year.
Each special taxing district	The amount it received in shared taxes in 1971
Each city and town	A share of the remaining region's appropriation (after the county and special taxing district distributions) equal to the ratio of (1) its levy limit plus special levies, to (2) the total levy limit and special levies for all cities and towns in the county[53] for the previous year.
Adjustments for shared tax losses	If the amount that a county, city, or town receives under the formula is less than the following guaranteed amount, its aid is adjusted upward to that amount. The guaranteed amount is equal to the sum of its: ▪ 1973 LGA; ▪ 1973 cigarette tax and liquor tax distributions; ▪ November 30, 1972, and May 31, 1973, bank excise tax distribution; ▪ 50% of the county's 1973 inheritance tax distribution; ▪ 70% of the county share and 100% of the city or town share of the 1973 mortgage tax distribution; and ▪ 1973 gross earnings tax distribution to a city or town. If the total LGA allocated to the region is less than the guaranteed sum for all counties, cities, and towns in the region, the additional money is provided from the state general fund, otherwise the payments to other jurisdictions in the region are reduced proportionately to fund the guaranteed amounts.

[53] For cities and towns not subject to levy limits, their actual levy is used in place of their levy limit plus special levies.

Table 3
CY 1976-1977 LGA Program

Amount appropriated	For the seven-county metro region or each greater Minnesota county an amount equal to: - $42/capita in CY 1976 and - $45/capita in CY 1977
Amount distributed within the region or county as follows:	
Each county	All counties except counties containing a city of the first class (Hennepin, Ramsey, and St. Louis counties), received an amount equal to its LGA in 1975. Hennepin, Ramsey, and St. Louis counties received $0.[54]
Each special taxing district	The amount it received in shared taxes in 1975
Each city and town	Each city and town received a formula aid amount equal to a share of the remaining LGA allocation for the region based on the ratio of: (1) its 1970 population or the average of its 1970 and most recent population estimate, multiplied by its average mill rate for the previous three years and its aggregate sales ratio,[55] to (2) the sum of the calculation in clause (1) for all cities and towns in the county or area.
Grandfathered aid amount for cities and towns	No city or town could receive total aid less than its 1975 LGA amount (i.e., “grandfathered aid”). If necessary the total aid to other cities and towns in the county or region would be proportionately reduced so that all cities and towns in the county or region received aid equal to at least their 1975 LGA amounts.

Table 4
CY 1978 LGA Program

Amount appropriated	For the seven-county metro area or each greater Minnesota county, an amount equal to $52/capita based on 1970 population
Amount distributed within the region or county as follows:	
Each county	All counties except counties containing a city of the first class (Hennepin, Ramsey, and St. Louis Counties), received an amount equal to their LGA in the previous year. Hennepin, Ramsey, and St. Louis Counties received $0.
Each special taxing district	The amount it received in the previous year

[54] Freezing LGA in most counties, and reducing it to zero in the other three counties, was a legislative response to a major increase in welfare aids in the same year. From this point on LGA became primarily a city and town relief program with counties receiving more property tax relief through categorical aids.

[55] “Aggregate sales ratio” for each local government, which is still determined annually by the Department of Revenue, reflects the difference between assessed values and actual sales values for various types of property in a taxing jurisdiction. Adjusting the calculations by the sales ratio mitigates the differences in mill rates caused by different assessment practices across the state.

Each city and town	Each city and town received a formula aid amount equal to a share of the remaining LGA allocation for the region based on the ratio of: (1) its 1970 population multiplied by its average mill rate, for the previous three years and its aggregate sales ratio, to (2) the sum of the calculation in clause (1) for all cities and towns in the county or area. ***Note for the cities of Minneapolis and St. Paul only*:** The three-year average mill rate used in the calculation above was replaced with a number equal to the three-year average of (1) the sum of 60% of the city's levy limit plus special levies and 40% of its actual levy, divided by (2) its taxable market value, adjusted for fiscal disparities contributions and distributions.
Grandfathered aid amount for cities and towns	No city or town could receive less total aid than its LGA in the previous year (i.e. "grandfathered aid"). If necessary, the total aid to other cities and towns would be proportionately reduced so that all cities and towns in the county or area received aid equal to at least their LGA in the previous year.

Table 5
CY 1979 LGA Program

Amount appropriated	For the seven-county metro area or each greater Minnesota county, an amount equal to $59/capita based on 1970 population
Amount distributed within the region or county as follows:	
Each county	All counties except counties containing a city of the first class (Hennepin, Ramsey, and St. Louis counties), received an amount equal to their LGA in the previous year. Hennepin, Ramsey, and St. Louis counties received $0.
Each special taxing district	The amount it received in the previous year
Each city and town	Each city and town received a formula aid amount equal to a share of the remaining LGA allocation for the region based on the ratio of: (1) the product of (i) the greater of its 1970 population or the average of its 1970 population and current population, and (ii) its average mill rate, for the previous three years and its aggregate sales ratio, to (2) the sum of the calculation in clause (1) for all cities and towns in the county or area. ***Note for the cities of Minneapolis and St. Paul only***: The three-year average mill rate used in the calculation above was replaced with a number equal to the three-year average of (1) the sum of 60% of the city's levy limit plus special levies and 40% of its actual levy, divided by (2) its taxable market value, adjusted for fiscal disparities contributions and distributions.
Grandfathered aid amount for cities and towns	No city or town could receive less than its LGA in the previous year (i.e., "grandfathered aid"). If necessary, the total aid to other cities and towns

	was proportionately reduced so that all cities and towns in the county or area received aid equal to at least their LGA in the previous year.

Table 6
CY 1980 LGA Program

Amount appropriated	An amount equal to $64 per capita for all persons in the state for CY 1980
Amount distributed by type of government as follows:	
Each county	All counties except counties containing a city of the first class (Hennepin, Ramsey, and St. Louis counties), received an amount equal to their LGA in the previous year plus an increase of $1 per capita, based on the 1970 population. Hennepin, Ramsey, and St. Louis counties received $0.
Each special taxing district	LGA payments to special taxing districts eliminated beginning with aids payable in 1980.
Each city and town *not subject to levy limits*	Each city and town receives aid equal to its LGA in CY 1979 (i.e., “grandfathered aid”). The formula is used to distribute *increases* in aid among these cities and towns based on each municipality’s average equalized mill rate for the last three years as follows: - $1 per capita if average mill rate is ten or less - $3 per capita if average mill rate is greater than ten but less than 20 - $5 per capita if average mill rate is 20 or more
Each city and town *subject to levy limits*[56]	The city of Minneapolis receives no increase, but continues to get its 1979 aid amount. For all other cities and towns, preliminary aid is based on the difference between the municipality’s levy limit[57] plus LGA from the previous year and the amount raised by its local tax base multiplied by ten mills as follows. If the amount distributed does not equal the amount available for distribution, each of these cities and towns will have their aid adjusted proportionately. However the final amount paid to each city or town in this group must meet the following criteria for minimum and maximum increases: Minimum increases are: - $1 per capita if its average mill rate is ten or less - $3 per capita if its average mill rate is more than ten but less than 20 - $5 per capita if its average mill rate is 20 or more. Maximum increases are: - 12% if its 1979 aid is more than $100/capita

[56] These include cities with a population of 2,500 or more and towns with city powers and a population of 2,500 or more.

[57] Only 85 percent of its levy limit is included in the calculation for the city of St. Paul.

	- 15% if its 1979 aid is more than $75 but no more than $100/capita - 17% if its 1979 aid is more than $50 but no more than $75/capita - 20% if its 1979 aid is no more than $50/capita

Table 7
CY 1981 LGA Program

Amount appropriated	An amount equal to $70 per capita for all persons in the state for CY 1980
Amount distributed by type of government as follows:	
Each county	All counties except counties containing a city of the first class (Hennepin, Ramsey, and St. Louis counties), received an amount equal to their LGA in the previous year plus an increase of $1 per capita, based on the 1970 population. Hennepin, Ramsey, and St. Louis counties received $0.
Each city and town *not subject to levy limits*	Each city and town receives aid equal to its LGA in CY 1980 (i.e., "grandfathered aid"). The formula is used to distribute *increases* in aid among these cities and towns, based on each municipality's average equalized mill rate for the last three years, as follows: - $1 per capita if average mill rate is ten or less - $4 per capita if average mill rate is greater than ten but less than 20 - $6 per capita if average mill rate is 20 or more
Each city and town *subject to levy limits*[58]	For these cities and towns preliminary aid is based on the sum of (1) the municipality's 1979 levy limit[59] plus 1979 LGA adjusted for municipal population increases and the increase in the consumer price index, and (2) additional amounts levied for certain special purposes in the previous year; *minus* the amount raised by its local tax base multiplied by ten mills. If the amount distributed does not equal the amount available for distribution, each of these cities and towns will have their aid adjusted proportionately. However the final amount paid to each city or town in this group must meet the following criteria for minimum and maximum increases: Minimum increases are: - $1 per capita if its average mill rate is ten or less - $4 per capita if its average mill rate is more than ten but less than 20 - $6 per capita if its average mill rate is 20 or more Maximum increases are: - 12% if its 1979 aid is more than $100/capita - 15% if its 1979 aid is more than $75 but no more than $100/capita - 17% if its 1979 aid is more than $50 but no more than $75/capita - 20% if its 1979 aid is no more than $50/capita

[58] These include cities with a population of 2,500 or more, and towns with city powers and a population of 2,500 or more.

[59] Only 85 percent of the levy limit is included in the calculation for the cities of St. Paul and Minneapolis.

Table 8
CY 1982-1983 LGA Program[60]

Amount appropriated	Open and standing appropriation but limited to a total of $240,725,464[61] for CY 1982 and $270,561,978 for CY 1983
Amount distributed by type of government as follows:	
Each county	All counties except counties containing a city of the first class (Hennepin, Ramsey, and St. Louis counties), received an amount equal to its LGA in the previous year. Hennepin, Ramsey, and St. Louis counties received $0.
Each city and town with a population less than 2,500	Each city and town receives aid equal to its LGA in the previous year plus an increase based on its average equalized mill rate for the last three years, as follows: - $0 if average mill rate is ten or less - $3 per capita if average mill rate is greater than ten but no more than 20 - $5 per capita if average mill rate is greater than 20
Cities and towns with a population of at least 2,500	For these cities and towns, preliminary aid is based on its revenue base (levy plus aids) from the previous year, minus certain debt levies, and multiplied by the percentage increases in the municipality's population and the increase in the consumer price index, and *minus* the amount raised by its local tax base multiplied by ten mills.[62] If the amount distributed does not equal the amount available for distribution, each of these cities and towns will have their aid adjusted proportionately. However, the final amount paid to each city or town in this group must meet the following criteria for minimum and maximum increases: Minimum increases are: - $1 per capita if its average mill rate is ten or less - $3 per capita if its average mill rate is more than ten but no more than 20 - $5 per capita if its average mill rate is 20 or more Maximum increases are: - 12% if its aid in the previous year is more than $100/capita - 15% if its aid in the previous year is more than $75 but no more than $100/capita

[60] The LGA statutes contained in chapter 477A were recodified in the 1981 session. Although only minor changes were made to the mechanism for distributing the LGA among counties, cities, and towns, the recodification made the statutes much easier to understand.

[61] The original appropriation limit for the CY 1982 aid payment was $270,725,464 but it was decreased by $30 million in a1981 special session in response to a budget crisis (Laws 1981, 3rd spec. sess. ch. 2, art. 4, § 12). Because 1982 aid payments had already been certified to individual governments, based on the original appropriation, payments to all cities, towns, and counties in 1982 were reduced equally by roughly 8.9 percent from the certified amounts. These became the new starting point for calculating 1983 aid increases.

[62] Including only 85 percent of its levy limit in the calculation for the cities of St. Paul and Minneapolis in 1980 carried over into the newly established revenue base for those two cities.

	- 17% if its aid in the previous year is more than \$50 but no more than \$75/capita - 20% if its aid in the previous year is no more than \$50/capita

Table 9
CY 1984 LGA Program

Amount appropriated	Open and standing appropriation for the entire program but limited to a total of \$8,750,000 for town payments and \$246,200,000 for payments to cities. The county amount was equal to 60% of the amount paid to counties in 1983.
Amount distributed by type of government as follows:	
Each county	All counties received an amount equal to 60% of their 1983 LGA amount. For Hennepin, Ramsey, and St. Louis counties their 1983 LGA was \$0, so they continued to receive \$0.
Each town	Each town with an averaged equalized mill rate of two mills received 50% of its 1983 total payments in LGA, attached machinery aid, and low-income housing reimbursements.[63]
Each city	Each city's preliminary aid is based on its adjusted revenue base[64] *minus* the amount raised by its local tax base multiplied by ten mills. If the amount distributed does not equal the amount available for distribution, each of these cities and towns will have their aid adjusted proportionately. However, the final amount paid to each city or town in this group must meet the following criteria for minimum and maximum aid amounts: Minimum aid is equal to (1) the sum of the city's total aid in 1983 from LGA, attached machinery aid, and low-income housing reimbursements minus (2) three-fourths of a mill multiplied by its equalized assessed value for all property in the city. Maximum aid is 106% of its total aid in 1983 from LGA, attached machinery aid, and low-income housing reimbursements.[65]

[63] Prior to 1984 there existed two aid programs to local governments related to reducing or eliminating the local property tax on certain properties. Minnesota Statutes 1982, section 273.138, was attached machinery aid, which was used to compensate local governments for tax base loss when most personal property was exempted from property taxes in 1971. Minnesota Statutes 1982, section 273.139, provided for reimbursements of lost tax base when the property tax assessment rate was reduced for certain low-income housing in 1981. Both of these programs were repealed by the 1983 Legislature.

[64] For aid payable in 1984 the "adjusted revenue base" is equal to a city's revenue base (levy plus aids) from 1981, prior to the aid reductions in 1982 and 1983, minus certain debt levies, and multiplied by the percentage increases in the municipality's population and the increase in the consumer price index for two years.

[65] The maximum amount was increased to also compensate for prospective reimbursement aid losses for certain low-income housing projects started by March 1, 1983, but not completed in time to be included in the 1983 reimbursement calculation.

Table 10
CY 1985 LGA Program

Amount appropriated	Open and standing appropriation for the entire program. Due to few changes in the program, the legislature was able to estimate the actual payment to be made fairly accurately, without the need for a statutory cap.
Amount distributed by type of government as follows:	
Each county	As in 1984, all counties received an amount equal to 60% of their 1983 LGA amount. For Hennepin, Ramsey, and St. Louis counties, their 1983 LGA was $0 so they continued to receive $0.
Each town	As in 1984, each town with an averaged equalized mill rate of one mills received the *greater* of (1) 50% of its 1983 total payments in LGA, attached machinery aid, and low-income housing reimbursements, or (2) the amount it would receive if it was subject to the city formula shown below.
Each city	For each city, aid is based on its adjusted revenue base[66] *minus* the amount raised by its local tax base multiplied by ten mills. No city's aid can be less than its aid in the previous year or more than 106% of its aid in the previous year.

Table 11
CY 1986-1987 LGA Program

Amount appropriated	Open and standing appropriation for the entire program. The total amount paid to cities is limited to $286,000,000 in CY 1986 and $297,440,000 in CY 1987.
Amount distributed by type of government as follows:	
Each county	All counties received an amount equal to 60% of their 1983 LGA amount. For Hennepin, Ramsey, and St. Louis counties, their 1983 LGA was $0 so they continued to receive $0.
Each town	Each town with an averaged equalized mill rate of one mills received the *greater* of (1) 60% of its 1983 total payments in LGA, attached machinery aid, and low-income housing reimbursements, or (2) 106% of the amount it received in the previous year.
Each city	For each city a preliminary aid amount is set equal to the greater of (1) its average fiscal need, minus an amount equal to its local effort mill rate multiplied by its equalized tax base, or (2) its aid from the previous year. The following terms mean: ▪ "Average fiscal need" is its average levy plus aid for the previous three years; and

[66] "Adjusted revenue base" is the adjusted revenue base from the previous year, increased for inflation and population growth.

	▪ "local effort mill rate" is the sum of (1) a mill rate needed applied to a tax base of $17,000 per capita to raise an amount needed to pay for up to its first $350 per capita of average fiscal need, plus (2) the mill rate needed if applied to a tax base of $15,000 per capita to raise any part of its average fiscal need in excess of $350 per capita.[67] The aid *increase* for all cities is then decreased proportionately so that the total aid paid does not exceed the limit on the amount going to all cities, and the maximum increase to each city does not exceed 6% of the previous year's aid in CY 1986 and 5.8% of the previous year's aid in CY 1987.

Table 12
CY 1988 LGA Program

Amount appropriated	Open and standing appropriation for the entire program. LGA for almost all local governments is frozen at 1987 aid amounts.
Amount distributed by type of government as follows:	
Each county	Frozen at 1987 LGA amounts
Each town	Each town with an averaged equalized mill rate of one mill received the *greater* of (1) 60% of its 1983 total payments in LGA, attached machinery aid, and low-income housing reimbursements, or (2) its 1987 LGA amount. (This will be the 1987 aid amount except for cities that did not have a levy of at least one mill in 1987.)
Cities	Frozen at 1987 LGA amounts

Table 13
CY 1989 LGA Program

Amount appropriated	Open and standing appropriation for the entire program
Amount distributed by type of government as follows:	
Each county	Frozen at 1987 LGA amounts for CY 1989
Each town	For CY 1989, each town with an averaged equalized mill rate of one mill in 1988 received the *greater* of (1) 60% of its 1983 total payments in LGA, attached machinery aid, and low-income housing reimbursements, or (2) its 1987 LGA amount. (This will be the 1987 aid amount except for cities that did not have a levy of at least one mill in 1987.)
Cities	A city's preliminary aid increase is equal to a percent of its "city revenue"; where the percent is based on the ratio of what it raised in

[67] Another way to think about this is that the formula compensates a city for a tax base less than $17,000 per capita for its average spending up to $350 per capita, and it compensates the city for a tax base less than $15,000 per capita for any average spending beyond $350 per capita.

	"city revenue" in the previous year, compared to its "fiscal need." For purposes of this calculation: ▪ City revenue = a city's levy plus LGA in the previous year ▪ Fiscal need[68] = {\$160 + [\$150 x ($\log_{10}$Population-1) x 1.15 if population has decreased in last three years (or 1.00 otherwise) + 190 if a first-class city or a city outside the seven-county metropolitan area} x 1.08 x number of households ▪ The percent of previous year levy paid ranges from a high of 9% if the ratio of "city revenue" to "fiscal need" is less than .75 to only 2% is the ratio of "city revenue" to "fiscal need" is more than 1.5. The preliminary aid increase for any city may not be less than 2% of its LGA in the previous year or more than (1) 20% of its levy in the previous year or (2) its "fiscal need" minus 0.23 x city net tax capacity,[69] whichever is less. In 1989 only, cities with a population over 2,500 only were allowed an additional increase equal to 50% of the product of (1) the lesser of its "city revenue" or its "fiscal need," and (2) one minus the ratio of the city's net tax capacity per household to 435. This additional aid amount is reduced by the city's preliminary aid increase and its disparity aid.[70] This additional aid increase may not be less than zero. Final city LGA in CY 1989 to each city equals the sum of its LGA in the previous year, plus its preliminary aid increase plus its additional aid increase (if any).

Table 14
CY 1990 LGA Program

Amount appropriated	Open and standing appropriation for the entire program
Amount distributed by type of government as follows:	
Each county	LGA to each county is equal to its previous year's LGA minus an amount equal to the reduction in county costs associated with the state assumption of the payment of a number of court functions.

[68] In the statute, "fiscal need" is called "city revenue guarantee." It is the sum of two other factors called "basic revenue guarantee" and "revenue guarantee increase." The formula shown here combines the calculation for both of these factors into one formula.

[69] Laws 1989, first special session, chapter 1, contained a major reform of the property tax system beginning in CY 1990. This included changing terminology and calculations used to describe the property tax base and tax rates. The term "assessed value" was replaced with the term "net tax capacity" and "mill rate" was replaced with "tax capacity rate." These changes are reflected in the LGA formula.

[70] Disparity aid was a new program based on the levy of total taxes in a taxing jurisdiction that was part of the 1988 property tax reform package.

<table>
<tr><td>Each town</td><td>If a town imposed a tax capacity rate[71] of at least 0.008, it received an amount equal to 106% of its LGA amount from the previous year minus 3.4% of its net tax capacity. This amount was shifted to the school aid formula, so the town aid loss was offset by an equal school aid increase.</td></tr>
<tr><td>Cities</td><td>The formula for calculating city aid in 1990 was essentially the same as the 1989 formula with the following changes:
▪ the percent of previous levy granted based on the ratio of the city’s “revenue need” to “fiscal capacity” were cut in half from the 1989 percentages;
▪ the preliminary aid increase for any city may not be less than 2% of its LGA in the previous year or more than (1) 20% of its levy in the previous year, (2) its “fiscal need” minus 0.23 x city net tax capacity, or (3) 15% of it levy in the previous year, whichever is less;
▪ the formula for extra aid for cities with a population over 2,500 was eliminated; and
▪ total LGA to each city was reduced by 3.4% of its net tax capacity. This amount was shifted to the school aid formula, so the city aid loss was offset by an equal school aid increase.

A new formula for equalization aid was also enacted for 1990 that provided additional aid to any city, except a first-class city (Minneapolis, St. Paul, and Duluth), with a net tax capacity less than $900 per capita. The amount of aid was equal to 36% of the city’s average levy for the last three years, minus the city’s disparity reduction aid and preliminary aid increase amount, and reduced proportionately as the city’s tax base approached $900 per capita. In 1990, this amount was used to reduce a city’s gross levy before it was spread on the tax base. Beginning in 1991, it is part of city general purpose LGA but it has a separate limit on the amount paid under this portion of the city formula.

The actual LGA payments to cities were cut post-certification under 1990 legislation (see box below).</td></tr>
</table>

Aid Cuts Due to State Budget Crisis in 1990

1990 legislation mandated a reduction to city, town, and county LGA after certification but before payment to help close a state budget deficit. Each jurisdiction’s aid was cut by a percent of its total levy plus aid in 1990, with the percent chosen so the total cuts to all jurisdictions equaled $27 million. Cuts were first made to LGA, and if that was not sufficient, then to city equalization aid, homestead and agricultural credit aid (HACA), and then, if necessary, from disparity reduction aid.

[71] In 1988, the property tax system underwent a major reform that included changing terminology and calculations used to describe the property tax base and tax rates. The term “assessed value” was replaced with the term “net tax capacity” and “mill rate” was replaced with “tax capacity rate.” These changes are reflected in the LGA formula.

Table 15
CY 1991 LGA Program

Amount appropriated	Open and standing appropriation for the entire program. The only limit is a maximum payment of $19.49 million in equalization aid.
Amount distributed by type of government as follows:	
Each county	The amount of aid that the county received in 1990 after the post-certification reduction for that year, plus some additional adjustments for the 1990 state takeover of court costs. A post-certification aid cut was made again in 1991 (see box at the end of the city formula amount) that reduced all county LGA to zero.
Each town	If a town imposed a tax capacity rate of at least 0.008, it received an amount equal to its paid CY 1990 LGA amount. A post-certification aid cut was made again in 1991 (see box at the end of the city formula amount).
Each city	A city's preliminary aid increase is equal to a percent of its "city revenue"; where the percent is based on the ratio of what it raised in "city revenue" in the previous year, compared to its "fiscal need." For purposes of this calculation: ▪ City revenue = a city's levy plus LGA in the previous year ▪ Fiscal need = {$160 + [$150 x ($\log_{10}$Population-1) x 1.15 if population has decreased in last three years (or 1.00 otherwise) + 190 if a first-class city or a city outside the seven-county metropolitan area} x 1.08 x number of households ▪ The percent of previous year levy ranges from a high of 9% if the ratio of "city revenue" to "fiscal need" is less than 0.75 to only 2% if the ratio of "city revenue" to "fiscal need" is more than 1.5. The preliminary aid increase for any city may not be less than 2% of its LGA in the previous year or more than (1) 20% of its levy in the previous year, (2) its "fiscal need" minus 0.23 x city net tax capacity, or (3) 15% of the previous year's LGA, whichever is less. LGA in CY 1991 to each city equals the sum of its certified 1990 LGA, its preliminary aid increase, and its 1990 equalization aid amount, reduced by the amount of its post-certification 1990 aid reductions in LGA and equalization aid.

Aid Cuts Due to State Budget Crisis in 1991

1991 legislation reduced aids to counties, cities, towns, and special districts, after certification to continue to close an ongoing state budget deficit. Cuts were first made to LGA, and if that was not sufficient, then to equalization aid, homestead and agricultural credit aid (HACA), and then, if necessary, from disparity reduction aid. July 1991 payments were reduced by $50 million, and

December 1991 payments were reduced by $35 million. Cuts to each jurisdiction were based on a percent of its 1991 levy plus 1991 certified LGA and taconite aid. The July cuts were equal to 2.01% of revenue base, and the December cuts were equal to 1.6% of revenue base.

Table 16
CY 1992 LGA Program

Amount appropriated	Open and standing appropriation for the entire program. The only limit is a maximum payment of $19.49 million in equalization aid.
Amount distributed by type of government as follows:	
Each county	Each county's aid is its CY 1991 certified LGA[72] and decreased by additional costs assumed by the state related to courts and public defenders. LGA for all counties is zero from this point on. In 1992, a new separate county aid program is started—county criminal justice aid (CCJA).
Each town	If a town imposed a tax capacity rate of at least 0.008, its certified LGA is equal to its 1991 certified LGA amount, minus an amount equal to roughly 4.03% of the sum of its 1991 levy, LGA, and taconite aid.
Each city	A city's CY 1992 LGA, including equalization aid is equal to its CY 1991 certified aid (LGA plus equalization aid), minus an amount equal to roughly 4.03% of the sum of its 1991 levy, LGA, and taconite aid.

City and Town December LGA Payment Increases in 1992

Beginning with aids payable in 1991, a number of aid programs, including LGA, equalization aid, homestead and agricultural credit aid, and others were paid from a new fund called the Local Government Trust Fund (LGTF). The money in this fund came from a county-imposed ½ cent sales tax and a dedication of 25% of the revenue from the state general 6.0% tax. All aids paid from the fund were to be adjusted proportionately from their certified amounts based on actual money in the fund. The December 1992 LGA payments to cities and towns were increased by roughly 17%, for a total of $27 million above certified amounts because of additional projected revenue in the LGTF in FY 1993.

Table 17
CY 1993 LGA Program

Amount appropriated	Open and standing appropriation for the entire program
Amount distributed by type of government as follows:	
Each town	If a town imposed a tax capacity rate of at least 0.008, its certified LGA is equal to its 1992 certified LGA plus an additional $1 per capita

[72] The 1991 certified aid amounts are the amount *before the onetime post-certification aid cuts made to July and December 1991 aid payments.*

Each city	Frozen at 1992 LGA amounts, except that aid under the equalization formula may increase up to a maximum total of $20.011 million. The equalization aid for a city is equal to: ▪ its CY 1990 equalization aid, after any permanent reductions; plus an amount equal to: ▪ the product of (1) 30%, (2) the difference between a city's average levy for the last three years and the sum of its disparity reduction aid and equalization aid from the previous year, and (3) one minus the ratio of its net tax capacity per capita to $900. The equalization aid for a city may not be less than $0 nor may it increase by more than 12% of its amount in the previous year. If the sum of all city's equalization aid exceeds the limit in the appropriation, the increases are reduced proportionately.

Table 18
CY 1994-2003 LGA Program

Amount appropriated	Open and standing appropriation for the entire program. The limit on aid paid to all cities in CY 1994 was $330,636,900. The limit on aid paid to all cities in CY 1995 was $337,249,600. Beginning with CY 1996, the limit on the city appropriation grew between 2.5% and 5.0% annually, based on the growth rate in the implicit price deflator for state and local governments.
Amount distributed by type of government as follows:	
Each town	If a town imposed a tax capacity rate of at least 0.008 in 1993, its certified LGA is as follows: ▪ in CY 1994, an amount equal to its 1993 certified LGA; ▪ in CY 1995, an amount equal to 102% of its CY 1993 LGA; ▪ in CY 1996 and thereafter, an amount equal to its LGA in the previous year; and ▪ beginning with CY 2002, the LGA for each town was set at zero.[73]
Each city	Each city was guaranteed an aid base amount equal to its 1993 LGA plus equalization aid, plus disparity reduction aid amount.[74] Beginning with aids payable in 2002, the aid base also included an additional payment, referred to as regional center aid, for each city located outside of the seven-county metropolitan area with a population of 10,000 or more. Regional center aid was equal to $60 multiplied by

[73] A new town aid formula was enacted in 2014 (Minn. Stat. § 477A.013, subd. 1). This aid has commonly been called town aid rather than town LGA and is not usually included in LGA discussions. It has a separate appropriation and is not covered in this publication.

[74] In the original 1993 legislation, the total of this amount was to be reduced beginning in CY 1995 every year by one dollar for every dollar increase in the LGA appropriation. This reduction to the guaranteed aid base was eliminated in 1994 legislation. City aid base also includes extra aid provided to specific cities based on special city circumstances. See Table 4 on page 24.

	the city's population in excess of 5,000; up to a maximum of $2.5 million per city. A city's LGA increase was equal to a percent of its unmet need. The percent, which was the same for each city,[75] was set so that total LGA paid to all cities equaled the appropriation. "Unmet need" is the difference between its (1) "need measure" multiplied by its population, and (2) its tax capacity multiplied by the average city tax rate for all cities. The "need measure" for a city was determined by the following four factors: ▪ percent of housing stock built before 1940, according to the 1990 census; ▪ percent of property tax base classified as commercial and industrial property; ▪ percent of population decline, if any, for the most recently available ten-year period; and ▪ a city's most recent population estimate. The weights given to the four factors in determining need differed depending on city size, with one weighting scheme for cities with a population of 2,500 or more, and another for cities with a population under 2,500. For a city of the first class the aid increase in any year cannot exceed the percentage increase in the overall city LGA appropriation increase for that year. For all other cities: ▪ the CY 1994 aid increase could not exceed 5% of the city's 1993 property tax levy; and ▪ the aid increase in all other years cannot exceed 10% of the city's property tax levy in the previous year. Total aid to a city in each year was equal to its aid base, plus its aid increase, plus any individual adjustment to a single city or group of cities.[76] Beginning with CY 2002 aids—the city share of homestead and agricultural credit aid and disparity reduction aid were eliminated and the starting point for calculating minimum and maximum 2002 LGA was the CY 2001 LGA plus the CY 2001 amounts paid under those two programs.

[75] For CY 1995 only, the percent was doubled for certain cities with unusually high transfers of general fund money to their sewer and water funds due to some state mandates. One-half of the aid increase in 1995 for these cities was permanently added to their aid bases beginning in CY 1996. See Table 4 for discussion of special provisions for specific cities.

[76] Although the basic formula for distributing city LGA changed little during this period, a number of cities were granted onetime or permanent additions to their city aid base to address circumstances unique to the city. These adjustments are listed in Table 4 of the main body of the report.

	In 2003 the LGA amount was reduced to $427 million in CY 2003 from the originally certified appropriation of $587 million. This was part of the LGA reductions and reform proposed by the governor during the 2003 legislative session and became the starting point for the new LGA appropriation and formula beginning with CY 2004 aids.

Table 19
CY 2004-2008 LGA Program

Amount appropriated	Now a city only program. The open and standing appropriation was limited as follows: ▪ $437.5 million for CY 2004 (with $8 million in transition aid to limit decreases) ▪ $437 million for CY 2005 ▪ increased to $484.5 million for CY 2006 and future years. (However only $430.1 million was paid in CY 2008; the other $54.4 million was unalloted by the governor.)
Each city	The aid base equal to each city's 1993 LGA was eliminated and only the special additional aid granted to specific cities since 1994 was retained. The total city guaranteed aid base therefore was reduced to $26.5 million. This was increased to a little over $30 million when an additional $6 per capita was given to all cities with a population less than 5,000.[77] The remaining LGA appropriation was redistributed every year to all cities based on a percent of their unmet need. The percent, which was the same for each city, was set so that total LGA paid to all cities equaled the appropriation. "Unmet need" is the difference between a city's (1) "need measure" multiplied by its population, and (2) its tax capacity multiplied by the average city tax rate for all cities plus a portion of a city's taconite aid.[78] The "need measure" for a large city (population of 2,500 or more) was determined by the following factors, with weights determined by a regression analysis: ▪ percent of housing built before 1940; ▪ percent of population decline, if any, over the last ten years; ▪ average number of road accidents per capita for the previous three years; ▪ household size; and ▪ if the city was located in the Twin Cities seven-county metropolitan area.

[77] See the Table 4 on page 24 for a discussion of this increase.

[78] Inclusion of taconite aids in the measure of "ability to raise revenue" was scheduled to be phased in at 25 percent per year beginning with CY 2005 LGA. In 2006, the inclusion of taconite aid in the ability to pay measure was removed for the following seven cities—Babbitt, Eveleth, Hibbing, Keewatin, Mountain Iron, Silver Bay, and Virginia.

	The "need measure" for a small city (under 2,500 population) was based on the same factors as under the previous LGA formula, but the weights given to each factor were changed based on a new regression analysis. To allow cities to gradually phase up or down from their previous aid amounts to the amounts determined by the new formula the following limits were placed on increases and decreases to each city in any year: ▪ In 2004 no city's LGA can exceed its 2003 LGA after the 2003 reductions. Maximum aid loss (from CY 2003 certified amount) cannot exceed 13% or 14% of each city's revenue base. ▪ Beginning in 2005, no city's aid can increase by more than 10% of its levy from the previous year. ▪ Beginning in 2005 no large city's aid loss can exceed 10% of its levy in the previous year and no small city's loss in any year can exceed 5% of its certified 2003 LGA. **Due to a projected budget deficit in the November 2008 forecast, the governor unalloted $53.5 million of the CY 2008 December LGA payment.**

Table 20
CY 2009-2013 LGA Program

Amount appropriated	Now a city-only program. The open and standing appropriation was limited as follows: ▪ $526.1 million in CY 2009 ▪ Additional 2% increase in CY 2010 ▪ Additional 4% increase in CY 2011 The 2010 and 2011 increases were eliminated during the 2009 legislative session and, due to governor's unallotments and additional enacted cuts, the amount of LGA paid in each year was even lower. Actual payments were: ▪ $481.5 million in CY 2009 ▪ $426.4 million in CY 2010 ▪ $425.3 million in CY 2011 ▪ $425.2 million in CY 2012 The CY 2013 appropriation was limited to $426.4 million
Each city	The basic formula from 2003 underwent the following modifications to try to address both equity and volatility concerns: ▪ The small city aid is removed from the city aid base and becomes a separate formula that distributes $8.50 per capita to each city with a population of 5,000 or less. The $8.50 per capita amount increases annually beginning in 2010 based on the percentage increase in the total LGA appropriation. ▪ The new jobs aid now distributes to each city with a population over 5,000 an amount equal to $25.20 times the number of jobs per capita in the city, up to $4.725 million. This is reduced for any

	"regional center aid" a city received as part of its city aid base (see 2002 regional center aid under the CY 1994 through 2003 LGA program description) and the payment also increases based on the percentage increase in the total LGA appropriation. ▪ The data used in the "need measures" is changed to reflect the average data for the previous two years; to reduce formula volatility. Large city "need" cannot be less than $285 per capita. ▪ Taconite aid is removed from the "ability to pay" measure for all remaining cities receiving this aid. ▪ Two more limits are added to the existing limits on annual aid decreases to a city. A decrease is also limited to (1) no more than $10 per capita, or (2) $300,000, unless the loss is due to a TIF district decertification. However, the new modified formula was really only used to calculate certified 2009, 2010, and 2011 aid amounts. These amounts were cut after certification. 2012 and 2013 LGA was primarily based on a city's *paid* LGA in the prior year. For 2012, each city's LGA was equal to its 2011 aid payment. For CY 2013 LGA , a city with a population of 5,000 or more received aid equal to its 2012 LGA amount while LGA to all other cities was equal to the greater of (1) its 2012 LGA, or (2) its aid in 2013 under the formula.

Aid Cuts Due to State Budget Crises 2009-2010

The governor unalloted a portion of CY 2009 and 2010 aid payments in July 2009 but these were overturned by the Minnesota Supreme Court on a case regarding the legality of all unallotments. (*Brayton v. Pawlenty*, 781 N.W.2d 357 (Minn. 2010)) However, the cuts were ratified retroactively during the 2010 legislative session and additional reductions were enacted for 2010 LGA. The 2009 and 2010 reductions only applied to aid payment to cities with a population of 10,000 or more; and were limited to the lesser of (1) a set percentage of a city's levy plus aid, or (2) a specified per capita dollar amount. The additional 2010 reduction applied first to a city's market value credit reimbursements (a different property tax aid) but if those reimbursements were insufficient to cover the cuts, the excess was deduction from LGA.

The 2011 LGA was also cut post-certification, with each city's aid limited to the lesser of its 2010 amount or its certified 2011 amount.

Table 21
CY 2014-2017 LGA Program

Amount appropriated	Open and standing appropriation for the entire program subject to the following limits: ▪ CY 2014 the payments were limited to $507.6 million ▪ CY 2015 the payments were limited to $516.9 million ▪ CY 2016 and 2017 the payments were limited to $519.4 million
Amount distributed by type of government as follows:	

<table>
<tr><td>Each city</td><td>There are now new need measures for three sizes of cities as follows:
- For cities with a population of less than 2,500:
Need per capita = $410 + .0367 x
(city population – 100) up to a maximum of $630
- For cities with a population of at least 2,500 but less than 10,000:
Need per capita = 1.15 x
{$572.62 + (5.026 x percent of housing built before 1940) –
(53.768 x average household size) + (14.022 x population decline from the city's peak census population)}
- For cities with a population of 10,000 or more:
Need per capita = 1.15 x
{307.664 + (4.59 x percent of housing built before 1940)
(0.622 x percent of housing built between 1940 and 1970) +
+ (169.415 x jobs per capita in city)
+ (100 if the city population density is less than 150 person/sq. mile)}
Cities with a population between 2,500 and 3,000 have a transitional blended "need" based on both the small and medium-city formula. Cities with a population between 10,000 and 10,500 have a transitional blended "need" based on both the medium and large-city formulas.[79]

A measure of "unmet need" is still calculated for each city similar to the previous formula so that:
Unmet need = ("Formula need" x population) – (city net tax capacity x average city tax rate)

Final aid = formula aid plus any extra nonformula aid where:
- For cities whose unmet need is less than its previous year aid, formula aid = unmet need
- For cities whose unmet need is greater than its previous year aid, Formula aid = last year's formula aid + X% of the difference between its "unmet need" and its aid in the previous year
- The only extra nonformula aid is:
o $150,000/year for five years to the city of Warroad;
o $1,000,000 for 2014 only to the city of Red Wing; and
o $160,000/year permanently to the city of Mahnomen.

No city's aid can decrease from the previous year's amount by more than an amount equal to the lesser of (1) $10 multiplied by the city population; or (2) 5% of the city's levy in the previous year.</td></tr>
</table>

[79] The weight given to each formula during a transition is based on how close the city's population is to the cutoff population for the smaller city group.

Table 22
CY 2018-2020 LGA Program

Amount appropriated	Open and standing appropriation for the entire program subject to the following limits: ▪ CY 2018 and 2019 the payments were limited to \$534.4 million ▪ CY 2020 were limited to \$561.4 million. This includes a \$1 million extra payment due to correcting a certification error. ▪ Under current law, 2021 and future years are scheduled to be \$564.4 million.
Amount distributed by type of government as follows:	
Each city	The basic formula enacted beginning with CY 2014 remains in place with the following changes. ▪ A calculation error that caused a few cities to have their LGA amount reduced below the amount of their "unmet need" was corrected beginning with aids payable in CY 2018. Although there were 24 cities impacted by this calculation error in CY 2017, no correction was made to their 2017 payments, nor was the starting point for calculating their 2018 payments adjusted to reflect the 2017 error. ▪ The "need" measure for small and medium cities is increased by \$200 per capita if the city's population density is less than 30 persons per square mile. This "sparsity adjustment" is somewhat similar to one that already existed in the large-city need formula. ▪ The population range used to transition a city from the need formula for medium-size cities to the formula for large cities is expanded from the range of 10,000 to 10,500 population to 10,000 to 11,000 population.

For more information about LGA and other general state aids to local government, visit the State Aids area of our web site, www.house.mn/hrd/hrd.htm.