

Compilation of Proposed Goals & Objectives

Reduce complexity, have a more intuitive formula, eliminate side pots

Consideration of factors in the formula (need, capacity, etc.), consider ALL revenue sources the city has access to (e.g. enterprise funds, external contracting for services)

Reduce volatility in the formula (e.g. year to year up and downs)

LGA's main purpose should not be property tax relief, LGA needs to be examined within the entire aids/credits system

Reduce disparate treatment throughout the formula (more geographic equity, all need for LGA is not in Greater Minnesota)

Consistent, stable funding level for LGA

LGA should be used to equalize tax bases

Assure all Minnesotans have access to important public services at affordable prices

No encouragement of excess spending

LGA should be used to equalize capacity for capital investment and infrastructure rather than general government operations

LGA should not be used to equalize tax bases

Consider input from outside groups, use subcommittee within the larger study group to focus on specific issues



December 9, 2011

Dear LGA Study Group Members:

Thank you for the opportunity to comment on Metro Cities' goals and objectives for Local Government Aid reform. We look forward to working with you on these important issues. Metro Cities supports the statutory goals outlined in the 2008 legislation establishing the LGA study group. Our policies support a statewide LGA program that is fair, understandable and transparent. Specifically, we support the following policy goals and objectives:

- A program that allows cities across the state to provide public services at relatively similar levels of taxation.
- A program that addresses the needs of cities across the state in an equitable fashion. The existing program is geographically disparate, with roughly 65% of the LGA distribution going to Greater Minnesota. Many metropolitan cities, particularly older, fully developed suburbs, have aging infrastructure which require higher levels of resources for maintenance and investment, aging populations that require a wider range of services, below average tax capacities that make it difficult to provide adequate levels of service, and restricted use of tools to assist in city revitalization and growth. The needs of these cities are not adequately accounted for in the current LGA program.
- Correct the volatility in the LGA formula and distribution.
- The consideration of LGA within the context of funding public services and the overall state and local fiscal relationship.
- Consideration of current need and capacity factors and alternatives, an analysis of the small city aid formula, and the impact of including the unique needs of rapidly growing cities in the LGA formula.
- Examination and restoration of LGA funding levels. The current funding levels for LGA are inadequate to meet the goals and objectives of the program. Aids have been consistently modified and reduced in recent years with aids to metro cities in particular reduced on a per capita basis by almost 50% over the last decade.

A functional LGA program is one that helps to assure all cities can provide and fund local public services and infrastructure in order to position our state for strong economic growth and vibrancy. The metropolitan region and its cities play a vital role in this work for our state. Metro Cities supports an LGA program that better addresses the needs of cities across the state and assures that all cities are equipped to provide services to their residents and businesses without an over-reliance on the property tax.

Thank you for your consideration. We know that you have a difficult task ahead of you, and look forward to engaging with you in this important work.

Please let me know if you need additional information, or have any questions.

Sincerely,

A handwritten signature in cursive script that reads 'Patricia A. Nauman'.

Patricia A. Nauman
Metro Cities Executive Director

To: Members of the LGA Study Group
From: Mark Haveman, Executive Director, Minnesota Taxpayers Association
Date: December 28, 2011
Re: Goals and Objectives of LGA Program

Following, for your consideration, are our thoughts and recommendations regarding the goals and objectives of the LGA program as well as our rationale behind them.

We appreciate the opportunity to offer these ideas and would welcome the opportunity to discuss them further.

1. The public policy goal of LGA should be to assure that all Minnesotans, regardless of where they live, have access to important local public services at affordable tax prices. Importantly, it should *not* be to equalize tax bases – that confuses tactics with policy purpose.
 - “Important” local services should be defined as essential to the general health and welfare of local citizens. One of the important features of local government is its ability to calibrate local citizens’ expectations of the type and level of public services with their willingness to pay for them. The state should not use LGA to “equalize” access to all public amenities and services across communities.
 - “Affordable” tax prices should be evaluated on the basis of effective property tax rates expressed as a percentage of taxpayer income. Effective tax rates expressed as a percentage of property value is an inferior and often misleading measure of ability to pay taxes.
2. MTA believes it is also critical to place LGA in its appropriate context. LGA is just one part of a very large property tax aids and credits system. In light of projected future budget circumstances, achieving the policy goal stated above in the most cost effective and efficient way possible is essential. Income-based refund programs that allow cities full freedom to levy based on citizens’ needs but targets relief based on ability to pay is the most direct and efficient way to achieve this policy objective. Therefore, MTA believes the circuit breaker program should be the primary avenue for addressing this policy goal. The state should consider LGA a supplemental strategy attending to policy aspects that income-based refund programs address either insufficiently or inadequately.
3. LGA in its current form faces two major problems
 - *Inability to accurately assess the “neediness” of cities.* Distribution formulas heavily influence whether LGA is an economically justifiable program or an inefficient use of taxpayer dollars. Any justifiable formula must reasonably assess a city’s *need* as well as its revenue raising ability. However, Minnesota doesn’t currently assess city need well, and the state has never done this well. Most importantly, both politics and empirical challenges functionally prevent us from ever doing this well.
 - *Distortion of local tax prices and cost structures.* LGA can distort local tax prices resulting in public acceptance of local cost structures that citizens would otherwise find objectionable.

Department of Revenue data and national studies both show Minnesota homeowners often have very affordable property tax burdens in both absolute and relative terms. Juxtaposing this finding with the recurring claim that Minnesotans are at the tolerable threshold of property taxation suggests another legacy of LGA may be that many Minnesotans have been conditioned to believe local services should be offered to them below reasonable cost.

4. To correct for these problems while delivering on the overarching policy goal, the objective of the LGA program should be to equalize capacity for essential capital investments and infrastructure rather than the general operations of government. This approach offers three distinct advantages:
 - First, State Auditor data suggests that capital spending is where the primary need actually exists. Aggregate current operating expenditures for city government are *up* over the last decade in both nominal and inflation-adjusted dollars. Inflation-adjusted spending in public safety, housing and economic development, and parks and recreation are up robustly (over 20%) in a decade featuring two major recessions. Capital spending, however, has declined substantially suggesting essential infrastructure investments are being squeezed by higher operating expenditures. Frequent testimony by local officials before the Legislature on LGA underscores the need for state assistance supporting essential infrastructure.
 - Second, the state can deliver capital equalization aid on a simple tax capacity basis and extricate itself from incomprehensible and flawed regression-based models attempting to measure “city neediness.”
 - Third, no significant spending tails or unsustainable cost structures are created by this type of aid. Rather, capital aid -- much of which is likely to address maintenance or replacement needs -- offers the prospect of some local savings.

Concerning this third bullet, MTA strongly believes policymakers must recognize the omnipresent potential of current LGA design to advance private interests operating within government over the public interest. As the Brandl/Weber *Agenda for Reform* stated 15 years ago:

“Private economic interests (in government) sometimes conflict with the public interest on matters of pay, accountability, assignment of personnel, on whether to introduce innovations that could accomplish more work at lower expense, and on whether the interests of government employees themselves are to be put first, as opposed to the citizens of the state.”

Despite a legitimate public policy purpose, existing LGA *can* intensify this conflict by having state taxpayers subsidize local cost structures that local taxpayers would not otherwise support and reduce motivation and incentive for spending redesign and mandate reform affecting city operations.

Thursday, December 15, 2011

**MINNESOTA ASSOCIATION OF SMALL CITIES
LGA STUDY GROUP
PROPOSED GOALS AND OBJECTIVES**

The Minnesota Association of Small Cities (MAOSC) has been asked to submit a list of proposed goals and objectives for consideration by the LGA Study Group to be used as a guide moving forward. After consideration, the MAOSC offers the following goals and objectives for the Group's consideration:

- Engage in this process with genuine commitment to addressing inequities, complications and challenges in the Local Government Aid (LGA) formula,
- Maintain policy objectives for Local Government Aid (LGA), including the reduction of property tax rate disparities among Minnesota cities and supporting equitably consistent levels of municipal services among Minnesota cities.
- Address inequities and disparate treatment of similarly situated cities in the distribution formulas for both small and large cities.
 - Review and address formula aid equations for small cities and large cities independently with willingness to amend one without amendment of the other
 - Review and attempt to resolve the impact of LGA on cities with populations greater than 2,500, but less than 5,000; factoring the impact of the large city formula application and small city aid base factor.
 - Create a factor that takes into consideration the city's proximity to other cities and general standing (including population and employment) in the county, regardless of the city statutory classification as "large" or "small."
- Consider all revenue sources of municipalities as they relate to a city's "need" basis, including enterprise funds and external contracting for services.
- Establish a sustainable LGA formula that will not require reductions post certification, as reductions after certification work contrary to the purpose and intent of the LGA formula.
- Review other State Aid distribution programs and examine successful methods of funding, distribution and disbursement.

Coalition of Greater Minnesota Cities

Local Government Aid formula

The legislative study group should determine if improvements can be made that are consistent with the LGA program's historic purpose. Any changes in the formula should be agreed upon by all city organizations before passage in the legislature, and to the greatest extent possible:

- Be based on a city's tax base and need
- Include no separate pots based on geographic location or population
- Reduce property tax rate disparities among Minnesota cities greater than the current formula
- Reduce yearly fluctuations in aid
- Be intuitive and rational

Municipal Legislative Commission

Support Sound Principles in LGA Reform

The Local Government Aid (LGA) program has undergone many changes since it was enacted in 1971. It has gone from a revenue sharing program to measuring inequities in city need and fiscal capacity. The measurements of “need” have also been revised to help reduce the stimulative effects of the aid program. In 2009, the Legislature approved the formation of an LGA Study Group. The study group is charged to determine what the goals of the LGA program are, and whether or not the program, in its current form, is meeting those goals.

MLC cities do not receive LGA. However, our members believe the LGA program should adhere to the following principles:

1. **Equitable** – an effective LGA formula should provide similar amounts of aid to similarly situated cities (minimize mechanisms such as “grandfathers” and minimum/maximum aid amounts)
2. **Neutral** – the LGA program should not encourage cities to spend more than it would otherwise need to for basic services. LGA should be based on factors outside of the individual city’s control.
3. **Simple and Understandable** – attempting to address every unique and special problem with each of the 855 cities in Minnesota causes the LGA formula to be too complex. Factors used to determine aid should have general support and understanding from cities and their citizens
4. **Ability to Provide Adequate Revenue** – an effective formula should grow with general city costs, stay relatively stable, and should be based on factors for which we have accurate information and whose values do not wildly fluctuate from year to year.

League of Minnesota Cities

- Agree on goals and purpose of LGA
- Examine broader system of property tax relief, including LGA, Fiscal Disparities, direct property tax relief programs, homestead market value exclusion program, etc.
- Decide if formula tweaks or full-blown rebuilding of LGA system is the way forward
- Consider whether dedicated funding mechanisms for LGA are viable
- Consider whether technical subcommittee to explore formula models for LGA is best way forward (such a group would meet separately to work on technical details and bring ideas back to full group)
- Identify process to bring in other perspectives (e.g. individual cities, stakeholder groups like MN Taxpayers Association, etc.)
- Consider distribution formulas that use easily measurable factors that are updated regularly, that minimize reliance on side pots of aid, and that reduce tax burden disparities between cities and between cities and townships

From: Paul Marquart
To: Bobby Patrick
Date: 1/3/2012 9:06 PM
Subject: Re: LGA Study Group - January 10 at 10 AM, Basement, S.O.B.

Dear Bobby,

Happy New Year!

My goals for LGA would be:

1. To serve as an equalizer between cities with different tax bases so that residents anywhere in the state can receive approximately the same level of vital services (police, fire, street, administration) at approximately the same tax effort and cost to its residents.
2. Create an LGA formula that provides equalization and is simple to understand.

Thanks,
Paul

>>> Bobby Patrick 1/3/2012 4:41 PM >>>
All,

Attached are the latest proposed goals and objectives received from interested groups. Please let me know if you need me to resend you the first set.

Those of you who will not be in attendance at our meeting on January 10, please do not forget to send along your proposed goals and objectives to me or Beth (beth.kadoun@senate.mn) so the group can take them into consideration as well.

The agenda for the January 10 meeting is attached as well.

Bobby

Bobby Patrick, VI
Committee Administrator
House Taxes Committee
House Property and Local Tax Division
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