

The city local government aid (LGA) program annually distributes \$564.4 million in state aid to cities. The program has existed since 1972 and has gone through a number of changes. The current program uses a formula that was enacted in 2013. The only major change to the formula since 2013 was the addition of a sparsity adjustment in 2017 to the small and medium city need measures.

## LGA need formula and aid calculation

The 2013 changes to the LGA formula were made in part because of criticisms of the previous formula, such as complexity, volatility, and amount of aid distributed “off-formula.” Prior to 2014, \$24 million was distributed each year to various cities outside of the formula. Only \$160,000 is currently distributed as nonformula aid.

The current formula calculates increases and decreases in each city’s aid based on the gap between its “unmet need” (the city’s “need” minus its “ability to pay”) and its current aid level. Cities with large gaps will get larger aid increases, and cities whose aid is more than their current “unmet need” will gradually lose aid over time.

The measure of a city’s “need” depends on its population:

- **For small cities (population less than 2,500):** need per capita is based solely on the city’s population, including a sparsity adjustment for cities with a population density less than 30 per square mile
- **For medium-size cities (population between 2,500 and 10,000):** need per capita is based on (1) percent of housing built before 1940, (2) household size, (3) population decline from a city’s peak population in the last 40 years, and (4) a sparsity adjustment for cities with a population density less than 30 per square mile
- **For large cities (population over 10,000):** need per capita is determined by (1) jobs per capita, (2) age of housing stock (both housing built before 1940 and housing built between 1940 and 1970), and (3) a sparsity adjustment for cities with a population density less than 150 per square mile

Each city’s unmet need is equal to the difference between (1) its need per capita multiplied by its population, and (2) its equalized net tax capacity multiplied by the average tax rate for all cities in the previous year. If the city’s “unmet need” is greater than the amount of aid it received in the previous year, its aid will increase.

The increase equals a percentage of the gap between the city’s unmet need and its previous aid amount. The percentage is the same for all cities and depends heavily on annual appropriation increases. For aid payable in 2022, this percentage is 2.86.

If a city’s aid in the previous year is greater than its unmet need, its aid will decrease; either to the unmet need amount or by the maximum allowed annual decrease (see next page).

A city whose current aid is far below its “unmet need” measure will see larger dollar increases than a city whose aid is close to its “unmet need.” Over time all cities will gradually move toward receiving aid equal to their unmet need amount. Because aid is based on each city’s need rather than on changes in need for all cities, payments to individual cities will be more stable.

### Characteristics of the Current LGA Program

<b>Funding level</b>	\$564.4 million
<b>Nonformula aid</b>	Mahnomen - \$160,000/year
<b>“Formula need”<sup>1</sup></b>	<p>For cities with a population of less than 2,500:            Need per capita = <math>\\$410 + 0.367 \times</math>            (city population – 100) up to a maximum of <math>\\$630 + (200 \text{ if the city population density is less than } 30 \text{ persons/sq. mile})</math></p> <p>For cities with a population of at least 2,500 but less than 10,000:            Need per capita = <math>1.15 \times</math>  <math>\{\\$572.62 + (5.026 \times \text{percent of housing built before } 1940) - (53.768 \times \text{average household size}) + (14.022 \times \text{population decline from the city's peak census population}) + (200 \text{ if the city population density is less than } 30 \text{ persons/sq. mile})\}</math></p> <p>For cities with a population of 10,000 or more:            Need per capita = <math>1.15 \times</math>  <math>\{307.664 + (4.59 \times \text{percent of housing built before } 1940) + (0.622 \times \text{percent of housing built between } 1940 \text{ and } 1970) + (169.415 \times \text{jobs per capita in city}) + (100 \text{ if the city population density is less than } 150 \text{ person/sq. mile})\}</math></p>
<b>“Unmet need”</b>	= (“Formula need” x population) – (city net tax capacity x average city tax rate)
<b>Formula aid</b>	<p>For cities whose unmet need is <i>less</i> than its previous year aid:            Formula aid = “Unmet Need”</p> <p>For cities whose unmet need is <i>greater</i> 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</p>
<b>Final aid</b>	= Formula aid + nonformula aid; subject to the maximum annual decrease
<b>Limits on annual decreases</b>	<p>No city’s aid can decrease from the previous year’s amount by more than an amount equal to the <i>lesser</i> of:</p> <ul style="list-style-type: none"> <li>▪ \$10 multiplied by the city population; or</li> <li>▪ 5% of the city’s levy in the previous year</li> </ul>
<p><sup>1</sup> To avoid sudden changes in city formula need measures, a city with a population between 2,500 and 3,000 or between 10,000 and 11,000, has a formula need based partially on the formula for its current size and partially on the formula for the cities of the next smaller size.</p>	

