

Governor's Supplemental Budget: \$125 million in additional 2010 city cuts (This message was distributed late last night through the LMC Legislative listserv list)

Earlier today (Monday), Governor Tim Pawlenty released his supplemental budget recommendations to the legislature and the public. The supplemental budget includes recommendations to address the state's \$1.2 billion projected state deficit and also his other spending and tax initiatives for the 2010 legislative session. For cities, his recommendations include an additional round of deep city aid and credit reductions for 2010 and a continuation of deep cuts to cities into the 2011 and 2012 distributions.

Under the Governor's proposal, cities will lose an additional \$125 million in Local Government Aid (LGA) and market value homestead credit (MVHC) from the distributions due to be made in 2010. Under previous unallotment reductions, most cities under 1,000 population were exempt from the cuts. However, for this round of cuts, the supplemental budget spreads the cuts to all cities.

The combined impact of the 2010 unallotments (\$128 million) and these additional proposed cuts (\$125 million) mean that 179 cities, or 21 percent of all Minnesota cities will receive no LGA while 151 cities will also receive no MVHC reimbursement funding in 2010.

The cuts only impact the LGA and MVHC programs and do not extend to police and fire pension aids, PERA pension aid, border city disparity credit or other smaller tax credit and aid programs.

The Department of Revenue has posted their official estimates of cuts, including information on the 2010 unallotment reductions on their web site at:

http://www.taxes.state.mn.us/taxes/property_tax_administrators/other_supporting_content/2010_2011_reductions.shtml

Please note that these cuts are in addition to \$128 million in unallotment cuts already imposed for 2010. If the supplemental budget recommendations were to be adopted by the legislature, cities in total would lose 41 percent of their LGA and MVHC reimbursements when compared to the original 2010 levels of LGA and MVHC.

2010 Original LGA	\$536.7 million
2010 Unallotment Cut	-\$102.4 million
2010 Supplemental Budget Cut	-\$118.1 million
Remaining 2010 LGA	\$316.2 million
Percent Reduction	41.1%
2011 LGA Appropriation	\$337.6 million
2010 Original city MVHC	\$82.6 million
2010 Unallotment Cut	-\$25.5 million
2010 Supplemental Budget Cut	-\$6.9 million
Remaining 2010 MVHC	\$48.8 million
Percent Reduction	39.2%
Approximate 2011 MVHC	\$49.9 million

In addition to the 2010 unallotment cuts and the cuts proposed supplemental budget cuts, cities lost \$66 million in December, 2008 and an additional \$64 million in 2009.

The proposed additional cuts for 2010 are computed at 8.16 percent of each city's certified 2010 levy plus their preliminary 2010 LGA as originally certified last July. The computed reduction is first taken from each city's LGA and then to the extent necessary, from the city's share of the market value homestead credit reduction.

The governor's supplemental budget proposal also extends his 2010 unallotment reductions to 2011 and 2012. This would fund LGA at roughly \$337 million, which is roughly \$210 million lower than the current law appropriation but roughly \$21 million higher than the current proposed 2010 funding for LGA after the 2010 unallotment AND supplemental budget cuts to cities. His plan would also extend roughly \$33 million in cuts to MVHC reimbursements into 2011.

Cities are not alone. Counties will lose a total of \$125 million from their 2010 distributions of county program aid (CPA) and MVHC and townships will lose \$5 million in MVHC funding. His supplemental budget also proposes \$347 million in health and human service cuts, \$47 million from higher education appropriations and \$181 million from state agency appropriations.

The governor's plan only actually reduces state spending by roughly \$813 million. The balance of the \$1.2 billion shortfall is assumed to be offset by a yet-to-be-enacted federal law change to the formula that determines Minnesota's share of Medicaid costs. The change was recommended by President Obama and if it becomes law, the state's cost for Medicaid would be reduced by roughly \$387 million.