

*The basics of Local Government Aid:*

# LGA promotes fair property taxation

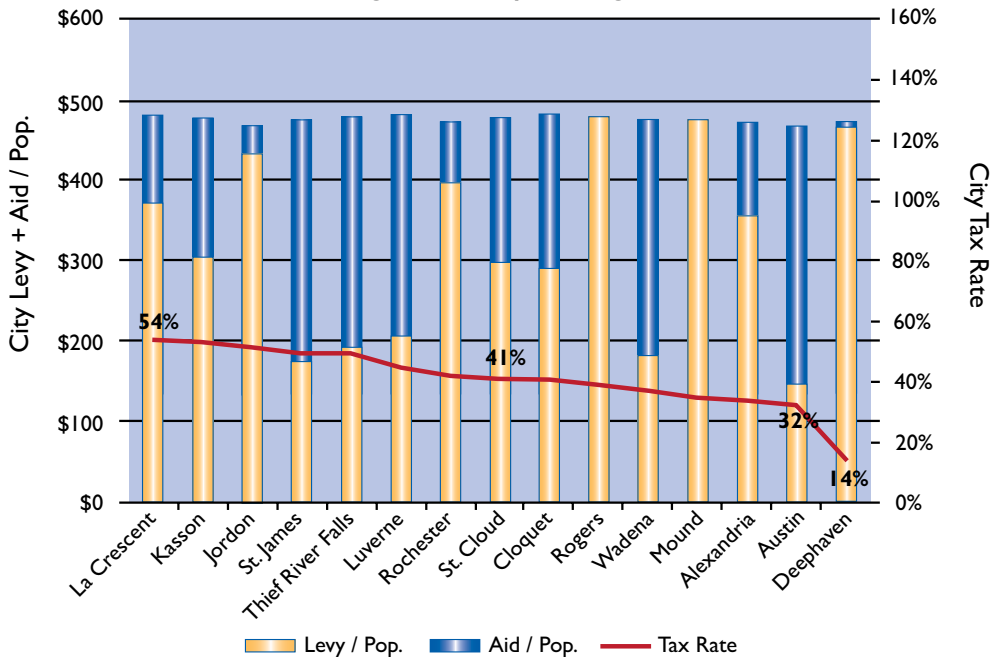
**Local Government Aid (LGA)** was established as a method of providing fairness in property taxation across the state. The underlying philosophy of the LGA program is that no matter what corner of the state we live in, no matter how poor a city’s property tax base is, and no matter how high a city’s need is, we all have the right to needed services.

Cities pay for services through a combination of property tax revenues and state LGA payments. LGA is distributed to cities based on a formula that identifies a city’s need versus its effort, or ability to raise sufficient revenues. Some cities do not receive LGA because they have higher property wealth or lower need than other cities, and can raise enough revenues to cover the cost of services while maintaining a fair tax rate.

However, for the majority of the state, this is not the case. Most cities are unable to cover the costs of services through property tax revenues alone and require LGA to maintain a fair tax rate. For example, the cities in **Graph A** generate roughly the same amount of revenue per capita (\$467 – \$482), yet in order to maintain a fair tax rate, cities with lower property wealth require LGA. Despite offering the same level of services, tax rates among these cities vary from 14% to 54%. Without LGA, this disparity would skyrocket.

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**Graph A: LGA reduces tax rate disparity among similar spending cities**



Data Source:  
MN Department of Revenue

Prepared by Flaherty & Hood, P.A. for the Coalition of Greater Minnesota Cities.



## Consequences of cutting LGA

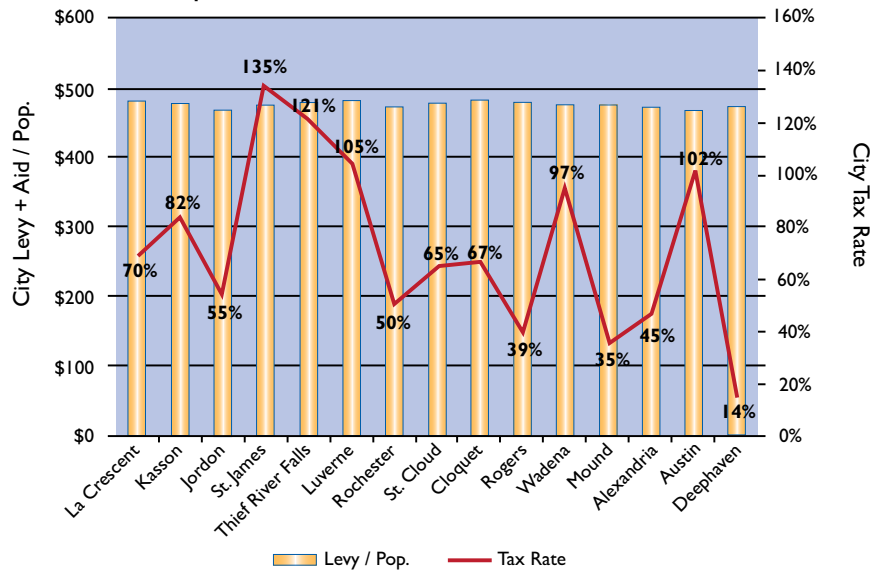
When LGA is cut, property taxes go up, services are reduced, or a combination of both occurs.

As **Graph B** shows, without LGA funding, cities would have to raise property tax rates dramatically in order to provide a consistent level of services. Furthermore, tax rates among cities would vary considerably—to a great enough extent that many residents and businesses would not be able to afford their current cities.

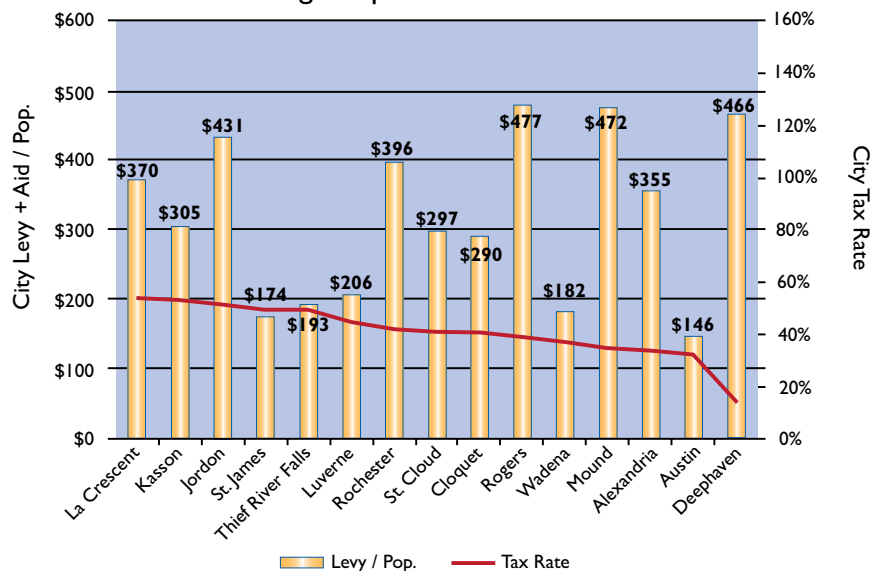
On the flip side, **Graph C** shows what would happen if LGA was eliminated and cities maintained their current tax rates. Unable to spend equal amounts on similar services, the level and quality of services would vary significantly across the state. Would Austin or St. James be able to afford libraries? Would St. Cloud’s streets be as safe as Rogers’ in the winter?

*Without LGA, tax rates among cities would vary considerably—to a great enough extent that many residents and businesses would not be able to afford their current cities.*

Graph B: Without LGA, cities would have huge disparities in tax rates for the same services



Graph C: Without LGA, cities would have huge disparities in services

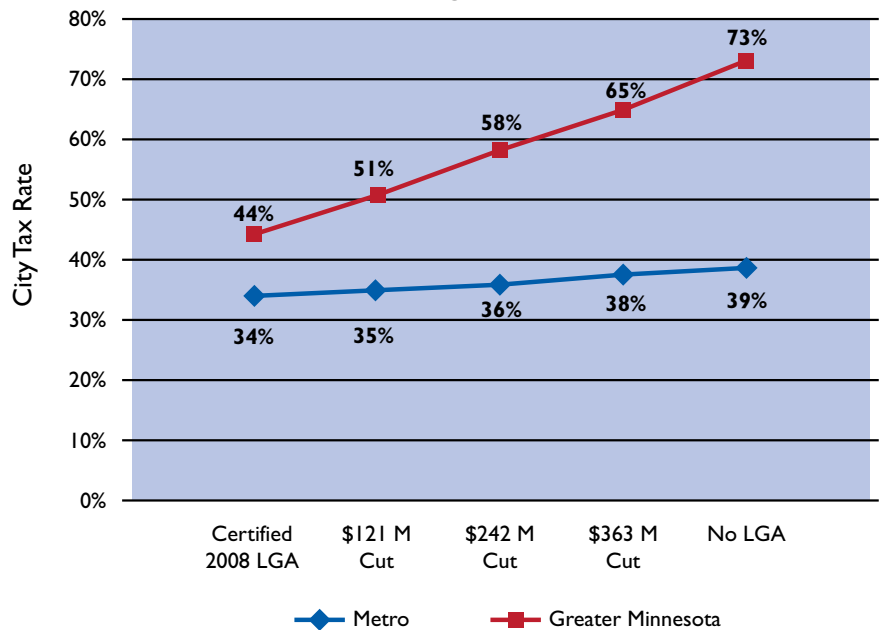


Data Source:  
MN Department of Revenue.  
Graph B assumes all lost aid is levied back.

### Metro/Rural disparities

Without LGA, disparities between metro cities and rural cities are intensified, as shown in **Graph D**. Currently, rural property taxpayers pay an average 10% higher tax rate than metro property taxpayers. This disparity grows significantly when LGA is cut.

Graph D: Reducing LGA will grow the disparity between metro and greater Minnesota tax rates

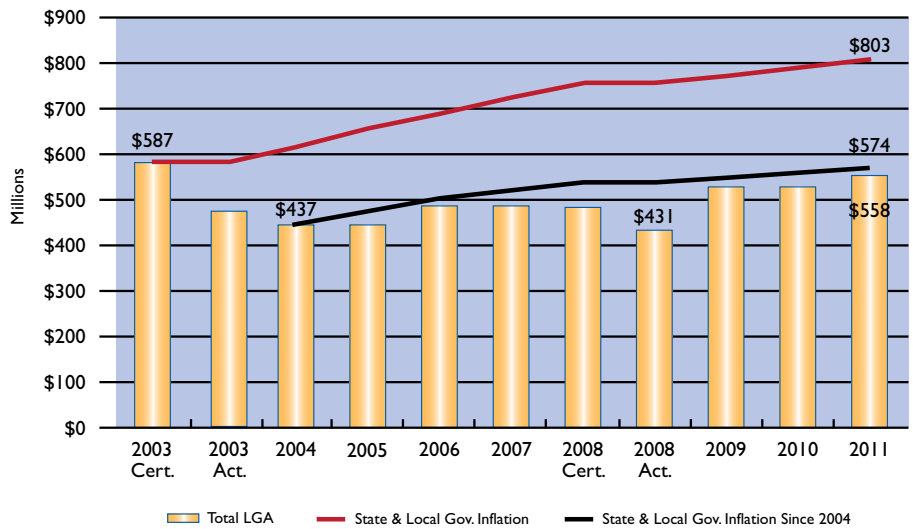


### Cities already lean from underfunded LGA program

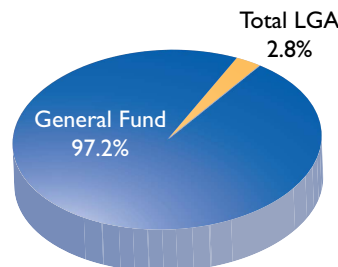
After Governor Pawlenty’s unallotment actions, the LGA program received a total of \$431 million in 2008. As shown in **Graph E**, this amount is **even lower** than the actual paid amount in 2003, a year in which LGA experienced heavy cuts in light of a \$4.2 billion budget deficit.

In total, the LGA program comprises only 2.8% of the state’s general fund, as shown in **Graph F**. This percentage has steadily declined in recent years. In response to diminishing LGA funding, cities have cut their workforce (including public safety employees), reduced hours of operation for services such as libraries and parks, and postponed projects, among other actions.

Graph E: LGA is below 2003 pre- and post-cut levels



Graph F: LGA comprises 2.8% of general fund



Year	LGA % of Gen. Fund
2002	4.4%
2003	3.3%
2004	3.2%
2005	3.0%
2006	3.1%
2007	3.0%
2008	2.8%

Data Source:

Graphs D & E: MN Department of Revenue.

Graph D assumes all lost aid is levied back.

Graph F: MN Department of Finance.

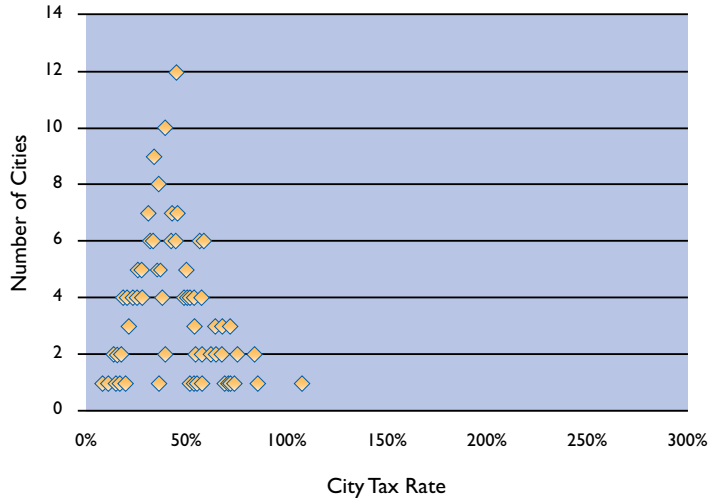
## Cutting LGA is the least fair way to raise revenues

The governor and Legislature have indicated that prioritizing programs will be central to solving the state’s budget deficit crisis. Fair property taxation must be a top priority for the state.

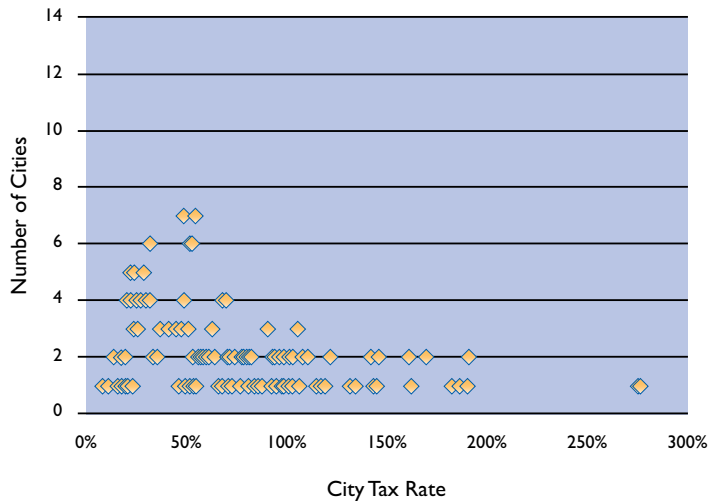
As **Graph G** shows, the LGA program succeeds in advancing fair taxation; without LGA, the spread between high wealth/low need cities and low wealth/high need cities becomes expansive, as depicted in **Graph H**. Does the state really want to promote such huge disparities in wealth and services?

*Relying solely on property taxes to fund cities services will create stark inequalities across the state in both tax rates and services. The LGA program promotes fair taxation, which should always be a priority for the governor and Legislature.*

Graph G: LGA enables property taxation fairness



Graph H: Without LGA, tax rate variation grows



Cities don’t operate in a bubble. Just as Minnesotans have experienced rising food, heating, and fuel costs, the items cities purchase have increased too. However, while the average Minnesotan family can save money by eating out less, cities can’t eliminate health care for their employees or stop their fleet of snow plows. The services cities provide are essential; they are not luxuries. Accordingly, cities need stable revenue sources in order to cover the increased costs of services.

Relying solely on property taxes to fund cities services will create stark inequalities across the state in both tax rates and services. The LGA program promotes fair taxation, which should always be a priority for the governor and Legislature.

Data Source: MN Department of Revenue. Graph H assumes all lost aid is levied back.