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TIF districts increasing, despite debate over use

by Dana Schroeder

Use of tax-increment financing (TIF)—a financing tool for attracting development or redevelopment—continues to grow in Minnesota, despite recent discussion in several cities about the proper amount of its use and whether the public benefits gained from development justify the subsidies to businesses paid through TIF districts.

The number of districts grew at a healthy pace statewide in tax year 1999, while the number of communities using TIF increased by a handful. While the number of districts was growing, the amount of tax base "captured" by TIF districts—or set aside to pay development costs—declined statewide and in the nonmetro communities, but grew in the seven-county metro area in 1999 (the most recent data available). The uneven patterns of growth and decline are likely due to a legislative change which reduces the way commercial-industrial (C-I) property is valued for taxation mixed with the strong metro economy's effect on C-I values.

These are some of the findings of the Citizens League's annual analysis of TIF use in Minnesota.

Both the number of communities using TIF and the number of TIF districts have grown every year since 1986. The number of TIF districts with "captured value"—tax base set aside to pay development costs—grew by 133 to 1750 in 1999, an increase of 8.2 percent, while the number of communities with TIF districts grew by only five this year. As the chart on page 2 shows, the number of TIF districts has grown at a far faster rate than the number of communities using TIF.

The tax base captured in TIF districts in 1999 amounted to $222,856,233, or 6.19 percent of the state's total property tax base of more than $3.6 billion. This is about the same as the 1998 percentage (6.23 percent), but lower than the peak of 6.7 percent reached in 1993 and 1994.

Mix of decline, growth in TIF tax base

The amount of tax base set aside in TIF declined for the second year in a row in 1999, dropping by 1.4 percent. TIF captured tax base declined by nearly 12 percent in the nonmetro area, but grew by 1.6 percent in the metro area, as Tables 1 and 2 show.

Statewide, the market value of all types of property grew at a healthy pace—7.5 percent—from $200.8 billion in 1998 to $215.9 billion in 1999. But the Legislature reduced the rates at which C-I and some other types of property are valued for taxation. So the taxable value, or tax capacity, of the state's property declined by 0.80 percent, even as its market value was growing. Both the metro and nonmetro areas experienced a decline in total tax base between 1998 and 1999.

The change in taxable value of C-I property, which would have the largest effect on TIF value, was particularly large. For example, a commercial building with a market value in both 1998 and 1999 of $1 million would decline in taxable value from $38,050 in 1998 to $33,425 in 1999, or 12.2 percent.

The growth in the metro area TIF captured tax base is likely due both to a growing number of TIF districts and strong metro growth in C-I market values.

The drop in TIF captured value experienced by a number of cities has had some state and local officials concerned that some TIF districts might not be able to meet their scheduled bond payments, since existing projects were based on the valuation rates in effect when the projects were created. A $7 million state grant program created in 1997 to help cities in that situation has only seen requests for $2 to $3 million in

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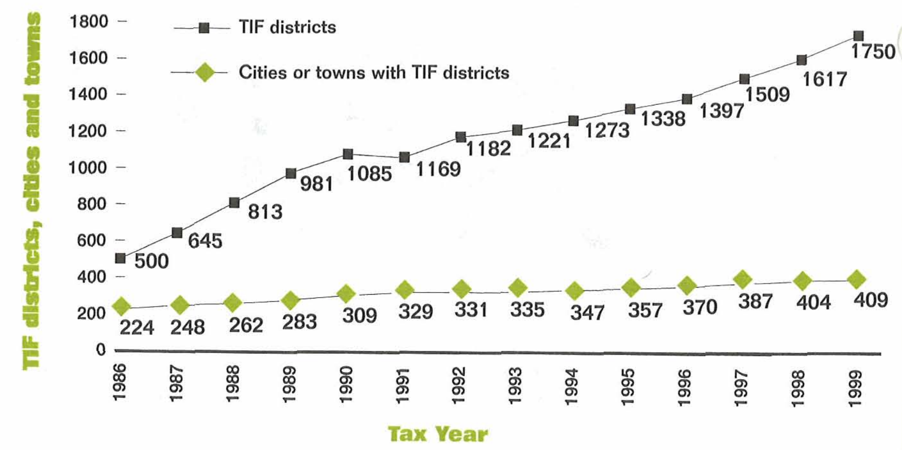
grants, according to Joel Michael of the Minnesota House Research Department. "That concern has dissipated," he said, "because of the strong economy, which has overcome the lower class rates." He believes the $7 million fund will be adequate to address any problems TIF districts may have.

TIF costs, benefits

Recent discussions have once again raised the mixed feelings various public officials have about TIF. Minneapolis City Council Member Sandy Colvin Roy and city Finance Director John Moir have raised concerns about the city's heavy use of TIF—by far the most aggressive user of TIF in the state over the years. City officials have now agreed to undertake a review of Minneapolis's TIF use.

And the use of TIF by Richfield to lure Best Buy Company to build its headquarters there caused a few legislators to question whether the price paid by Richfield to lure the headquarters there is worth the cost, Michael said. But, he said, there was no real groundswell to reexamine TIF in light of the situation.

Number of TIF districts with captured value and number of cities and towns with TIF districts, 1986-1999



He said it's likely Best Buy would have kept their headquarters somewhere in the metro area, but they likely would have built further out than Richfield. If we favor more compact, close-in development, then, perhaps, an argument could be made that the TIF money is well spent, Michael said.

Michael said communities must do a "but for" test in order to approve TIF development—that is, prove this development would not have taken place without the public subsidy. But cities do not have to do a cost-benefit analysis, he said, to look at whether the price paid for a development is worth the public good received in return. He suggested that perhaps the Metropolitan Council could do such analyses. Legislators have "kicked around" the idea of requiring cost-benefit analyses of cities wanting to create TIF districts. The cities' response? "They turn pale," Michael said.

Michael said he hears some general skepticism about whether Minneapolis is

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TABLE 1: Tax-increment financing for metro counties, with nonmetro** and statewide totals, taxes payable 1999

Metro Counties	'99 TIF net tax capacity	'99 total net tax capacity	'99 TIF NTC as % of total NTC+	'99 no. of TIF districts*	'99 net TIF tax	'99 TIF NTC per district	'99 net TIF tax per district	No. of cities with TIF districts
Anoka	$13,716,248	$183,924,456	7.46%	80	$16,218,055	$171,453	$202,726	13
Carver	$8,973,249	$57,484,448	15.61%	19	$12,348,892	$472,276	$649,942	7
Dakota	$13,263,141	$292,870,599	4.53%	53	$15,802,413	$250,248	$298,159	11
Hennepin	$100,883,413	$1,169,577,804	8.63%	257	$136,354,953	$392,542	$530,564	30
Ramsey	$27,454,487	$347,157,653	7.91%	138	$35,095,128	$198,946	$254,313	14
Scott	$3,566,688	$62,099,037	5.74%	33	$4,500,261	$108,081	$136,372	6
Washington	$9,419,132	$157,372,040	5.99%	47	$10,761,687	$200,407	$228,972	16
Metro Total	$177,276,358	$2,270,486,037	7.81%	627	$231,081,389	$282,737	$368,551	97
Nonmetro Total* **	$45,579,875	$1,328,496,345	3.43%	1,123	$58,848,288	$40,588	$52,403	312
Statewide Total	$222,856,233	$3,598,982,382	6.19%	1,750	$289,929,677	$127,346	$165,674	409

*Includes only those districts with captured value. There are an estimated 2,145 TIF districts in the state, including those with and without captured value.
**A complete table of nonmetro counties is available online at www.citizensleague.net.
+ Net tax capacity.

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

Viewpoint

From the Executive Director

It's time for new strategic directions in tax-increment finance

by Lyle Wray

When tax increment finance (TIF) first appeared on the scene 30 years ago, it was used by only a handful of communities to promote the redevelopment of blighted areas that would otherwise be unattractive to private development.

Over the years, cities have found myriad ways to use TIF to promote development, with some good, some uncertain and some counter-productive results. Clearly, however, the practice has moved beyond just supporting redevelopment in blighted areas that the market would not otherwise support.

As a redevelopment tool, TIF use is supposed to be subjected to the "but for" test: would the intended retail center, industrial park or entertainment facility be built without the public's support? Certainly, some of the projects that get TIF support pass this test and genuinely create economic activity in a community or neighborhood that needs it.

But some sound studies have demonstrated that many projects do not measure up to this standard for public support. Are there really 627 blighted and utterly undevelopable areas in 97 communities around the Twin Cities? Is it really that difficult to persuade someone to build cinema multiplexes or theme restaurants in a prosperous metropolitan area? In fact, TIF has too often become just another tool to attract businesses from neighboring communities and offer developers a public handout for a project they would do on their own "but for" the availability of a subsidy.

TIF is a blunt tool that, on its own, does not consider the level at which the market can take over once the redevelopment tide has turned in a positive direction. Once our initial public investments have sparked a neighborhood's revitalization, should we continue to dish out subsidies on autopilot? The readiness with which some communities use TIF long after once-blighted areas have turned into hot spots can in fact support bidding wars for public funding of development.

Can we make TIF work? While the Citizens League reviewed TIF in the mid 1980s and recommended some reforms to how our state promotes local economic development activities, new economic challenges suggest we do more than just make a few fixes to this powerful tool. We need to rethink TIF in light of changed economic needs.

TIF should fit into an overall strategy for economic development in our region. The League has long called for the articulation of a clear economic development strategy to guide our spending and tax expenditure decisions and move us toward clear long-term goals. Most recently, we've argued that Minnesota should take strategic steps to prepare for the "new economy" without leaving anybody behind. (See www.citizensleague.net for more information).

Now we are collectively spending hundreds of millions of dollars through TIF—indirectly, by removing properties from the tax base, and directly, through state expenditures to make up the loss to other units of government—with little clear understanding of what value it is adding to our region's economy as a whole.

Should real-estate development continue to be our region's number one priority? Our economy is doing well and unemployment is low—so low that the most often cited problem in our regional economy continues to be the shortage of workers at every level. Does it really make sense to be pouring so much money into the creation of more retail centers and industrial parks when we can barely find workers for the jobs we already have?

As we take the steps to prepare for the new economy, we should set a clear state strategy and review every economic development tool, including TIF, to see whether it is the best use of the public's money.

There is also some evidence that, rather than encouraging the redevelopment of older, blighted areas, TIF has actually been used to promote development at the fringe of the metropolitan area. Is this consistent with our regional growth management agenda? It does not make sense to promote "smart growth" development strategies at the regional level, while local governments continue to use TIF to pull the same jobs further and further out in the region.

Certainly we do need to continue to attract development to those communities in the Twin Cities and around the state that are struggling to create jobs and TIF can be valuable tool in that regard. But TIF should be used in the context of a clear regional economic strategy, so we know where our money is going and whether it is the best use of our resources.

A strategic approach would also suggest that we should devote more resources to investing in workers to move them into skilled positions, rather than just subsidizing the creation of more entry-level jobs. Massive, indirect real-estate subsidy is not likely to help us train a world-class workforce, build a strong research and development presence nor provide the amenities that people want to live here.

Want to comment on this topic? E-mail us at info@citizensleague.net. Responses will be posted on our web site. MJ

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serious about curtailing its TIF use. He noted two factors that make it unlikely:

▲ First, he said, raising $1 of tax-increment money costs the city less than 40 cents, assuming they're displacing business that would have occurred elsewhere. The lower cost comes from taxes paid for the increment by other jurisdictions, such as the county, and the state aid that basically holds schools harmless from the impact of TIF.

▲ In addition, he noted Minneapolis has a strong institutional voice in its Community Development Agency whose very existence depends on advocating for TIF.

TIF districts

While the number of TIF districts grew by 133, or 8.2 percent, statewide, the seven-county metro area saw a net increase of 36 TIF districts, from 591 to 627, a 6.1 percent increase. Nonmetro districts grew by 9.5 percent, from 1,026 to 1,123, an increase of 97 districts. (See Table 2.)

As of 1999, 409 communities—in 84 of the state's 87 counties—had TIF districts with captured value, a net increase of five communities from 1998. According to the State Auditor's Office, there were 2,145 TIF districts in the state required to file reports, but only 1,750 of the districts captured some tax-base value in 1999. The average district contained captured value of $127,346.

Communities in the seven-county metro area contained a disproportionate share of tax base captured in TIF districts. While the metro area contained 63 percent of the state's tax base, it contained 80 percent of the tax base captured in TIF districts. Metro area TIF districts, on average, are nearly seven times larger than nonmetro districts, with the average metro-area TIF district containing captured tax base of $282,737, and the average nonmetro TIF district, $40,588. (See Table 1 on Page 2.)

But interestingly, a glance at the nonmetro counties listed in Table 1A (online at www.citizensleague.net) shows that several counties in the outlying developing ring of the Twin Cities—Goodhue, Rice, Sherburne and Wright—are among the heaviest nonmetro users of TIF. Rapidly growing Olmsted County (Rochester) and Stearns County (St. Cloud) are also high on the list.

Cities using TIF

The 409 Minnesota communities with TIF districts with captured value in 1999 averaged four districts each, with an average of $554,881 in captured TIF value for each community.

The 97 metro cities with TIF districts averaged 6.5 districts per city and captured TIF value of $1,827,591 per city. In the metro area the captured TIF value amounted to 7.81 percent of the area's taxable value.

The 306 nonmetro communities with TIF districts averaged 3.5 districts each, with an average of $146,089 in TIF value for each community. The TIF captured value amounted to 3.43 percent of the nonmetro taxable value.

Forty-eight of the 409 communities with TIF districts had $1 million or more of their 1999 tax base captured in TIF districts, seven less than last year. All but five of these communities are in the

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What is TIF?

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. This causes higher taxes on non-TIF property, since general taxes cannot be levied against TIF property. The increased tax revenues 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 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 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 $1 million, its tax capacity value for taxes payable in 1999 would have been $33,425—2.45 percent of the first $150,000 of market value and 3.5 percent of the remaining $850,000. So tax base, or tax capacity, values are only a portion of the actual market values of the state's property.)

The tax increment is limited to the increased tax base times the total tax rate in place when the district was established (for districts established after May 1, 1988). Increased revenues due to a higher tax rate are called "excess revenues" and are distributed to the various taxing districts with property in the TIF district. MJ

TABLE 2: Change in tax-increment financing from tax year 1998 to tax year 1999

	$ change in TIF net tax capacity over '98	Percent change over '98	$ change in total net tax capacity over '98	Percent change over '98	Change in no. of TIF districts over '98	Percent change over '98	$ change in net TIF tax over '98	Percent change over '98	Change in # of cities with TIF districts
Metro	$2,818,342	1.60%	-$10,750,432	-0.47%	36	6.09%	$7,717,610	3.46%	-1
Nonmetro	-$6,010,476	-11.65%	-$18,175,215	-1.35%	97	9.45%	-$5,106,278	-7.98%	6
Statewide	-$3,192,134	-1.41%	-$28,925,647	-0.80%	133	8.23%	$2,611,235	0.91%	5

See footnotes on Table 1.

TABLE 3: Metro and nonmetro cities# with tax-increment net tax capacity over $1 million, taxes payable 1999+

Metro Cities	'99 TIF net tax capacity	% Chng. from '98 TIF NTC**	'99 TIF NTC as % of total NTC	Rank* of '99 TIF net tax capacity	'99 Net TIF Tax	'99 no. of TIF districts	'99 TIF NTC per district	'99 net TIF tax per district
Anoka County								
Anoka	$2,048,000	9.48%	17.87%	21	$2,468,929	3	$682,667	$822,976
Blaine	$1,348,094	-5.17%	4.81%	32	$1,708,379	7	$192,585	$244,054
Coon Rapids	$3,286,745	5.47%	8.35%	12	$3,664,344	26	$126,413	$140,936
Fridley	$2,381,402	-9.74%	9.33%	16	$2,902,344	15	$158,760	$193,490
Ramsey	$2,069,408	21.45%	17.55%	19	$2,233,031	6	$344,901	$372,172
Carver County								
Chanhassen	$4,669,123	-14.87%	20.82%	7	$6,748,968	5	$933,825	$1,349,794
Chaska	$4,370,161	-17.75%	28.83%	8	$5,654,817	5	$874,032	$1,130,963
Dakota County								
Apple Valley	$1,507,600	-13.53%	4.66%	27	$1,637,991	11	$137,055	$148,908
Burnsville	$3,593,550	9.53%	5.99%	10	$4,546,872	9	$399,283	$505,208
Inver Grove Hts.	$1,968,034	30.73%	9.17%	23	$2,259,843	8	$246,004	$282,480
Lakeville	$1,329,962	-1.99%	4.53%	33	$1,514,567	14	$94,997	$108,183
Mendota Hts.	$1,730,306	13.40%	10.82%	25	$1,847,781	2	$865,153	$923,891
South St. Paul	$1,172,187	-9.04%	11.44%	38	$1,508,301	2	$586,094	$754,151
Hennepin County								
Bloomington	$15,719,203	14.56%	9.78%	2	$15,597,035	10	$1,571,920	$1,559,704
Brooklyn Center	$2,054,659	23.40%	10.06%	20	$2,994,887	3	$684,886	$998,296
Brooklyn Park	$7,231,156	8.52%	16.67%	4	$9,936,635	16	$451,947	$621,040
Champlin	$2,032,160	17.05%	17.59%	22	$2,231,223	4	$508,040	$557,806
Crystal	$1,156,733	-4.45%	9.36%	39	$1,438,456	5	$231,347	$287,691
Edina	$6,230,928	8.74%	7.25%	5	$8,286,441	5	$1,246,186	$1,657,288
Golden Valley	$4,077,272	1.38%	13.79%	9	$5,670,317	3	$1,359,091	$1,890,106
Hopkins	$1,531,218	8.23%	10.35%	26	$2,154,198	12	$127,602	$179,517
Maple Grove	$2,863,300	23.59%	6.65%	14	$3,695,400	7	$409,043	$527,914
Minneapolis	$43,739,300	-0.31%	14.04%	1	$62,454,082	68	$643,225	$918,442
Minnetonka	$2,230,263	52.67%	2.77%	17	$2,875,369	5	$446,053	$575,074
New Hope	$1,107,959	-4.61%	6.70%	42	$1,405,338	8	$138,495	$175,667
Richfield	$3,018,392	12.35%	13.81%	13	$4,520,591	23	$131,234	$196,547
Robbinsdale	$1,152,428	-9.49%	16.07%	40	$1,462,619	24	$48,018	$60,942
Rogers	$1,054,595	-1.56%	27.35%	43	$1,175,517	7	$150,656	$167,931
St. Louis Park	$3,443,938	8.38%	7.08%	11	$4,648,096	5	$688,788	$929,619
Wayzata	$1,423,430	21.21%	13.04%	30	$1,780,768	7	$203,347	$254,395
Ramsey County								
Mounds View	$1,502,950	-1.97%	21.68%	28	$1,903,613	4	$375,738	$475,903
New Brighton	$2,174,796	5.61%	13.45%	18	$2,586,925	25	$86,992	$103,477
Roseville	$5,485,225	7.92%	13.35%	6	$6,331,320	16	$342,827	$395,708
Shoreview	$1,270,625	-5.72%	5.92%	34	$1,246,808	5	$254,125	$249,362
St. Paul	$11,928,010	8.40%	8.03%	3	$17,259,112	14	$852,001	$1,232,794
Vadnais Hghts	$1,269,180	-0.60%	10.61%	35	$1,411,426	17	$74,658	$83,025
White Bear Lake	$1,203,336	19.92%	7.21%	37	$1,380,525	23	$52,319	$60,023
White Bear Twp.	$1,138,756	2.86%	12.82%	41	$1,179,082	13	$87,597	$90,699
Scott County								
Savage	$1,495,396	1.88%	11.45%	29	$1,910,854	6	$249,233	$318,476
Shakopee	$1,231,584	-7.54%	7.00%	36	$1,467,402	5	$246,317	$293,480
Washington County								
Oakdale	$1,810,793	12.78%	11.37%	24	$2,069,638	11	$164,618	$188,149
Stillwater	$1,395,070	-10.57%	11.37%	31	$1,811,198	5	$279,014	$362,240
Woodbury	$2,665,517	-1.71%	6.73%	15	$2,672,431	5	$533,103	$534,486
Nonmetro Cities (Counties)								
Duluth (St. Louis)	$6,305,434	-9.87%	15.93%	1	$8,999,484	17	$370,908	$529,381
Mankato (Blue Earth)	$1,754,352	0.03%	8.53%	4	$2,140,059	20	$87,718	$107,003
Marshall (Lyon)	$1,177,496	-15.66%	15.28%	5	$1,492,086	9	$130,833	$165,787
Rochester (Olmsted)	$2,653,733	-10.13%	4.85%	2	$3,624,498	7	$379,105	$517,785
St. Cloud (Stearns)	$2,634,451	-12.92%	7.79%	3	$3,215,398	16	$164,653	$200,962

Includes totals for each city, even those located in more than one county. Those "split cities" are listed with their home county.
+ See notes on Table 1.

TABLE 4: Top 20 metro and top 20 nonmetro cities in TIF net tax capacity as % of total net tax capacity*

Metro Cities	'99 TIF NTC as % of total NTC	Rank of TIF NTC as % of total	'99 Net TIF Tax	'99 no. of TIF dis- tricts	'99 net TIF tax per district
Anoka County					
Anoka	17.87%	6	$2,468,929	3	$822,976
Ramsey	17.55%	8	$2,233,031	6	$372,172
Carver County					
Chanhassen	20.82%	5	$6,748,968	5	$1,349,794
Chaska	28.83%	2	$5,654,817	5	$1,130,963
Hennepin County					
Brooklyn Park	16.67%	11	$9,936,635	16	$621,040
Champlin	17.59%	7	$2,231,223	4	$557,806
Golden Valley	13.79%	16	$5,670,317	3	$1,890,106
Maple Plain	17.44%	9	$380,904	6	$63,484
Minneapolis	14.04%	14	$62,454,082	68	$918,442
Richfield	13.81%	15	$4,520,591	23	$196,547
Robbinsdale	16.07%	12	$1,462,619	24	$60,942
Rogers	27.35%	3	$1,175,517	7	$167,931
Wayzata	13.04%	19	$1,780,768	7	$254,395
Ramsey County					
Mounds View	21.68%	4	$1,903,613	4	$475,903
New Brighton	13.45%	17	$2,586,925	25	$103,477
Roseville	13.35%	18	$6,331,320	16	$395,708
Scott County					
Belle Plaine	14.17%	13	$360,620	3	$120,207
Jordan	16.92%	10	$325,603	5	$65,121
Washington County					
Landfall	54.32%	1	$72,152	4	$18,038
St. Paul Park	13.01%	20	$350,846	2	$175,423
Nonmetro cities (County)					
Annandale (Wright)	20.94%	18	$295,711	3	$98,570
Avon (Stearns)	21.88%	14	$167,178	2	$83,589
Brooks (Red Lake)	22.32%	11	$12,541	1	$12,541
Brooten (Stearns)	26.38%	7	$94,893	3	$31,631
Claremont (Dodge)	37.46%	1	$95,156	2	$47,578
Clontarf Twp.(Swift)	36.69%	3	$143,127	2	$71,564
Dodge Center (Dodge)	20.50%	19	$340,390	8	$42,549
Dundas (Rice)	37.21%	2	$161,640	3	$53,880
Irondale Twp. (Crow Wing)	29.79%	5	$191,302	2	$95,651
Jenkins (Crow Wing)	25.61%	8	$49,227	1	$49,227
Lakeside Twp.(Cottonwood)	22.05%	13	$162,741	1	$162,741
LaPrairie (Itasca)	21.66%	15	$85,688	4	$21,422
New London (Kaniyohi)	20.32%	20	$125,697	9	$13,966
Pelican Rapids (Otter Tail)	24.04%	10	$303,762	5	$60,752
Preston (Fillmore)	21.16%	16	$182,773	5	$36,555
Renville (Renville)	32.21%	4	$223,442	10	$22,344
Rush City (Chisago)	29.69%	6	$359,087	4	$89,772
Silver Creek Twp.(Lake)	22.13%	12	$402,866	2	$201,433
St. Clair (Blue Earth)	21.01%	17	$56,534	1	$56,534
Torning Twp.(Swift)	24.47%	9	$127,326	3	$42,442

*See footnotes on Table 3. Complete metro and nonmetro table of all cities with 10% or more of NTC in TIF districts is available online at www.citizensleague.net.

TIF *continued from page 4*

seven-county metro area; 17 of them are located in Hennepin County. The five cities with the highest TIF tax base were Minneapolis, $43.7 million; Bloomington, $15.7 million; St. Paul, $11.9 million; Brooklyn Park, $7.2 million; and Duluth, $6.3 million. (See Table 3 on page 5).

Although TIF districts in Greater Minnesota tend to have lower values, a number of nonmetro communities have a large percentage of their tax base tied up in TIF districts. In 1999, 111 communities statewide had more than 10 percent of their tax base captured in TIF districts—73 in Greater Minnesota and 38 in the metro area. Eleven of these communities—three metro and eight nonmetro—had more than one quarter of their tax base tied up in TIF districts. (See Table 4.)

Minneapolis had 14.04 percent of its tax base captured in TIF districts (ranking 14th among the 38 metro cities over 10 percent); and St. Paul had 8.03 percent.

Net TIF taxes

The net TIF taxes—the "tax increment" actually available to pay off development costs—amounted to $289.9 million statewide in 1999, $231.1 million in the metro area and $58.8 million nonmetro. That was a slight increase statewide (0.9 percent), an increase of $7.7 million in the metro area (up 3.5 percent) and a decrease of $2.6 million, or nearly eight percent, in nonmetro communities. TIF taxes are a sizeable chunk of development subsidies being financed indirectly by property taxpayers. To put the taxes in context, statewide net TIF taxes in 1999 amounted to over one-third of taxes levied by cities and townships for all other purposes.

Looking at the net taxes per district shows the impact of reductions in the taxable value of C-I property.

- Statewide, the net TIF tax per district declined by 6.8 percent to $165,674.
- In the metro area, the net TIF tax per district declined by 2.5 percent to $368,551;
- In nonmetro communities, the net TIF tax per district declined by 15.9 percent to $52,403.

Abatement alternative

Concerns over the perceived misuse or overuse of TIF prompted the Legislature

TIF *continued from page 6*

to create a tax abatement program in 1997 as an alternative to TIF.

Under the new tax abatement program, which first affects taxes paid in 1999, cities—and counties or other units of government, if they choose—can forgive taxes or a portion of taxes on a development for a certain time period, up to 10 years. School districts can abate taxes under the program, but the state will not pay increased state aid to cover the cost of the abatement, as it does to protect school districts from losses due to TIF projects. Total abatements granted by a unit of government in any one year cannot exceed five percent of the jurisdiction's property tax levy or $100,000, whichever is greater.

The key difference is that each unit of government makes its own decision on whether to abate taxes. City governments make the decision to create a TIF district, which affects the revenue stream of all the other overlapping government units, like counties, school districts and special districts—and, indirectly, the state's aid payments. Counties have complained about that aspect of TIF for a number of years. MJ

Dana Schroeder is editor of the Minnesota Journal.

Cities, counties attempt performance measurement in pilot project

by Kevin Frazell

A host of voices, including elected officials, civic interest groups, public administration professional associations and even citizens themselves, have joined in the chorus urging governments at all levels to do a better job of measuring and reporting what they do. Some, like Phoenix, Arizona, and Multnomah County, Oregon, have responded remarkably, creating quantitative accountability systems that rival those found in the private sector. Other state and local governments, however, have not found the road to performance measurement to be so rewarding or even worth traveling.

In theory, performance measurement is simple. Just decide what it is you're supposed to do, the proponents say, then apply the techniques of social science research and cost accounting to determine how effectively and efficiently you're doing it. Interjurisdiction comparisons and benchmarking, it is believed, will illuminate best practices and bring pressure to improve on less than stellar performers.

Performance measurement, however, is not so simple in practice.

Deciding what to measure, much less how to measure it, is not only daunting, but involves a good deal of political and policy judgment. What is the real purpose of a police department—to respond to calls, prevent the occurrence of crime or make citizens feel safe? Should general oversight by the city manager be considered a cost of snowplowing? Is the prosecution of a crime that does not result in a conviction a successful outcome for the criminal justice system? If City X fills potholes at a lower cost than City Y, does X know a better way to do business or are they just doing a lower quality job? What weight should be given to subjective measures like citizen satisfaction ratings? Such questions can, of course, be answered, but only with the application of political judgment and a willingness to accept the very real expense associated with increasingly complex data collection and analysis.

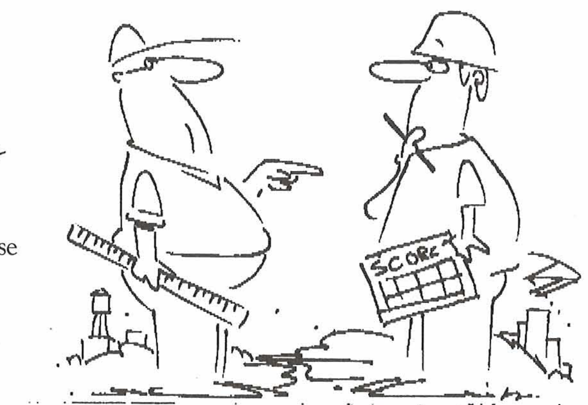
Undeterred, advocates of good performance press on. In 1994, several large cities and counties from around the country came together to create the Center for Performance Measurement at the International City/County Management Association (ICMA) in Washington, D.C. The Center pools resources in developing and maintaining a common system for performance measurement, and also builds a national database that allows comparisons across jurisdictions. Citizens League Executive Director Lyle Wray serves on the Center's Advisory Committee.

Technical committees worked for over two years to develop performance measures covering police and fire, street maintenance, parks and recreation, refuse collection, libraries and support services, such as fleet maintenance and human resource management. Participation in the Center was originally limited to cities and counties in excess of 200,000 population. The City of Minneapolis, along with Hennepin and Dakota Counties, were charter members.

In 1997, the League of Minnesota Cities began to coordinate the performance measurement efforts of an expanded group of Minnesota cities and counties. The ICMA Center agreed to accept these jurisdictions as a pilot project for smaller local governments. The Minnesota Board of Government Innovation and Cooperation provided a grant to entice participation by paying about half of the start-up training cost and first-year membership fee. Twenty-two Minnesota cities and counties, ranging in population from 10,000 to over 90,000, joined.

We now have two years of experience in data collection and reporting. The ICMA Report offers only raw data, making comparisons difficult. Eyeballing the results, however, suggests that the Minnesota

Performance continued on page 8



"Okay, you measure me and I'll score you, then you score me and I'll measure you. Then we'll combine the data and divide by two, times the participating counties and cities…"

jurisdictions, overall, compare favorably with those in other states. Both the ICMA and the Minnesota consortium have learned that creating meaningful comparisons is elusive. For example, the road operating and maintenance cost in one Twin Cities suburb was reported to be $2.76 per capita, while in another very similar suburb the figure was $33.38! Similar variation appears in output indicators: one Twin Cities police department was shown to have 18 arrests per full-time sworn staff, while another department reported less than 2! These extreme, but not uncommon discrepancies demonstrate the difficulty in maintaining sufficiently rigid reporting standards to allow reliable comparisons. Those who are waiting for performance measurement to provide a simplistic scorecard for government operations are likely to be disappointed for some time to come.

Of the 22 original Minnesota participants, nine have concluded that the benefits simply don't justify the extensive expense and effort required and have dropped out. The remaining 15 are firmly committed to the program, however, meaning our state is still quite well represented among the 120 nationwide members of the ICMA Center.

The true value in performance measurement, it seems, lies in digging into the raw numbers to determine meaning. The Minnesota participants plan follow-up sessions around topical areas to better understand the data and, most importantly, to identify best practices that others can replicate. They also plan to work on simplifying a few key measures that will be easier to collect, making it more feasible to achieve consistency in reporting.

A few lessons are emerging about performance measurement. First, simpler measures based on limited data are probably the most effective and affordable; larger systems require the analytic capability available mostly in large cities and counties. Second, looking for continuous improvement through year-to-year tracking of the same data within a city or county may prove to be of more practical use than comparing or benchmarking performance among jurisdictions. Third, the value of performance data lies as much in enriching the quality of discussion between staff, elected officials and citizens, as it does in meeting some objective standard of good performance. Finally, government is still government; public decision-making will always be as much about dreams, visions, aspirations, wants and, yes, politics, as it will be about performance. Even the best performance measurement systems will not put government operations on autopilot. MJ

Kevin Frazell is director of member services at the League of Minnesota Cities.

Higher ed should train health-care workers for aging society

by Deborah Paone

Minnesota, reflecting national trends, is becoming older and more ethnically diverse. We are in the midst of profound demographic changes in this state that will affect every sector of society—especially the health-care field. Now is the time when we need to prepare for the implications of our aging society. Now is the time to develop better ways to provide health-care services—through a better understanding of the physiologic effects of aging, through training a workforce that is capable of meeting the needs of our older citizens and through reorienting our focus on function, rather than on cure.

Nationally, the ratio of older adults is expected to reach one in every four people by the year 2030. In Minnesota, the population over age 65 will double between 2000 and 2030—from 600,000 people to 1.2 million. Furthermore, the proportion of the population known as the "oldest old"—those age 85 and over—will nearly triple in the next 50 years.

At the turn of the last century, causes of death and morbidity (sickness) primarily related to infectious and parasitic diseases, accidents and trauma. Life expectancy in 1900 was about age 48 for women. People over age 60 represented one in every 16 people. This demographic profile and the health needs of our population have shifted dramatically in the last 100 years. Today, the leading causes of morbidity and mortality are almost all related to chronic diseases and conditions—heart and cardiovascular disease, stroke, diabetes, pulmonary disease, hip fractures, arthritis, dementia.

In 1996, the Robert Wood Johnson Foundation examined the chronic care needs in America. This leading philanthropic organization found:

- One in every six Americans had a chronic condition that inhibited their lives in some degree;
- Direct medical costs for people with a chronic condition represented almost 70 percent of national health expenditures on personal health care;
- People with chronic conditions accounted for 80 percent of hospital days, 69 percent of hospital admissions, 96 percent of home-care visits, 83 percent of prescription drug use, 66 percent of physician visits and 56 percent of emergency department visits.

Therefore, we know that older adults with chronic diseases are consuming vast amounts of our health-care resources. Are we delivering care effectively? The answer is probably no.

Acute, not chronic, medical model

Unfortunately, our current health-care system is based on a medical model that was created in the early 20th century, when few people lived to old age. That model focuses on diagnosing, treating and curing. It did not take into account the needs of a person with multiple long-term chronic conditions who would be living with their degenerative disease for years—even decades.

Our health-care system offers procedures, medications and treatments that work well for the person who has one

Aging continued on page 9

acute illness or trauma. They do not work so well for the person with multiple chronic illnesses and conditions—e.g., the older woman with arthritis, hypertension, diabetes, and congestive heart failure, who has poor vision, poor eating habits and who lives alone.

Furthermore, these procedures, medications, technology and new treatments were developed and tested on young adult males. However, disease presents itself differently in the older body than the young—and the therapeutic window is smaller. Therefore, the opportunity for benefit from treatments or procedures narrows for the older person, while the risks from treatment increase.

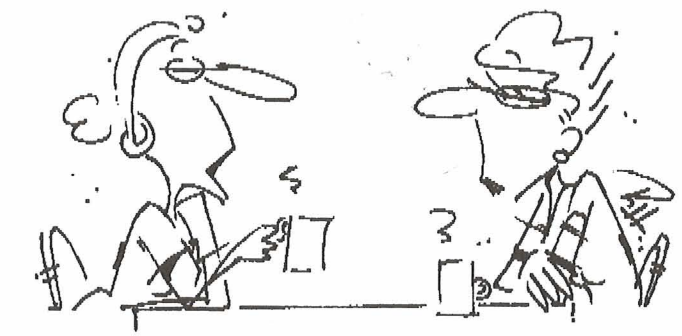
The education and training of our health-care professionals, while excellent in many respects, does not adequately prepare them for the unique needs of older adults and those with chronic conditions. For example, most drugs are not tested on the elderly—especially not an elderly person who might need multiple medications for several different diseases. Therefore, it is no wonder that those who prescribe medications for their elderly patients are often unsure of the proper doses or the unanticipated side effects that will result. Add to this picture the issue of polypharmacy—multiple medications (e.g., eight or more prescribed drugs)—in the elderly and its recognized dangers for a frail, older person whose health is already compromised.

Chronic conditions are multidimensional, ongoing and interdependent. Our health-care delivery system and focus of treatment needs to reflect these characteristics and our training of health-care professionals needs to be reoriented toward a multidisciplinary, multidimensional approach.

Understanding the older body

Care providers need to know more about how diseases present in older people. They need to take into account how the older person will experience treatments, procedures and medications and how the physiologic changes in the older body will affect the outcomes of these processes. Health-care professionals have an obligation to bring the best of medical knowledge to their patients. They also have an obligation to take into account the unique dynamics of the older person.

For an older person with multiple chronic illnesses, there will often be a fine line between benefit and risk in each possible treatment. The answer is not one-size-fits-all. Models of medical care that have come to be accepted as the norm may not be the best ones to meet the quality of life, functional or health-status goals the older person has for himself or herself.



"I think we're suffering from the same dreaded chronic problem a lot of Minnesotans are…aging!"

Individuals being educated and trained now to be tomorrow's health-care professionals should be provided with the proper preparation and orientation to understand issues of aging and chronic disease. Many people might assume that geriatrics and aging are a standard and significant part of the curriculum for every health-care professional—for physicians, pharmacists, social workers and others. Unfortunately, this is not true.

Most of what health professionals learn about older adults is through on-the-job experience that may have little structure or consistency and may not provide a good foundation for practice. Some students may have wonderful mentors who provide an excellent understanding of older adults and a good knowledge base upon which to draw. Others may have little exposure to aging issues and techniques. They may graduate without a good understanding of how chronic diseases affect treatment and with little experience in working with older adults.

Preparing health-care professionals to care for aging

There is a dichotomy between what practitioners are taught in school and what they see in their practice. For example, while only an estimated two percent of medical school curriculum focuses on geriatrics, over 35 percent of a typical physician's practice will be made up of elderly people. Current practitioners should be encouraged to work with others trained in geriatrics. They should also examine how care is delivered in their organizations and question how well the care-delivery process meets the older person's needs and goals.

The Minnesota Gerontological Society is encouraging schools of higher education to examine their curriculum for students being trained for health-care professions. Minnesota's colleges and universities must be at the forefront of the push to ensure proper preparation to meet the demands of an aging society and to recognize the way we must reorganize care delivery to address chronic-care issues.

If the schools need political and financial support to revise curriculum and enhance learning opportunities in aging, perhaps legislative action would be appropriate—beginning with state-supported schools. A central coordinating body or center on care of the aging could help pool ideas, facilitate collaboration and offer technical assistance.

Minnesota's schools of higher education could be in the vanguard of developing and testing new models of care, working with community providers to ensure that research and practice come together and that tomorrow's professionals benefit from the training effort. Given that we are all headed in that direction, the importance of preparing for an aging society is fundamental. MJ

Deborah Paone is senior research associate of the National Chronic Care Consortium and president-elect of the Minnesota Gerontological Society.

Editor's note:

Due to space constraints, the "On Balance" wrap-up of editorial opinions from around the state will not run this month.

TakeNote Policy Tidbits

Buds of policy wisdom nurtured by the spring rains.

As you listen to reports (especially about budget problems) coming out of the Saint Paul schools into the summer, keep in mind: This is a board that is probably going to go for an excess-levy referendum in November. Nothing has been said publicly yet, but the thinking is well along. The challenge: What to offer the public in return for its $20 million a year more in taxes, beyond talk about aspirations-for-kids and promises-to-do-better?—*Ted Kolderie.*

The intent of tax-increment financing was to help local communities finance new public infrastructure to support new or expanding businesses. The Office of the State Auditor breaks down expenditures for each TIF authority, including building acquisition, site improvements, public utilities, streets, recreational facilities, administrative costs and the ubiquitous "other."

What the data don't show is how much "public good" came from each expenditure and how much benefited specific companies. For example, TIF authorities regularly purchase land or buildings and give them away or sell them below cost to interested businesses.

Even more dubious is some $70 million in "other" TIF expenditures considered to be direct subsidies to businesses in 1998, according to one OSA expert who wished not to be named. The St. Paul HRA rang up easily the largest total in this area, charging almost 40 percent of its $122 million in TIF expenditures that year to the "other" category.—*Ron Wirtz.*

The closing of the Success Academy charter school in Saint Paul taught a few important lessons. One is that sponsors have to be accountable, too. In the end Saint Paul bit the bullet, but earlier—as its officials conceded—it had moved too slowly, as sponsor, on the problems at that school. Also, monitoring has to involve more than reports on paper. That wouldn't be hard. For $25 a pupil a sponsor could put its own inspector, paid $250 a day, in a school of 200 students a half-day a week for a 40-week school year. To their credit, the charter school operators volunteered to be assessed $10 a pupil for evaluation, which got into the law this year.—*T.K.*

A new charter school for girls only is being discussed in St. Paul. WomenVenture, a nonprofit that works to help women succeed in business, has recruited the College of St. Catherine as a sponsor for the potential charter. The charter would need special legislation because, as a public school, it cannot provide services only to girls. If the school gets beyond the planning stage, the single-gender issue is certain to generate public discussion.—*Marina Munoz Lyon.*

At the last class of a recent University of Minnesota ElderLearning Institute course on "Suburbs in Transition," U of M Regents Professor Emeritus of Geography John Borchert, who taught the course, offered this nugget to impress on the class the tremendous growth that has taken place in the Twin Cities area: "We've built the equivalent of Kansas City since I came here."

Borchert noted later that he came to the Twin Cities in 1949. He double-checked his numbers and, sure enough, his Kansas City comment was right on the button: The population in the Twin Cities metropolitan area was 1.1 million when he arrived and was 2.7 million in 1994. The population of the Kansas City metropolitan area was 1.6 million in 1994. It's an intriguing way to think about our region's growth over the past 50 years.—*Dana Schroeder.*

In a literal effort to track the performance of municipal employees, the city of Denver decided last month to install global positioning system (GPS) units in more than 2,000 city-owned vehicles. According to the *Denver Post*, the $1.5 million plan comes in response to recent news reports about municipal employees "loafing on the job." Some city workers will also be required to phone in to a central switchboard when they go on break and citizens will be offered a telephone hotline to report municipal slacking. An aggressive plan, but one has to wonder what long-term impact it will have on employee morale and, ultimately, the quality of public service. —*Dave Chadwick.*

According to the Regional Employment Review from the Department of Economic Security, Minneapolis added 8,034 new jobs from 1996 to 1999, making it the metro city with the greatest total employment gain during the period. Bloomington was next with 6,690, followed by Maple Grove and Woodbury with 5,560 and Minnetonka with 5,500. But the 8,034 new jobs in Minneapolis represented only a 2.7 percent increase. In percentage terms, Woodbury had the greatest rate of job growth with a 38.3 percent increase, followed by Oakdale/Landfall (35.6 percent), Maple Grove (31.3 percent) and Roseville (11.9 percent). Woodbury ranked first in new retail jobs, which accounted for 40 percent of those total new jobs. Seems like retailers are catching up with Woodbury's population explosion, which occurred earlier in the decade. Is Lakeville, currently the region's fastest growing city, next?—*Phil Jenni.*

Does the common good have a prayer? If where people elect to direct their charitable contributions is any indication, then the answer is a resounding "yes!" While overall charitable giving has declined 24 percent since 1998, giving to churches has risen seven percent. According to *American Demographics*, 77 percent of the average American's charitable contributions go to churches.—*Kris Lyndon Wilson.*

Contributors to "Take Note" include Minnesota Journal *and Citizens League staff members; Marina Munoz Lyon, vice president of the Pohlad Family Foundation, and Ron Wirtz, district news editor for the Federal Reserve Bank's* fedgazette.

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CITIZENS LEAGUE matters

NEWS FOR CITIZENS LEAGUE MEMBERS JUNE 13, 2000

Welcome

New and returning members

Terry Bock
Brian Dusek
Nelson French
Mindy Greiling
Colleen Hartmon-Bollom
Barbara G. and David A. Koch
Calvin Lerman
Andrew R. Lindberg
Joe Nathan
Al Singer
Dale Ulrich and Julie Brunner
Shane Weinand
John Wodele

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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 for membership are $50 for individuals and $75 for families. Please call 612-338-0791 for more information about membership.

Does your employer have a matching gift program? Please check; it's a great way to leverage your dues or contribution to the Citizens League.

League outlines "*A New Agenda for a New Economy*"

In a statement released in May, the Citizens League outlined a number of priority actions for policy-makers to secure Minnesota's place in the global economy. Drawing on a number of recent studies (see reverse side), the statement recommends reorienting economic development activities to address a changed economic environment.

"Although Minnesota's economy is doing well now, we are not as well prepared for the future as we should be," said League President George Latimer. "Is the sky falling? No. But there are some serious blinking lights on the state's economic dashboard that we need to watch."

These "blinking lights" include evidence of slow growth in new business activity, particularly in high-technology fields, and a long-term shortage of workers across the board.

As a first step, the League's plan calls on policy-makers to articulate a clear state economic strategy to serve as a "roadmap" for the state's economic development expenditures and tax policies. Minnesota currently lacks a clear strategic vision of where we want our state to be in the global economy.

Rather than picking winners and losers or focusing on specific industries, the League recommends investing in the "front end" of the economic activity by targeting resources to support research at the University of Minnesota. Specifically, the League recommends the creation of the Northstar Research Coalition, a public-private partnership to invest in research in critical and emerging fields. This commitment to research needs to be viewed as an economic development investment, above and beyond our state's commitment to higher education.

The statement also calls for more attention to the preparation of a skilled and flexible workforce, the most critical natural resource in the global economy. The League has recommended continued work to improve our K-12 system, the development of more responsive post-secondary education and training opportunities, and greater attention to the ongoing training needs of workers.

As the League has argued for many years, implementing a new economic development agenda does not necessarily mean more spending. State, local, and regional governments are already spending money on a range of activities designed to spur and sustain economic activity, through direct expenditures and indirect subsidies. The challenge is reorienting this spending to align with a some kind of strategy for the new economy.

The full text of the statement is available on the League's web site at www.citizensleague.net or by calling the League office at (612) 338-0791. League members are encouraged to review the statement and email to info@citizensleague.net.

The League prepared the statement, ***Securing Minnesota's Economic Future: A New Agenda for a New Economy***, in anticipation of Governor Ventura's 2001 budget.

Longtime League member **Roger Hale** will lead efforts to implement the action steps outlined in the League's agenda. Hale, who chaired the League's 1999 study on workforce training, is retired CEO of the Tennant Company.

Hale and other League leaders intend to meet with editorial writers, Legislative leaders, administration officials and the Governor's staff to promote the League's agenda.

The mid-term budget has historically been the best opportunity for governors to influence the course of future state policy. The League hopes its statement will influence the administration and make a lasting impact on the state.

New statement draws on strong League study committees

The latest statement from the Citizens League, ***Securing Minnesota's Economic Future: A New Agenda for a New Economy*** is a culmination of the League's recent reports focused on how to prepare Minnesota for the new economy without leaving anyone behind. It is the fruit of four separate study committees conducted over the last four years involving nearly 200 League members and more than 100 resource guests.

The League's work in this area began with the ***Compete Globally, Thrive Locally*** report in 1996. The "global report" (all 120 pages of it) highlighted several factors critical to Minnesota's success in the global economy. The number one factor identified was the availability of a highly talented, productive and innovative workforce.

Reports and chairs of the committees that contributed to the New Economy statement

Compete Globally, Thrive Locally, 1996
John Yngve and Dave Hunt, co-chairs

A Competitive Place in the Quality Race: Putting the University of MN in the Nation's Top Five Public Research Universities, 1997
Buzz Cummins and Jane Vanderpoel, co-chairs

Help Wanted: More Opportunities Than People, 1998
Gary Cunningham and Steve Keefe, co-chairs

From Jobs for Workers to Workers for Jobs: Better Workforce Training for Minnesota, 1999
Roger Hale, chair

The report urged the state to dramatically reduce economic development spending on location incentives, real estate development subsidies and direct subsidies to individual firms. In its place should be increased investments in human capital and basic infrastructure. The report also called for a redesigned safety net for workers dealing with new economic realities - beginning with portable health insurance and pension benefits.

A Competitive Place in the Quality Race: Putting the University of Minnesota in the Nation's Top Five Public Research Universities, completed in 1997, found that in order to support a knowledge-based, global economy in Minnesota, the University of Minnesota must play a key role in research and development, as well as technology transfer to key industries. According to the League, the University must establish clear priorities in its research and graduate education programs and commit the resources necessary to support those priority areas.

The report called for the development of a new University-state-industry partnership, called the NorthStar Research Coalition, to finance and support significant investment in these research areas.

The League looked at the region's labor supply in the report, ***Help Wanted: More Opportunities Than People***. This report echoed the call to move away from economic development tools such as location incentives and real estate subsidies, and to abandon the singular focus on jobs, jobs, jobs. Instead, it argued, the state's efforts must shift to addressing a labor shortage by preparing residents to fill the numerous job vacancies that currently exist.

The fourth and most recent report in this series, ***From Jobs for Workers to Workers for Jobs: Better Workforce Training for Minnesota***, found that Minnesota's workforce training systems need to be redesigned, placing more emphasis on upgrading the skills of existing workers. This will require greater coordination of the state's numerous workforce training programs and new incentives for the MnSCU system to meet the needs of today's economy.

Meanwhile, current K-12 students need greater access to career counseling in order to better understand the opportunities that exist in today's market, as well as the education and skills required to take advantage of those opportunities.

All of these studies highlight a major transformation taking place in the global economy. In the most dramatic shift since the industrial revolution, information-based industries are displacing manufacturing as the principle engine of economic activity. Growth is now driven by high technology and knowledge-based businesses, and a region's economic success rests on capturing those sectors. The premium paid for skills is rising rapidly.

The central message of the League's work in this area is that for this region to stay competitive economic development strategies must be aimed at improving the productivity, working conditions and skill training of employees in all segments of the economy. The League's new statement crystalizes this message in preparation for the Governor's budget in 2001.

League welcomes summer intern

The month of June brings a summer intern to the Citizens League staff. Jillian Blake will be assisting this summer once a week in conducting research, updating the web page, and learning about the operations of a small non-profit like the League.

Jillian is a Minneapolis native who graduated from the Convent of the Visitation School in 1998. She is currently a junior at the University of Puget Sound in Tacoma, Washington studying Political Science and Spanish. Jillian is home for the summer and spends the remainder of the week at Southwest Community Education in Minneapolis. This coincides with her interest in education, giving her first hand knowledge of alternative forms of education outside of normal classroom settings. Jillian hopes that her summer experience with the Citizens League will fulfill her desire to learn about a unique approach to public policy and citizen involvement.