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State property tax reform cuts revenue for TIF districts

Cities to pay a greater share of development costs

by J. Trout Lowen

The big story on tax increment financing this year isn't what happened last year but what will happen next year when property tax reform, enacted by the Legislature in June, takes effect. Two major changes to the state tax code, the compression of tax rates—particularly for commercial and industrial property—and the state takeover of K-12 general education funding, are expected to sharply reduce the amount of net tax revenue captured by tax increment districts.

Joel Michael, an analyst for the state's House of Representatives research department, estimates net tax revenue for TIF districts, which totaled $304.9 million statewide last year, could drop by as much as 40 percent next year. "There's going to be fewer dollars to work with," Michael says. "As that sinks in it should affect decision-making at the local level."

Cities and towns may already be getting the message. Craig Waldron, chairman of the League of Minnesota Cities TIF task force, says the Legislature's actions will make it more difficult for cities to fund redevelopment projects and cleanup contaminated brownfields. The tax code changes are also likely to reduce the number of new TIF districts created, Waldron says. That downward trend may have already begun. For the first time since the Citizens League began producing its annual TIF report in 1986, the number of TIF districts in the state with captured value grew only slightly, from 1670 in 1999 to 1673 last year. The amount of revenue captured by TIF districts increased by 5.2 percent. Rising property values may account for much of that increase.

Waldron attributes the lack of growth in TIF districts to increased restrictions on the TIF program. "Over the years it's just technically more difficult to work with and make tax increment work the way you hope that it would," he says, "and now with substantial reductions in cash flow it's going to be even more difficult."

Tax increment financing, or TIF, is a somewhat controversial development tool used by cities and counties to finance certain types of development costs. Proponents of TIF say it helps promote economic development, the redevelopment of blighted areas and contaminated sites, and the creation of housing.

The program, created by the Legislature in 1979, allows a city or county to create a tax increment financing district and "capture" the increase in net tax capacity that results from new development within the district, in essence taking that tax revenue off of the tax base and paying it directly to the TIF district. The TIF authority uses increased tax revenue, referred to as the tax increment, to pay for certain approved development costs, such as acquiring land or buildings, demolishing substandard buildings, installing utilities or road improvements or building low- or moderate-income housing.

Districts are supposed to apply a "but for" test to each TIF financed project to determine whether the development would take place if no tax subsidy was available. Critics charge municipalities abuse the program, using public subsidies to lure development from other, often neighboring, communities. They also argue the program has allowed municipalities to pass along the cost of local development to taxpayers across the state.

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INSIDE

What is tax increment financing?

Tax increment financing (TIF) is a tool used by cities and other development authorities to finance certain types of development costs. The program was established by the state legislature in 1979 to allow cities or other authorities create TIF districts to help subsidize the cost of redeveloping blighted areas and the creation of low and moderate income housing, and to create economic development and jobs.

Tax increment financing enables a city to use the additional property tax revenue generated by new development to pay for certain development expenses. With TIF, the city "captures" the additional property taxes generated by the new development within the district that would have gone to other taxing jurisdictions and uses the "tax increment" to pay some of the development costs that the owner, developer, or local government otherwise would have paid.

Some examples of TIF-eligible costs are the acquisition of land or buildings, the demolition of substandard buildings, site preparation, the installation of utilities or road improvements, and the construction of low-and moderate-income housing.

The up-front costs of TIF-subsidized development are often financed with the proceeds from general obligation bonds, revenue bonds, or loans. The debt service on those obligations is paid with the tax increment generated by one or more TIF districts.

Some TIF districts use an alternative to bonds or loans, known as pay-as-you-go financing, where the property owner or developer pays the development costs upfront and is reimbursed with the tax increment generated by the TIF district.

A glossary of terms

Market value: the value used to determine the tax capacity.

Tax capacity: the value to which the tax rates apply. It varies from property to property depending on the property classified. Minnesota has multiple property classes, such as residential or commercial.

Total net tax capacity: total tax capacity of all the property in the city, before any deduction for tax increment financing districts, fiscal disparities, or municipal power line deductions.

TIF net tax capacity: the amount of the municipality's tax capacity that is set aside in TIF districts. It is the captured value.

Net TIF tax: the portion of tax revenue generated by a TIF district that the district receives to finance development costs. The amount of net tax is calculated using the tax rate which was in effect the year the district was created, or the current year's tax rate, depending on which is greater.

TIF district: a geographic area where tax revenue generated by the net tax capacity is "captured" and paid to the tax increment financing authority, rather than to the city, county or state. TIF districts exist for a limited amount of time, generally 10 to 25 years, and are created for a specific purpose, such as economic development or the redevelopment of blighted areas. Once the district expires, tax revenue is returned to the general tax levy. MJ

Tax Increment Financing for metro counties with nonmetro and statewide totals, taxes payable in 2000

County TIF	No. of districts	TIF net tax capacity	Total net tax capacity	TIF net tax capacity as % total NTC	Net TIF tax	TIF net tax capacity per district	Net TIF tax per district	No. of cities with districts
Anoka	74	$13,687,872	$200,812,271	6.8%	$15,695,865	$184,971	$212,106	13
Carver	18	$9,956,626	$61,121,798	16.3%	$14,479,303	$553,146	$804,406	7
Dakota	56	$14,218,558	$316,636,837	4.5%	$15,550,103	$253,903	$277,680	12
Hennepin	233	$109,612,636	$1,244,150,356	8.8%	$145,792,068	$470,440	$625,717	29
Ramsey	122	$31,857,113	$371,622,276	8.6%	$39,911,029	$261,124	$327,140	14
Scott	32	$3,683,986	$69,440,294	5.3%	$4,392,705	$115,125	$137,272	6
Washington	40	$7,320,445	$173,354,898	4.2%	$8,515,584	$183,011	$212,890	15
Metro Total	575	$190,337,236	$2,437,138,730	7.8%	$244,336,657	$331,021	$424,933	96
Non Metro Total	1098	$46,670,967	$1,397,647,126	3.3%	$60,635,779	$42,505	$55,224	321
Statewide Total	1673	$237,008,203	$3,834,785,856	6.2%	$304,972,436	$141,667	$182,291	417

All figures are for 2000.
Includes only districts with captured value. A complete table of nonmetro counties is available online at www.citizensleague.net

Viewpoint

From the Executive Director

21st-century federalism requires partnerships with metropolitan regions

by Lyle Wray

Among the U.S. inventions that history will likely record as breakthroughs are universal primary and secondary education and modern federalism. The second run at federalism in the 1781 U.S. Constitution formed the first and longest-lived working federal government in the world. It was a two-layer federalism: national and state governments, with no mention of cities, counties or regions. Yet as we move through the third century of our history, it is becoming clear that metropolitan regions are the key units of economic competition in the world and the focus for important quality of life issues.

But we are not organized around metropolitan regions. Several years ago, Bill Dodge, the recent head of the National Association of Regional Councils, pointed to a key disjunction between where problems emerge and how we are organized politically. While we are organized at city and county, state and national levels, Dodge points out that many of our most pressing challenges are arising at the neighborhood, metropolitan region and international level. Federalism for the 21st century requires that a prudent national government confront the realities of metropolitan regions as it attempts to leverage limited resources on major issues such as transportation, environment and economic development.

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In February, President Bush created a working group to draft an Executive Order on federalism by August 27, 2001. While executive orders do not appropriate funds or change existing law they can signal important shifts in directions and priorities for those working in the administration.

On July 10, about a dozen members of the Alliance for Regional Stewardship met in the Executive Office Building adjacent to the White House to provide input to the forthcoming President's Executive Order on Federalism. The Alliance brings together regional civic organizations from around the country in an effort to have regions work more effectively on important challenges. Becky Morgan, one of the prime movers in the Joint Venture Silicon Valley, coordinated the Alliance meeting with Kristine Simmons, who heads the White House Working Group on Federalism.

The presentation to the Working Group was organized around a paper by the Alliance entitled: "Regions That Matter," which argued that metropolitan regions should be an important element of an executive order on federalism. The paper suggested that the executive order recognize that regions are where people work, and businesses compete, both nationally and internationally. It further suggested that the national government has high leverage to harness local resources for regional change in areas of transportation, environment, and economic development to name just a few.

The "Regions That Matter" paper included four recommendations. First, the national government should support performance-based regional compacts and regional initiatives based around agreed upon outcomes. Second, the national government needs to play a key role in providing information and tools for regions to use in making better decisions. Third, federal employees should help foster regional cooperation through staff assignments and greater flexibility in supporting local efforts. Finally, the Alliance offered itself as a vehicle for continuing the federal-regional dialogue and pledged its continued assistance in shaping the executive order.

During the discussion, The Board of Government Innovation in Minnesota, (created in the wake of a 1992 Citizens League report on local government reform) was presented as a possible model for cutting through red tape to make local solutions work. One of the key functions of the Board is to waive state rules and laws if they stand it the way of more efficient and effective local government. In return for waivers, local governments enter into a performance contract, spelling out the results the plan to achieve. A similar model could be used by the federal government to remove obstacles to regional growth and development while assuring the federal interests are protected and the desired outcome is achieved.

So why should the average citizen care about an executive order on federalism? Many of the issues that currently concern us, from transportation to environment to economic development, affect us as a metropolitan area, but there is currently no over-arching political unit to address those concerns at the regional level. Facing many of our nation's key challenges will require that our metropolitan regions work better and work in partnership with the national government to leverage limited resources in a coherent way. So as removed from daily issues as a Presidential Executive Order on Federalism sounds, a properly crafted initiative can add momentum to effective, on-the-ground problem solving in our metropolitan areas. MJ

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TIF: Inherently flawed as a tool for community development

by Sen. John Marty

The impact of recent tax legislation on Tax Increment Financing (TIF) projects has raised many questions about TIF. But the impact of tax changes should not be the main issue—TIF itself is the issue. It is inherently flawed as a tool for community redevelopment.

Due to the complexity of TIF, some citizens, newspaper editorial writers – even city development officials believe it is "free money." The argument (often referred to as the "but for" test) is repeated as if it were fact: "But for TIF, a development project would not occur, and the community would not receive increased property taxes from it." This complexity makes it easy for developers to persuade local officials to provide taxpayer subsidies, even if the subsidies consume the additional tax revenue that supposedly comes out of the projects.

Proponents of TIF claim central cities and older suburbs need tax increment financing for redevelopment because it costs more to clear occupied land than to build on vacant land in outer suburbs. So why do Chanhassen or Inver Grove Heights need TIF? Because they claim they cannot compete with the central cities, with their population density and other advantages. And rural communities? They need TIF to attract business from the metro area.

What's wrong with this picture? Cities that use TIF say they need it to compete with other cities, which in turn need it to compete with them. It's a scam promoted by developers.

As Federal Reserve Bank economists Mel Burstein and Art Rolnick have argued, taxpayers lose when communities compete with each other by providing ever-larger public subsidies.

Certainly, cities need funds for cleanup of polluted lands, for affordable housing, and for construction of public facilities. But tax increment financing is a costly, inefficient, and unaccountable way to provide such funds. Instead, TIF money ends up in the hands of private businesses that do not need or deserve public subsidies.

Cities that use TIF say they need it to compete with other cities, which in turn need it to compete with them. It's a scam promoted by developers.

Look at some of the abuses:

Perhaps the most valuable undeveloped land in the entire state (the old Met Center site, adjacent to the Mega-Mall in Bloomington) used TIF to subsidize the developer. Why? Does anyone believe this prime real estate would sit idle but for a TIF subsidy?

St. Paul used millions of taxpayer dollars, and displaced some successful small businesses to construct a building for Lawson Software simply because the company was willing to move 300 employees from Minneapolis to St. Paul. Is St. Paul really "revitalized" because it attracts a business from Minneapolis in exchange for a big taxpayer subsidy?

Minneapolis provided a $46 million TIF subsidy (as part of a subsidy package totaling more than $62 million) to a developer in exchange for including a Target store in redevelopment of the Nicollet Mall. A competing proposal did not request any TIF subsidy. Under current law, Minneapolis officials were able to use TIF even if there was no difference in the taxes that would have been collected. In other words, even if there is no real tax increment between the two projects, they were legally permitted to provide a subsidy that nominally relies on the existence of such an increment.

But for the TIF subsidy, Nicollet Mall would have been redeveloped and the city would still have all or most of the $46 million – for legitimate public needs, saving Minneapolis taxpayers that much in taxes.

There are countless examples of cities that have used TIF to subsidize urban sprawl, such as the construction of large movie theaters on vacant suburban land.

Why do these abuses occur?

It's human nature to believe things one wants to believe, even if they are too good to be true. When city officials are told that they can pay for desirable projects at no cost to taxpayers, they want to believe it.

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Change in tax increment financing from tax year 1999 to tax year 2000

	2000 TIF Districts*	Percent change	2000 TIF net tax capacity	Change in net tax capacity	Percent change
Metro	575	-4.00%	$190,337,236	$13,060,878	7.4%
Nonmetro	1098	2.50%	$46,670,967	$1,093,464	2.4%
Statewide	1673	0.02%	$237,008,203	$14,154,342	6.4%

	2000 total net tax capacity	Change in total NTC from 1999	Percent change	2000 TIF net tax	Change in net TIF tax	Percent change
Metro	$2,437,138,730	$328,698,755	7.8%	$ 244,336,657	$13,255,268	5.7%
Nonmetro	$1,397,647,126	$1,248,104,719	3.3%	$ 60,635,779	$1,787,491	3.0%
Statewide	$3,834,785,856	$235,803,474	6.2%	$304,972,436	$15,045,914	5.2%

*All comparisons are 1999 to 2000. Based on data from the Dept. of Revenue report as revised 8/31/2000.

Gauging the impact of TIF on Minnesota communities

by James F. Miller

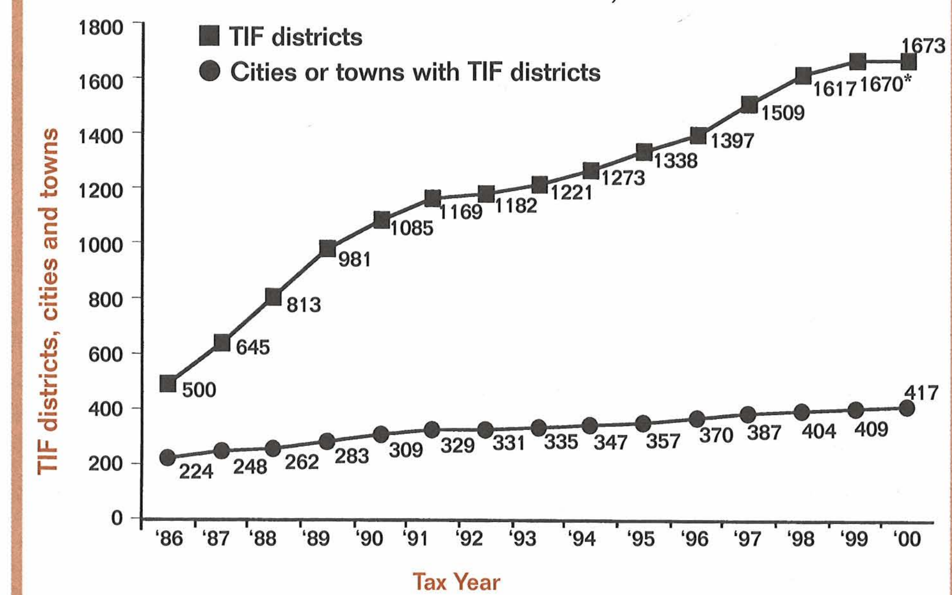
With the end the 2001 Legislative Session, legislators and other policy makers are digesting the impacts of what has been described as the most dramatic property tax reform in decades. Perhaps the most significant policy change is the state takeover of general education funding. While official estimates suggest that the property tax burden for nearly every taxpayer will be reduced, what hasn't been fully analyzed is the impact these tax policy changes could have on existing economic development and redevelopment projects supported by tax increment financing, or TIF. What's more, the full extent of the future impacts on redevelopment and economic development will not likely be known for some time.

The fact that the impacts of property tax reform on TIF was an afterthought is not surprising. Controversy has surrounded TIF since it was first enacted into general law in 1979. Nearly every year since, the Legislature has reviewed and periodically enacted legislation ranging from technical tweaks to major modifications to state statute to restrict the uses of TIF. However, Minnesota has enjoyed benefits of TIF that have occurred due to the foresight of local elected officials who work to bring jobs and services to their communities. For more than 20 years, communities have grown and the state's economy has strengthened because of planning and the appropriate use of TIF.

Tax increment financing is a difficult tool to defend largely because we cannot easily predict where Minnesota would be today without it. It would be like trying to gauge whether the nation's economy would eventually pull itself out of an economic slowdown without the intervention of the Federal Reserve to cut interest rates. Most would agree that Federal Reserve interest rate cuts accelerate an economic turnaround. Similarly, cities and other advocates of TIF argue that its use accelerates and directs economic development and redevelopment in Minnesota.

Under current Minnesota law, TIF is arguably the most viable tool available to assist cities in their economic and redevelopment efforts. TIF has helped with the creation of affordable housing and the clean-up of polluted sites that no private business would otherwise consider for development. It also has been used in areas where the costs of removing existing deficient buildings have prevented redevelopment.

Number of TIF districts with captured value and number of cities and towns with TIF districts, 1986-2000



* Revised this year from 1750 to 1670 based on revised reports by the State Dept. of Revenue

TIF has assisted local government in steering the location of new development. For example, TIF has been used to encourage development on sites that are immediately adjacent to existing infrastructure, such as sewer and water facilities and highways. This guided development reduces the need for additional public investment in new roads and other costly infrastructure.

Even some of the most vocal TIF critics acknowledge there are compelling development success stories based on the use of TIF. Affordable housing and mixed-use projects in Plymouth, Golden Valley, Minnetonka, St. Paul, Minneapolis, Rochester, Warroad and Winsted, are examples of such success stories. In addition, brownfield clean-up examples such as the Williams Hill project in St. Paul and the Oneonta Industrial Park in Duluth have transformed polluted sites into industrial complexes that are now home to numerous small- and medium-sized companies.

And while creation of a few high-profile TIF districts garners headlines and contributes to the perennial scrutiny by critics, little attention is given when those districts are decertified and the investment results in an increased tax base for the city, county, school district and the state. Over the next 10 years, property in nearly 1,000 TIF districts across the state will be brought back on to the general tax rolls. This decertification of districts is the payoff of local redevelopment and economic development efforts that significantly increases the state's overall property tax base. As of 1999, these soon-to-be-decertified districts contained property that will generate about $175 million in property tax dollars annually for cities, counties, schools and special taxing districts. Once these districts are decertified, property owners across the state will benefit from the increased tax base resulting from development investments.

New landscape from new laws

Tax increment districts have relied on tax dollars generated by applying the total local property tax rate (which includes city, school and county taxes) to the

Impact continued on page 9

Metro and nonmetro cities with tax increment net tax capacity over $1 million, taxes payable in 2000

	2000 TIF net tax capacity	1999 TIF net tax capacity	Percentage change from 1999 TIF NTC	TIF tax capacity as percentage of total tax capacity	Rank of TIF net tax capacity	Net TIF Tax	Number of districts	TIF net tax capacity per district	Net TIF tax per district
Anoka County									
Anoka	$1,992,928	$2,048,000	-3%	16.45%	26	$2,296,563	3	$664,309	$765,521
Blaine	$1,402,365	$1,348,094	4%	4.49%	35	$1,639,578	7	$200,338	$234,225
Coon Rapids	$2,545,719	$3,286,745	-23%	5.99%	18	$2,831,008	23	$110,683	$123,087
Fridley	$2,475,455	$2,381,402	4%	9.29%	21	$2,785,929	12	$206,288	$232,161
Ramsey	$2,179,390	$2,069,408	5%	16.37%	25	$2,366,268	4	$544,848	$591,567
Benton County									
Sauk Rapids	$1,012,068	917,456	10%	20.52%	46	$1,465,580	5	$202,414	$293,116
Blue Earth County									
Mankato*	$1,694,479	$1,754,352	-3%	7.89%	29	$2,056,181	15	$112,965	$37,079
Carver County									
Chanhassen	$5,087,790	$4,669,123	9%	21.18%	8	$7,662,743	5	$1,017,558	$1,532,549
Chaska	$4,408,029	$4,370,161	1%	27.61%	10	$6,159,342	4	$1,102,007	$1,539,836
Dakota County									
Apple Valley	$1,073,521	$1,507,600	-29%	3.05%	45	$1,170,257	7	$153,360	$167,180
Burnsville	$3,823,528	$3,593,550	6%	6.03%	12	$4,318,037	8	$477,941	$539,755
Inver Grove Heights	$2,380,252	$1,968,034	21%	9.72%	23	$2,459,767	9	$264,472	$273,307
Lakeville	$1,695,186	$1,329,962	27%	5.19%	27	$1,774,594	12	$141,266	$147,883
Mendota Hts	$1,847,078	$1,730,306	7%	10.91%	27	$1,824,238	2	$923,539	$912,119
South St. Paul	$1,220,717	$1,172,187	4%	11.18%	40	$1,419,585	2	$610,359	$709,793
Hennepin County									
Bloomington	$12,886,100	$15,719,203	-18%	9.06%	3	$15,391,605	10	$1,288,610	$1,539,161
Brooklyn Center	$2,533,878	$2,054,659	23%	11.83%	19	$3,257,589	4	$633,470	$814,397
Brooklyn Park	$7,882,833	$7,231,156	9%	16.86%	4	$10,566,197	11	$716,621	$960,563
Champlin	$2,375,189	$2,032,160	17%	18.36%	24	$2,560,890	4	$593,797	$640,223
Crystal	$1,258,222	$1,156,733	9%	9.48%	38	$1,538,789	5	$251,644	$307,758
Edina	$7,087,107	$6,230,928	14%	7.80%	5	$8,626,184	4	$1,771,777	$2,156,546
Golden Valley	$4,430,295	$4,077,272	9%	14.25%	9	$5,947,629	3	$1,476,765	$1,982,543
Hopkins	$1,670,794	$1,531,218	9%	10.59%	30	$2,290,065	13	$128,523	$176,159
Maple Grove	$3,637,833	$2,863,300	27%	7.41%	14	$4,620,412	7	$519,690	$660,059
Minneapolis	$47,706,427	$43,739,300	9%	14.53%	1	$67,582,862	62	$769,459	$1,090,046
Minnetonka	$2,683,278	$2,230,263	20%	3.13%	16	$3,340,078	5	$536,656	$668,016
Richfield	$3,761,748	$3,018,392	25%	15.64%	13	$4,973,092	15	$250,783	$331,539
Robbinsdale	$1,207,662	$1,152,428	5%	16.04%	42	$1,461,187	23	$52,507	$63,530
Rogers	$1,256,135	$1,054,595	19%	25.65%	39	$1,400,720	8	$57,017	$175,090
St. Louis Park	$3,850,766	$3,443,938	12%	7.54%	11	$5,538,847	5	$770,153	$1,107,769
Wayzata	$1,547,145	$1,423,430	9%	13.27%	34	$1,837,529	7	$221,021	$262,504
Lyon County									
Marshall	$1,155,308	$1,177,469	-2%	14.67%	43	$1,450,068	9	$128,368	$161,119
Olmsted County									
Rochester	$2,922,937	$2,653,733	10%	4.86%	15	$3,989,772	7	$417,562	$569,967
Ramsey County									
Mounds View	$1,645,539	$1,502,950	9%	22.23%	31	$2,005,809	3	$548,513	$668,603
New Brighton	$2,421,517	$2,174,796	11%	14.23%	22	$2,806,492	22	$110,069	$127,568
Roseville	$7,008,689	$5,485,225	28%	15.69%	6	$7,798,864	15	$467,246	$519,924
Shoreview	$1,380,984	$1,270,625	9%	6.11%	36	$1,336,616	5	$276,197	$267,323
St. Paul	$14,363,837	$11,928,010	20%	9.02%	2	$20,346,267	11	$1,305,803	$1,849,661
Vadnais Heights	$1,330,599	$1,269,180	5%	10.36%	37	$1,446,101	16	$83,162	$90,381
White Bear Lake	$1,114,354	$1,203,336	-7%	6.23%	44	$1,278,893	21	$53,064	$60,900
White Bear Twp.	$1,012,056	$1,138,756	-11%	10.39%	47	$1,090,576	10	$101,206	$109,058
St. Louis County									
Duluth	$6,541,636	$6,305,343	4%	16.27%	7	$9,240,515	16	$408,852	$577,532
Scott County									
Savage	$1,617,266	$1,495,369	8%	10.65%	32	$1,924,250	6	$269,544	$320,708
Shakopee	$1,211,989	$1,231,584	-2%	6.02%	41	$1,341,151	4	$302,997	$335,288
Stearns County									
St. Cloud*	$2,635,869	$2,634,451	0%	7.44%	17	$3,275,169	17	$155,051	$192,657
Washington County									
Oakdale	$2,531,457	$1,810,793	40%	13.99%	20	$2,946,221	11	$230,132	$267,838
Stillwater	$1,577,363	$1,395,070	13%	11.86%	33	$1,919,302	5	$315,473	$383,860
Wright County									
Buffalo	$1,000,080	$1,104,843	-9%	16.62%	48	$1,182,275	5	$200,016	$236,455

TIF districts located in more than one county are recorded in the county of the home city.
A complete list of tax capacity for all counties is available online at www.citizensleague.net

TIF by the numbers

by J. Trout Lowen

Municipalities use tax increment financing as a tool to create economic development, jobs, and housing, but the real story of TIF is often told in the numbers. And there are a lot of numbers. You'll find just a few highlights from the Citizens League's annual TIF report here to peak your interest. For more specific numbers, or for numbers specifically about your community, check out the charts on the accompanying pages. For those of you who want the crib notes version, read on.

The number of TIF districts statewide grew slightly, from 1670 in 1999 to 1673 last year. The number of cities that captured value in their TIF districts also grew slightly from 409 to 417.

The market value of property statewide increased by 8.3 percent last year, from $215.9 billion to $233.8 billion. Taxable value, or tax capacity, also increased but at the slightly slower rate of 6.4 percent.

The amount of tax capacity set aside in TIF grew statewide as well, from $222,856,323 to $237,008,203, an increase of 6.4 percent. The percentage of tax capacity set aside in TIF districts remained relatively constant at 6.2 percent. The number of TIF districts with more than $1 million in tax capacity also remained constant at 48.

Much of that growth was in the metropolitan area where TIF net tax capacity increased by 7.4 percent over the previous year. Outside the metro area, TIF net tax capacity grew just 2.4 percent. Those figures were similar to the growth in total net tax capacity of 7.8 percent for the metro area and 3.3 percent for the Greater Minnesota.

As expected, the average value of TIF districts in the metro was significantly higher than that of districts outside the metro area. TIF districts in the seven-county metro area showed an average value of $321,021 last year, compared with the average value for nonmetro district of $46,505. Metro area TIF districts also grew at a faster rate. The average value of metro area TIF districts grew by 17.1 percent in 2000 while the average value of nonmetro districts increased by 14.6 percent.

Several metro cities saw their TIF net tax capacity rise sharply between 1999 and 2000. Mendota Heights, Maple Grove, Richfield, Oakdale, and Roseville all saw growth of more than 25 percent.

In Richfield, three new TIF districts came online, including the Lyndale Gateway I-West district where the new Best Buy headquarters is now under construction. Richfield Finance Manager Chris Regis said appreciating land values are also responsible for the increase.

"...Anyone who gets into tax increment financing is gonna love July's issue of the Minnesota Journal!"

One measure of TIF use is the percentage of total tax capacity a municipality has set aside in TIF districts. On page 8 you'll find a list of the top 20 metro and top 20 nonmetro cities ranked by the percentage of their net tax capacity that is tied up in TIF districts.

There were few changes to the Top 20 list in the metro area this year. Two new cities joined the list, Oakdale in Washington County, and the Hennepin County city of Osseo, replacing Wayzata and St. Paul Park. In Greater Minnesota the picture was a little more turbulent. Six new cities joined the Top 20 list of nonmetro cities.

The city of Roseville crept up the metro-area Top 20 list six places this year from No. 18 to No. 12. The city's TIF net tax capacity grew by $2.32 million last year to $7.8 million. Ed Burrell, finance director for Roseville, says the increase was largely due to construction of a new manufacturing facility in the Center Point TIF district along I-35W. The tenant, California-based computer systems manufacturer Veritias Corp., builds information storage systems.

Burrell says he expects to see the city's TIF net tax capacity fall off sharply next year. Roseville plans to retire three of its TIF districts early, in part because administering the districts has become so complex. If the city plans other TIF districts in the future, Burrell says, it will be on an individual basis and only as a pay-as-you-go district.

The city of Woodbury saw its TIF net tax capacity plummet this year, from $2.6 million in 1999 to just $149,181 last year. Woodbury's Barry Johnson says the TIF district, which included the Woodbury Village Center shopping facility, expired this year.

Cities across the state can expect to see their TIF net tax capacity and the amount of their TIF net tax decline next year as property tax reforms enacted last month by the state Legislature take effect. MJ

J. Trout Lowen is the acting editor of the Minnesota Journal.

For expanded TIF coverage see our statewide TIF tables online at www.citizensleague.net

TIF *continued from page 1*

According to the Minnesota Department of Revenue, 417 cities and towns in Minnesota had one or more TIF districts with captured revenue last year, and TIF districts accounted for approximately 6.2 percent of the total tax capacity in the state. Approximately one-quarter of TIF districts are located in the metro area. Minneapolis has by far the largest dollar investment in TIF. Last year Minneapolis captured $67.5 million in net TIF taxes, the amount of tax revenue the districts are actually eligible to keep. Last month, the city's community development agency characterized the impact of property tax reform on TIF as "damaging to devastating."

But some metro-area suburbs may also be struggling because they have a larger percentage of their tax base tied up in TIF. Chaska and Chanhassen in Carver County are two of the biggest users of TIF. Both had more than 20 percent of their total net tax capacity set aside in TIF districts last year, compared to 14.5 percent in Minneapolis and 9 percent in St. Paul. [For more on the numbers, see related story on page 7.]

Michael says districts that will be hardest hit by the tax code changes are those that have obligated the highest percentage of their tax increment to pay for development costs. "Obviously, everybody was moving along in the '90s and before on the assumption that they were going to collect revenue based on the then existing property tax system," he adds. "Our numbers are showing that in the first increment, revenues are going to drop by close to 40 percent."

As part of its tax package, the Legislature reduced property tax rates for commercial and industrial lands, which make up the largest percentage of property and TIF districts, from 2.4 and 3.4 percent to 1.5 and 2 percent respectively. It is the third reduction in tax rates in four years. They also reduced property tax rates for apartment housing. The result, says the Department of Revenue's Jerry Silky, is that the amount of tax revenue in TIF districts is going to decline.

Up until now, TIF districts have also benefited from the state financing formula for school aid. In what amounted to a state matching grant, TIF districts were able to capture local school tax revenues and the state would in essence hold the school districts harmless by making up the difference in lost tax revenue with increased school aid. Beginning in 2002, the state will pay K-12 education costs directly through aid, eliminating the local school tax levy. That means TIF districts will no longer be able to capture that portion of tax revenue and state taxpayers will no longer be subsidizing TIF districts.

"It's going to be more locally funded," Michael says. "It's going to be paid for by city and county taxpayers, not by city, county, and state taxpayers. The local taxpayers are going to be paying for the full ride."

Because the changes could create a hardship for many existing TIF districts, the Legislature appropriated more than $200 million in state grants to make up any shortfall. While that will help, Waldron says, it may not be enough in the long run to make TIF an effective development tool in the future.

"It's sure better than not having any help there, but that's not a long-term solution to major cash flow problems," he adds. **MJ**

Top 20 metro and top 20 nonmetro cities ranked by percentage of tax base tied up in TIF districts

Rank	City	County	TIF net tax capacity as % of total NTC*	Net TIF tax	Number of Districts	Net TIF tax per district
METRO CITIES						
1	Landfall	Washington	55.72%	$75,813	1	$75,813
2	Chaska	Carver	27.61%	$6,159,342	4	$1,539,836
3	Rogers	Hennepin	25.65%	$1,400,720	8	$175,090
4	Mounds View	Ramsey	22.23%	$2,005,809	3	$668,603
5	Chanhassen	Carver	21.18%	$7,662,743	5	$1,532,549
6	Maple Plain	Hennepin	19.83%	$460,819	5	$92,164
7	Champlin	Hennepin	18.36%	$2,560,890	4	$640,223
8	Brooklyn Park	Hennepin	16.86%	$10,566,197	11	$960,563
9	Anoka	Anoka	16.45%	$2,296,563	3	$765,521
10	Ramsey	Anoka	16.37%	$2,366,268	4	$591,567
11	Robbinsdale	Hennepin	16.04%	$1,461,187	23	$63,530
12	Roseville	Ramsey	15.69%	$7,798,864	15	$519,924
13	Richfield	Hennepin	15.64%	$4,973,092	15	$331,539
14	Jordan	Scott	15.05%	$307,242	4	$76,811
15	Minneapolis	Hennepin	14.53%	$67,582,862	62	$1,090,046
16	Golden Valley	Hennepin	14.25%	$5,947,629	3	$1,982,543
17	New Brighton	Ramsey	14.23%	$2,806,492	22	$127,568
18	Oakdale	Washington	13.99%	$2,946,221	11	$267,838
18	Belle Plaine	Scott	13.59%	$381,348	4	$95,337
20	Osseo	Hennepin	13.59%	$392,089	7	$56,013
NONMETRO CITIES						
1	Clontarf	Swift	38.93%	$140,639	2	$70,320
2	Claremont	Dodge	38.19%	$98,180	1	$98,180
3	Dundas	Rice	33.78%	$163,376	3	$54,459
4	Rush City	Chisago	28.81%	$353,406	4	$88,352
5	Torning	Swift	27.32%	$141,297	3	$47,099
6	Avon	Stearns	24.97%	$208,411	2	$104,206
7	Brooten	Stearns	23.91%	$89,379	2	$44,690
8	Pelican Rapids	Otter Tail	23.13%	$292,266	5	$58,453
9	Jenkins	Crow Wing	22.95%	$47,850	1	$47,850
10	Brooks	Red Lake	22.43%	$12,167	1	$12,167
11	Gaylord	Sibley	22.23%	$225,994	10	$22,599
12	St. Clair	Blue Earth	22.05%	$62,714	1	$62,714
13	Freeman	Freeborn	21.47%	$99,951	1	$99,951
14	Pine Island	Goodhue	21.17%	$311,186	8	$38,898
15	Sauk Centre	Stearns	21.15%	$405,830	6	$67,638
16	Lakeside	Cottonwood	20.86%	$157,398	1	$157,398
17	Sauk Rapids	Benton	20.52%	$1,465,580	5	$293,116
18	Pillager	Cass	20.37%	$37,320	2	$18,660
19	Preston	Fillmore	20.23%	$184,665	5	$36,933
20	New London	Kandiyohi	20.23%	$138,293	9	$15,366

*NTC is net tax capacity.

A complete list of metro and nonmetro districts is available online at www.citizensleague.net

Impact *continued from page 4*

increased value of property contained in TIF districts. Since the state has now removed a large share of school funding from the property tax, the total tax rate applied to TIF value will decrease and revenues generated will also decrease. In addition, the property class rates for many types of property typically contained in TIF districts have been substantially reduced. The impact of these two policy changes – removal of K-12 education costs from the property tax and class rate reduction will likely reduce increment revenues by 20 to 40 percent, depending on the district. The new law does provide a significant state-funded grant program to help close the revenue gap in existing TIF districts; however, because future districts will have considerably less revenues from which to draw and no state-funded assistance, cities may decide that TIF is not a viable tool for redevelopment or economic development and many potential projects might not go forward.

> **Lower property taxes alone almost certainly will not be the silver bullet for all our development and redevelopment needs.**

The 2001 tax reforms will reduce property taxes for apartments, commercial and industrial property. However, lower property taxes alone almost certainly will not be the silver bullet for all our development and redevelopment needs. There are undoubtedly circumstances that will not be addressed simply through lower property taxes: Redevelopment of blighted areas, clean-up of polluted sites and steering the location of development to areas served by existing infrastructure will not always be economically feasible without targeted public investment. Although TIF will not disappear entirely under the new property tax structure, the Minnesota Legislature will have to consider tools to augment or replace this important development tool. **MJ**

Jim Miller is executive director of the League of Minnesota Cities.

Flaws *continued from page 4*

Big developers have political connections. They know how to lobby. They have sophisticated financial experts, lawyers, and real estate experts who work closely with city staff on putting these complex deals together. And, developers make generous campaign contributions.

The relationships are tight. Observe the revolving door between public officials who arrange TIF deals, and the developers they make the deals with – such as the Minneapolis official who supervised the $46 million Nicollet Mall TIF deal, resigning to become vice president for the developer just months after the deal was signed!

Most elected city officials are part time; they all have many issues to deal with. Without time to analyze these complex arrangements adequately, much of their information comes from the developer's sales pitch. Only those seeking a TIF subsidy come to city hall—there is no comparable organized interest to lobby in opposition and raise objections.

Developers promise a beautiful new development (what building won't look nice with so much money from taxpayers to guarantee success). TIF is hyped so heavily that it becomes routine in some communities; cities expect to use TIF for development projects. A business developer told one city official that the city's staff had encouraged them to ask for tax increment financing – for a project that they were planning to build without a subsidy!

What should be done?

The solution is simple. Eliminate TIF projects. I have introduced legislation (Senate File 65) to stop new TIF projects and to block expansion of existing ones. Cities would be able to clean up polluted lands and pay for libraries, but they would have to appropriate money just as they do for non-TIF projects now.

This change does not tie the hands of city officials. Technically they could still provide large subsidies to private businesses. (I don't believe government should be in the business of subsidizing private enterprises, but this legislation would not prohibit it.) SF 65 would allow local governments to subsidize businesses as they can under TIF laws. If the county and school district believe a subsidy has merit, they could reimburse the city for some of the costs. However, funding for a subsidy would be transparent, coming directly from the city budget. Consequently, it would be difficult to justify subsidies.

For example, Minneapolis officials gave the TIF subsidy for the Nicollet Mall project with the rationale that they needed a mid-priced retail store (a Target store) downtown, and only one developer was willing to include it. Under SF 65, any such subsidy would be appropriated directly out of the city budget—no shell games. If you were a city council member, would you try to convince your constituents that they should spend $46 million to subsidize a Target store? For that much they could probably own the place!

Cities have many projects requiring public money—the clean up of polluted lands and other public purposes. Eliminating TIF will not take money away from these needs. TIF revenue is not free money; it is taxpayer money that is loosely dispensed without public scrutiny or understanding. Without TIF, these corporate subsidies would be transparent. Ultimately, accountability will prevent this waste of money, so tax dollars will be used on legitimate needs. **MJ**

John Marty (DFL-Roseville) is author of legislation that would prohibit new TIF projects and expansion of existing ones.

TakeNote Policy Tidbits

Perceptive insights by us, mere observations by others

Minnesota tops the Midwest and ranks in the top 10 nationwide in the percentage of the population with college degrees. According to the U.S. Census Bureau (data is for March 2000), 31.2 percent of Minnesota residents age 25 years and older have at least one college degree. The District of Columbia topped the list at 38.3 percent. The U.S. average is 25.6 percent. Here's how the degree pedigree in some other Top 10 states stacked up: Colorado (34.6%), Massachusetts (32.7%), Maryland (32.3 %), Virginia (31.9%) and Connecticut (31.6 %). Around the Midwest, the picture looks like this: North Dakota (22.6%), South Dakota (25.7), Iowa (25.5%) and Wisconsin (23.8%). — *Scott McMahon.*

Despite continued low unemployment rates, the downturn in the economy has renewed attention to mass layoffs. The Minnesota Department of Economic Security (MDES) recently analyzed what happened to workers laid off during the two-year period 1996-97. MDES found that after one year, 90 percent of those laid off were reemployed. Wages for reemployed workers averaged 104 percent of their previous wage after one year, and 116 percent after two years. Reemployment varied by industry with those in service jobs finding the best prospects for reemployment. Workers in finance and real estate were least likely to be reemployed at comparable wages. Education also played a role. Workers without a high school education were least likely to find a job in Minnesota; workers with 12 – 15 years of education were most likely to become reemployed. College graduates did the best in wage recovery (137 percent), but their reemployment in Minnesota was less than those with 12-15 years of education, possibly because they were more likely to leave the state to seek new employment. — *Phil Jenni.*

Health Exams. Choosing a hospital or health plan today is a little like choosing a public school in the days before achievement data were routinely published in newspapers – a shot in the dark. The average Minnesotan spends $3,200 per year on health care but consumers have very little objective data to guide their decisions.

What if *Consumer Report*-style information were available? That is roughly what the Minnesota Department of Health proposed to do through a new Center for Health Quality. The Center would produce and publicize cost and quality data to help health care consumers choose doctors, hospitals, clinics, procedures and health coverage.

While the initiative was not funded by the Legislature this year, it raises an interesting question: What would do more to motivate the health care industry to improve the cost and quality of its services, additional regulation or informed patients voting with their feet? — *Joe Loveland.*

"Where does school spending go" department (cont'd): Linda Darling-Hammond, who recently finished chairing a national commission on teacher supply, says that in Japan 80 percent of the staff are classroom teachers. In the United States only 43 percent are. — *Ted Kolderie.*

In case you missed it, it's worth noting that last spring the Minnesota Appeals Court upheld the constitutionality of the tax-base sharing program for the Iron Range. — *P.J.*

Amid all the local hand wringing about tight budgets and cut backs in service for Metropolitan Transit, it's interesting to note that the transit agency in King County, Washington (Seattle) has developed a new website that matches commuters with car-pooling partners. Launched in February, **www.RideshareOnline.com** had more than 12,000 visitors in its first two months and completed more than 4,000 matches. The total cost to King County: $150,000. That's a pretty good return on investment. — *P.J.*

Metro Transit is soliciting the public's views on the routing for some kind of transit—LRT or whatever—from downtown Minneapolis to downtown St. Paul. Today there are two bus services in that corridor: one local (on University Ave.), and one express (on I-94), which make the trip from downtown to downtown in about 25 minutes.

Metro Transit needs to explain. If an LRT line were added would the express service be dropped? Would the local service (Route 16) be dropped? Would both be dropped, in favor of a line that stopped more frequently than the express service but less frequently than the local service?

If the latter, how exactly would that be an improvement for riders — even if it could be built for nothing? — *T.K.*

The recent discussion in these pages regarding Education Minnesota's $2.3 million debt, or shortfall in dues, as they prefer to call it, which resulted from the merger of the Minnesota Education Association and the Minnesota Federation of Teachers, is a moot point. It doesn't matter if its "debt" or "shortfall" because delegates to the National Education Association Representative Assembly voted to forgive the loan owed by Education Minnesota. — *P.J.*

School districts dislike the idea of competition. A friend the other day suggested looking at that idea another way: as an obligation on the district to persuade its students to stay. Looked at that way, would districts still be so negative? — *T.K.*

Take Note contributors include Minnesota Journal and Citizens League staffers and former League staff member Joe Loveland.

The Minnesota Journal
Citizens League
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CITIZENS LEAGUE **matters**

NEWS FOR CITIZENS LEAGUE MEMBERS JULY 24, 2001

Welcome

New and returning members

Kurt Augustin
Lydia P. Crawford
Thomas Darling and Rojean Rada
Larry Donlin
William P. Donohue and Jane Prohaska
Nancy Evert
Jennifer Gillespie
Herbert C. Johnson
Susan Hammel Joyce
Charlotte Landreau
Joe Loveland
Wilbur Maki
James Murphy
Kathy M. Quandt
Amy Sunderland

Members select eight new board directors

The annual Citizens League Board election was conducted on Friday, June 29. In a very close election eight new directors were selected by the membership. Elected to three-year terms:

Marcia Avner, Public Policy Director, Minnesota Council of Nonprofits; **William Diaz**, Senior Fellow, Humphrey Institute; **James Everett**, independent consultant; **Laurel Feddema**, formerly of US Bancorp; **Susan Heegaard**, Director of Government and Community Affairs, MN Private College Council; **Sean Kershaw**, Deputy Director of Planning and Economic Development, City of St. Paul; **George Latimer**, Professor of Urban Studies, Macalester College; and **Tim Marx**, attorney, Briggs and Morgan. Congratulations to you all!

For Marcia Avner, Susan Heegaard and George Latimer it's their second consecutive three-year term.

Bill Diaz, Laurel Feddema, Sean Kershaw and Tim Marx were at the end of a one-year appointed term. James Everett is a newcomer to the Board.

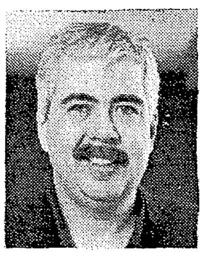
The new members join returning elected Board members whose terms expire in 2002. They are: Andy Brown, Cal Clark, Gary Cunningham, Kent Eklund, Rich Forschler, Matthew Ramadan and Kathleen Vellenga. Members whose terms expire in 2003 are: **Buzz Cummins**, **Kit Hadley**, **Roger Hale**, **Ken Keller**, **Laura Sether**, **Barb Sporlein**, **Missy Thompson** and **Emily Anne Tuttle**.

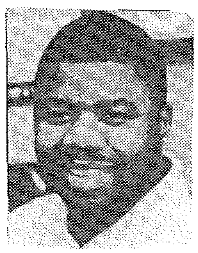
According to League by-laws these elected Board members may appoint up to ten additional members to serve one-year terms. The additional appointments and the election of officers will occur at the annual transitional Board meeting scheduled for Friday August 10 at the Metropolitan Council.

Since the League has term limits (six consecutive years), three elected members were ineligible for re-election. They are: **Jean Harris** (5 consecutive years), **Steve Keefe** (4) and **Bob Vanasek** (6). In addition, appointed members **Tony Morley** (4) and **Pam Neary** (6) have run up against the term limit, although all but Neary and Vanasek are eligible for appointment to a one-year term.

There were 521 qualified ballots, down slightly from last year. Nearly a third of eligible League members voted compared to 35 percent last year and a five-year average of about 30 percent.


Marcia Avner

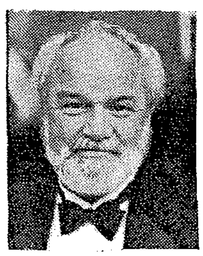

William Diaz


James Everett


Laurel Feddema


Susan Heegaard


Sean Kershaw


George Latimer


Tim Marx

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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.

The Citizens League is an open membership organization. Suggested dues are $50 for individuals and $75 for families. For more information, please call 612-338-0791.

www.citizensleague.net

League Board approves school completion report

The Citizens League Board of Directors voted to accept the report from the school completion committee at its meeting on June 26.

Committee co-chair **George Latimer** outlined the report for the Board. He emphasized that the committee was surprised at the "depressing" numbers of young people who will not graduate from schools in Minneapolis and St. Paul. The committee examined the causes and the best practices but concluded that, despite external factors, keeping students in school is a matter of student engagement.

The committee recommended that, to succeed in engaging all students, the Minneapolis and Saint Paul school districts need measurable school completion goals, clear rewards and consequences for success or failure, a restructuring of the notion of high school, and improved capacity for taking the steps they need to engage more students in learning.

The Board's biggest concern was follow-up. Calling attention to the problem is important, but the Board emphasized that the League should continue to find ways to leverage systemic change. The first step is finding community partners to engage the issue.

A full story of the new League report will appear in next month's *Minnesota Journal.*

A total of 32 individuals took an active part in the committee. The Committee met 23 times between October 25, 2000 and May 9, 2001. In addition to the co-chairs, **George Latimer** and **Gary Cunningham**, the members of the committee were:

Curt Boganey	**Patrick O'Leary**
William Connelly	**Bharat M. Parekh**
Cheryl Dickson	**David Pence**
Joanne Englund	**Stanley Peskar**
Sandy Hale	**Jack Rossmann**
Gary Joselyn	**Anne Rozga**
Benjamin Kanninen	**Dudley Ruch**
Larry Kelley	**Jim Schneider**
Pradeep Kotamraju	**Hal Schroer**
Tom LaForce	**Alan Silver**
Charlotte Landreau	**Kenneth Stewart**
Todd Lefko	**William Svrluga**
Dick Little	**Tom Swain**
Maxine Mandt	**Dale Swanson**
Malcolm McLean	**Kathleen Vellenga**

*Special thanks to the **Office of Indian Ministry, Macalester College,** and **Powderhorn Community Center** for providing meeting space for the committee.*

Welcome aboard, Michael Raja

Michael Raja has been hired as the newest Program Associate of the Citizens League. He replaces Dave Chadwick and will begin work on August 6.

Michael received a BA in history with a concentration in law and society from Cornell University in 1992 and in 1996 completed a one-year degree in European Politics at Lund University in Sweden. Michael's interest in public policy began as a member of the *Cornell Political Forum,* where he conducted interviews with leading academics on topics ranging from the US economy and electoral system to culture and economic development. At Lund University, he focused on the political integration of the fifteen European Union Member States.

Michael has worked on recycling and pollution prevention grants in Minnesota and has written and researched reports on technology policy issues in the state. In 1999 Michael completed a Master of Public Affairs at the Humphrey Institute with a concentration in economic development.

As a graduate student Michael worked for the Freeman Center for International Economic Policy on agricultural development issues. He remains interested in a broad set of social and economic policy issues.

Michael lives in the Loring neighborhood of Minneapolis and spends his time running, reading, and biking. He is fluent in German and Swedish and can sing several Swedish pop songs.

Hard work hidden

The Citizens League Board of Directors election features a lot of behind the scenes work by two committees.

The Nominating Committee reviews, recommends and recruits candidates for election. This can be an arduous, time consuming task. The committee also ensures that notification of the candidates occurs at least five weeks prior to the election as required by League by-laws. This year the Nominating Committee, chaired by **George Latimer** included **Marty Adams, Andy Brown, Barb Sporlein** and **Jane Vanderpoel.**

The Election Committee takes over after all the ballots are received at the League office. The League office takes on a festive atmosphere as a corps of members new and old catch up with each other and renew acquaintances with League staff members, particularly League receptionist **Gayle Ruther** who supplies the bakery goods, coffee and juice. The 2001 Election Committee was made up of three members from last year's committee, **Larry Kelley, Bill Tarbell** and **Gertrude Ulrich**, previous committee member **Mary Ann McCoy** and committee newcomers **Russ Susag** and **Bob Teetshorn.**

And, of course, none of this would be possible, or necessary, without the response of all the League members who took the time to vote and return their ballots.

Thanks to all who contributed to another Citizens League Board election!