

Local Government Aid Overview

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Outline

- History of LGA
- Summary of 2023 changes
- St. Paul LGA
- Questions

History of LGA

History of LGA

- First program described as “local government aid”
 - Revenue sharing program passed in 1967
 - Designed to share a portion of newly enacted state sales tax
 - New sales tax used, in part, for property tax relief
 - Counties, cities, towns, villages, and school districts
 - Greater of \$37 million, or 25% of state sales tax revenues distributed on a per capita basis
- "Minnesota Miracle" in 1971
 - Focused on reducing property tax burdens and reforming/equalizing school finance
- LGA modified from a revenue-sharing program to true state aid
 - Distributed money to all local governments except school districts
 - Levy limits to ensure property tax relief
 - Separate distributions for metro/nonmetro areas

History of LGA

- **1972-1988** Aid shifted toward cities
 - County and town aid reduced
 - Cities guaranteed no LGA decreases
 - Separate metro/nonmetro amounts eliminated
- **1989-1992** Major formula changes
 - First attempt to incorporate objective need measure
 - Goal: move away from revenue sharing toward need/ability to pay
 - 1991-1994, three major studies examined how to measure need

History of LGA

- **1993-2002** Development of current formula structure
 - 1993 new formula calculated “unmet need”
 - "Unmet need" = Need - (tax base x average city tax rate)
 - 1996 automatic growth in LGA appropriation, 2.5%-5% each year
 - Highest appropriation in 2002 (prior to 2024 appropriation increase)
- **2003-2023** Instability and formula tweaks
 - Number of formula adjustments; overall structure remained
 - State budget deficits
 - 2003; 2008-2011
 - LGA amounts reduced after being certified
 - 2013 formula changes prioritized:
 - Stability
 - Money distributed “off formula”
 - City could not lose aid unless current aid exceeded need

2023 LGA changes

Formula changes

- Work began December 2021
- Regression models used to identify factors that determine city revenue need
- New factors were identified, proposed in 2022 legislative session
 - Formula changes were not included in conference committee agreement
 - One year hold harmless and \$30 million increase
 - Agreement ultimately did not pass, no tax bill in 2022
- Regression models were rerun, updated formula proposed in 2023 legislative session

Formula changes

- Formula retained same structure, only need factors updated

$$\textit{Unmet Need} = \textit{Need} - \textit{Ability to Pay}$$

- If aid in previous year is *less than* unmet need, aid *increases*
- If aid in previous year is *greater than* unmet need, aid *decreases*
 - Limits on annual decreases remain
 - \$10 per capita; or
 - 5% of the city's levy in the previous year

Formula changes

	2013 Need Factors	Updated Need Factors
Small Cities (under 2,500)	<ul style="list-style-type: none"> Population over 100 Per capita need capped at \$630 	<ul style="list-style-type: none"> Logarithm of population Per capita need is not capped
Medium Cities (2,500-9,999)	<ul style="list-style-type: none"> Pre-1940 housing % Peak population decline Average household size 	<ul style="list-style-type: none"> Pre-1940 housing % Peak population decline % of tax base classified as Comm/Indust/Utility
Large Cities (10,000 and over)	<ul style="list-style-type: none"> Pre-1940 housing % 1940-1970 housing % Jobs per capita 	<ul style="list-style-type: none"> Pre-1940 housing % % of population age 65+ % of tax base classified as Comm/Indust/Utility Peak population decline

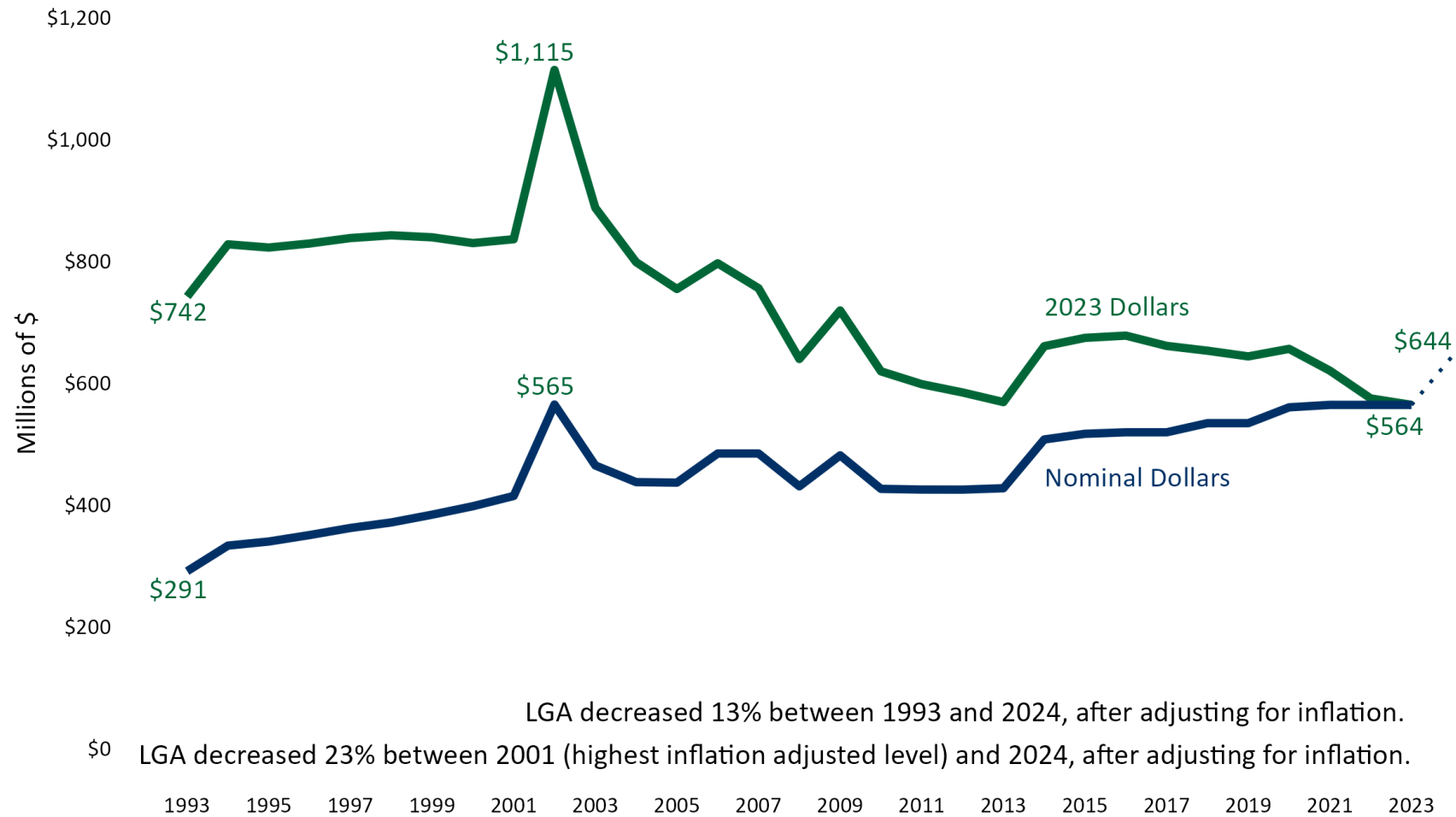
Formula changes

- Sparsity adjustments repealed
 - Increased cities need per capita
 - Large cities: \$100 per cap if population density < 150 per sq. mi.
 - Only Hibbing received this adjustment
 - Other cities: \$200 per cap if population density < 30 per sq. mi.
 - 14 cities in 2023
- Certified aid adjustments repealed
 - “Off-formula” adjustments in aid
 - City of Mahnomen only remaining adjustment
 - Transferred to an annual, separate state aid payment

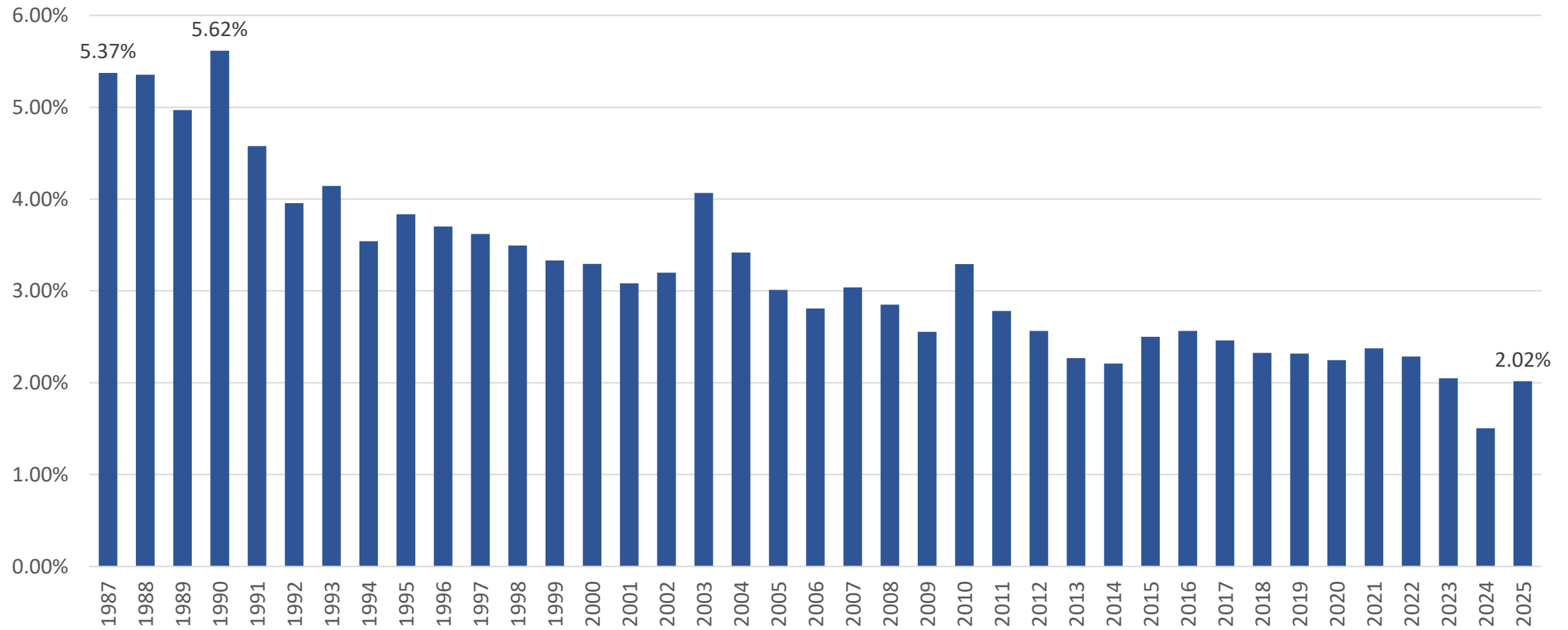
Other changes

- Appropriation increase
 - \$80,000,000
 - Annual appropriation now \$644,398,012
- Aid payment shift
 - Typically, 50% paid on July 20 and 50% paid on December 26
 - For aid paid in 2025 *only*:
 - 9.402% paid on March 20
 - 40.598% paid on July 20
 - 50% paid on December 26
- Commissioner's authority to adjust factors for annexations

Total LGA, 1993-2024

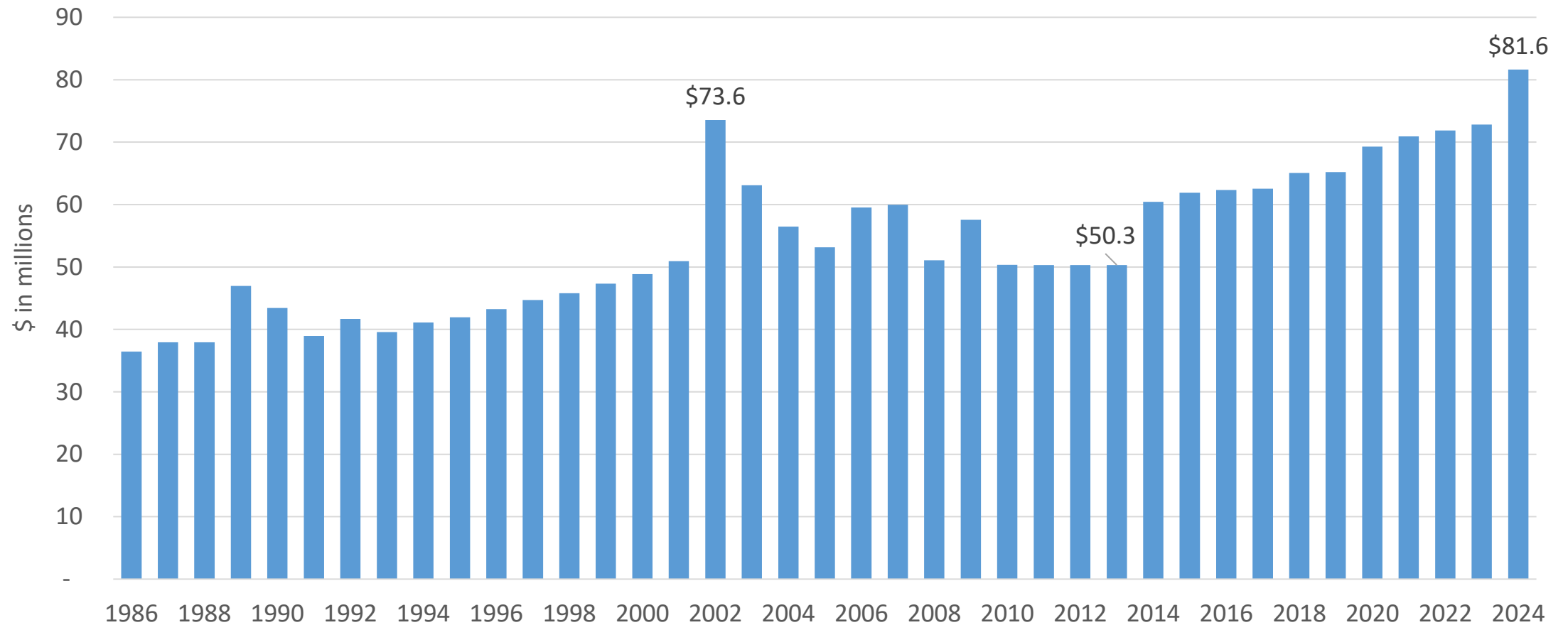


LGA as proportion of state general fund spending, FY 1987-present

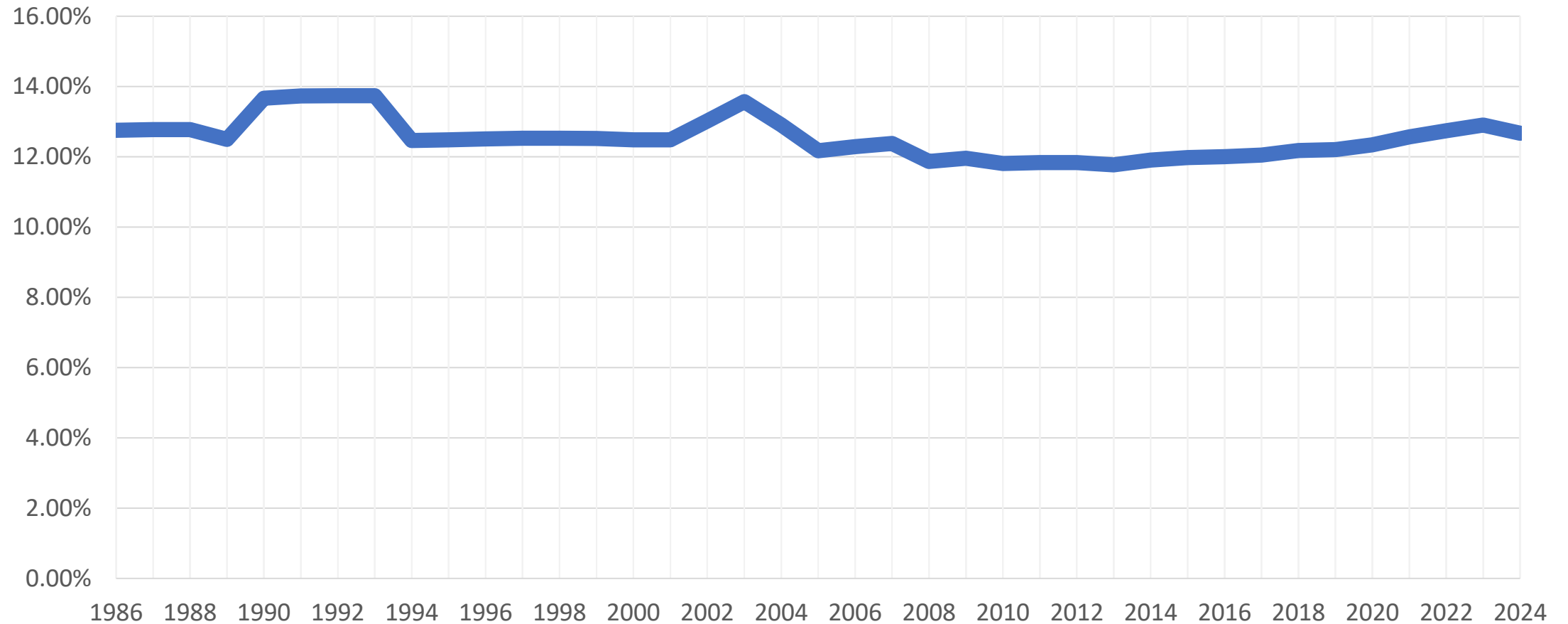


St. Paul LGA

City of St. Paul LGA amounts, 1986-present



City of St. Paul share of total statewide LGA, 1986-present



Unmet need under LGA formula

- “Unmet need” is equal to difference between:
 - (1) city’s formula-calculated revenue need multiplied by population, and
 - (2) city’s adjusted net tax capacity multiplied by the statewide average tax rate
- All else equal, a city’s LGA amount will trend over time toward the city’s calculated unmet need
- Increases to statutory LGA appropriation accelerate aid increases for cities trending upward
- Total statewide unmet need in Pay 2024 under new LGA formula = \$1.2 billion
- City of St. Paul unmet need = \$144 million
 - (Under old-law formula, city’s unmet need = \$120 million)

Unmet need remaining after Pay 2024 certified LGA; city of St. Paul

- Total amount = \$62.2 million (largest amount among all cities)
- Per capita amount = \$199 (rank 378/855 cities)
 - Minneapolis, \$112
 - Duluth, \$359
 - Rochester, \$62
- As proportion of city's total formula-calculated revenue need = 20% (rank 530/855 cities)
 - Minneapolis, 10.8%
 - Duluth, 28.3%
 - Rochester, 8.1%

Exempt property

- In general, property is taxable unless exempt under MN Constitution or Minnesota Statutes
- When property is removed from tax rolls, other taxpayers in that jurisdiction pay a larger share of the jurisdiction's tax burden
- Some types of exempt property require different level of basic public services/infrastructure than others. E.g. city-owned parkland vs. private cemetery vs. government center vs. college campus
- Exempt property variable was considered for revised LGA formula, but proved to not be statistically strong predictor of revenue need

Exempt real property in city of St. Paul

- In assessment year 2022, approximately 18% of the estimated market value of real property in the city of St. Paul was exempt from property taxes
- St. Paul ranked 226th highest (of all 855 cities) in the proportion of real property market value that is exempt
- Among 141 cities in seven-county metro, St. Paul is 7th highest
- Among 32 cities with EMV real property at least \$5 billion, St. Paul is 3rd highest (Minneapolis, 20.9%; Mankato, 18.8%)
- Other first class cities: Duluth, 17.2%; Rochester, 14.3%

Questions?
