Summary of Local Government Aid (LGA)  
Certified for 2015

2014 Law Changes

Laws 2014, Chapter 308, Article 1, sections 5 and 6 amend and update MS 477A providing for the calculation and administration of LGA.

Law changes in 2014 and provisions in current law that took effect altered the LGA formula for aids payable in 2015.

Use of Formula Aid
For aids payable in 2015, the formula aid calculation is altered by replacing the previous year’s certified aid with the previous year’s formula aid.

Also for aids payable in 2015, if a city’s certified aid from a previous year is greater than the sum of its unmet need plus its aid adjustment, its formula aid is adjusted to equal its unmet need.

Minimum Aid Calculation
For aids payable in 2015 and thereafter, the total aid for a city must not be less than the amount it was certified to receive in the previous year minus the lesser of $10 multiplied by its population, or five percent of its net levy in the year prior to the aid distribution.

Appropriation
The total LGA appropriation for aid payable in 2015 is $516,898,012.

Data Used in LGA Calculations

The following is an explanation of the variables used to calculate your city’s 2015 LGA certified amount certified on July 31, 2014.

Pre-1940 housing units: This is the total number of housing units in your city that were constructed before 1940 according to the 2010 Federal Census.

Housing Units 1940-1970: This is the total number of housing units built between 1940 and 1970 according to the 2010 Federal Census.

Total housing units: This is the total number of all housing units in your city (both vacant and occupied) according to the 2010 Federal Census.

Household Size: This is a city’s average household size as reported by the State Demographer and Metropolitan Council.

Number of Employees: This is the average number of annual employees from the quarterly census of employment from the Department of Employment and Economic Development.
**Peak population decline:** This is a city’s population decline (if any) from its highest population in a decennial census from 1970 or later.

**Sparsity Adjustment:** For a city with a population of 10,000 or more, the sparsity adjustment is 100 for any city with an average population density less than 150 per square mile. The sparsity adjustment is zero for all other cities.

**Tax Effort Rate:** This is the net levy for all cities divided by the sum of the city net tax capacity for all cities. The tax effort rate is the same for all city calculations.

**City Revenue Need**

City revenue need is defined in three separate calculations based on population.

**Small Cities**
The formula for cities with a population less than 2,500 (small cities) is:

1) \( 410 + (0.367 \times \text{Population over 100}) \)

*The city revenue need for cities with a population less than 2,500 cannot be over $630 per capita.*

**Medium Cities**
The formula for cities with a population between 2,500 and 10,000 (medium cities) is:

\[ 1.15 \times (1) \text{Pre-1940 Housing Percentage} \times 5.026 + (2) \text{Housing 1940-1970 Percentage} \times 0.622 + (3) \text{Jobs per capita} \times 169.415 + (4) \text{Sparsity Adjustment} \times 307.664 \]

**Large Cities**
The expenditure formula for cities with a population of 10,000 or more (large cities) includes the following variables multiplied by the respective coefficients:

1.15 multiplied by the sum of:

1) Pre-1940 Housing Percentage \( \times \) 5.026
2) Housing 1940-1970 Percentage \( \times \) 0.622
3) Jobs per capita \( \times \) 169.415
4) Sparsity Adjustment (defined in data points) \( \times \) 307.664

**Transition Factors**
The formula provides for a transition mechanism for cities between the three need formulas.

**Small to Medium Cities**
For cities with a population of at least 2,500 but less than 3,000 the city revenue need is equal to (1) the transition factor times the medium city revenue need, plus (2) 630 times the difference between one and the transition factor.

**Medium to Large Cities**
For cities with a population of at least 10,000 but less than 10,500 the city revenue need is equal to (1) the transition factor times the large city revenue need, plus (2) the medium city revenue need times the difference between one and the transition factor.

For the purposes of revenue need the transition factor is .2 percent times the amount that the city’s population exceeds the minimum of its size threshold.

**Unmet Need**

Unmet need is the difference between (1) its city revenue need multiplied by its population, and (2) its city net tax capacity multiplied by the tax effort rate.
**Formula Aid**

Formula aid determines the cities whose spending needs are greater than their revenue raising capacity.

The formula aid for a city is the sum of (1) its formula aid in the previous year and (2) the product of (i) the difference between its unmet need and its certified aid in the previous year and (ii) the aid gap percentage.

**Certified Aid Adjustments**

MS 477A.013, Subd. 13, provides for two aid adjustments to the formula.

- The city of Warroad will receive an additional $150,000 for aids payable in 2014 through 2018.
- The city of Mahnomen will receive an extra payment of $160,000 annually.

**Certified LGA Payment Dates**

LGA payable in 2015 will be paid to qualifying cities on July 20, 2015 and December 26, 2015.

**Questions?**

Questions regarding 2015 Local Government Aid should be directed to proptax.admin@state.mn.us.

or

Bill Sparks
bill.sparks@state.mn.us
(651) 556-6095

Chelsea Griffin
chelsea.griffin@state.mn.us
(651) 556-6101.

MS, Section 477A.014, subdivision 2, provides that a government unit may object to the amount of aid that the Department of Revenue has determined for it. No objection may be raised later than 60 days after receipt of certified LGA notice. Objections should be addressed to Director, Property Tax Division, Minnesota Department of Revenue, Mail Station 3340, St. Paul, MN 55146-3340.