A bill for an act

relating to aids to local governments; amending the formula for distributing local government aid to cities; amending Minnesota Statutes 2006, sections 477A.011, subdivision 34, by adding a subdivision; 477A.013, subdivisions 8, 9, as amended; 477A.03, subdivision 2a; repealing Minnesota Statutes 2006, section 477A.011, subdivisions 30, 31, 32, 33, 38, 39, 40.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2006, section 477A.011, is amended by adding a subdivision to read:

Subd. 33a. **CAFR need.** (a) For cities with a population of 2,500 or more, the "CAFR need" is equal to the city's total expenses for governmental activities of the primary government minus expenses financed in that year by:

(1) charges for services;

(2) operating grants and contributions; and

(3) tax increment revenues, including tax increment bond proceeds, to the extent the expenses, excluding depreciation, are financed by current tax increment revenues.

(b) The "CAFR need per capita" for each city with a population of 2,500 or more is equal to its CAFR need divided by its population.

(c) The calculation in paragraph (a) shall use data from the comprehensive annual financial report of the city filed with the Office of the State Auditor for the most recent available year as of July 15 of the year in which the aid is to be certified. The commissioner may adjust the amount calculated under paragraph (a) for errors or omissions as provided under section 477A.014, subdivision 2. The commissioner shall report any adjustments to the Office of the State Auditor.

(d) The CAFR need per capita under this subdivision for any city may not exceed the median CAFR need per capita for all cities subject to this subdivision plus an amount equal to one standard deviation of the CAFR need per capita for all cities subject to this subdivision.

EFFECTIVE DATE. This section is effective for aids payable in calendar year 2009 and thereafter.

Sec. 2. Minnesota Statutes 2006, section 477A.011, subdivision 34, is amended to read:

Subd. 34. **Per capita city revenue need.** (a) For a city with a population equal to or greater than 2,500, "per capita city revenue need" is ~~the sum of (1) 5.0734098 times the pre-1940 housing percentage; plus (2) 19.141678 times the population decline percentage; plus (3) 2504.06334 times the road accidents factor; plus (4) 355.0547; minus (5) the metropolitan area factor; minus (6) 49.10638 times the household size.~~ equal to:

(1) for aids payable in 2009, the city's CAFR need per capita;

(2) for aids payable in 2010, the average of the city's CAFR need per capita for the most recently available two years; and

(3) for aids payable in 2011 and thereafter, the average of the city's CAFR need per capita for the most recently available three years.

(b) For a city with a population less than 2,500, "per capita city revenue need" is ~~the sum of (1) 2.387 times the pre-1940 housing percentage; plus (2) 2.67591 times the commercial industrial percentage; plus (3) 3.16042 times the population decline percentage; plus (4) 1.206 times the transformed population; minus (5) 62.772.~~ equal to:

(1) for aids payable in 2009, the city's per capita current expenditures on general government, public safety, and streets and highways;

(2) for aids payable in 2010, the average of the city's per capita current expenditures on general government, public safety, and streets and highways; and

(3) for aids payable in 2011 and thereafter, the average of the city's per capita current expenditures on general government, public safety, and streets and highways, for the most recently available three years.

~~(c) For a city with a population of 2,500 or more and a population in one of the most recently available five years that was less than 2,500, "city revenue need" is the sum of (1) its city revenue need calculated under paragraph (a) multiplied by its transition factor; plus (2) its city revenue need calculated under the formula in paragraph (b) multiplied by the difference between one and its transition factor. For purposes of this paragraph, a city's "transition factor" is equal to 0.2 multiplied by the number of years that the city's population estimate has been 2,500 or more. This provision only applies for aids payable~~

~~in calendar years 2006 to 2008 to cities with a 2002 population of less than 2,500. It applies to any city for aids payable in 2009 and thereafter.~~

~~(d) The city revenue need cannot be less than zero.~~

~~(e) For calendar year 2005 and subsequent years, the city revenue need for a city, as determined in paragraphs (a) to (d), is multiplied by the ratio of the annual implicit price deflator for government consumption expenditures and gross investment for state and local governments as prepared by the United States Department of Commerce, for the most recently available year to the 2003 implicit price deflator for state and local government purchases.~~

(c) For purposes of paragraph (b), a city's per capita current expenditures are the sum of the governmental funds expenditures listed for those purposes, as reported in the annual state auditor's reports, for the most recently available year as of July 15 of the year in which the aid is certified, divided by its population. For purposes of this subdivision, "governmental funds" consist of general funds, special revenue funds, capital projects funds and debt service funds but exclude enterprise or proprietary funds.

(d) For purposes of this subdivision, a city with a population of 2,500 or more that has not filed sufficient comprehensive annual financial reports with the Office of the State Auditor to allow its per capita city revenue need to be calculated under paragraph (a) shall have its per capita city revenue need calculated under paragraph (b).

(e) Beginning with aids payable in 2010, no city's per capita revenue need may increase by more than five percent over its per capita city revenue need in the previous year.

EFFECTIVE DATE. This section is effective for aids payable in calendar year 2009 and thereafter.

Sec. 3. Minnesota Statutes 2006, section 477A.013, subdivision 8, is amended to read:

Subd. 8. **City formula aid.** In calendar year ~~2004~~ 2009 and subsequent years, the formula aid for a city is equal to the need increase percentage multiplied by the difference between (1) the city's per capita city revenue need multiplied by its population, and (2) ~~the sum of~~ the city's net tax capacity multiplied by the tax effort rate~~; the taconite aids under sections 298.28 and 298.282 to any city except a city directly impacted by a taconite mine or plant, multiplied by the following percentages:~~.

~~(i) zero percent for aids payable in 2004;~~

~~(ii) 25 percent for aids payable in 2005;~~

~~(iii) 50 percent for aids payable in 2006;~~

~~(iv) 75 percent for aids payable in 2007; and~~

~~(v) 100 percent for aids payable in 2008 and thereafter.~~

~~For purposes of this subdivision, "a city directly impacted by a taconite mine or plant" means: (1) Babbit, (2) Eveleth, (3) Hibbing, (4) Keewatin, (5) Mountain Iron, (6) Silver Bay, or (7) Virginia.~~

No city may have a formula aid amount less than zero. The need increase percentage must be the same for all cities with a population of 2,500 or more and the need increase must be the same for all cities with a population less than 2,500.

The applicable need increase percentage must be calculated by the Department of Revenue so that the total of the aid under subdivision 9 equals the total amount available for aid under section 477A.03 after the subtraction under section 477A.014, subdivisions 4 and 5.

EFFECTIVE DATE. This section is effective for aids payable in calendar year 2009 and thereafter.

Sec. 4. Minnesota Statutes 2006, section 477A.013, subdivision 9, as amended by Laws 2008, chapter 154, article 1, section 3, is amended to read:

Subd. 9. **City aid distribution.** (a) In calendar year 2009 and thereafter, each city shall receive an aid distribution equal to the sum of (1) the city formula aid under subdivision 8, and (2) its city aid base~~, and (3) one-half of the difference between its total aid in the previous year under this subdivision and its city aid base in the previous year~~.

(b) For aids payable in ~~2010 and thereafter, each city shall receive an aid distribution equal to (1) the city aid formula under subdivision 8, (2) its city aid base, and (3) its formula aid under subdivision 8 in the previous year, prior to any adjustments under this subdivision.~~ 2009, the total aid for any city may not be less than 80 percent of its aid certified in calendar year 2008, minus an amount equal to its aid certified in 2008, multiplied by the percentage decrease in the limit on the total city aid appropriation, if any, between aids payable in 2008 and aids payable in 2009 under section 477A.03, subdivision 2a.

~~(c) For aids payable in 2009 and thereafter, the total aid for any city shall not exceed the sum of (1) ten percent of the city's net levy for the year prior to the aid distribution plus (2) its total aid in the previous year. For aids payable in 2009 and thereafter, the total aid for any city with a population of 2,500 or more may not be less than its total aid under this section in the previous year minus the lesser of $15 multiplied by its population, or ten percent of its net levy in the year prior to the aid distribution.~~

~~(d) For aids payable in 2009 and thereafter, the total aid for a city with a population less than 2,500 must not be less than the amount it was certified to receive in the previous~~

~~year minus the lesser of $15 multiplied by its population, or five percent of its 2003 certified aid amount.~~

~~(e)~~ (c) If a city's net tax capacity used in calculating aid under this section has decreased in any year by more than 25 percent from its net tax capacity in the previous year due to property becoming tax-exempt Indian land, the city's maximum allowed aid increase under paragraph (c) shall be increased by an amount equal to (1) the city's tax rate in the year of the aid calculation, multiplied by (2) the amount of its net tax capacity decrease resulting from the property becoming tax exempt.

EFFECTIVE DATE. This section is effective for aids payable in calendar year 2008 and thereafter.

Sec. 5. Minnesota Statutes 2006, section 477A.03, subdivision 2a, is amended to read:

Subd. 2a. **Cities.** For aids payable in 2004, the total aids paid under section 477A.013, subdivision 9, are limited to $429,000,000. For aids payable in 2005, the total aids paid under section 477A.013, subdivision 9, are limited to $437,052,000. For aids payable in 2006 and thereafter, the total aids paid under section 477A.013, subdivision 9, is limited to $485,052,000. For aids payable in 2009 and thereafter, the limit on total aids paid under section 477A.013, subdivision 9, shall be split with 82.4 percent of the total paid to cities with a population of 2,500 or more, and the remainder paid to cities with a population less than 2,500.

EFFECTIVE DATE. This section is effective for aids payable in calendar year 2008 and thereafter.

Sec. 6. **REPEALER.**

Minnesota Statutes 2006, section 477A.011, subdivisions 30, 31, 32, 33, 38, 39, and 40, are repealed.

EFFECTIVE DATE. This section is effective beginning with aids payable in calendar year 2009.

477A.011 DEFINITIONS.

Subd. 30. **Pre-1940 housing percentage.** "Pre-1940 housing percentage" for a city is 100 times the most recent federal census count of all housing units in the city built before 1940, divided by the total number of all housing units in the city. Housing units includes both occupied and vacant housing units as defined by the federal census.

Subd. 31. **Population decline percentage.** "Population decline percentage" for a city is the percent decline in a city's population for the last ten years, based on the most recently available population estimate from the state demographer or a federal census. A city's population decline percentage cannot be less than zero.

Subd. 32. **Commercial industrial percentage.** "Commercial industrial percentage" for a city is 100 times the sum of the estimated market values of all real property in the city classified as class 3 under section 273.13, subdivision 24, excluding public utility property, to the total market value of all taxable real and personal property in the city. The market values are the amounts computed before any adjustments for fiscal disparities under section 276A.06 or 473F.08. The market values used for this subdivision are not equalized.

Subd. 33. **Transformed population.** "Transformed population" for a city is the city population raised to the .3308 power, times 30.5485.

Subd. 38. **Household size.** "Household size" means the average number of persons per household in the jurisdiction as most recently estimated and reported by the state demographer and Metropolitan Council as of July 15 of the aid calculation year. A revision to an estimate or enumeration is effective for these purposes only if it is certified to the commissioner on or before July 15 of the aid calculation year. Clerical errors in the certification or use of estimates and counts established as of July 15 in the aid calculation year are subject to correction within the time periods allowed under section 477A.014.

Subd. 39. **Road accidents factor.** "Road accidents factor" means the average annual number of vehicular accidents occurring on public roads, streets, and alleys in the jurisdiction as reported to the commissioner of revenue by the commissioner of public safety by July 1 of the aid calculation year using the most recent three-year period for which the commissioner of public safety has complete information, divided by the jurisdiction's population.

Subd. 40. **Metropolitan area factor.** "Metropolitan area factor" means 35.20915 for cities located in the metropolitan area.