Minnesota Journal

Inside This Issue

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Fiscal disparities pool grows 6 percent; property taxes on pool at all-time high

Due to a continuing increase in commercial-industrial values in the seven-county metro area, the pool of commercial-industrial (C-I) tax base shared by Twin Cities area communities increased for the second year in a row. The pool grew by 6.0 percent, from $259.6 million last year to $275.1 million in 1997. The pool had declined each year from 1993 through 1995, following declines in C-I values and court-ordered reductions in value on office buildings in downtown Minneapolis and on the I-494 and I-694 strips.

by Dana Schroeder

Property taxes paid by the shared pool of tax base grew by 4.4 percent, from $367.1 million in 1996 to $383.4 million this year, surpassing the previous high shared pool tax level of $369.1 million in 1994. Taxes paid by the shared pool have declined only twice during the history of the tax-base sharing program—in 1977 and 1995.

The tax-base sharing program—enacted in 1971 to help reduce disparities in tax-base wealth in the metro area—requires communities to contribute 40 percent of the growth in C-I tax base value since 1971 to a shared pool. That pool is then distributed back to communities in the metro area, based on their relative shares of population and market value. (See accompanying story on page 6.)

The shared tax base now accounts for 27.1 percent of the total C-I tax base in the metro area, down from last year's 27.6 percent and from the peak of 30.0 percent in 1994. It

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Make state aid categorical, equalizing; start levying new taxes on market value

Editor's note: The following article consists of edited excerpts of remarks by Dan Salomone, executive director of the Minnesota Taxpayers Association to the Citizens League on Jan. 21.

by Dan Salomone

We don't need any more studies of property taxes. If we need a study, it's a study of whether our Legislature is still able to make tough political decisions.

There are two elements of the reform issue. One is the state and local fiscal relationship. How should the state government relate to its local governments? Who does what at what level of government and who pays for it? Those are really important, fundamental decisions that have to be resolved.

The second part of the property tax reform debate is, Once you have a property tax levy, how do you spread that levy across the taxpayers? By what means do you determine who pays what at the local level?

First, the state and local fiscal relationship. In Minnesota our theory of state and local relations consisted of the state trying simply to displace property tax levies with state dollars. The one exception is the K-12 education formula, where we really thought through in 1971 how to equalize schools. We said, "We'll justify a dollar amount per pupil and we'll put that up against the local tax base and we'll fill in the gaps."

That was a fairly good formula. But the rest of what we did in '71

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League: Assess students *and* schools

by Janet Dudrow

Minnesota should put a high-quality student assessment system in place as one essential step toward improving student achievement. But the state shouldn't just assess the performance of students. The state should assess the performance of schools, too.

Those are among the recommendations of the Citizens League in its new report, *Straight A's for Minnesota's Schools: Achievement, Assessment, Accountability*. The report, released Feb. 6, was the work of a 53-member study committee cochaired by Carl (Buzz) Cummins III and Pamela Neary.

Minnesota's students tend to do well—test scores are higher, dropout rates lower, postsecondary education enrollment higher than the national average. Many of the state's educators are achieving remarkable success with their students, sometimes against difficult odds. However, there are other indications that Minnesota's education system is not working fine for many of its constituents. The system can do better—and *must* do better—for all students.

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The hard work of forging solutions to key public problems

Viewpoint

by Lyle Wray

One of the challenges of living in a democracy is balancing the need for citizen participation—whether direct or through elected representatives—with the hard work of finding solutions to difficult and complex public problems.

The borderlines between democracy, policy and expertise are sometimes murky. But a few things are clear: Spotting problems is a lot easier than solving them. Broadening the participation of citizens alone—particularly when the participation occurs in short, unfocused settings—is unlikely to yield viable solutions. Complex problems typically require prolonged conversations among citizens, experts and their elected representatives—on the nature of the problem, the consequences of inaction, the values that should guide solutions and the pros and cons of proposed solutions.

This issue of the *Minnesota Journal* highlights three examples of easy-to-spot, harder-to-fix public problems and some of the diligent work, thought and discussion that has gone into attacking them.

Tax-base sharing. Back in 1968, a Citizens League study committee asked: Does it do anybody any good to have two cities squabbling over whether a company builds its new plant on one side of the Mississippi River or the other? And should we be worried about the growing disparities in communities' ability to pay for services? By the late 1960s, municipal smokestack chasing had already captured headlines and it wasn't hard to find folks on the street who would agree that the competition probably wasn't all healthy.

But how could government curb the temptation? That's where the heavy lifting came in. Many League members spent months wrestling with a solution. The result of their work eventually ended up as Minnesota's metropolitan tax-base sharing law (known as "fiscal disparities").

Tax-base sharing isn't the stuff of polite conversation at the average dinner party. We daresay that a group of average citizens convened for an afternoon to tackle the issue of smokestack chasing would be unlikely to devise such a scheme. No, it took months and months of study, reading, brainstorming and often heated debate to come up with an idea for a fiscal tool that would lessen the incentives on city governments to compete with each other for business development and would help even out the disparities in communities' ability to pay for services.

K-12 education. The same goes for education. Could we go out on the Nicollet Mall or Minnesota Street and gather up a group of citizens willing to talk about schools? Sure. Could the group arrive at some consensus about what would help our schools do a better job of educating kids? Probably. The suggestions would likely include steps such as involving parents more in children's education, freeing up teachers to give students more individual attention and making sure students get extra help right away when they fall behind.

But what can the Legislature do to prod Minnesota's school districts into doing the things that seem to improve student learning? Education is a decentralized system, where the essential activity happens between teachers and kids. That means the Legislature isn't likely to get systematic improvement in our young people's education just by commanding schools to do better. And history shows the Legislature can't rely on increased spending to produce better results, either.

If better education is what Minnesotans want, sooner or later the talk has to turn to financing, measurement, incentives—the complicated work of transforming institutional behavior. These are exactly the design questions the Citizens League's most recent study committee, 50 members strong, just spent four months tackling. The League's new report, *Straight A's for Minnesota's Schools*, is highlighted in a story on page 1. The League focused on student achievement as the goal, assessment as the key way to track progress and a number of steps to strengthen accountability so that as we try various ways to improve student achievement, we learn how to do things better.

Property tax reform. Minnesota's unwieldy and inequitable property-tax system is perhaps the best example of a problem that's easy to spot, hard to solve. The Minnesota Miracle of 1971 is showing its age, and there is near unanimity that we need real reform in the way we manage property taxes in Minnesota. Dan Salomone (page 1) offers a superb look back at how the state's virtually incomprehensible property-tax system came to be what it is today.

Most attempts at reform have failed. The difficulty is in the transition: We can see where we need to go, we just don't know how to get there from here. Figuring out the mechanics of changing a big, complicated system is hard work. In a 1995 report—product of another group of diligent volunteers—the Citizens League proposed just such a transition mechanism to get the state on the road toward a saner property-tax system.

We hope this issue of the *Journal* contributes to the necessary conversations among citizens, their elected representatives and professional experts on property taxes, commercial development and school improvement. The work is hard; there is much to be done. But it *can* be done.

Lyle Wray is executive director of the Citizens League.

Salomone

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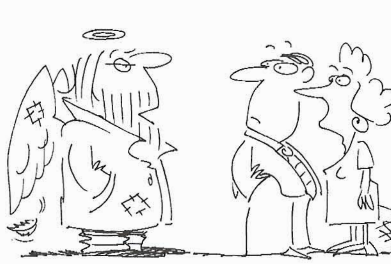
really wasn't such a good idea. Going into the 1971 session, property taxes were very high for everyone. We ranked about 12th in the nation.



"...No, I'm not. I'm the 'Minnesota Miracle.' Who's Michael?"

In that session legislators raised the fairly new sales tax from three to four percent. They passed a 25 percent income-tax increase. They created all kinds of new formulas for state aid for local government. The rationale for those formulas was not very sharp.

John Haynes, who was sort of a "tax guru" for Gov. Wendy Anderson, designed a lot of these formulas in 1971. At a 1993 national conference on taxation here, John got up before a largely Minnesota audience and said, "With one exception, everything we did in 1971 was wrong." The rationale was fine, the motivation was good, but the way they did it, he said, was wrong. They did not factor in the human behavior element into some of those formulas. He said if he had to do it over again, he'd do things quite differently.

The one exception he was referring to was the school aid formula. He thought that was the one piece they got right. But everything else should have been done differently. That was quite a confession from one of the architects of the Minnesota Miracle of 1971.

Our approach to property tax reform was basically a fear of rising property tax rates. When the property tax rates rose quickly, we tried to knock them down with state aid. That's not a good rationale for state aid. We have today about a billion dollars of state aid being paid every year, simply to soak up levies. We still have a concern about local tax rates.

State aid should be paid for only two reasons. The first is categorical aid. The state would decide what is that local government is doing that is of interest to the state, or at least has benefits outside the borders

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Salomone

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of that community. The state would then encourage that kind of activity with either a full funding grant or some kind of matching grant.

The other reason for state aid is equalization. The state ought to guarantee that, regardless of where you live in the state of Minnesota, you can buy a basic package of public services at a reasonable local property tax rate.

Beyond those two rationales for state aid, we ought not to be sending money to local governments. If legislators feel they want to help people with property taxes, they ought to be looking at the circuit-breaker. That provides state assistance directly to taxpayers based on their income, rather than to local units of government.

A second part of the property tax problem is how you spread the levies. In 30 states levies are spread in direct proportion to market value. You have a $100,000 business, I have a $100,000 home, we're in the same community, our property tax burden is the same.

The other 20 classify property. The state intervenes with a policy that says, We don't think distribution based on value is what we want. We want to skew the distribution, away from the homeowner. The average relationship between the tax on business and the tax on homes is $2 on the business and $1 on the home. In Minnesota it's 4.6 to one—a little bit out of whack.

If you ask the typical legislator what the rationale is for classification, you will almost invariably get this answer: We need classification because we enjoy a high homeownership rate in Minnesota and we want to keep it that way.

The truth of the matter is that we adopted classification not to help homeowners, but to try to keep the property tax system from getting out of whack. We adopted classification in 1913, after amending the Constitution in 1906. The assessors were out in the field classifying. The Legislature was losing control of the system. They said, Why don't we codify the disparities that are out there, so that we can control them and they can feel free to assess property at 100 percent?

That was the rationale for classification. It wasn't to have a wonderful tool to give homestead and voter relief every year without having to make an appropriation. Classification is too powerful a tool to be entrusted to legislators.

Classification distorts state aid. We can artificially, by state policy, make a community poor by putting a low class rate on its value and then give that community aid because they're poor.

Finally, classification is like a teeter-totter: If you push down the homeowners, other property like businesses, apartments and vacant land goes up. On the bottom you can have an accountability problem for low-value homes. At the top you have a competitive problem. You get two problems for the price of one: accountability and competitiveness.

An honest answer to why we should classify is because we can't get out of it. If you try to pull out of this system, there'll be a $900 million shift of taxes onto homes and other favored classes of property. Let's recognize that and let's try to wean ourselves from classification.

Let's take the incremental dollar and spread it based on market value like the other 30 states. We refer to that as a "last-dollar levy" proposal. That really is a wonderful device to gradually pull us out of the hole.

It's going to take a strong governor working with legislative leaders to do something. The longer we wait, the harder it will be to fix the system. Right now there's money on the table: $1.4 billion. Some of that could be very helpful as a lubricant in the reform process.

Editor's note: Due to a space shortage, the "On Balance" roundup of editorial opinions from state newspapers will not appear this month. It will return in March.

The Minnesota Journal

Publisher — Lyle Wray
Editor — Dana M. Schroeder
Contributing Editor — Ted Kolderie
Sketches — Ray Hanson

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Vanderpoel understood different worlds

Editor's note: Peter Vanderpoel, 63, former president of the Citizens League and the League's director of communications and legislation from 1990 to 1992, died Jan. 21 of complications from emphysema. Following are excerpts of Ted Kolderie's remarks at Vanderpoel's funeral on Jan. 24. The family has suggested memorials to the Citizens League.

Peter Vanderpoel

Peter was important in the public life of this community and this state—as one of those people who want to do something rather than to be something.

A whole set of experiences gave him understandings that made him almost uniquely helpful. He could move comfortably, could understand and be effective in very different worlds.

He understood and respected both the politics that values above all loyalty to people and the people whose loyalty is above all to ideas. These are worlds that do not always understand, or respect, each other.

He was one of the few individuals who truly understood both the Iron Range and the metropolis. He understood—and liked—Saint Paul and could explain it to Minneapolis, which has a hard time understanding.

He could explain the press to politicians, and government to business. At NSP he was one of those public-affairs persons who functioned as much to represent the community to the company as the company to the community.

He moved from being a reporter and policy analyst to being himself an actor in public life. This is something few can do and even fewer can do well. It is fairly common for people to move from the newspapers into government. But Peter came back, which is *not*. The *Tribune*, Chuck Bailey, wanted him.

Pete was part of that tradition of reporters for whom journalism *was* public affairs and who felt the responsibility of their role in the process of public life—in the raising and resolving of issues. Reporters, like his friend Frank Premack, who preferred the risks of intimacy to the risks of ignorance.

This was clearest in his work beginning in the mid-1960s for the *Dispatch/Pioneer Press*, about metropolitan affairs. He had become curious about the new problems. The executive editor, Jack Finnegan, to his great credit, let him make it his beat. Up to and into the legislative session of 1967 Peter covered the community's policy debate, reporting day by day what people were thinking and saying.

That reporting set a standard the other papers had to follow. And it is hard to believe the Legislature would have done as well as it did without the seriousness and sophistication of that coverage. It was the fullest expression we've seen of the truth that public affairs is not what happens, but is the talk that goes on before the vote is taken.

It was fitting that he came finally to the Citizens League, where his understanding of political reality and his interest in public affairs came together in a situation where an advocacy role was expected.

We were privileged to have had him around.

Schools

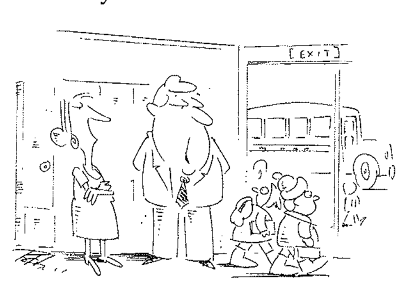
Continued from page 1

The Legislature should avoid the temptation to micromanage schools. Instead, it should set expectations for the performance of students and schools and design the education system for continuous improvement. That means focusing on one clear goal, developing reliable information about performance, and encouraging the people closest to the action to try new ways of doing things. Everyone in the education enterprise should be accountable for improvement.

Student achievement must be at the center of every public policy related to education. Policymakers should give particular emphasis to improving school readiness and ensuring that all children are able to read and do math at grade level by third grade. Education researchers agree that if these basic educational foundations are not in place by third grade, it is very difficult for children to catch up later.

One of the state's highest priorities should be improving the achievement of students of color, students in poverty and students whose native language is not English. Currently, student achievement among students of color and students in poverty is dramatically worse than that of white, middle-class students.

Good information about student and school performance is essential as the state strives for better student achievement. Parents need to know how well their children are learning. Teachers need assessments to identify academic skill or knowledge deficits and arrange for remediation. Administrators and policymakers need good information about how well the system is currently doing in order to improve quality and productivity in the future.



"I liked the good ol' days when we were in charge and only they were under the gun! ..."

The League recommends that the 1997 Legislature take the following steps:

- Implement a statewide, uniform system for assessing students' core knowledge and skills.

Assessment should involve a combination of standardized tests and performance-based reviews—such as portfolios of student work—now being developed across the state to evaluate whether students meet Minnesota's graduation standards. Standardized tests should tell us both whether students are learning what we want them to learn and how well their performance compares with that of their peers.

The Legislature should set consistent policies regarding which students are tested and how results are reported. The fact that each school district has some students with special learning needs who might require different tests (or no tests) should not be a reason to avoid assessment.

- Include other measures of student achievement—besides test scores—in the assessment system. Attendance, dropout rates, participation in school activities, and postsecondary education enrollment or job placement all give good clues to how well students are learning.

- Distinguish between the assets and deficits the child brings with him to school and the "value added" by the teacher and school. Educators must be able to evaluate the results of their own efforts.

- Assess schools, too. It's not enough to assess students and put students at risk for failing to learn. The state should evaluate the performance of schools—and hold schools accountable for performance.

The League urges the state to pay attention to whether schools are prepared to educate students of color and students in poverty. Standardized tests show achievement gaps of up to 20 percentage points between white students and students of color in the Minneapolis and St. Paul districts. Statewide, students of color are dropping out of school in alarming numbers. The Minnesota Department of Children, Families and Learning has projected that if 1994 dropout rates for grades nine through 12 remain constant, 62 percent of African Americans in the ninth-grade class of 1994 will eventually drop out of school. The projection for Hispanic and Native American students is only slightly better. (Some dropouts eventually re-enroll or earn a G.E.D.)

The state must get beyond merely achieving racial balance in schools in order to meet its commitment to equal education opportunity. The Legislature and Department of Children must ensure that every school is prepared for and committed to educating students of color. The state should compile a "Multicultural Readiness Report Card" for each school: Are there teachers of color on the faculty? Do curriculum and instructional materials reflect the diversity of cultures in Minnesota? Do teachers and staff demonstrate understanding of the various backgrounds of their students? Does the school have effective policies against bias and harassment? Are parents of color represented in significant ways in school affairs?

Accountability

Sometimes just providing information is enough to nudge the education system to innovate and improve. Educators, who care deeply about kids, will challenge themselves to improve when they know what needs improving.

Information is also the cornerstone of accountability. The Legislature and public must know what results the state is getting for its roughly $6 billion annual education appropriation.

The state should require each school to issue a "value-for-money" report annually to its parents and taxpayers as part of the Truth-in-Taxation reporting process. The report should include information about how much the school spends per child and how well students and the school are doing, using many indicators, including test scores. Other pertinent information about the school—such as the share of students who are poor—should also be included.

When parents and taxpayers get information, public pressure for improvement is likely to increase.

The Legislature should expand and strengthen charter schools, Post-Secondary Enrollment Options and open enrollment to give students and parents more alternatives to choose among. The state should also establish an experimental program to evaluate whether providing education aid directly to schools, rather than districts, leads to improved student achievement and greater productivity in the education system. Such an approach would allow schools to spend money as they choose and would put accountability for performance at the school level.

The state should provide achievement grants to schools and districts that negotiate measurable goals for improving student achievement and should eventually link education appropriations with district and school performance. Many thorny questions would have to be addressed first, of course. For example, unless the assessment system accounts for the effect of nonschool factors on test scores and other achievement measures, withholding appropriations for unsatisfactory "performance" might penalize decent schools that happen to have more poor or disabled students. Nevertheless, designing a performance-based funding system, while difficult, is not impossible.

In a "budget session," inevitably, education policy will be debated in the context of spending decisions. The central question for debate should be: How must the education system change for the benefit of students? And how can the Legislature be assured that its appropriation—the whole $6 billion, not just the margins—will be used to achieve those improvements?

Good information about student learning and school performance is only part of the answer—but an important part. The 1997 Legislature should ensure that parents and educators get the information they need to improve student achievement.

Janet Dudrow is a research associate at the Citizens League. She staffed the committee that produced the Straight A's for Minnesota's Schools *report. The report is available from the Citizens League office at 612-338-0791.*

Disparities

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accounts for 11.7 percent of the region's total tax base.

The slump in C-I values in the region which shrunk the shared tax pool seems to be over—at least for now. For tax year 1997 the value of the region's C-I tax base increased by $ 73.4 million, or 7.8 percent, to $1.015 billion. The region's total tax base increased by $167.1 million, or 7.7 percent, to $2.351 billion.

Despite these increases in value, court-ordered C-I valuation reductions still remain an important factor in the size of the fiscal disparities pool. These abatements—which can affect multiple years' valuations—are reflected in the tax-base sharing pool in the year following the court decision. According to Jerry Silkey of the Minnesota Department of Revenue, court-ordered abatements reduced the shared pool by $10.7 million in 1997, down from the court-ordered reductions of $16 million in 1996 and $36 million in 1995. The bulk of the abatements were in Hennepin and Ramsey Counties.

An important note: Because Minnesota taxes different types of property at different rates, tax base (officially known as *tax capacity*) is expressed as a proportion of market value. For C-I property the tax capacity is three percent of the first $100,000 of a property's market value and 4.6 percent of the remaining market value. An office building assessed at a market value of $1 million for tax purposes adds $44,400 (that is, .03 x $100,000 + .046 x $900,000) to a community's tax base, or tax capacity. So the dollars of C-I tax base discussed here represent only a small portion of the dollars of market value of C-I property in the metro area.

Net gainers, losers

The Citizens League's 23nd annual tax-base sharing analysis shows that most of the 186 eligible metro-area communities are net gainers under the program: 138 received more tax base from the shared pool this year than they contributed. The other 48 were net losers. (Sunfish Lake is ineligible to participate because it excludes C-I property. The communities of Norwood and Young America merged as of January 1 to from Norwood Young America, resulting in one less metro-area community this year.) Six communities moved from the net gainer to net loser category this year: New Hope, Osseo, Baytown Township, Maple Plain, Louisville Township and Mendota. Among the 59 communities over 9,000 population, 36 were net gainers and 23 were net losers.

St. Paul was once again the top net gainer under the program, with a net gain of $29.2 million in tax base, up from its net gain of $25.3 million last year. The second largest net gainer was Minneapolis, which posted a net gain of $4.4 million in tax base, up somewhat from its net gain of $3.8 million last year.

On a percentage basis, St. Paul's tax base increased by 18.1 percent due to sharing, or sixth highest among the 36 large-city net gainers; Minneapolis' tax base increased by 1.3 percent, or second lowest.

This was the third year in a row Minneapolis was a net gainer under the program, after being a net loser for a number of years. Because of its large C-I tax base, Minneapolis made the largest contribution of any community to the shared pool—$40.6 million in 1996, or nearly 15 percent of the total shared pool. But it also received back the largest amount of tax base from the pool—$45.0 million, or 16 percent of the pool.

St. Paul made the third largest contribution to the pool, at $12.8 million—five percent of the shared pool. (Bloomington made the second largest contribution—$28.2 million, or about 10 percent of the shared pool.) But St. Paul, because of its relatively low tax base per capita (at $595, eighth lowest among the 59 cities over 9,000 population) and its large population, received back more than three times as much as it contributed—$41.9 million, or 15 percent of the pool.

The importance of the tax-base sharing to St. Paul's tax base can be gauged by a comparison to the tax-base value of the World Trade Center tower and parking ramp, a prominent downtown building. With a market value of $27.3 million for the 1997 tax year, the building adds $1.1 million to the city's tax base. It would take nearly 27 World Trade Centers to add the $29.2 million in tax base the city gains through tax-base sharing.

On a per capita basis, though, St. Paul—with a net gain of $108 per capita—ranked fourth highest among the 36 large-city net gainers, while Minneapolis—at $12 per capita—ranked 34th.

The five largest net tax-base contributors to the program in 1997—all Hennepin County suburbs—include *Bloomington*, $21.5 million; *Minnetonka*, $9.1 million; *Eden Prairie*, $9.0 million; *Plymouth,* $7.6 million; and *Edina,* $6.0 million. These five cities were also in the top five last year.

The top five net contributors are also among the top seven on a per capita basis in 1997, ranging from *Bloomington* in first place at $247 to *Edina* in seventh place at $128.

In addition to St. Paul and Minneapolis, the other top net gainer cities include—as the last two years—*Coon Rapids,* $3.8 million; *Richfield,* $3.1 million; and *South St. Paul,* $2.8 million.

But the net gainers look different on a per capita basis. Only *South St. Paul* (first at $138), *St. Paul* (fourth at $108) and *Richfield* (ninth at $87) fall among the top 10 net gainers per capita.

Among the net-gainer cities over 9,000, sharing resulted in tax-base increases ranging from less than one percent in Woodbury to 25.4 percent in South St. Paul. Sixteen of the 36 net gainer cities showed tax-base increases of more than 10 percent due to sharing. (See table on page 7.)

Among the net loser cities over 9,000 population, sharing resulted in tax-base declines ranging from less than one percent in Chanhassen to 14.5 percent in Bloomington. Seven cities—Bloomington, Shakopee, Roseville, Eden Prairie, Minnetonka, Arden Hills and Maplewood—lost more than 10 percent of their tax base due to sharing. But all but one of these seven cities posted gains in total tax base over last year, even after sharing. The gains ranged from less than one percent in Roseville to 13.8 percent in Eden Prairie. Only Arden Hills showed a loss in total tax base between 1996 and 1997 after sharing, though the loss was less than one percent.

On a countywide basis, Hennepin County made by far the largest net contribution of tax base to the program in 1997—$43.4 million, up from last year's amount of $38.5 million. Its net contribution on a per capita basis ($41) was almost three times that of the only other net contributor county, Dakota County ($14). Dakota County's net contribution was $4.4 million, down from its contribution of $5.4 million last year. Ramsey County netted the most shared tax base in total dollars ($24.6 million, up from $22.5 million last year) and Anoka County the most on a per capita basis ($55).

Reducing the gap

The tax-base sharing program significantly reduces the gap in C-I tax base among the wealthier and poorer communities in the metro area.

- In the 59 metro-area cities with populations above 9,000, the 1996 C-I tax base *after* sharing ranges from a high of $817 per capita in Bloomington to a low of $165 per capita in Lino Lakes—a ratio of about five to one. (See table.) *Without* tax-base sharing, the range would be $1,065 per capita in Bloomington to $84 per capita in Champlin—a ratio of nearly 13 to one.

- Comparing communities of all sizes in the metro area, the ratio of high to low in C-I tax base per capita *before* sharing is 154 to one, with Rogers the highest ($1,693)and Carver County's San Francisco Township the lowest ($11). *After* sharing the range is reduced to 31 to one, with Landfall the highest ($1,260) and Woodland the lowest ($41).

The sharing also reduces—although less dramatically—disparities among communities in *total* property tax base.

- In cities over 9,000 population, total property tax base per capita *before* sharing ranges from $1,971 (Edina) to $482 (North St. Paul)—a ratio of four to one. *After* sharing the high and low cities remain the same, but the ratio is reduced to three to one.

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Legislature considers changes, brings sharing to Iron Range

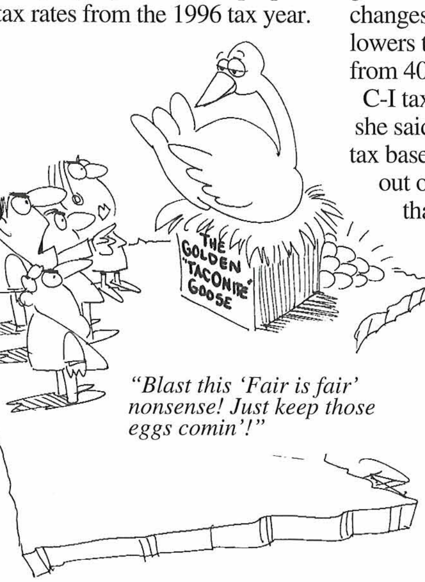
The 1971 fiscal disparities act—officially known as the Charles R. Weaver Revenue Distribution Act, in honor of the late Anoka legislator who authored it—was designed to lessen differences in tax base among Twin Cities area communities. It allows all communities in the seven-county metro area to share part of any commercial-industrial (C-I) tax-base growth anywhere in the region. The idea grew out of a 1968 Citizens League committee studying tax disparities.

Here's how the program works:

- Communities contribute 40 percent of their C-I tax base growth since 1971 to a regional pool. (Excluded from this base is the airport, property within tax-increment finance districts established before Aug. 1,1979, and property in the city of Sunfish lake, which is ineligible to participate because it excludes C-I development.)

- Each community then receives back a portion of the pool based on its relative shares of population and tax base. Communities with relatively poor tax bases per capita receive more from the pool than they contribute. Those with relatively wealthy tax bases per capita contribute more than they receive.

- There is a one-year lag in the C-I property values and property tax rates used to figure tax-base sharing. For taxes payable in 1997, the amount of tax base shared is based on C-I property values and property tax rates from the 1996 tax year.



"Blast this 'Fair is fair' nonsense! Just keep those eggs comin'!"

Proposed changes to law

Residential base sharing. Rep. Myron Orfield (DFL-Minneapolis) has introduced legislation several times to expand the pool to include the growth in value of high-value homes. His 1995 bill, which would have pooled all growth in value of residential homestead property over the first $200,000 per homestead, passed both houses of the Legislature but was vetoed by Gov. Arne Carlson. Orfield said Rep. Edwina Garcia (DFL-Richfield) plans to introduce a similar bill this session.

Orfield said expanding the base to include residential property addresses some inequities in the program, reduces the economic incentives for fiscal zoning and strengthens land-use growth planning.

Changing the distribution percentage. As part of a comprehensive property-tax reform measure she is introducing this session, Rep. Ann Rest (DFL-New Hope) proposes to change the way C-I property is taxed. It would be subject both to local property taxes and to a separate statewide property tax for education. The rate at which C-I property is valued for local taxes would be reduced to two percent. (It is currently valued at three percent of the first $100,000 of market value and 4.6 percent of the remainder.)

To keep the fiscal disparities program consistent with these changes, Rest said, her proposal lowers the contribution percentage from 40 percent to 20 percent of C-I tax-base growth. Otherwise, she said, the contribution of C-I tax base to the pool "would be way out of line." But she maintained that her reform proposal contains "no policy changes with respect to tax-base sharing. It's not my intent to change anything."

Dropping the lag. Rest has also introduced a bill this session to drop the one-year lag in the tax-base values and tax rates used to compute tax-base sharing. The lag was originally instituted to ease administration of the program, allowing more time for data collection and computation.

"The lag produces a roller-coaster effect in communities with significant changes either in the cost of something that would affect the tax rate or in C-I values," Rest said. "It provides a distortion we don't need." She explained that a community with a new C-I project keeps 100 percent of the new tax base during the first tax year, because of the one-year lag. "Then, whammy, the next year, the tax rate bounces up higher," she said, because 40 percent of the new value goes into the areawide pool.

Likewise, Steve Hinze of the Minnesota House Research Department said if a community has a sudden new cost, like a school referendum, it takes several years for the tax rates to level out because of the lag in tax rates used for tax-base sharing. "Using the current year tax rate would eliminate the roller coaster," he said.

Iron Range tax-base sharing

Last year the Legislature established a tax-base sharing program for the Iron Range, beginning with taxes payable in 1998. Patterned after the metro-area program, it provides for sharing 40 percent of the C-I tax-base growth since 1995 throughout the Range's taconite tax relief area: all of Lake and Cook Counties, much of St. Louis and Itasca Counties and portions of Aitkin, Crow Wing and Koochiching Counties.

Estimates by the House Research Department project the size of the shared tax-base pool at $600,000 for the first year, or about 1.4 percent of the $43.7 million of C-I tax base in the relief area.

The area already has another "fiscal disparities" program, but for taconite taxes, according to Rep. Tom Rukavina (DFL-Virginia). Since 1977, production taxes—paid in lieu of property taxes by taconite producers—have been shared among all the communities within the taconite relief area. The shared production taxes generated around $82 million in 1996, Rukavina said. Production taxes generated mostly on the eastern edge of the Range—in cities like Mountain Iron, Hibbing, Eveleth, or Gilbert—are distributed throughout the relief area to communities that "don't have a mine within 30 miles," he said.

Rukavina believes nontaconite C-I wealth also ought to be distributed throughout the area. "What's fair is fair," he said. He would have preferred the base year for tax-base sharing to be 1977, the year the taconite tax sharing began, rather than 1995.

The new tax-base sharing has generated controversy in Grand Rapids and Cohasset, Rukavina said. A Jan. 31 editorial in the *Duluth News-Tribune* called on legislators to delay implementation of the law, saying it was passed "too quickly" last year, without hearing from people on the western end of the Range. "Besides seeking fairness, lawmakers should try to avoid dividing a region that has much in common," the paper said.

Responding to critics of the law, Rep. Loren Solberg (DFL-Bovey) is introducing a bill that would change the distribution of the new tax-base sharing pool. His proposal calls for 50 percent of the pool to go into an economic development trust fund and 50 percent to be distributed as planned to communities throughout the area.

Rukavina said he would not oppose putting 25 percent of the pool into a trust fund, but thinks 50 percent is too much.

Solberg called the taconite sharing a "very beneficial fiscal disparities" program that communities in his district (which includes Grand Rapids) want to preserve. He conceded that opposition to the new program may lead to pressure to do away with the existing taconite sharing program.

Rukavina suggested such opposition might indeed call the existing taconite sharing program into question. "For them to [call into question this golden goose, this gift horse, is unbelievable," he said.

Disparities

Continued from page 5

Among all metro-area communities, the ratio of high to low in total property tax base per capita *before* sharing is 11 to one, with Woodland the highest and New Trier the lowest. *After* sharing the high and low cities remain the same, but the ratio is reduced to eight to one.

While tax-base sharing reduces disparities in tax base among communities, it does not greatly reorder their tax-base wealth. Since only a portion of tax base is shared, the wealthiest communities before sharing generally remain that way after sharing, as do the poorest communities.

- The five communities over 9,000 population with the smallest C-I tax base per capita before sharing— *Champlin, Lino Lakes, Andover, Mound* and *Prior Lake*—remain in the bottom five *after* sharing.

Likewise, the wealthiest cities in C-I tax base per capita generally remain that way even after tax-base sharing. The cities over 9,000 population with the highest C-I tax bases per capita *before* sharing—*Bloomington, Golden Valley, Roseville, Eden Prairie* and *Shakopee*—remain among the top eight *after* sharing.

- The same is true in looking at *total* property tax base per capita. The wealthiest five cities over 9,000 population before sharing remain in the top five after sharing; the poorest five cities before sharing remain among the bottom eight after sharing.

The last two columns in the table compare the growth in C-I tax base per capita between 1971 and 1997 *with* sharing with the growth that would have occurred *without* sharing. Without sharing, the growth among communities over 9,000 population would have ranged from a high of $916 per capita in Bloomington to a low of $52 in Savage—a ratio of nearly 18 to one. *With* sharing, the growth ranges from a high of $669 per capita in Bloomington to a low of $81 per capita in Savage—a ratio of eight to one.

PER CAPITA COMPARISONS FOR TAX-BASE SHARING#

Community Above 9,000 population	% change in 1997 NTC**with sharing	Net gain or loss*	1997 NTC with sharing	1997 C-I*** with sharing	1997 C-I without sharing	1971-1997 C-I growth with sharing	1971-1997 C-I growth without sharing
Andover	11.88%	$ 77	$ 730	$168	$ 91	$157	$ 79
Anoka	10.59	73	764	367	293	290	217
Apple Valley	4.35	35	834	225	190	197	163
Arden Hills	-10.40	-127	1,091	563	689	368	494
Blaine	4.86	32	688	342	310	322	290
Bloomington	-14.53	-247	1,455	817	1,065	669	916
Brooklyn Center	-2.56	-21	788	454	474	380	401
Brooklyn Park	3.87	28	762	357	329	327	299
Burnsville	-8.34	-99	1,087	498	597	335	434
Champlin	19.01	106	664	190	84	176	70
Chanhassen	-0.40	-6	1,438	495	501	461	466
Chaska	-7.42	-80	1,003	476	556	423	503
Columbia Heights	22.62	114	620	272	158	233	118
Coon Rapids	9.84	63	700	291	229	263	200
Cottage Grove	16.61	93	652	239	146	167	74
Crystal	16.71	92	643	273	181	238	146
Eagan	-8.52	-102	1,093	447	548	302	404
Eden Prairie	-11.02	-195	1,574	563	758	412	607
Edina	-6.48	-128	1,843	617	745	446	574
Fridley	-6.58	-68	969	565	633	448	517
Golden Valley	-7.75	-120	1,434	742	862	557	677
Ham Lake	6.23	44	758	231	186	201	156
Hastings	11.21	71	704	283	212	236	165
Hopkins	1.53	15	987	469	454	318	303
Inver Grove Heights	2.46	20	832	316	296	268	248
Lakeville	3.11	26	853	243	218	199	174
Lino Lakes	11.34	77	752	165	88	141	65
Little Canada	-1.02	-8	820	352	361	311	320
Maple Grove	-0.56	-5	903	302	307	254	259
Maplewood	-10.36	-118	1,025	582	700	400	518
Mendota Heights	-7.84	-123	1,445	436	559	360	482
Minneapolis	1.29	12	953	555	543	423	411
Minnetonka	-10.98	-180	1,456	552	732	488	667
Mound	11.10	78	785	176	97	136	58
Mounds View	8.96	55	667	298	243	281	226
New Brighton	3.64	29	816	291	262	256	227
New Hope	-0.56	-5	841	399	403	343	348
North St. Paul	23.68	114	597	232	118	204	90
Oakdale	11.35	69	682	232	162	209	139
Plymouth	-8.76	-130	1,349	515	644	422	552
Prior Lake	7.56	60	849	167	108	148	88
Ramsey	10.58	68	710	214	146	189	121
Richfield	13.54	87	731	294	207	246	158
Robbinsdale	19.65	107	649	251	144	218	111
Rosemount	-5.15	-53	983	423	476	242	295
Roseville	-11.05	-146	1,179	635	782	489	635
Saint Louis Park	-3.32	-38	1,099	520	558	391	428
Saint Paul	18.10	108	702	375	267	272	164
Savage	3.45	29	877	254	224	81	52
Shakopee	-11.63	-143	1,088	605	749	524	667
Shoreview	2.83	23	851	236	212	218	194
South St. Paul+	25.42	138	679	328	190	190	52
Stillwater	1.36	11	825	325	314	279	268
Vadnais Heights	-4.02	-40	947	373	413	350	389
West St. Paul	3.54	28	811	333	305	281	253
White Bear Lake	9.29	59	699	261	201	236	177
White Bear Township	4.17	34	842	221	187	204	170
Woodbury	0.16	2	1,078	284	282	210	209

Population figures are Metropolitan Council estimates for 1971 and 1995.

*The net gain or loss is the difference between the amount of tax base a community contributes to the sharing pool and the amount it receives back from the pool.

**NTC is total net tax capacity—a community's total valuation as computed for tax purposes—for taxes payable in 1997. This figure includes value in tax-increment finance districts.

***C-I is commercial-industrial net tax capacity. This figure includes value in tax-increment finance districts.

+South St. Paul began contributing for the first time in 1992, as result of a 1991 law change. Its contribution was 40 percent of its C-I growth since the 1989 assessment year.

Dana Schroeder is editor of the Minnesota Journal. *Steve Hinze of the Minnesota House of Representatives Research Department supplied the data for this analysis.*

Opt-out transit subsidy per rider larger than for MCTO

A free ride? Ya, you betcha! Media and public officials alike have applauded the effectiveness and popularity of "opt-out" transit service—those five municipalities in the Twin Cities region that receive separate funding to provide transit service independent of Metropolitan Council Transit Operations (MCTO).

But figures from House Research show that opt-outs receive significantly larger subsidies per rider than MCTO operations, which might explain some of the high service marks for opt-outs.

Fares paid by riders on MCTO buses make up 38 percent of MCTO's budget. Conversely, total farebox recovery from opt-out bus riders was just 21 percent in 1995—roughly half the level of MCTO's farebox recovery. Remaining costs associated with each bus rider are made up by property taxes, along with state and federal subsidies.

To put it another way, while making up less than three percent of all transit ridership, the five opt-out systems receive 10 percent of all transit subsidies.—*Ron Wirtz.*

Minnesota's charter schools law needs to be amended this year, so it can produce schools for "regular" students, too. Local boards of education, as the new evaulation report from the policy shop at the University of Minnesota College of Education shows, have been using the law mainly to produce more "alternative" schools for kids not doing well. Saint Paul is the major case.

To produce schools for "regular" kids, applicants will have to go to the State Board of Education for approval, as Gov. Arne Carlson and a bipartisan group of House and Senate legislators now propose. Local boards' enthusiasm for options usually evaporates pretty quickly, if it means "regular" kids might move and so put pressure on an existing school.

Duluth is one of the few districts that seem to think differently and to put student interests first. Upset by low student performance, Supt. Mark Myles persuaded the school board to look nationally for someone else that might do better.

Take Note

No slippery walking on these policy paths.

Duluth will charter a group that will open the first two Edison Project schools in Minnesota next fall.—*Ted Kolderie.*

At the League's recent legislative panel discussion on property tax reform, Sen. Steve Novak told a story that illustrates how difficult it is to explain to normal humans the need for reform. Novak explained his property-tax reform proposal to a newspaper editorial board. One of the editorial writers helpfully suggested that hiring a public relations/marketing firm would help him simplify his message on this complex issue. Novak took the advice. He called a PR guy and spent a couple of hours with him, painstakingly explaining Minnesota's property-tax system. "Great. I'll get back to you" with a plan, the PR guy said. Six months later and still no word, Novak reports.—*Phil Jenni.*

Two major rating agencies, Fitch and Moodys, already have upgraded Minnesota's credit rating to AAA. The third major rating agency, Standard and Poor's, will do likewise, says Gov. Arne Carlson, if the Legislature enacts his proposed budget for fiscal years 1998 and 1999.

Minnesota lost its top rating starting in 1982, as a result of fiscal crises that year and in following years. Six other states have the coveted top rating: Maryland, North Carolina, South Carolina, Missouri, Utah and Virginia. In contrast with Minnesota, those states rank near the bottom of the 50 states in state spending per capita and in the amount of state revenues in proportion to personal income.

A triple A credit rating across the board would save Minnesota $500,000 in interest costs for every $100 million borrowed, according to Commissioner of Finance Wayne Simoneau.—*Betty Wilson.*

One out of three IS bad. The Metropolitan Council has been lauded nationwide for its affordable housing initiative through the Livable Communities Act. Some, however, believe that the program is likely to realize less than half—and maybe less than one-third—of its goal of 12,291 new affordable housing units in the region by 2010.

A recently released report by the Livable Communities Housing Task Force, however, estimates that existing sources of private capital and public subsidies will produce just 4,000 to 5,700 units—or 32 to 46 percent of the goal.

The task force, chaired by former St. Paul mayor George Latimer, found that the key barriers to greater affordable homeownership opportunities were "public policies which inflate land and development costs, and growing opposition by affluent homeowners to modestly priced homes."—*R.W.*

"Accountability" (in education) is not standards. It's not testing. Accountability is standards *and* measurement *and consequences*. Or in plain words: What should the kids know, and how well? Do they know it? What happens if they don't, *and to whom*?

Listening to Dean Robert Bruininks' session with educators Jan. 23 (to present the assessment measures the University has designed for the state), one got no sense that "accountability" needs to include consequences at all—except for kids, who won't get a diploma, if they don't pass the tests. The notion was that "consequences" for adults can be left to the voters, when and if test results are reported.

This reflects the traditional conviction that schools are not responsible for what the students learn. Or, as one person in Bruininks' session put it: "How can we be held responsible for things over which we have no control?" (Ask Tom Kelly what he'd answer if Twins players said that to him, somebody suggested afterward.)

But there *have* to be consequences for schools. Schools need to have a direct stake in students meeting standards, so they'll do everything they can to ensure kids do meet standards. The public is not going to pay districts $6 billion a year *not* to have students graduate.-*T.K.*

References, please. A recent study sheds some light on reported discriminatory housing practices in Minneapolis. The Minnesota Fair Housing Center sent two testers to the same rental housing unit. The testers were generally similar to each other except for a single characteristic—usually race, but also family and public assistance status. A total of 72 tests were completed in the Southwest and Northeast neighborhoods of Minneapolis.

Results showed significant discriminatory practices among landlords: 70 percent of all cases uncovered some type of discrimination, with evidence of race-based discrimination in 60 percent of Southwest cases. In five cases, white testers were offered $5 to $10 monthly discounts in rent, with no such offers tendered to testers of color.—*R.W.*

"Take Note" contributors include Citizens League and Minnesota Journal *staff members and Betty Wilson, a freelance writer and former* Star Tribune *political writer.*

Minnesota Journal
Citizens League
Suite 500
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Citizens League Matters

February 18, 1997

News for Citizens League Members

Welcome New and Returning Members

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The Citizens League promotes the public interest in Minnesota by involving citizens in identifying and framing critical public policy choices, forging recommendations and advocating their adoption. Suggested dues for membership are $50 for individuals and $75 for families. For more information, please call 338-0791.

League releases new education report

Straight "A"s for Minnesota's Schools: Achievement, Assessment, Accountability

The League released its newest education report at a press conference at the state capitol on Thursday, February 6. (See *Minnesota Journal* article.)

The report was the result of two months of intense deliberations by a hard-working League study committee.

The committee, which began its work in September, was asked by the Board to develop a 1997 Legislative action agenda for improving student achievement. The Board also asked the committee to say what it thought the 1997 Legislature shouldn't do.

The full committee met 11 times between September 9, 1996, and January 15, 1997. The Citizens League Board of Directors approved the final report of the committee on January 29, 1997.

The release of the report attracted news and editorial comment and sparked a wider public debate.

Committee chairs **Buzz Cummins** and **Pam Neary**, committee members **Tony Morley** and **Ilean Her** and League Executive Director **Lyle Wray** have been busy promoting the report to Legislators and the media.

So far they have met with: Senators **Dean Johnson, Larry Pogemiller** and **Gen Olson**; **Representatives Phil Carruthers, Becky Kelso, Joe Opatz** and **Leroy Koppendrayer.**

The League representatives have also met with Commissioner **Robert Wedl** of the Department of Children, Families and Learning and the editorial boards of both the ***Pioneer Press*** and ***Star Tribune***.

Lyle Wray and Buzz Cummins were interviewed by Gary Eichten and participated in a call-in show on MPR's Midday program. Lyle Wray was also interviewed by WMNN 1330 news radio and Pam Neary spoke to the MN Association of School Business officials.

A copy of the report is available at no charge for League members; $10 for non-members. To order, call 338-0791.

The K-12 education committee was co-chaired by **Carl (Buzz) Cummins III** and **Pamela Neary**. Committee members **Howard Guthmann, Debra Leigh, Yvonne Moore** and **Nancy Smith** also assisted with leadership of subcommittees. A total of 53 committee members took an active part in the work of the committee. In addition to the co-chairs, they were:

Keith Baker	James Kemble	Peter Seed
Gay Bakken	William King	Art Serotoff
Robert Bonine	Jim Koppel	Alan Silver
Delroy Calhoun	Raeder Larson	Elin Skinner
Robert Cardinal	Debra Leigh	Nancy Smith
Ruth Fingerson	Malcolm McLean	William Smith
Michael Gair	Yvonne Moore	Aysha Somasundram
Roy Garza	Anthony Morley	Mark Spurr
James Gilbert	Donald Newell	Evan Stanley
Sally Graven	Patrick O'Leary	Russ Stanton
Howard Guthmann	Craig Olson	Dale Swanson
Ilean Her	Terence Quigley	Joanna Vail
Jan Hively	Janet Sue Raugust	Pamela Wanga
Michael Hohmann	Don Renquist	Thomas Watson
Linc Hudson	Jack Rossmann	Eleanor Weber*
Ed Hunter	Phil Ruggiero	*deceased
Dave Hutcheson	Patricia Saari	
Phyllis Jones	Jon Schroeder	

Gary Joselyn also participated in the deliberations of the committee. However, he disagreed with several of the major recommendations and objected to much of the committee process. Committee members Alan Silver and Dale Swanson dissented from the committee's opinion on certain recommendations.

Regent selection process is next Mind-Opener series

The University of Minnesota has been the subject of a torrent of controversy in the past year.

Debates about General College, faculty tenure and unionization, and the increasingly public squabbles between the administration and the Board of Regents, have raised questions about the University's governance and specifically about the Board of Regents.

This issue is particularly heated today due to the fact that five of the 12 seats are up for election in 1997.

The state Constitution requires that the Legislature elect one-third of the regents to six-year terms. The University of Minnesota Board of Regents is the only governmental body in the state that is elected by the Legislature. In addition to the constitutional requirements, recent laws state that one at-large regent be a student and that each of Minnesota's eight congressional districts be represented by a regent. It is also informally assumed that two more seats are reserved for representatives of labor and agriculture.

The 1988 Legislature established the Regent Selection Advisory Council to assist in recruiting candidates. Prior to that, candidates nominated themselves and no screening process existed.

Now, the 24-member council receives nominations, selects a pool of candidates for each position and conducts public interviews. The council then recommends two to four candidates for each seat. The advisory council has been credited with removing some of the self-promotion and heavy politicking from the selection process.

But recent troubles at the University raise questions about the process for electing the governing body of the state's flagship educational institution.

This Mind-Opener series explores several proposals for reforming the regent selection process. The meetings are at the University Club, 420 Summit Avenue, St. Paul. Cost is $10 for members and $15 for non-members.

February 11	February 18	February 25
Gerald Christenson	**John French**	**Rep. Tony Kinkel**
chair, UM Presidential Search Advisory Committee and former chancellor, State Community College Board	*co-chair, UM Alumni Association Citizens' Committee on Regent Selection*	*DFL-Park Rapids chair, Family & Early Childhood Education Finance Division former chair, Higher Education Finance Division*

Join a study circle on housing segregation and education

For all you Citizen Leaguers who just can't get enough of group discussion on public policy, there is an opportunity to become involved in a metro-wide discussion on housing segregation and education.

"Beyond Busing: A Metrowide Dialogue on the Challenges of Education and Housing Segregation" is being organized by the Community Circle Collaborative, a multi-sector coalition of Twin Cities organizations. The Collaborative has been planning and organizing a community-wide forum and study circle program to look at the challenges of segregation in the metropolitan area.

The Collaborative is now enlisting individuals and organizations to serve as forum sponsors, facilitators, reporters, resource partners and/or discussion participants, all of whom will take part in public deliberations on housing segregation and education. The study circles will meet three to five times for about two hours each, roughly between March and May, to study the issues and their underlying problems, and construct possible solutions.

The Collaborative received initial support for this program from about a dozen local and national organizations, mostly non-profits and foundations. It has since received the support of many more organizations, including churches from throughout the region, advocacy groups, school districts, and public agencies.

For more information on this program, call Dick Little at 871-8980, or fax at 871-8494.

The Citizens League also is considering being a sponsor for one of the discussion groups. If anyone is interested in being part of this roundtable discussion, please call Ron Wirtz at 338-0791 or email at rwirtz@epz.cis.umn.edu.

1997 Public Affairs Directory available

Do you want to know and stay in touch with the key people in the public arena? If you do, you need the League's Public Affairs Directory (PAD). Published annually, the PAD contains the names, addresses, telephone numbers and in some cases the email addresses of government, education, communications and public affairs officials, especially those in the metropolitan area.

Cost of the PAD for members is $15 plus $1.50 for shipping and handling. Discounts are available for multiple orders. Cost for non-members is $20 plus shipping.

The PAD is the work of Gayle Ruther— the person behind the friendly voice you usually hear on the phone. So make Gayle even friendlier by ordering your PAD. Watch for an order form in your mail or call 338-0791.

Happy Birthday CL!

The Citizens League turned 45 this month. **David Lewis, Don Fraser and Ray Black** (who was later hired as the first Executive Director) presented the articles of incorporation to a Notary on February 13, 1954. **Stu Leck** was elected President at an organizing meeting of the first Board of Directors held the next day.