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Time to phase-out LGA

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Since the Legislature and governor failed to cut spending by eliminating non-essential functions from the state budget, local officials are going to pick up the slack. Expect GOP Gov. Tim Pawlenty to make further cuts (unallotments) to local government aid (LGA).

At least this situation has one upside: It may bring some serious consideration to LGA.

LGA takes over $525 million collected from taxpayers across the state and distributes it to city governments. According to the Minnesota Department of Revenue, it helps governments whose “spending needs are greater than their revenue raising capacity.”

Most cities receive LGA: 763, or 89 percent of the state’s total, get some — meaning 91, or 11 percent, do not. The five largest cities that don’t receive LGA are Bloomington, Brooklyn Park, Plymouth, Eagan and Burnsville.

On the other hand, some cities depend on it a lot: Mankato and Albert Lea, for example, use LGA to fund one-third of their budgets. More than half of Austin’s operating budget comes from LGA. Duluth uses it for nearly 40 percent of its general fund.

Defenders of LGA, such as the League of Minnesota Cities, say that it is essential to “provide basic services that all people need.” That’s a high-minded description, but it doesn’t mean that LGA should be sacrosanct.

To start with, the definition of “basic” and “need” can be questioned. The website ThankLGA (www.thanklga.org) cites libraries and recreation centers as among the services that LGA funds, along with police and fire protection. Should taxpayers in Bloomington be forced to subsidize library patrons elsewhere, especially since libraries are moving into the entertainment business by loaning out movies and popular music? How about recreation centers? That’s what the Y is for.

Police and fire protection are certainly valuable public services, but even there I saw we should question cross-city subsidies. While some cities, such as Eagan, rely on volunteer firefighters, others, such as Minneapolis, use expensive, unionized forces.

Further, specifying that LGA is primarily for police and fire protection is somewhat misleading. Money is fungible, so if the state gives LGA funds for police, it frees up city money (or at least the local residents’ tolerance for taxes) for questionable purchases such as city-run Wi-Fi service and grass-covered roofs on municipal buildings.

But the chief problem with LGA is one of sound governance: It weakens the accountability of local officials, who can spend money without having to ask voters for it. They get the political benefit of offering services without shouldering the political burden of convincing local taxpayers to pay for them.

In crunch times, dependency bites back. As we've seen before (and will see again soon enough), if state officials fail to do their job, they can shove some of the burden off on local officials.

LGA is also opaque, distributed through a Rube Goldbergesque formula. For cities over 2,500 people, it's based on a formula that includes, I kid you not, something called "transformed population." A religious experience? No. It's "the result of multiplying your city's population … raised to the .3308 power, by 30.5485."

If there's any logic in this formula, it's hard to see. Anytime government spending is involved, the definition of "need" is political, so I'm not surprised that the formula for determining LGA makes little obvious sense.

So what should we do with LGA? Make a plan to phase it out. Give cities the responsibility—and tools—for standing on their own.

Local officials complain that it's unfair to cut LGA, given that the state imposes mandates on them and places caps on the taxes they can levy. And they're right.

One objection to eliminating LGA is that doing so will contribute to inequality among cities. If a city with a wealthy population offers the same number and extent of services as a less wealthy city, it will be able to do so at a lower cost to the population. In itself, that's true. But the pursuit of equality brings its own troubles, and no two cities are alike anyway.

In 1987, Michael J. Stutzer, an economist with the Federal Reserve Bank of Minneapolis, wrote that intergovernmental aid increases local government spending beyond what the public would otherwise demand. You can work out the reasoning through models from game theory, such as the prisoner's dilemma, but a more commonsense approach works, too. If a central government is taking money from you and redistributing it anyway, you might as well plan to "get yours," even if it means that you end up spending more in total.

LGA is sometimes defended on the grounds that it helps citizens who would otherwise have to pay disproportionately high amounts for local government. Stutzer concluded that if that's your concern, it would be better to give grants to individuals (much as we do with homestead property tax credits) than units of government. At least that's an improvement on opaque, government-to-government transfers.

Finally, LGA props up unsustainable units of government. The existence of a city doesn't mean that it should continue to exist, especially if it requires people elsewhere to prop it up. Approximately 230 cities receiving LGA have fewer than 250 people, and close to 90 cities have fewer than 100 residents. Most of those city governments should dissolve or merge.

LGA hasn't been with us for even 40 years. There's no reason why we should have it for another 40.