



# Minnesota Journal

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A publication of the Citizens League

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## Value in tax-increment districts rebounds

The amount of Minnesota's tax base set aside through a widely used, but controversial, development financing tool called tax-increment financing (TIF) rebounded for the second straight year, growing by more than five percent in tax year 1996. The growth in TIF value in 1996, the most recent figures available, continued the trend of increasing TIF value that had been broken by a six percent decline in TIF value seen in

by Dana Schroeder

1994. It was the greatest annual percentage growth since 1991.

And while the 1997 Legislature mildly loosened certain TIF restrictions, it also authorized a new tax abatement program intended to reduce TIF usage by offering cities an alternative development tool.

TIF allows communities to "capture" the increased property-tax revenues—the "tax increment"—generated by a development to finance some of the costs of that development. The increased tax revenues are not available for general city expenses or to other taxing districts, like the county or school district. Rather, they are reserved for TIF expenses—such as paying

off bonds to cover expenses of preparing a site for development—for the life of the TIF district, which can range up to 25 years, depending on the type of district involved.

The tax base captured in TIF districts in 1996 amounted to \$213,579,733, or 6.13 percent of the state's total property tax base of nearly \$3.5 billion. As the chart on page 6 shows, this is the lowest percentage of value captured by TIF in the last six years.

(The tax base figures discussed in this article are *tax capacity* values, which are the values used to compute property taxes. Because Minnesota taxes different types of property at different rates, tax capacity

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## Edison asks hiring, funds control in its schools

by Dana Schroeder

*Editor's note: Following are edited excerpts of an informal May 9 conversation of Citizens League members with Benno Schmidt. Schmidt is chairman and CEO of the Edison Project, a private company that opened its first four pilot public schools around the country in 1995. It will open 14 or 15 more schools in the fall, including two new charter schools in Duluth.*

**Q. How does Edison open a school?**

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## State creates new sector in public education

by Ted Kolderie

WCCO-AM used to have a correspondent who covered Wisconsin state government as if it were a prize-fight: "The Governor lands a right to the head; the Speaker counters with a left to the body." You simply could not tell what it was all about.

The reporting may be like that here this summer, as Minnesota state government works toward a decision about K-12 education: Gov. Carlson and the education groups, fighting.

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## Involving citizens in design, evaluation of public services can boost quality, trust

by Janet Dudrow, Lyle Wray and Jody Hauer

First, citizens now expect from public programs the same quality of service to which they have grown accustomed from banks, retailers and countless other consumer businesses. Government officials ignore citizen consumers at their peril.

Second, local governments are

"How are we doing?" In the past, evaluating the quality of public services was mainly an inside job. Public managers and elected officials usually talked to each other, while citizens were given precious little opportunity to say what they thought about the services bought and paid for with their tax dollars.

That pattern is beginning to change—and for good reasons.

increasingly concerned not only about the pragmatics of water service, fire protection and the like, but about broader, "softer" concerns that determine the quality of life in their communities. City officials can determine easily enough how well their fire department is performing by looking at objective data. But for public services that deal with quality-of-life concerns—

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# From NIMBY to RIMBY: Regions and new realities

Bill Dodge, the newly appointed executive director of the National Association of Regional Councils, has a way with concepts. Several years ago, he captured an emerging paradox when he said that our governments are based on localities, states and nations, but our challenges are emerging at the neighborhood, region and international levels. Our structures, in other words, do not match the shape of the challenges coming at us. A key challenge is to find new ways to respond to these realities so that our regions can thrive.

Well, he's at it again. At a Chautauqua forum earlier this month on regionalism, he coined a new acronym: RIMBY—the Region is My Backyard. In essence, we should spend more time building the perception and reality in our regions that we are all in this together and spend less time reacting to the NIMBY—not in my backyard—crowd.

There is a mounting realization around the country that regions are the basic unit of the emerging new economy and that we typically live and work in a region and not within a municipal boundary. We have not taken the next steps to fully recognize the interdependence of core developed areas and suburban areas.

## Viewpoint

by Lyle Wray

The question is, How do we build a stronger sense of RIMBY?—since NIMBY will certainly take care of itself as we deal with new regional realities.

**Build a regional vision.** In the current political world in our region and many others, power is very dispersed, with a more inclusive decision-making structure. This can lead to painfully slow decision-making and to gridlock, if we do not share a vision or key goals that allow us to organize and rally at critical points. Working with a community to crystallize its future vision—its aspirational goals, one might say—is a way to draw out and focus community energy on items needing action.

The Minnesota Milestones process, involving 10,000 Minnesotans a few years back, was a beginning. We probably know some of the pieces of our vision already—such as putting the University of Minnesota back into the very top ranks of public research institutions as a long-term investment in our economy and quality of life—but we need to spend the time to build

broad ownership for key regional goals. Following through on this at a regional level—most likely in a public-private partnership—should be a goal for the next three to five years.

**Forums on new realities.** Massive change is hitting our three major sectors: business, government and the civic and nonprofit sector. More importantly, these massive changes—from business globalization to demographic changes—have significant impacts on how each can and should contribute to the common good. There is some key work to be done in stimulating significant conversations within and across these three sectors about how we deal with significant regional needs. “Preaching to the choir” in a single sector may feel good, but we need to move beyond that to the more challenging and potentially fruitful dialogue around new realities and appropriate responses to them.

**Build informal regional linkages.** Just as we are building neighborhood structures in our two core cities, we need to build regional

linkages, as well. Although the passport control checkpoints between the two core cities have been taken down in recent years, there are still many fracture lines from multiple leadership training programs of Chambers of Commerce to multiple United Ways all working in a single region. We need to start building bridges across the region and across sectors within the region. How about a single Leadership Metro program instead of city-by-city programs? How about a metropolitan United Way approach to welfare changes and coordination with all seven county governments in the region? The list is endless and action is overdue.

We are in a sea of change—accelerating urban growth, accelerating technological change, rapidly changing demographics—that demands that we work on many challenges, such as transportation and the economy, at a regional level. We need to knit together “networks of networks” to work on our challenges in this region. And we need to do it now.

*Lyle Wray is executive director of the Citizens League.*

# Nonprofits must take bolder, unified role in public policy

*Edited excerpts of remarks by Marcia Keller Abner, director of public policy for the Minnesota Council of Nonprofits, to the Citizens League on May 13.*

There are two essentials in a thriving democracy and one is that the gap between the wealthiest and the poorest is narrow and the other is that the literacy gap is small. In this country in those two arenas, we are drifting further and further apart.

What are nonprofits doing about it?

There's a broad spectrum of responses. Some nonprofits are in total denial. They still believe that their work is God's work and that nobody will touch it. Let me tell you, those days are over. It has all been touched.

There are some that are in despair.

There are some that are angry and frustrated. Some are being truly creative and opportunistic in the very best sense of the word.

In order to provide the services they need to provide, nonprofits are going to have to get cranking. They're going to have to look at what's happening and they're going to have to do things differently. They're going to have to anticipate change and they are going to have to meet it.

In the work we are doing, we are going to have to kick into high gear. It is time for nonprofits to assess where they are in this spectrum. We need to do intelligence gathering. We need to know what we need to know to anticipate and move with the changes and to take the opportunities that are there in the best interests of the communi-

ties and the people we serve.

This is a time for strategic assessment and for strategic restructuring.

The nonprofit sector itself has come together in an unprecedented way—as MC<sup>3</sup>—to stand up and say four essential principles:

- We have a high quality of life in Minnesota. We will not let that be eroded. We know that not everyone enjoys that. Everyone should participate in the quality of life in Minnesota.
- Philanthropic giving and churches cannot make up the difference and nonprofits cannot do more with less.
- The nonprofit sector is important. We need to keep it vital and sustainable.

- People who are affected by decisions need to be part of shaping those decisions.

Twenty-seven corporate foundations and private foundations have pooled their money to create the Minnesota Futures Fund, which will over the next two-and-a-half years provide small grants for nonprofits as they look at new ways of delivering services in times of change.

This fund has now raised \$1.275 million in the private sector. As of last night in the Economic Development Committee, the public sector voted a \$750,000 match.

None of this is going to work if nonprofits don't take a bolder and a clearer and a more unified role in public policy work. If we're not at the table, we'll be on the table.

# Editors oppose tax credits, urge education compromise

## On Balance

*“No democratic government can last long without conciliation and compromise.”—S.E. Morison*

**Star Tribune** called (May 21) the special session perhaps “the most unnecessary” of all the special sessions in “Minnesota’s long, litigious legislative history.” It said Gov. Arne Carlson “should concede that the case he’s made for private-school tax breaks has not been sufficiently persuasive.” **St. Paul Pioneer Press** said (May 21) it opposed Carlson’s tax break plan and said Carlson and the Legislature should have fashioned a compromise without “a wasteful special session.” **Duluth News-Tribune** said (May 21) Carlson should accept as a “lost fight” his failure to convince lawmakers and the public of the wisdom of his tax credit plan. It criticized lawmakers for “killing most financial reform efforts” in education. It said (May 29), “If the best and brightest students leave public schools because vouchers or tax credits make that possible, others will be left behind in institutions that lack political clout and resources.” **Fargo Forum** opposed (May 23) Carlson’s initiative. “Competition isn’t the answer. Accountability is. Minnesota taxpayers should demand that more school funding be directed where it belongs—to the student, to the classroom.”

**Pioneer Press** suggested (May 30) a compromise: Redesign the existing tax deduction for private and parochial tuition so the wealthiest receive less or no deduction and more impoverished families receive more. It also sug-

gested that legislators agree to Carlson’s proposed \$10 million in funding for charter schools. **Fergus Falls Daily Journal** said (June 6) the Governor’s plan is “neither radical nor wrongheaded” and that a compromise should include most of the tax credits and deductions the governor is seeking. **Star Tribune** said (June 10) state-sponsored residential schools hold “tremendous potential” for students who are “falling through the cracks in large public schools.” It suggested sponsoring a pilot residential school program as a way to help children most in need.

**Duluth News-Tribune** said (May 13) St. Paul’s contract with Sylvan Learning Centers for remedial reading and math help shows promising results. “[C]ontracting with for-profit firms need not taint a district. The key test of the worth of such arrangements is whether it improves education.” It said (May 20) that the Minnesota Court of Appeals should dismiss the lawsuit filed by the Minnesota Federation of Teachers challenging Duluth’s plans to have the Edison Project operate two charter schools.

**Pioneer Press** called on (May 13) Carlson to provide 11th-hour leadership to ensure meaningful property tax reforms. Legislators should “tell many homeowners they aren’t paying their fair share of property taxes.” It praised (May 21) the legislature’s decision to reduce property taxes on commercial-industrial and apartment taxes. **Mankato Free Press** said (June 3) the property tax bill “isn’t an overhaul, but it’s a decent start.” **St. Cloud Times** said (June 3), “Minnesota taxpayers hoping for a new ‘Minnesota Miracle’ in 1997 instead got the Minnesota Mirage.” It said the \$500 million that eventually went to a rebate to homeowners could have provided a cushion to work with to give people time to adjust to real structural reform.

**Duluth News-Tribune** said (May 24) the latest legislative reforms to MinnesotaCare have made the program “a pretty good model for how states can assure health care for many residents.”

**Red Wing Republican Eagle** called (May 27) the legislative session “one of the most civil in recent years, but...also one of the most

successful.” It called the lack of resolution on a Twins stadium “the biggest disappointment of the session.” **West Central Tribune (Willmar)** said (May 22) the 1997 session “speaks to the need for a unicameral legislature in Minnesota.” It said the two-house system causes “a lack of responsibility and accountability.” It said the public is ill-served by the concentration of power into a 10-member conference committee that decides the final shape of a bill. It said (May 12) a unicameral legislature would “reduce the opportunities for manipulation of the political process by special interests.” **Princeton Union-Eagle** agreed (May 15). It called the bicameral system “cumbersome, confusing, expensive and inefficient.”

**Free Press** endorsed (May 16) plans for a rural policy center at Mankato State University. It said (June 10) that perhaps the biggest obstacle to long-term economic growth in rural Minnesota is “the failure to keep young workers and young families in outstate Minnesota.” **St. Cloud Times** said (May 18) small towns and farming communities face a number of problems—crime, loss of community, disappearance of farms, alcohol and drug use among young people—that must be recognized before they can be solved.

## Edison

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**Schmidt:** When we take over a school, we ask the districts for the right of mutual selection with respect to the principal and teachers. We only want teachers who apply, who want to teach in the Edison schools. We want the right to pick the ones whom we believe will work out best. We ask for the right, as well, to ask teachers to leave or to transfer. Our contracts are always careful to protect the full contractual rights and job security of teachers and others from the district.

Our schools are choice schools as far as parents are concerned; no parent ever has to enroll a child.

Our typical school year for kids goes about 205 days. The national average is 178. Minnesota is 170? Let me tell you, 35 days makes a difference. Our school day is about two hours longer.

The typical American public school has about 1,080 hours a year. We have 1,480. Our kids have the equivalent of about four more years of school by the time they get to the eighth grade.

**Q. Are any of your teachers hired from outside?**

**Schmidt:** We always ask in our contracts for the right to hire from outside. We always assure the district we’re not threatening anybody’s job security. We’ll never hire more new teachers than the district has openings. To date

we’ve been very fortunate in the large number of teachers, both from the districts we’re in and from outside, that have applied to work in our schools. We’ve actually had a lot of flexibility in how many district folks we take as against new people coming in.

**Q. Do you differentiate in paying the staff?**

**Schmidt:** Sometimes our compensation contracts with staff are negotiated with unions; sometimes we’re free of that and we just set the compensation. On average, the teachers in our school make about 12 percent more.

**Q. Do you set your compensation by anything other than seniority?**

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Edison

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**Schmidt:** Yes, we have incentive compensation. In all of our promotions and hiring, experience is something we take into account, but there's no seniority schedule.

**Q. Have you seen patterns in terms of teachers that you have selected?**

**Schmidt:** We have some biases in whom we select. The main selection bias comes from the teachers. We tend to get more young teachers.

**Q. Why is that?**

**Schmidt:** It may be that younger teachers are slightly more ready to try something new. There are risks in this. This is new. It's controversial in some ways.

We give all our teachers laptops on the first day of their training. All our schools are networked. We put computers in the homes of all our families, starting in first grade. We give them the phone line if the family is so poor that they don't have a phone line. In some of the communities where we are, almost 25 percent of the student population doesn't have a phone line.

We expect the teachers to figure this out. A lot of teachers are so phobic about that.

Our compensation system and promotion policies are based on performance. Most public school teachers have never had anything like that.

We get more than our share of Type A, driven, hard-driving teachers. We don't get many who apply who are marking time. A correct criticism of Edison may be that we're creaming the better teachers.

Arguably, we're getting more than our share of teachers who have an urge to excel and perform. Fairly typically we get 10 applications for each position. We had almost 3,000 applications for 25 places in Boston.

**Q. What do the teachers say about teaching in these kinds of schools?**

**Schmidt:** What they say is that it's

phenomenal to work with the best curriculum they've ever seen. The teachers know they're being given curricular instructional material that research says has the best chance of really reaching the kids.

I can't tell you how often teachers have said when they get the laptops, "Gee, nobody ever even gave me a pencil."

We provide all our teachers with a minimum of five weeks full-time professional development training before our schools open. The senior teachers get 10 weeks. Most public schools give their teachers less training than the fellows who handle the bags over in the hotel lobby.

They're part of a highly professional environment. They get more pay. If we're successful, they're part of a very, very rapidly growing enterprise. We've had teachers in our Wichita schools who've moved into positions in our Miami schools.

Part of what we do with our longer school day is try to set up a schedule so that each teacher gets two hours a day free of any responsibilities to engage in lesson preparation or professional development activities with colleagues.

From an economic point of view, the added time we're asking them to work is reasonably well compensated. A lot of teachers are seriously demoralized by their current working arrangements, quite apart from financial compensation, and would like to work in a school

where the gears mesh.

**Q. How does this work out economically for Edison?**

**Schmidt:** We ask to receive as our per pupil revenue as close as possible to 100 percent of everything the district spends. The Coopers and Lybrand study of all 15,000 public school systems in the country concluded that the average spent in the school for instruction is only about 60 percent of total district spending.

We try to reserve enough to be able to buy all the technology and pay the teachers and support the 65 people in our central headquarters operation. There are some things we spend less money on. We don't have as many specialists.

There are various ways you can take that same amount of money and make it work and make a modest profit. If we're able to fulfill a fairly large number of Edison partnerships around the country, we will make it a successful business.

**Q. Duluth has had six superintendents in 10 years. How do you go in there and presume to be successful?**

**Schmidt:** We try to make our parents militant, armed and dangerous. When parents get really into the defense of a great school, they have a certain amount of political power. One reason we've scattered our schools around in different states is that we know there are probably no politics in America that are more treacherous or harder to control

than public school politics. But most of the time if the parents are on our side, that's a force to be reckoned with.

**Q. How do you see the whole movement going of Wall Street investing in education?**

**Schmidt:** There's a tremendous hunger in the United States for businesses that do a good job in education, whether it's teaching middle-class kids how to do better on the SAT—Kaplan, for instance; whether it's remedial instruction for disadvantaged kids—Sylvan; whether it's teaching kids English who speak no English—Sylvan does some of that. All across a whole wide range of companies that are doing educationally related things business is booming.

The harder, different question is whether something may happen in the core activity of schools—not just public schools, by the way. Private schools are just as anachronistic as public schools. They're still 19th century. They have a lot of good people. They do a lot of things well. But they are horse and buggy institutions.

If Edison looks like it's working about two years my guess is you'll see some very big, very capable, very well-capitalized companies come in and say, Can we do this better at the same or lower price?

I think that'll be healthy so long as school boards exercise a high degree of real responsibility. Since I believe the public schools are literally stultified by this bureaucratic monopoly structure, my own opinion is that bringing in competition and choice may make schools—what are now the most stultified, anachronistic institutions in our whole society—some of the most vital and innovative and interesting institutions.

*Dana Schroeder is editor of the Minnesota Journal. A more complete version of the conversation with Schmidt will be available at the Citizens League's World Wide Web site: <http://freenet.msp.mn.us/ip/pol/citizen>.*

Evaluation

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perception of safety, for example, or the appeal of recreational opportunities—it's much more difficult to define and measure good performance objectively, let alone figure out how to improve it. It's essential for citizens to be involved in setting the direction for these public services and evaluating their performance.

**What is important to citizens?** Over the past several decades, the private sector has dramatically boosted its attention to what customers want. Businesses today know they can't assume what people like, they have to ask—systematically and often. The market research tools businesses use, such as focus group interviews, surveys and even informal listening by salespeople, have become increasingly sophisticated.

Public sector managers should take a lesson from businesses and use similar techniques to get to know citizens as customers of public services. Knowing—not guessing—that customers notice, like and dislike in their brief interactions with public services can give important clues to how service could be improved.

Case in point: Managers of one agency spent a great deal of money upgrading its computer system in order to reduce by a few seconds the computer response time at public service desks. Had they asked, the public managers might have discovered that customers were satisfied enough with the wait times but were confused by the building layout and put off by the harried staff. The managers might have seen a bigger improvement in customer satisfaction—and at a far lower cost than the computer upgrade—had they recruited a volunteer or two to greet customers with a smile, a cookie and helpful directions.

Public service managers also should ask beforehand what service customers or potential users want in a new or expanded service. Consider the cautionary tale of one parks department that had developed a very large and ambitious capital improvement plan. The price tag—

for interpretive centers, wave pools and many other amenities—totaled several hundred million dollars. When the parks commission invited groups of citizens to look at models of the project and asked detailed questions about what they valued about parks, the message was unexpected. People said plainly what they wanted: clean restrooms and better signs on park sites. They showed little interest in the costly capital projects.

Had this park board decided on its own to make the capital improvements, it might well have found no improvement in public satisfaction with the parks. After an expenditure of several hundred million dollars, such a result would have been embarrassing, to say the least. The lesson: It makes good sense to ask citizens to define value in public services, particularly before making major investments.

Citizens aren't just consumers of public services, however. Citizens can and should play an active role in delivering important services—by "adopting a highway" or tutoring a child, for instance—that make communities pleasant, attractive and healthy places to be. When it comes to improving a community's quality of life, government cannot do it alone; productively engaging volunteers and self-help movements as partners with government is crucial to successful improvement efforts.

Citizens also can be partners in the performance measurement task itself. With appropriate training, citizens can help evaluate the quality of services as diverse as street maintenance and libraries. Tapping volunteers in this way helps control the costs of evaluation. It also reinforces an ethic of citizenship and educates the public about how government is working to improve service quality.

**Reweaving the social fabric.** That leads to the other, more compelling reason to get citizens involved in performance measurement: Doing so can help rebuild citizens' deeply eroded trust and confidence in government and cultivate the good habits of citizenship.

Citizens trust government when they believe it is doing the right things most of the time—and doing those things right. When it comes

to quality-of-life concerns, especially, citizens are more likely to believe that government is "on track" if they have helped decide what it ought to do in their community. When public officials respond to citizens' feedback by making the suggested improvements, they send the public a message: government can be trusted.

A key starting point is to hear from citizens what is important to them and what they think a desirable future for their community should look like. Public discussions that clarify citizens' values, develop a shared vision of the community's future and help forge a consensus about top-priority actions for government provide a sound foundation for quality-of-life improvement efforts. The vision and priorities can help guide public-sector budget decisions.

Public agencies should use public discussions like these as a starting point for a performance measurement system based on citizen concerns and interests. And the results of these evaluations must be communicated to citizens in clear, meaningful terms: How does the quality of the public service stack up against what the community said it wanted and against past measures? How does performance compare with the promises government made? How does the cost of these results compare with the costs in other communities? Is the community moving closer to the vision of its desired quality of life? What changes did the local government make to improve its services, based on the results of the performance measurement? Answers to these questions not only reveal where change is needed to improve service delivery, but also can help citizens set reasonable expectations for services.

Here in Minnesota, the Minnesota Milestones process has involved more than 10,000 citizens in identifying goals and setting priorities enhance and maintain the state's quality of life. The Milestones process has been used to guide state department performance reports and budgets submitted to



the Legislature. However, it has not been picked up as a goals framework by local governments or the nonprofit sector.

Some performance measurement information will be more meaningful to citizens when it is reported for small, local communities or neighborhoods. For instance, the city of Portland, Oregon, reports on quality-of-life measures at the neighborhood level. The Citizens League has often recommended that each school in Minnesota provide a "value for spending" report to parents. When citizens see how public service efforts directly affect their own lives, they are better able to judge whether they are getting value for their tax dollars.

Involving citizens in performance measurement can help rebuild citizens' sense of responsibility for their communities. Asking citizens for consumer feedback about the quality of public services can be an attractive "hook" to get people connected with their local government. But public officials must view citizens as more than just consumers. And citizens must view government as more than a purveyor of convenient services. That's why it's important ultimately to engage citizens in the difficult work of defining the public interest and helping—personally—to achieve it.

*Janet Dudrow is a research associate with the Citizens League, Jody Hauer is coordinator of best practices reviews at the Office of the Legislative Auditor and Lyle Wray is executive director of the Citizens League and former administrator of Dakota County. This article is adapted from one by Hauer and Wray that will appear in the upcoming issue of the professional journal Public Management.*



Education

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So it's maybe a good time to step back from the issue of the moment—Carlson's proposed tax credit—so we can see clearly the large change Minnesota is slowly, steadily introducing into its system of public education.

It's important first to see what we did *not* do. After the *Nation At Risk* report in 1983, Minnesota did not go with the popular national strategy of improvement within the existing district system: tests for teachers, tests for kids, longer day and year, etc. Educators thought "those marvelous Minnesota schools" required no improvement; reformers preferred instead to create a dynamic and accountable sector within public education. This sector, which has been growing since 1985, appears as "Non-District-Owned Schools" under the



TIF

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is expressed as a proportion of market value, depending on a property's use. If an assessor determined that a commercial property, for example, had a market value of \$200,000, its tax capacity value for taxes payable in 1996 would have been \$7,600—three percent of the first \$100,000 of market value and 4.6 percent of the remaining \$100,000. So tax base, or tax capacity, values are only a portion of the actual market values of the state's property.)

TIF value grew rapidly during the 1980s, with an average annual

PUBLIC EDUCATION		PRIVATE EDUCATION
<b>District-Owned Schools</b> Neighborhood schools Magnet schools Open enrollment to schools in other districts	<b>Non-District-Owned Schools</b> Alternative schools Contracted schools Charter schools Postsecondary Options	<b>Nonpublic Schools</b> Independent schools Parochial schools Home schools
<b>Principles</b> <ul style="list-style-type: none"><li>• No charging tuition</li><li>• No teaching religion</li><li>• Open admission</li><li>• Accountable to public authority for student performance</li></ul>		<b>Principles</b> <ul style="list-style-type: none"><li>• OK to charge tuition</li><li>• OK to teach religion</li><li>• May select students</li><li>• Not accountable to public authority for student performance</li></ul>

"Public Education" heading in the accompanying graphic. So:

- In 1985 Gov. Rudy Perpich and Rep. Connie Levi started the state into *public-school* choice, with the option for kids to finish high school in college.
- By 1987 at-risk students could choose their learning program.
- By 1989 *all* students had the right to transfer to another district.

- In 1991 Gov. Carlson signed the nation's first "charter school" law, making it possible for someone other than the district to create autonomous and accountable public schools for kids to choose among *where they live*.
- By 1995 the policy agenda had moved to discussions about making (district) schools the unit

of improvement and about providing choice for boards of education (the opportunity to buy programs to improve student learning).

This strategy—of creating opportunities for students that create incentives for districts—is driven by the growing concern both about equity and about performance.

The district system really is a very inequitable system. People with money can buy their way out, by moving to another district or to private school. People without money cannot; they are stuck with an organization (the district) whose success in no significant way depends on whether their children learn.

This failure of the state in system design—giving the district no incentive to ensure that students learn—is at the root of the failure showing up now in Minneapolis and elsewhere. Student learning is hard work under the best of circumstances. Where performance is

the goal, it makes no basic sense to assure organizations they will survive and get paid, whether or not they succeed with the job they have been given to do.

Despite intense resistance courageous legislators took some further actions in '97 to make improved performance *necessary* for schools and districts. These are now on hold while the debate over the tax credit plays out. But state policy is likely to continue along this line.

There simply is no alternative to a policy focused on equity and on performance, creating opportunities for students that create incentives for districts. Now that the test results make clear how widely the district system has been tolerating student failure, the old game of trading money for promises is blown.

Ted Kolderie is contributing editor of the Minnesota Journal.

growth rate of more than 23 percent between 1984 and 1989. Following legislative restrictions on the use of TIF, growth rates slowed to about 10 percent in 1991, three percent in 1992 and two percent in 1993. A rebound in commercial-industrial values and the legislative easing of state aid reduction provisions in 1995 and 1996 have led to a moderate growth in value captured by TIF districts.

Joel Michael of the Minnesota House Research Department said state projections show that TIF values will "grow quite a bit" in the next few years. But an antidote to that growth will be the reduction, passed this legislative session, in the rates at which commercial-industrial (C-I) property is valued

for tax purposes. Under the new rates, which will go into effect for taxes payable in 1998, the tax capacity of a C-I property with a market value of \$200,000 will be \$6,050, compared with \$7,600 currently.

Thus, even though the market value in TIF districts is projected to grow, the lower tax capacity rates will hold down the growth in TIF tax base. Michael said House Research projections are that the growth in market value in TIF districts and the lowering of C-I tax base rates will net out for the 1998 tax year.

The number of TIF districts with captured value grew by four percent in 1996—from 1,338 to 1,397—the second year of growth

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TIF

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state, but only 1,397 of the districts "ured some tax base value.

Communities in the seven-county metro area contained a disproportionate share of tax base captured in TIF districts. While the metro area contained 62 percent of the state's tax base, it contained 76 percent of the tax base captured in TIF districts. Metro area TIF districts, on average, are much larger than nonmetro districts, with metro districts capturing an average of 5.5 times the value of nonmetro districts. The average metro-area TIF districted contained \$318,789 of captured tax base, while the average nonmetro TIF district contained \$57,494.

Forty-nine of the 370 communities with TIF districts had \$1 million or more of their 1996 tax base captured in TIF districts. All but 13 of these communities are in the metro area and 15 of them are located in Hennepin County. The five cities with the highest TIF tax base were **Minneapolis**, \$41.1 million; **St. Paul**, \$15.1 million; **St. Louis Park**, \$9.5 million; **Duluth**, \$6.8 million; and **Roseville**, \$5.6 million. The top four cities were the same as in 1995, but Roseville replaced Edina as the fifth highest this year.

Although TIF districts in Greater Minnesota tend to have less value, a number of nonmetro communities have a large percentage of their tax base tied up in TIF districts. In 1996, 107 communities had more than 10 percent of their tax base captured in TIF districts—75 in Greater Minnesota and 32 in the metro area. That's one more than surpassed the 10 percent mark in 1995.

The five communities with the highest percentage of tax base captured in TIF districts were **Irondale Township** (Crow Wing County),

55.4 percent; **Dundas** 38.3 percent; **International Falls**, 35.1 percent; **Chaska**, 33.4 percent; and **Young America**, 29.2 percent. **Minneapolis** had 12.8 percent of its tax base captured in TIF districts; **St. Paul** had 6.0 percent.

The TIF district in Irondale Township encompasses a wood products plant built near the cities of Crosby and Deerwood. The district has a captured value of \$498,970, compared to the township's total tax base of \$900,168. Net TIF taxes amounted to \$484,290 in 1996.

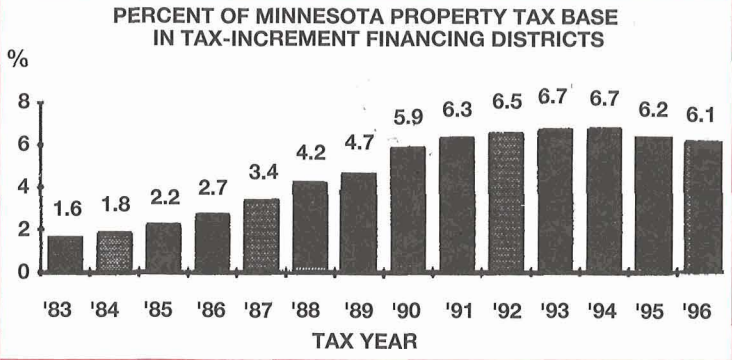
As a whole, the seven-county metro area had 7.5 percent of its tax base captured in TIF districts in 1996, compared to 3.9 percent in Greater Minnesota. Tax base captured in TIF districts grew by 4.5 percent in the metro area and by 6.9 percent in Greater Minnesota.

The net captured taxes in TIF districts amounted to \$275.1 million in 1996—\$213.3 million in the metro area and \$61.7 million non-metro.

Net TIF taxes made up just 6.1 percent of the property taxes levied by all taxing jurisdictions in the state in 1996. But TIF taxes—most dedicated to paying off costs of redevelopment, but some being used to pay for general public improvements and community projects—are an important stream of revenue when measured against other property tax revenues of cities and townships, the jurisdictions that use TIF. Net TIF taxes were 36 percent as high as property taxes levied in 1996 by all cities and townships across the state for *all other purposes*.

**Abatement alternative**

Concerns over the perceived misuse or overuse of TIF prompted the Legislature to enact restrictions on the program in 1988, 1989, 1990 and 1995 and to create a tax abatement program in 1997 as an alternative to TIF. But in 1993, 1995, 1996 and 1997 the Legislature



showed its conflicting feelings about TIF by also softening some of the restrictions.

ernment units, like counties, school districts and special districts—and, indirectly, the state's aid payments.

According to Michael, the 1997 TIF changes:

- Authorized small freestanding cities (5,000 population or less and located at least 10 miles from a city of 10,000 population or more) to use TIF for new office and retail developments where no redevelopment is needed.
- More than doubled the allowable life of contaminated soil TIF districts.

After an unsuccessful attempt in 1996, Rep. Ron Abrams (R-Minnetonka)—who has been concerned about excesses in TIF—got a tax abatement program passed this year as an alternative to TIF. Under the abatement program, developers pay their own expenses, rather than expecting the city to finance development costs with bonds. Then cities—and counties or other units of government, if they choose—could forgive taxes on the increased value of the development for a certain time period. School districts can abate half their taxes under the program, but local taxpayers—not the state—must pay for the abatement.

The key difference is that each unit of government makes its own decision on whether to abate taxes; with TIF, city governments make the decision to create a TIF district, which affects the revenue stream of all the other overlapping gov-

One ongoing concern is the affect of TIF on state school aid payments. Michael said the state will end up paying an additional \$112 million in state school aid in 1997 to offset reduced property tax revenues to school districts that lose tax base to TIF districts. In 1990 the Legislature required that state aid to local governments be reduced for post-1990 TIF districts to partially offset the state's additional school aid costs. In tax year 1997 state aid payments will be reduced by \$2.4 million under this provision.

House Research's Michael said the abatement program will give legislators an alternative to suggest to local governments when they ask for expansions of TIF or for authorization for special TIF projects.

Don Diddams, consultant and lobbyist on tax issues for the Association of Minnesota Counties, said while counties prefer the accountability improvements of the abatement approach, "it's not the complete solution." He foresees procedural difficulties in getting the various jurisdictions to sign off on granting abatements and difficulty in selling bonds to provide upfront incentives to be paid off with abatements. "My guess is some hitches will have to be worked out," he said.

Dana Schroeder is editor of the Minnesota Journal.

TAX-INCREMENT FINANCING, TAXES PAYABLE 1996								
	'96 TIF captured tax capacity	% change over '95	'96 net TIF tax	% change over '95	No. of TIF districts*	% change over '95	'96 total tax capacity	% change over '95
Metro area	\$162,582,412	4.51%	\$213,338,711	3.62%	510	0.79%	\$2,175,672,195	5.66%
Statewide	50,997,321	6.86	61,714,760	4.97	887	6.61	1,308,508,086	6.81
	213,579,733	5.06	275,053,471	3.92	1,397	4.41	3,484,180,281	6.09

\*Includes only those districts with captured value. There are an estimated 1,671 certified TIF districts in the state, including those with and without captured value.

SOURCES: Minnesota Dept. of Revenue, State Auditor's Office



# Minnesota ranks sixth for combined effective tax rates

**Tax tidbits:** Minnesota ranks sixth nationally in a comparison of 1997 effective tax rates for all state, local and federal taxes combined, according to the Washington, D.C.,-based Tax Foundation. Minnesotans pay an average of 36.34 percent of their incomes in taxes, compared with the U.S. average of 35.15 percent.

Minnesota's state and local tax burden continues to be more equitably distributed among taxpayers than in most states, according to the Minnesota Department of Revenue's 1997 tax incidence report. (The report uses 1994 income and tax data to analyze who bears the ultimate burden of each type of tax.)

Effective tax rates ranged from 12.3 percent for Minnesotans having annual incomes of \$6,384 to \$9,881 to 13.2 percent for those with incomes between \$25,421 and \$32,108 to 12.6 for the highest income group—those with annual incomes of \$70,567 and above. —*Janet Dudrow.*

**The University of Minnesota's** graduate research programs are widely heralded for their capacity to spark economic development in the region and state. But the U's research machine is itself quite a contribution to the local economy.

According to the Office of Research and Technology Transfer, last year the U spent \$304 million in sponsored research, training and public service expenditures—a four percent increase from the 1995 level of \$293 million.

The federal government picks up the largest portion of the tab, at \$223 million—mostly from the National Institutes of Health (\$122 million) and the National Science Foundation (\$30 million).

The fastest growing source of research funds, however, is private sources, like business and industry, associations, foundations and individuals. In 1983, private sources forked over about \$5 million—less than five percent of all research expenditures. By 1996, at almost \$58 million, private sources covered close to 20 percent of all research expenditures. —*Ron Wirtz.*

**Minneapolis** is now going to build

## Take Note

*Public policy shorts for long summer days.*

some new schools. Last year Saint Paul opened its new Arlington High School. If you're scratching your head, wondering, "When did the voters approve that?", the answer is: They don't have to, any more. Quietly over the last 10 years the two districts got the requirements for voter approval removed for most everything they want to do with buildings. —*Ted Kolderie.*

**Congress and the President** have finally put partisan bickering aside and passed a flood relief bill. One of the unrelated amendments that had been holding he bill up was an item prohibiting the Bureau of the Census from using sampling techniques in its year 2000 count. Republicans backed off and the final version of the bill simply directs the government to study the use of sampling.

Still, the Census appears headed for trouble. The U.S. General Accounting Office (GAO) earlier put the 2000 Census on its list of federal activities that are at risk of failure (*Regional Reporter*, March 1997). The GAO warned that the inability of Congress and the Census Bureau to agree on the methods that will be used may lead to an unsatisfactory and costly census.

Statistical whizzes—including the National Academy of Sciences—have been pressing Congress and the Bureau to use sampling and statistical techniques to improve the accuracy of the Census. A recent report from the Academy said that the decline of public cooperation has "contributed to serious undercounts of the population, despite increasingly intensive and expensive efforts to find everyone."

House members noted that the risk of undercount is high not only in urban and immigrant neighborhoods, but in ritzy "gated" communities, where access is limited.

At a February hearing of the House Governmental Reform and Oversight Committee, Rep. Carolyn B. Maloney (D-NY), said that if Congress underfunds the Census and if sampling techniques aren't used,

the 2000 count could be the worst this century. —*J.D.*

**Right on the money:** Add to the list another study questioning the use of the home mortgage interest deduction (MID) as a tool for encouraging home ownership. A study by the National Housing Institute indicates that the MID increasingly goes to well-to-do households.

According to the study, almost 80 percent of all households (based on tax returns) earning more than \$100,000 claimed the deduction in 1995. Despite making up just 21 percent of all households claiming the MID, these households took home half (\$29 billion) of this federal tax expenditure. Those earning more than \$200,000—five percent of all MID filers—took home more than 20 percent of the tax expenditure.

By contrast, those households making \$50,000 or less make up three-fourths of all households, but only eight percent of them claimed the MID credit on their 1995 tax returns—a little more than one-fourth of those taking the deduction. Their total benefit was only about \$6 billion, about 10 percent of total MID tax expenditure. —*R.W.*

**It came** in the late hours of the '97 legislative session and went quickly in a veto by Gov. Arne Carlson, but note should be taken that the Legislature has now, for the first time, given its approval to the election of the body responsible for policy for

the Twin Cities area: the Metropolitan Council. As an editorial noted: It is an issue that will not go away. —*T.K.*

**The Citizens League** of Greater Cleveland has just released its newest "Rating the Region" report, which compares the Greater Cleveland area with 25 other U.S. urban regions, including the Twin Cities.

Among the intriguing findings: The Twin Cities ranked first among the 25 regions in the percentage of the population registered to vote—with a whopping 95.6 percent.

But actual voting patterns tell a slightly different story. The percentage of Minnesota's registered voters who voted in the 1992 general election drops to 75.3 percent, or 19th in the rankings.

Detroit and Seattle had virtually identical net participation rates, with 61.4 percent of eligible adults voting in 1992. But they got there by very different routes: In Detroit, 88.3 percent of eligible adults were registered to vote, but only 69.6 percent of those registered voted in 1992. In Seattle, fewer eligible adults registered (74.2 percent) but a greater share of those registered actually voted (82.7 percent).

Are the voters in Detroit more representative of the Detroit community? Are the voters in Seattle more informed?

And the hardest question: Which community ended up with better leaders? —*J.D.*

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

**Minnesota Journal  
Citizens League  
Suite 500  
708 S. Third St.  
Minneapolis, MN 55415**

PERIODICALS  
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MINNESOTA



# Citizens League Matters

June 24, 1997

News for Citizens League Members

## Welcome New and Returning Members

Marcia Keller Avner  
Margaret M. Bau  
Loren Boyum  
Sherry Butcher-  
Youngmans  
David Christianson  
Elaine Collison  
Mary Lou Dresbach  
Philip C. Eckhert  
David Erickson  
Jeffrey Hertzberg  
Deborah Huskins  
Sarah A. Kraabel  
Dennis Kraft  
Linda Lindquist  
Michele A. Melton  
Charles Mundale  
Carole Mae Olson  
Robert J. Orth  
Jane Ranum  
Annemarie Robertson  
Barbara Sporlein  
Martha Van De Ven

## Citizens League

708 South 3rd St. Suite 500  
Minneapolis, MN 55415  
Phone: 338-0791 Fax: 337-5919  
citizen@epx.cis.umn.edu  
<http://freenet.msp.mn.us/ip/pol/citizen>

*The Citizens League promotes the public interest in Minnesota by involving citizens in identifying and framing critical public policy choices, forging recommendations and advocating their adoption. Suggested dues for membership are \$50 for individuals and \$75 for families.*

## New League study committee focuses on the University of Minnesota

The University of Minnesota is one of the state's most valuable assets. There is concern, however, that the U's research and graduate education programs are declining.

National reputational rankings have shown that the University's graduate research programs have collectively declined over the last decade and a half.

For this reason, at its May meeting the Board of Directors unanimously approved a new committee to investigate ways of putting the University of Minnesota among the nation's top ten public research universities.

This topic stems partially from the report, *Compete Globally, Thrive Locally*, (1996), which stressed that a stronger U of M was critical to the state's long-term health and competitiveness in a global economy.

The arrival of Mark Yudof as the U's new president also gives the Citizens League a unique opportunity to offer constructive suggestions to President Yudof, the Legislature and other leaders on the measures needed to improve the national standing of Minnesota's flagship research university.

The committee will be co-chaired by current League Board member Jane Vanderpoel, research consultant for House DFL Caucus Research, and past president Carl (Buzz) Cummins III, an attorney with the Workers' Compensation Reinsurance Association and former member of the Higher Education Coordinating Board.

### Committee Charge

The committee will concentrate on these questions:

- What obstacles prevent the U of M from being one of the top ten research universities in the country? How can those obstacles be overcome?
- What support structure is necessary for the U of M to improve its graduate research programs and facilitate greater economic development in the state?

### Committee Process

The League has a portfolio of higher education policies from previous reports. For this reason, the new committee will follow an "action agenda" format, which will use previous League positions as a starting point for

the committee's deliberations. Therefore, certain policy positions — like access and institutional focus — will be established from the first meeting, and the final report will look for value-added recommendations from this starting point.

The committee is expected to begin in mid-July, with a completion time of 3-4 months. Due to the short time frame, the committee roster will be capped at 30, half of whom will be hand-picked by the Board.

People interested in serving on the committee should see the application form on the back of this page. Applications for committee membership are due at the Citizens League office by Monday, June 30.

**See reverse  
side of this  
page for  
committee  
membership  
policy and a  
signup form.  
The signup  
deadline is  
June 30.**

# Committee policy: Board seeking generalists

One benefit of Citizens League membership is the opportunity to participate on policy committees.

Much of the League's reputation is based on committee reports. The quality of a committee report depends on the thoughtfulness and competence of committee members who make difficult decisions potentially affecting many Minnesotans.

Past experience shows the best committees are made up mostly of generalists, that is:

- persons without prior involvement in the topic;
  - persons with the interests of an ordinary citizen in the outcome of the study;
  - persons who would not be disproportionately affected by the study's outcome.
- Most committees are formed through voluntary application. This, however, can sometimes result in a committee with too many members who have a special interest in the topic being studied, such as:
- voluntary activists;
  - paid lobbyists;
  - persons whose employment might be affected;
  - persons whose living

environment would be affected.

While persons involved in the topic make important contributions to the study, too many persons with special interests might compromise the process and possibly the outcome. For these reasons, the Board encourages:

- committee membership by persons uninvolved in the area being studied, who are willing to listen to all the facts, who are willing to ask difficult questions, and are open to learning about new ideas;
- persons with special interests in the topic to partici-

pate in the process as committee resource guests or committee correspondents rather than as committee members.

The Board of Directors prefers to form all committees through voluntary applications. In the event voluntary application does not produce a balanced committee, the Board may:

- limit participation by persons with special interest;
- require supplemental recruitment to produce a committee with more generalists;
- appoint members to the committee.

## Committee Signup: U of M in the top ten

**To participate in the League's committee on the University of Minnesota, please complete this form and return it by June 30, 1997 to the Citizens League, 708 S. 3rd St., #500, Minneapolis, MN 55415, or fax it to (612) 337-5919.**

*Due to the short timetable of the committee, the roster to this committee is being capped. If the number of applications exceeds available seats on the committee, the Citizens League will randomly select members for participation from available applications.*

### Please check one:

- ☐ I would like to apply for membership to the committee (no fee; CL membership required).
- ☐ Instead of applying for committee membership, I would like to be a *correspondent* to the committee. (Correspondents receive notices and minutes of all committee meetings, and are welcome to attend, but are not voting members of the committee. The fee for correspondents is \$15 for Citizens League members, and \$30 for non-members). Enclosed is a check to the Citizens League for \$\_\_\_\_\_.

Name \_\_\_\_\_

Home address \_\_\_\_\_

City, State, Zip \_\_\_\_\_

Home phone \_\_\_\_\_

Occupation \_\_\_\_\_

Employer \_\_\_\_\_

Work Address \_\_\_\_\_

City, State, Zip \_\_\_\_\_

Work phone \_\_\_\_\_ Work fax \_\_\_\_\_

### Please circle preferred mailing address.

The Citizens League policy on committee membership requires that committees be made up predominantly of generalists who do not have prior involvement in the topic or a professional interest in the outcome of the study. Please specify how you are or have been involved with the U of M or higher education policy through your occupation, or personal interest. ***The Board of Directors requires this information to be provided as part of your application.***

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