Minnesota Journal

Inside This Issue

A publication of the Citizens League

Volume 15, Number 2
February 19, 1998

Fiscal disparities pool shrinks; Range sharing begins

by Dana Schroeder

Now in its 24th year of operation, the Twin Cities area tax-base sharing program, broadly known as the "fiscal disparities" program, has spawned a "country cousin" on northeastern Minnesota's Iron Range.

The Twin Cities tax-base sharing program currently redistributes over 28 percent of the area's commercial-industrial (C-I) tax base among metro-area communities. Every community puts 40 percent of its growth in C-I tax base since 1971 into a regionwide pool. Every community (except Sunfish Lake, which is ineligible, since it does not allow C-I development) then receives back tax base from the regionwide pool, based on its relative shares of population and tax base. (See "How fiscal disparities works" on page 3.)

The program, which has generated interest from around the country, has been controversial from the start. Passed in 1971, court challenges upheld its implementation until 1975. Since then, there have been a number of legislative attempts to weaken the program or to expand it to include residential property.

Like its Twin Cities counterpart, the new Iron Range program—also created amidst challenge and controversy—provides for sharing 40 percent of C-I tax-base growth, with 1995 as the base year, rather than 1971. The area covered by the program is the Iron Range taconite tax relief area, which includes all or part of seven counties. In its first year the shared pool redistributes about 1.3 percent of the Range's C-I tax base. (See "Tax-base sharing comes to the Range" on page 6.)

Shared pool declines

The Citizens League's 24th annual tax-base sharing analysis shows that the pool of commercial-indus-

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Today's civic enterprise murkier, but less top-down

by Chuck Neerland

How do you define leadership? Look behind you.

When I was asked to offer a few comments on civic leadership, my first thought was: It used to be better. My second thought was: New wine in old wine skins won't go—an adage that suggests something about my age.

In the old days—the late '60s, '70s and '80s, in my experience—we did things differently than we do now in matters of civic enterprise and our blessed public/private partnerships. But better? In some ways, perhaps; in other ways, maybe not.

Here's how we used to do things...Sometime in the mid '70s—I forget what the issue was, probably something to do with downtown housing—I remember some city official and I were complaining to Peter Gillette, then executive this-or-that for Northwestern National Bank. Our lament was that First National Bank wasn't on board. We were talking on the skyway level of the old Northwestern National Bank and Gillette said he'd go call on Jim Hetland, executive this-or-that

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We need bold maneuver; try light rail on Hiawatha

by Curt Johnson

Editor's note: Many were surprised when the Star Tribune *reported recently that Metropolitan Council Chair (and former Citizens League Executive Director) Curt Johnson had announced a change of heart on light-rail transit. In last month's* Minnesota Journal *current League Executive Director Lyle Wray called for a dedicated transitway—with a range of transit services—in the Hiawatha corridor. This month the* Journal *invited Johnson to share his views, which differ from the League's.*

A decade ago, the Twin Cities region could still afford the luxury of debating the comparative efficiencies of competing approaches to transit as an alternative to nearly complete dependence on automobiles. We are fast running out of time to make up our minds.

The number of lane miles seriously congested is escalating—from 210 when the decade started, to a forecast 570 by 2020.

Vehicle miles in the region are rising at the rate of about three percent per year.

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Measuring public program results too important to drop

Viewpoint

by Lyle Wray

What results do we want from public programs? There is an amazing variety in the services government delivers, from trash collection and econometric analysis to driver's license examinations and prenatal care for pregnant women. But despite this variety, good public services have three things in common: clear goals and outcomes, consequences for results and good information about performance.

In 1993 the Minnesota Legislature initiated a performance-reporting system to provide better information on the results of publicly funded state programs. Under that law state agencies have been required to identify expected outcomes and then report on their results. Since the law was passed, state agencies have reported twice to the Legislature on their performance.

Many agencies, not surprisingly, found it difficult to specify the outcomes they expected and to measure whether their programs were achieving the intended results. Partly in response to complaints about the requirement, the 1997 Legislature directed the finance commissioner to convene a workgroup of executive and legislative branch staff to recommend changes in performance reporting.

After three meetings the workgroup presented its report in December to the Legislative Commission on Planning and Fiscal Policy. Perhaps the most important of its seven recommendations was to discontinue the statutory requirement for separate performance reports. State agencies were to be given the option to include a much more limited performance report in their departmental budget documents. The workgroup included, in an attachment to its report, a statutory repeal of the performance reporting law.

That's a disappointing development. And it leads Minnesota away from a growing consensus that state agencies owe their legislatures—and, more important, their citizens—information about results. According to *Public Administration Review* (January/February 1998), 47 out of 50 states now have some form of performance budgeting; most of the 47 have performance-based budgeting in statutes. (Performance budgeting ties resources to outcomes, rather than inputs or activities.) The authors of the study said their findings "indicate a commitment to continued development of performance measures and a willingness to revise the use of performance-based budgeting systems given their place within the larger efforts of strategic planning and benchmarking activities."

Before abandoning a good idea whose time has come nearly everywhere else in the country, Minnesota should do a few things first:

Review the best examples of performance reporting in 47 states. Let's look at what has been achieved in the other states that are doing performance reporting successfully before we conclude that the requirements are impossible or impractical. And why stop at the U.S. border? Several developed countries abroad are doing performance budgeting; their experiences might stimulate some new thinking here in Minnesota. Maybe one new idea on this front would be to have the Legislative Auditor actually conduct an independent review of outcomes for a sampling of state agencies.

Work on getting the bugs out of the performance reporting system. Minnesota plunged into performance reporting with little advance preparation, so it's not surprising there have been some snafus along the way. We should acknowledge that developing outcome measures for many public services is very difficult and that modifications will have to be made as we learn from experience.

Link performance reporting with what citizens care about. In 1991, more than 10,000 citizens participated in the "Minnesota Milestones" process that created a vision for Minnesota. The vision, along with its 20 goals for the state and 79 progress indicators, should provide the starting point for sorting through the question: What is most important to report about? We should not leave the decision about what is measured in performance reports to individual agency heads without the context of citizen priorities. If the statutory framework for performance reporting is revised, it might make sense to create a stronger link with the Minnesota Milestones process.

Make performance reports accessible to the public to build citizens' trust in government. Performance reports shouldn't be insider documents. The information should be made truly accessible and understandable to the public so that citizens can see for themselves whether tax-funded programs achieving what they set out to achieve.

Revise—but don't drop—the statutory requirement for performance reporting. It might well make sense to incorporate performance reporting into the regular budget process. But let's be careful that we still require outcome reporting. For a very long time, typical budget documents have been made up of a deadening incantation of activity statistics that have revealed little about the results the public got for its tax dollars. We should not allow a relapse in this direction.

Any public program, no matter how complex the subject matter and no matter how many stakeholders, must start with clear goals. There must be consequences for reaching or failing to reach the goals—for teaching children to read or moving transit passengers or collecting tax revenues. Good information on performance is essential for improving performance and enabling appropriate consequences—whether from choices made by citizens, from financial incentives or penalties, or from administrative action, such as receivership of a program.

Done properly, performance reporting is too important to drop from Minnesota's statutes. Instead, we should learn from our own experience and that of others and make prudent improvements to the process.

Lyle Wray is executive director of the Citizens League.

Transit

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We're stretching the capacity of our interstates through metering, but taxing the patience of many motorists who don't buy the pitch that the wait at the access ramp delivers a faster trip.

We gave tolls a tentative try in 1996—in the growing southwest suburbs where a swath of right-of-way implies a future route for Highway 212. You can argue that the proposal was doomed because the law prescribed a decision process not unlike the one-veto-kills-it procedure of the United Nations Security Council. Whatever the reasons, we rejected more direct user fees to increase road capacity.

A modest idea was advanced in 1997 to sell off some of the idle capacity in the sane lane on I-394. The avalanche of criticism kept fax machines humming, jammed voice mails and filled the chambers of the Metropolitan Council. The Council and Mn/DOT were accused of everything from coddling the rich to selling out transit.

The 20-year plans of both the Council and Mn/DOT have abandoned the usual commitment to chase growth with new roads and bridges. We couldn't keep up if we had the will and revenue to try. The spread-out urban pattern in the region is a destiny of "designer congestion." The official priorities are now better maintenance of the roads we have, solving serious bottleneck problems and building new transit infrastructure.

In the past 20 years, we built more than 200 miles of new interstate roads and major highways. In the next 20 years, the plan implies no more than 15 to 20 miles of new highway capacity.

Meanwhile, the population increase looking ahead 20 years is more than the previous 20. You don't need a

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Transit

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degree in planning to figure out that serious congestion looms as our future. The mobility we've long taken for granted is threatened. Our quality of life and economic competitiveness are at stake.

We've run out of time for talking. What we need is a bold maneuver.

The Metro Council set the stage for change in its revisions to the *Regional Blueprint* over a year ago, calling for a network of transitways—corridors dedicated to transit vehicles—providing choices for people who reject the increasingly congested experience on the regular roads.

Starting with the Hiawatha Corridor in Minneapolis, these transitways would connect suburban to urban centers, such as the Northstar Corridor from northern suburbs to downtown Minneapolis.

Transitways could also serve suburb-to-suburb routes, such as the high traffic points from Apple Valley to Shakopee, or follow the [illegible] of probable urban redevelopment, such as the 29th Street Corridor in Minneapolis or the Riverview Corridor in St. Paul.

The critical next step is a regionwide commitment to finding all the logical corridors, acquiring the rights-of-way and building them as quickly as possible. The worst thing we can do is get hung up—once again—over which technology and vehicles to use. We wasted the 1980s in a struggle over whether rail was right or ruin. Rail advocates blocked other options. Rail skeptics stopped the advocates in their tracks.

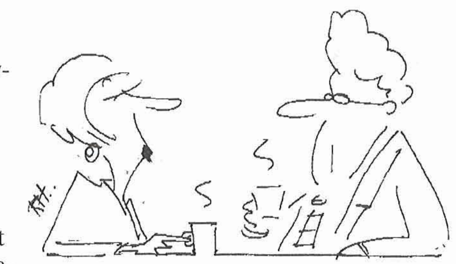
The challenge to the region is to lift our thinking above the arguments that divided us.

It is clear to me that we will never develop our transit capacity in this region until we are willing to do anything and everything that produces choices. In the face of congestion that will severely threaten our competitiveness and quality of living, I've concluded, for myself at least, that it is irresponsible to be against anything for which public money can be approved that gives us transit alternatives.

That means I'm for more bikeways, jitneys along crowded corridors, turning us into a serious taxi town, letting the private sector find real markets for taking people where they want to go, more pedestrian-oriented development, building housing where people can get to transit stops, putting a lot more money into the good bus system we already have, trying out commuter rail where it has the best chance to demonstrate a market and converting transitway construction to light rail anyplace where the money makes it possible—starting with Hiawatha.

If the $200 million in the pending ISTEA reauthorization bill in Congress is approved, with the understanding that we will upgrade Hiawatha to rail, then let's do it.

Of course there's no way to prove in advance that the payoff is worth the additional cost. The same was true for the interstate system in the 1950s. No one foresaw the good (or the bad) results that program would bring. Transit and telecommunications infrastructure are the "interstate highway" issue of the emerging era.



"Someday, maybe not in our lifetime, probably our grandchildren's, we're going to stop all this talk, forget all the debates and surveys, shred all the data collected and actually build a light-rail transit system!"

Nonrail transit approaches do cost less. But today we're spending even less than the bus system should cost. It is conceivable that a more diverse system, in which operating resources are responsibly managed, would expand the revenue pie for transit. Arguing for a bigger slice, just for buses, hasn't produced impressive gains.

In the ripeness of opportunity that good economic times bring, I believe we should add up all the supporters of transit and agree to try every reasonable strategy for which we can get adequate funding. We should start by substantially upgrading the state and the region's investment in *Metro Transit*. The system we have already serves more passengers per hour than any comparable system, except Baltimore.

State and local support—despite recent increases from the Legislature—is $37 per capita compared with an average of $77 per capita across all other comparable systems. The average public support per ride in the Twin Cities is $1.28, compared with a national average of $1.99. No other transit system in America asks its riders to pay 40 percent of the operating cost. No other system is stuck with the property tax as the largest source of support.

We should strengthen the core system we have, lend further encouragement to the growth of transit services in the still-developing suburbs and get on with developing a regionwide network of transit corridors. We should find a suitable corridor to test the market and the costs of commuter rail on existing rail lines. We should try light rail in the Hiawatha Corridor. But we shouldn't wait on any of these higher-amenity options to site, acquire and develop an interlocking set of corridors all over the region.

We don't need more years of study and more reports. The frustration we felt midwinter, when the snow slowed peak-hour traffic, will be a routine experience on a dry day in about a decade. We need investment and results, soon. If we can't act now, when money is easier to find, when will we ever get past talking and start building serious transit infrastructure?

Curt Johnson is chair of the Metropolitan Council.

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

The Minnesota Journal

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The Minnesota Journal (ISSN 0741-9449) is a publication of the Citizens League, a nonprofit nonpartisan Twin Cities public affairs organization, 708 S. Third St., Suite 500, Minneapolis, MN 55415, Mary Anderson, president. Articles and commentary are drawn from a broad range of perspectives and do not necessarily reflect League positions on policy questions. The Journal is published once a month. Periodicals postage paid at Minneapolis, MN.

Annual subscription rate for nonmembers is $40 for 12 issues. Orders may be placed at 612/338-[illegible] or by mail at the above address.

Postmaster: Send address changes to The Minnesota Journal, 708 S. Third St., Suite 500, Minneapolis, MN 55415

How fiscal disparities works

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 1998, the amount of tax base shared is based on C-I property values and property tax rates from the 1997 tax year.

Leadership

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of the First, and see just what the heck was going on.

And off he ran—and I mean ran—across the skyway toward the Cargill Building. Shortly thereafter, First Bank joined the cause. None of us in this tableau thought it was odd the world worked that way. The larger and more sedate version of this technique was the proverbial private meeting at the Minneapolis Club.

In those days there were simply fewer layers of vice presidents to go through. The notion of civic enterprise wasn't professionalized or compartmentalized. True, some corporations had employees with suspicious titles, like vice president of government affairs, but most of the civic-minded second lieutenants carried enough of their corporations' portfolios to be effective in their own right. And then there was Wayne Thompson of Dayton Hudson, the former city manager of Oakland, California, to whom we all informally reported, no matter who officially paid us. It was clubby, if you know what I mean.

Most importantly, Gillette and Hetland had sterling civic and political credentials, as well as corporate standing. They had been members of the Metropolitan Council not too many years earlier. Hetland had been its chair. Other prominent corporate and first-family figures served on the Council—Donald Dayton and Dennis Dunne, to name just two. Name two today, if you can. Corporate chevrons were gained through active participation in the Citizens League. In those days, civic enterprise was seen through this public-service/public-good prism.

My point is that our major businesses were run to some extent by people who had been trained in the arts and culture of politics, service and business. It was the Minneapolis way.

In the '70s the Citizens League began to fret about the changes it saw dimly in the look and feel of downtown Minneapolis corporations and, by extension, corporate leadership. Two reasons for these changes were most often cited: first, corporate management was being professionalized, with the emergence of business-school trained people who might or might not have any particular ties or loyalty to the reigning civic culture; second, and maybe the cause of the first, business competition was becoming much more national, even global, and the shareholders wanted their hired corporate leaders to pay attention to short-term stock prices. Hence, more and more people with those strange titles were hired to take care of the soft stuff, the civic things. And the soft stuff got short shrift.

I recall a lunch with a group of prominent business leaders, some time in the early '80s. The purpose was to get one of the CEOs in attendance and his company to become engaged some way with the public policy initiatives of the League. This man—they were all men back then—simply couldn't grasp the concept of a corporation participating, disinterestedly, in any form of such discussions. And he was a good and personally charitable man. We were all caught up in a changing business world.

Now, consider how these changes in corporate leadership manifested themselves just last year in two major legislative debates: the proposal for a new stadium and the expansion of the Minneapolis Convention Center.

By the '90s, the top corporate leaders in this community had isolated themselves in the Minnesota Business Partnership, a worthy organization, but one whose perspective was statewide and concentrated almost exclusively on direct business issues. The birth twin of the MBP was the Minnesota Center for Corporate Responsibility, a "soft-stuff" place. It basically did not receive the nourishment its twin did.

The Minneapolis Chamber of Commerce was concentrating on workforce development and economic development strategies. It came late and without much oomph to the stadium issue and paid only lip service to the Convention Center discussion. The Downtown Council was in the throes of leadership change itself, and while it was a positive force on both issues, the Council was more a facilitator of meetings and not, in itself, a forum for the leadership to debate and eventually take positions.

"The 'good old days' were like that 'Jurassic Park' movie—a few old dinosaurs making things happen ... even if it meant stepping on a few people to get the job done!"

Sadly for some, the private meetings at the Minneapolis Club didn't take place anymore, either. The LSGI debate a few years before and the Nicollet Mall renovation showed the cracks and fissures in the Minneapolis civic culture in major ways. No policy direction, no cohesion. Instead, little *mano-a-mano* skirmishes. Some backstabbing. Nothing too noble. That's what we were getting.

Remember the good old days? There were leaders and they inspired followers. There seemed to be implicit in the Metrodome deal, for instance, corporate agreement. The highest level of corporate leadership was invoked. The Chamber and the Downtown Council played major roles in both debating the issues and organizing the troops.

Last year, corporate leadership, with few exceptions, sat on the sidelines on both the stadium and the Convention Center debates, even with strong political support for both projects. True, there were exceptions, Jack Grundhofer of First Bank and Karen Bohn from Piper Jaffray, for example. But there was no sense of business esprit for either project. Freelancers and new organizations sprouted up; ministers without portfolio hectored and cajoled and most business people yawned and told their CFOs to write a check and back away at the same time.

Worse, from Minneapolis' point of view, the kinds of divisions manifested in the LSGI debate resurfaced. One project was pitted against the other. Silly things were said: If this new stadium isn't built, there won't be any need for a Convention Center, least of all an expanded one.

So, isn't it awful that our nice amalgam of corporate and civic leadership has broken apart? Well, I'm not so sure. In those old days—and they were good in many ways—there was a father-knows-best, patronizing air to it all. Sports writers like to talk about the Minneapolis Brotherhood. It was really a patriarchy. We never achieved brotherhood. Most civic deals were exclusive domains, not very welcoming to outsiders.

Today, we have the public affairs specialists, absentee corporate leaders, civic and chamber organizations with less and less clout and dilettante activists who carry no respectable corporate or civic portfolios roaming madly about the political landscape. But we also have perhaps a more democratic and less top-down form of civic enterprise emerging. Its outlines are murky, but I think that some of the younger (under 50) corporate executives are willing to take their turn in the barrel and find ways to consider issues and rally behind them. The League should be able to play an important role with this new breed. The Minneapolis Downtown Council is redefining a role for itself, as well. I hope these signs point to a renewal of vigorous civic enterprise.

New leaders need to return to the unstated premise of the past: enlightened, long-term self-interest equates with the community's interests. Once that principle is reestablished, they need to find forums to debate the issues and empower existing or new organizations to execute the plans. And then when they begin to march on City Hall or the Legislature or their own corporate sisters and brothers, they're likely to find a number of us behind them.

Chuck Neerland is a principal with Neerland & Oyaas, Inc., who lobbies on behalf of the Minneapolis Convention Center project.

Disparities

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trial (C-I) tax base shared by Twin Cities area communities through the fiscal disparities program decreased by 4.0 percent over the past year, after increasing for the two previous years. The pool dropped from $275.1 million last year to $264.2 million in 1998.

But the drop in the size of the pool has more to do with legislative fiat than with the vagaries of the marketplace. The 1997 Legislature cut the rates—starting in 1998—at which C-I property is assessed for tax purposes, thus reducing the size of the C-I tax base. Even though C-I *market values* increased—growing by 8.2 percent—the C-I *tax-base* dropped by 7.2 percent. (See "Why did the fiscal disparities pool shrink?" on page 6.)

The region's total tax base—from all types of property—also declined over the past year, dropping by $64.6 million to $2.286 billion. This decline, too, was due to a lowering of various class rates, not a drop in market value.

Property taxes paid by the shared pool of tax base increased to an all-time high of $409.7 million this year, an increase of 6.9 percent over last year's level of $383.4 million. Taxes paid by the shared pool have declined only twice during the history of the tax-base sharing program—in 1977 and 1995.

The shared tax base now accounts for 28.1 percent of the total C-I tax base in the metro area, up from last year's 27.1 percent, but down from the peak of 30.0 percent in 1994. It accounts for 11.6 percent of the region's total tax base.

Despite the growth in C-I market value, court-ordered C-I valuation reductions still remain a factor in the size of the fiscal disparities pool, although a much less significant one than two or three years ago. 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 $9.2 million in 1997, down from the court-ordered reductions of $10.7 million last year, $16 million in 1996 and $36 million in 1995. The bulk of the abatements were in Hennepin County, followed by Ramsey and Anoka Counties.

Net gainers, losers

Most of the 186 eligible metro-area communities are net gainers under the program: 137 received more tax base from the shared pool this year than they contributed. The other 49 were net losers. Five communities moved from the net gainer to net loser category this year: Minneapolis, Excelsior, Woodbury, and Marshan and Waterford Townships. Four communities that were net losers last year became net gainers this year: Brooklyn Center, Little Canada, Maple Plain and New Hope. Among the 59 communities over 9,000 population, 37 were net gainers and 22 were net losers.

St. Paul was once again the top net gainer under the program, with a net gain of $28.2 million in tax base, down from $29.2 million last year. On a percentage basis, St. Paul's tax base increased by 18.5 percent due to sharing, or fifth highest among the 37 large-city net gainers.

Minneapolis, though, returned to being a net loser under the program, after three consecutive years as a net gainer. Last year it was the second largest net gainer, after St. Paul. Its net loss this year was small—$318 thousand. Because of its large C-I tax base, Minneapolis made the largest contribution of any community to the shared pool—$43.0 million, or more than 16 percent of the total shared pool. While it also received back the largest amount of tax base from the pool—$42.7 million, or 16 percent—it was not enough to keep Minneapolis in the net gainer column.

St. Paul made the fourth largest contribution to the pool, at $12.1 million—five percent of the shared pool. (Bloomington made the second largest contribution—$27.5 million, or about 11 percent of the shared pool—and Plymouth the third largest, at $12.3 million.) But St. Paul, because of its relatively low tax base per capita (at $562, 10th lowest among the 59 cities over 9,000 population) and its large population, received back more than three times as much as it contributed—$40.2 million, or 15 percent of the pool.

On a per capita basis, though, St. Paul—with a net gain of $104 per capita—ranked fifth highest among the 37 large-city net gainers.

The five largest net tax-base contributors to the program in 1998—all Hennepin and Dakota County suburbs—include *Bloomington*, $21.0 million; *Eden Prairie*, $8.7 million; *Minnetonka*, $8.5 million; *Plymouth*, $8.0 million; and *Eagan*, $5.2 million. Four of these five cities were also in the top five last year. Eagan replaced Edina this year as number five; Edina moved to eighth place.

The top four net contributors are also the top four on a per capita basis, ranging from *Bloomington* in first place at $240 per capita to *Plymouth* in fourth place at $133. *Eagan* ranked 11th on a per capita basis, at $90.

In addition to St. Paul, the other top net gainer cities include *Coon Rapids*, $3.4 million; *Richfield*, $2.8 million; *Cottage Grove*, $2.6 million; and *South St. Paul*, $2.5 million.

The net gainers look different on a per capita basis, although *South St. Paul* (first at $125), *St. Paul* (fifth at $104), *Cottage Grove* (eighth at $88) and *Richfield* (10th at $82) 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 New Hope to 24.1 percent in South St. Paul. Sixteen of the 37 net gainer cities showed tax-base increases of 10 percent or more 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 Minneapolis to 14.9 percent in Bloomington. Five cities—Bloomington, Eden Prairie, Minnetonka, Roseville and Shakopee—lost more than 10 percent of their tax base due to sharing.

On a countywide basis, Hennepin County made by far the largest net contribution of tax base to the program in 1998—$45.4 million, up from last year's amount of $43.4 million. Its net contribution on a per capita basis ($42) was nearly five times that of the only other net contributor county, Dakota County ($9). Dakota County's net contribution was $2.8 million, down from its contribution of $4.4 million last year. Ramsey County netted the most shared tax base in total dollars ($25.6 million, up from $24.6 million last year) and Anoka County the most on a per capita basis ($54).

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 1998 C-I tax base *after* sharing ranges from a high of $748 per capita in Bloomington to a low of $148 per capita in Prior Lake—a ratio of about five to one. *Without* tax-base sharing, the range would be $988 per capita in Bloomington to $71 per capita in East Bethel—a ratio of nearly 14 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 nearly 202 to one, with Rogers the highest ($1,814) and Carver County's San Francisco Township the lowest ($9). *After* sharing the range is reduced to 36 to one, with Rogers still the highest ($1,376) and Woodland the lowest ($38).

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 $1,878 (Edina) to $468 (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.

- Among all metro-area communities, the ratio of high to low in total property tax base per capita *before* sharing is 19 to one, with Woodland the highest and Landfall the lowest. *After* sharing Woodland remains on the top, but Rockford is the lowest and the ratio is reduced to eight to one.

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Disparities

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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— *East Bethel, Andover, Mound, Champlin*, and *Prior Lake*—remain in the bottom six *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, Eden Prairie, Edina* and *Roseville*—remain among the top seven *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 six after sharing; the poorest five cities before sharing remain among the bottom eight after sharing.

The last two columns in the table on page 7 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 $859 per capita in Bloomington to a low of $49 in Mound—a ratio of nearly 18 to one. *With* sharing, the growth ranges from a high of $619

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Tax-base sharing comes to the Range

The new Iron Range tax-base sharing program, which is in effect for the first time this year, was established by the 1996 Legislature. 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 (excluding Duluth) and Itasca Counties and portions of Aitkin, Crow Wing and Koochiching Counties.

Fiscal disparities—double your program, double your fun!

During the 1997 legislative session, legislators on the east and west sides of the Range debated the fairness and benefits of both tax-base sharing and the long-standing taconite tax-relief program, under which taconite production taxes are shared among communities on the Range. Despite at least one proposal, no changes were made in the tax-base sharing program and it was allowed to go into effect as planned this year.

In this first year $440,758 of C-I tax base is shared by the Range program, or about 1.3 percent of the area's C-I tax base of $35.0 million. On a county basis, three of the seven counties involved in the program were net losers in tax base: Cook County was the biggest net loser, with a net contribution of $25,306; Itasca County was next, with a net contribution of $9,171; and Lake County was third, with a net contribution of $2,953.

St. Louis County was the biggest net gainer, with a net gain of $28,770 in tax base; Aitkin was next, with a net gain of $7,227, followed by Crow Wing and Koochiching Counties.

St. Louis County generated by far the largest contribution to the program ($256,078, or 58 percent of the shared pool), but also received back the largest distribution ($284,848, or 65 percent). Itasca County generated the second largest contribution.

Looking at individual communities, Virginia was easily the largest net gainer, with a net gain of tax base of $32,741, followed by Eveleth, $19,019; Aurora, $9,841; Ely, $7,651; and Silver Bay, $7,314.

The top five net losers in tax base were Hibbing, with a net loss of $75,979; Grand Rapids, $45,876; Two Harbors, $12,456; Laprairie, $9,950; and Grand Marais, $7,952.

Why did the fiscal disparities pool decline?

If commercial-industrial market values are increasing in the seven-county area, why did the size of the shared tax-base pool decline?

It's important to understand that the *tax-base* figures discussed in this article are only a small percentage of the *market value* of commercial-industrial (C-I) property. While the market value of C-I property in the seven county area amounts to $24.505 billion in 1998, the C-I tax base—the portion of C-I value available to be taxed—amounts to only $941.1 million. Why?

Because Minnesota taxes different types of property at different rates, only a *portion* of a property's market value becomes part of the tax base (officially known as *tax capacity*). The proportions for different types of properties, known as *class rates*, are set by the Legislature. The 1997 Legislature *lowered* the class rates, beginning in 1998, for determining the tax capacity of C-I and various other types of properties. The changes in the C-I rates and their effect on C-I tax base are outlined in the accompanying example.

Assume a commercial property is assigned a market value of $1 million by the assessor. Here's how that property's tax capacity would be figured this year, compared with 1997:

	1998 Class Rates	1998 Tax Capacity	1997 Class Rates	1997 Tax Capacity
First $100,000 of value	2.70%	$ 2,700	3.00%	$ 3,000
Value of $100,000-$150,000	2.70	1,350	4.60	2,300
Value over $150,000	4.00	34,000	4.60	39,100
Total Tax Capacity		$38,050		$44,400

So the $1 million commercial property added $44,400 to a community's tax base in 1997, but only $38,050 this year, due to the lower class rates. That's a 14.3 percent decrease. This does not necessarily mean the property's *taxes* will drop by that much; it's likely local governments will increase tax rates to make up for the tax capacity reductions. A higher tax rate would at least partially offset the property's drop in tax capacity.

Increases in C-I market values were not large enough to offset the downward effect of the rate changes. In the seven-county area, the market value of C-I property *increased* by 8.2 percent, from $22.644 billion to $24.505 billion, while the C-I tax base actually *decreased* by 7.2 percent, from $1.015 billion to $941.1 million.

The decline in the downward pu[illegible] of the shared tax-base pool also reflects these class rate changes.

Disparities

Continued from page 6

…capita in Bloomington to a low …81 per capita in Savage—a ratio of about eight to one.

Tax impact

It's important to note that tax-base sharing is only one part—and by no means the most significant part—of a complex state strategy for equalizing revenue-raising capacity among communities. State school aid is by far the most important; state-paid local government aid and disparity reduction aid also play a part. Tax-base sharing is the only such strategy, though, that relies on communities directly sharing their property wealth, rather than on redistributing funds collected by the state. It's also the only strategy that is strictly regional.

Because of the importance of these other strategies, it's difficult to isolate the impact of tax-base sharing on the actual taxes paid by homeowners or business property in any one community. Because the state already equalizes the majority of school taxes—thus accounting for differences in tax base—the impact of tax-base sharing on school taxes is small. Since school taxes make up about half of total property taxes, the impact of tax-base sharing on total taxes in any individual community is less than might be expected.

Tax-base sharing does affect city taxes and county taxes quite directly, though. If a city or county is a net gainer in tax base, the city or county tax rate will be lower than without the sharing program. Likewise, if a city or county is a net loser in tax base, the city or county tax rate will be higher than without the sharing program.

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

PER CAPITA COMPARISONS FOR TAX-BASE SHARING, 1998#

Community above 9,000 population	Net gain or loss from sharing	1998 NTC** with sharing	change in 1998 NTC with sharing	1998 C-I*** with sharing	1998 C-I without sharing	1971-1998 C-I growth with sharing	1971-1998 C-I growth without sharing
Andover	-$ 75	$ 723	11.6%	$152	$ 77	$142	$ 67
Anoka	-64	736	9.6	346	281	279	214
Apple Valley	-34	809	4.4	206	172	182	148
Arden Hills	109	1,013	-9.7	485	594	315	425
Blaine	-35	666	5.5	310	275	292	258
Bloomington	240	1,375	-14.9	748	988	619	859
Brooklyn Center	-8	740	1.1	417	409	353	345
Brooklyn Park	-24	728	3.4	329	305	303	279
Burnsville	84	1,004	-7.7	441	525	300	383
Champlin	-94	651	16.8	185	91	173	79
Chanhassen	9	1,392	-0.7	448	458	418	428
Chaska	104	975	-9.7	442	547	396	500
Columbia Heights	-109	593	22.4	251	143	217	109
Coon Rapids	-56	681	8.9	277	221	252	197
Cottage Grove	-88	635	16.2	216	127	153	65
Crystal	-84	615	15.9	243	159	213	128
Eagan	90	1,057	-7.9	422	512	296	386
East Bethel	-96	621	18.3	167	71	153	57
Eden Prairie	182	1,525	-10.7	540	722	409	592
Edina	90	1,788	-4.8	619	709	470	560
Fridley	55	914	-5.7	516	572	415	471
Golden Valley	124	1,348	-8.4	669	793	508	633
Ham Lake	-50	734	7.3	197	147	171	121
Hastings	-71	671	11.9	249	177	208	137
Hopkins	-15	915	1.7	422	407	291	276
Inver Grove Heights	-22	793	2.9	282	260	241	219
Lakeville	-30	838	3.8	227	196	189	158
Lino Lakes	-75	781	10.7	178	103	157	82
Little Canada	-14	772	1.9	316	301	280	266
Maple Grove	11	897	-1.2	293	303	251	262
Maplewood	78	992	-7.3	543	622	385	464
Mendota Heights	116	1,377	-7.8	389	506	323	439
Minneapolis	1	886	-0.1	494	495	380	380
Minnetonka	165	1,408	-10.5	517	682	478	642
Mound	-71	783	10.0	155	83	120	49
Mounds View	-61	614	11.1	263	201	248	187
New Brighton	-28	759	3.8	250	222	219	191
New Hope	-6	797	0.7	366	361	318	312
North St. Paul	-109	577	23.2	215	106	190	81
Oakdale	-66	665	11.0	221	155	201	135
Plymouth	133	1,322	-9.1	504	637	423	556
Prior Lake	-52	833	6.6	148	96	131	79
Ramsey	-65	724	9.8	208	143	186	122
Richfield	-82	715	13.0	274	192	232	150
Robbinsdale	-104	632	19.8	240	135	211	107
Rosemount	35	926	-3.7	366	401	209	244
Roseville	129	1,103	-10.5	560	689	433	562
St. Louis Park	30	1,040	-2.8	481	511	369	398
St. Paul	-104	666	18.5	344	240	255	150
Savage	-30	856	3.6	231	202	81	52
Shakopee	117	1,043	-10.1	543	660	472	589
Shoreview	-21	829	2.7	206	184	190	169
South St. Paul+	-125	644	24.1	297	172	178	53
Stillwater	-8	808	1.0	294	286	254	246
Vadnais Heights	39	887	-4.2	330	369	300	339
West St. Paul	-32	754	4.4	291	259	246	214
White Bear Lake	-59	675	9.5	235	177	214	155
White Bear Township	-28	831	3.4	203	176	189	161
Woodbury	8	1,134	-0.7	344	352	280	288

#Population figures are Metropolitan Council estimates for 1971 and 1996. All comparisons in the table are on a per capita basis, except the third column, the percent change in NTC due to sharing.

*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 the total net tax capacity—a community's total valuation as computed for tax purposes—for taxes payable in 1998. 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 the result of a 1991 law change. Its contribution is 40 percent of its C-I growth since the 1989 assessment year.

School helps kids, teachers excel despite adversity

During a recent House K-12 Finance Committee hearing on proposals for "reconstituting" failing schools, many of the familiar arguments were aired again. Why punish teachers and schools for the failures of parents? The implicit assumption—again—seemed to be: Education failure is an inevitable result of poverty, family breakdown and troubled neighborhoods. Schools can't be held accountable when they have to teach under these conditions.

Meanwhile, the private Seed Academy and Harvest Preparatory School in Minneapolis, which provides 350 preschool and elementary students with strong, African-centered basic instruction, reports that its students continue to score above the national average on standardized reading and math tests—and their students' advantage is growing. During the 1996-97 school year, Seed/Harvest kindergartners' reading scores were in the 89th percentile of students nationwide and math scores were in the 88th percentile. First-graders were in the 87th percentile in reading and the 81st percentile in math. And this is not cream-skimming: Half of Seed/Harvest students qualify for free or reduced-price lunch and 60 percent come from single-parent families.

Does Seed/Harvest know something about teaching the school districts don't? Maybe. The school tests every child upon enrollment and systematically tailors the learning program to the child's level of readiness.

Or maybe it's that Seed/Harvest believes that kids and teachers can both excel, even when their environments aren't trouble-free. —*Janet Dudrow.*

Take Note

Gold-medal policy wisdom.

Neal Thao on the St. Paul board of education likes to say that attendance comes first. If kids don't want to be in school, they aren't very likely to learn.

One morning during Winter Carnival a friend was walking back to downtown with a broom and a shovel he'd bought at the hardware store. Near the main library he passed two boys, maybe 12 years old. "Are you looking for the medallion?" one of them said.

"Nope," was the answer. "We are!" the boy said.

It was a Wednesday, about 9:30 a.m.—*Ted Kolderie.*

While tramping through the Iron Range tax-base sharing data for this month's article on fiscal disparities, we came across jurisdictions in each of the seven Range counties identified only as "Unorganized," followed by a number. What are these wild-sounding places? Could my office be declared an "unorganized territory?"

Discussions with staffers at the Minnesota House Research Department revealed that 14 Minnesota counties contain one or more of these unorganized areas. According to Gary Currie, unorganized territory is land outside of city boundaries that is not organized into a functioning township. There is no town board and local services are provided by the county, which can tax the "unorganized" residents.

Currie pointed out that two Minnesota counties—Koochiching and Lake of the Woods—have no organized township boards and a third, Cook County, has only a few. Even so, Minnesota has more townships organized for government—around 1,800—than any other state in the country.

Residents of an unorganized area must petition the county board to become a township. Likewise, a township can petition to dissolve into an unorganized area, as a number of townships did during the Depression years of the 1930s, following large drops in tax base. —*Dana Schroeder*

Light (rail) humor: During a recent House Transportation and Transit committee, advocates for light- and heavy-rail transit were pitching the idea (complete with maps) of a light-rail line in the Hiawatha corridor, as well as a number of commuter rail lines to service different portions of the Twin Cities metro region.

At one point, a legislator noted that a rail line proposed for St. Paul appeared to be routed directly *through* a local watering hole. When asked if this line was, in fact, slated to go through this particular establishment, Paul McCarron, Anoka County commissioner and rail advocate, told the committee, "Yes, but very slowly."—*Ron Wirtz.*

According to House Research, Minnesota lottery sales in 1997 were $368.5 million, down slightly from 1996. Sixty percent of that total was paid out in prizes to gamblers, 11 percent went to lottery expenses, five percent to lottery retailers and 24 percent—$89 million—into state government coffers.

Whether state-sponsored gambling is good or bad policy, one can't help ponder the irony: $147.4 million wagered by the losers in the hope of striking it rich, during one of the most remarkable Wall Street bull markets in history.—*J.D.*

Minnesota's attorney general, Hubert H. Humphrey III, is trying frantically to stop parents and kids from getting the benefit of good new learning programs that come into public education on contract to charter schools. A for-profit school, he says, is a bad thing. For whom, exactly, it isn't clear.

What is clearly a bad thing is adults putting their economic interest ahead of kids. And this, of course, is what districts do all the time: cutting program and raising class size in order to cover the salary settlement.

The classic case came to light during the 1991 bargaining round in Forest Lake. The *Pioneer Press* got hold of a letter in which the teachers' union local offered to sacrifice 31 members' jobs to free up revenue to pay a salary increase to the more senior teachers.

Asked to think about this recently, a former school board member said quietly, "Of course, that's true." If Mr. Humphrey wants to put consumer interests first, he might propose a law saying simply: "No board of education may enter into any agreement the effect of which is to raise class size or to reduce program offerings to students." Would he?—*T.K.*

Canadian colleges, facing declining enrollments and wanting to diversify their student bodies, are actively recruiting Americans. The best of the Canadian universities are ranked just slightly below the Ivy League or top state universities by American guidance counselors, but their price tags are significantly lower. While the average U.S. private college charges $20,361 per year for tuition, room and board, Canada's highly rated McGill University charges only $10,000.

Most universities in Canada are public institutions with taxpayer-subsidized tuitions. Not surprisingly, some politicians and taxpayers are rankling at the notion of subsidizing tuition for Americans who don't pay provincial taxes.—*J.D.*

"Take Note" contributors include Minnesota Journal *and Citizens League staff members.*

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Citizens League Matters

February 17, 1998

News for Citizens League Members

Legislative Networks take apart the bonding bill

This year's Citizens League Legislative Network Breakfasts will focus on Governor Carlson's $1 billion bonding bill.

The Legislative Networks will begin with an overview of the Governor's proposal and then be followed by sessions on the University of Minnesota, the Minnesota State Colleges and Universities and the environment—which account for nearly two-thirds of the Governor's proposal.

Each meeting will begin with a short presentation outlining the specific proposal. A panel discussion featuring legislative leaders will follow.

The Citizens League Legislative Network Breakfasts offer a great opportunity to keep abreast of activities at the Capitol during the legislative session. They provide an informal setting for citizens, lobbyists and policy-makers to discuss important issues.

If you are interested in getting beyond the headlines—and hearing firsthand from policy-makers and others who have the most recent information about Minnesota politics and policy—then these meetings are for you.

All of the meetings are at the Commodore, 79 Western Avenue N., St. Paul (two blocks south of Western and Selby) from 7:30 a.m. to 9:00 a.m. There is plenty of free parking in a lot next to the building and the location is just off the 21 bus route.

Cost of the meetings is $10 and includes a continental breakfast. To register, or for more information, please call 338-0791.

Friday, February 20
Overview of the 1998 Bonding Bill

Resource Guest

Wayne Simoneau, Commissioner
Minnesota Department of Finance

Panelists

Sen. Roger Moe, Senate Majority Leader
Rep. Steve Sviggum, House Minority Leader

Friday, February 27
University of Minnesota

Resource Guest

Mark Yudof, President
University of Minnesota

Panelists

Sen. Steve Kelley (DFL-Hopkins)
Rep. Jim Knoblach (R-St. Cloud)
Sen. Sheila Kiscaden (R-Rochester)

Friday, March 6
MN State Colleges and Universities

Resource Guest

Linda L. Baer, Senior Vice Chancellor
MN State Colleges and Universities

Panelists

Sen. Steve Morse (DFL-Winona)
Rep. Joe Opatz (DFL-St. Cloud)
Sen. LeRoy Stumpf (DFL-Thief River Falls)

Friday, March 13
Environment

Resource Guest

Rod Sando, Commissioner
Minnesota Department of Natural Resources

Panelists

Sen. Gary Laidig (R-Stillwater)
Rep. Loren Solberg (DFL-Bovey)
Rep. Steve Trimble (DFL-St. Paul)

Welcome
New and Returning Members

- Kathleen Corley
- Roger Fraser
- Charles and Sally Jorgensen
- Matthew Mega
- Ember Reichgott Junge
- Todd Smalley

Bullets over Thresher

We're used to people throwing brickbats at us. But bullets? That new experience happened when the staff returned to work after the long Martin Luther King weekend to find a bullet hole through one of our office windows—on the fifth floor. The bullet ricocheted off the wall into a filing cabinet and stopped under a desk. Since there is no grassy knoll nearby, our best guess is that it was fired from atop the abandoned grain elevators between Washington Avenue and the river. All the same, Oliver Stone is investigating.

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Promoting 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.

Getting the Jobs Done: Mobilizing public leadership to cope with Minnesota's labor shortage

The Citizens League's March Mind Openers will focus on a situation few baby-boomers ever thought they'd live to see: a labor shortage. The series will officially launch the Citizens League's next study, which will explore the question: How should Minnesota's public leadership—which includes the government, business and civic sectors—address the issue of Minnesota's labor shortage? The study is being co-chaired by **Gary Cunningham** and **Steve Keefe**.

On Thursday, March 5, Minnesota's state economist **Tom Stinson** and state demographer **Tom Gillaspy** will give an overview of the demographic trends the state will experience over the next 20 to 30 years. That picture shows that Minnesota's employers—already scrambling to fill their job vacancies—can look forward to tight labor markets for many years to come. Stinson and Gillaspy will describe the potential effects of a prolonged shortage on Minnesota's economy.

On Wednesday, March 11, **Hazel Reinhardt**, a strategic planning consultant and demographer, will provide a detailed look into the demographic trends and their implications for policy related to education, immigration, and infrastructure investment.

The third session will focus on the challenge for Minnesota's public leaders in government, business and the independent sector. Must the state simply accept these trends and wait for the market to respond, or can we make choices to capitalize on the opportunities and minimize the dangers? (The date and speakers for the last session were being finalized as the *Matters* went to press.)

All sessions will be held from 4:00-6:00 p.m. at the Hubert H. Humphrey Institute of Public Affairs, on the west bank campus of the University of Minnesota. Watch your mail for complete information about the series.

In April, the Citizens League will begin the study committee that will develop an in-depth report and recommendations for policy. Applications for study committee membership will be available at the Mind Openers and will be due by March 20; people selected to serve on the committee will be notified by the end of March.

1998 Public Affairs Directory available

The annual Citizens League's Public Affairs Directory is hot off the press. It 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. To order, call 338-0791.

More March Madness

It's policy meetings, not tournament meetings, that make next month "March Madness" at the Citizens League. Here's a preview—watch your mail for the details.

Does the Common Good Have a Prayer?

The Citizens League will hold its annual membership meeting on Wednesday evening March 25. Details are still being worked out, but it's likely to be held at the Lutheran Brotherhood auditorium from 4:30 to 7:00 p.m.

This year's meeting will focus on the role of the faith community in public leadership. While religion was not explicitly identified in the leadership interviews conducted last summer, many of the issues raised and problems identified have a spiritual dimension—especially when it comes to areas people referred to as the "culture." At the same time, there seemed to be a sense that the spiritual dimension of our public life has diminished.

The annual meeting will feature panelists from various segments of the faith community discussing two questions: What is it that faith brings to public leadership? and what are people of faith failing to do in public leadership? Panelists will then join the audience for roundtable discussions followed by a summation from the panel.

A New Wrinkle on Aging

The Citizens League is collaborating with the Minnesota Department of Human Services (DHS) Project 2030 on a series of policy events on the issue of the impact of an aging baby boom generation. The initiative will focus on three themes related to the aging baby boom generation:

- Increasing choice and options for tomorrow's elderly;
- Building communities that meet future needs; and
- Ensuring a strong workforce for tomorrow's economy.

The goal of the project is to generate greater public awareness about the issue, and to develop initial policy positions and a legislative action plan to respond to the problem.

The project will begin with a four-part Mind-Opener series beginning in mid-March. Topics in the series will be:

Week 1: Overview of issues and policy implications of an aging baby boom generation.

Week 2: Impact of aging baby boomers on retirement and long term care costs; financial matters relating to the social safety net; increasing personal responsibility for health maintenance of the aging population.

Week 3: Productive aging and the changing expectations for retirement.

Week 4: Impact of current land use practices on an aging community; building communities that meet future needs of an aging population.

The League will then host a luncheon featuring a nationally recognized speaker.

The project will conclude later this spring with a half-day symposium focusing on policy implications and potential solutions to problems identified in the earlier sessions.