

To: Chair Hodges and Committee Members
Fr: IGR Staff
Re: Public Finance Issues

Attached for your review and comment is a draft of the proposed 2007 legislative agenda related to Public Finance. The policy statements attempt to capture the committee discussion during the September 19 meeting.

The Local Government Aid (LGA) statement would replace the existing statement. The limited market value (LMV) statement is amended to recommend additional state property tax relief during the transition from LMV to market value. The revenue diversification statement has not changed and the sales tax issue is new.

The staff is recommending that LGA be a priority and the remaining statements be support items. The League of Minnesota Cities and the Association of Metropolitan Municipalities have the support items in their policy agenda and in previous sessions advocated the positions.

The 2003 Minnesota legislature adopted legislation amending the local government aid (LGA) program. LGA is the state program that provides cities with annual financial assistance. The 2003 legislation not only changed the statutory formula to distribute the funds but also the legislature in response to a budget deficit reduced the amount of the annual appropriation.

As a result the legislation the 2004 and subsequent year appropriations were set at \$436.0 million or \$150.0 million or 25% below the previous year's certified amount. The formula change included new factors such as the amount of household size and traffic accidents. The legislation also increased the amount of LGA that was subject to the formula and conversely reduced the amount appropriated based on the previous year LGA amount (grandfathered) and special provisions. The legislation also eliminated the annual inflation increase to the appropriation. For example, in 2003 approximately \$367.0 million or 63% of the LGA appropriation was grandfathered but in 2004 the grandfathered amount was \$26.5 million or 6%. With more cities having its LGA based on the formula, fewer cities are receiving LGA than prior to the legislative changes. In the metropolitan area approximately 45 of the 81 cities with a population over 5,000 have not received LGA since 2003.

In Minneapolis, the 2003 LGA amount was certified to be \$117.571 million. The actual 2003 amount was \$ 91.822 million. The city's formula derived LGA amounts follow:

Year	Amount
2004	\$ 82,514,601
2005	80,338,989
2006	93,948,100
2007	83,980,640

The city's future year's LGA amount is dependent upon not only changes in its own factors but also those of the other participating cities. For example, a decline in traffic accidents or an increase in taxable value could influence the city's LGA amount. The current formula, however, does not include a factor that measures the impact of a city's employment level and business activity.

Unlike other state aid programs that require the proceeds to be used for a specified purpose, LGA does not specific expenditure requirements. City councils determine how the funds should be used. In most instances the funds are appropriated to the general fund and in effect help reduce the proposed property tax levy.

For the biennium beginning in 2007, the City of Minneapolis recommends that:

- Local Government Aid (LGA) be funded at a minimum equal to the 2003 certified amount adjusted for inflation,
- the appropriation include an annual inflation factor,

- the program continue to be flexible and include spending requirements by type of service,
- the formula be amended to reflect factors such as employment and business activity that are measures of a city's service level.
- The formula be modified to limit the wide variations in annual payments to cities.

Support: Suspending the phase-out of the If limited market value program for residential properties is phased out the legislature should provide property tax relief to those residential properties that will have significant tax increases due to the elimination of the limited market value program.

Diversifying revenue sources for municipalities, including but not limited to street use utility, sales tax, and other user fees. (no change)

Repealing the state sales tax on local government purchases.

Oppose:

Legislation including constitutional amendments that would limit government revenues and authority. (no change)