



# Minnesota Journal

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A publication of the Citizens League

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Volume 15, Number 5  
May 19, 1998

## Tax-increment use grows at faster rate

The use of tax-increment financing (TIF)—a widely used, but controversial, development financing tool—grew at a faster pace in 1997 than over the past few years, both in the number of new TIF districts created and in the amount of tax captured in the districts.

The amount of tax base set aside in TIF districts continued a three-year growth streak, growing by 8.4 percent in tax year 1997 and reaching an all-time high of \$231.4 million. The 1997 growth, the most recent figures available, continued the trend of increasing TIF value that

by **Dana Schroeder**

had been broken by a six percent decline in TIF value in 1994. It was the greatest annual percentage growth since 1991.

And the number of TIF districts in the state grew by 8.0 percent in 1997, nearly twice the growth rate in 1996.

At the same time, a few communities have started using a new tax abatement program enacted by the 1997 Legislature, which was

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. This causes higher taxes on non-TIF property, since general

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## New charter school uses cyber links

by **Dana Schroeder**

A new Minneapolis charter school is putting cyber learning to work, combining on-site instruction with at-home learning linked to the school via computer.

The Cyber Village Academy, located on University Avenue near the University of Minnesota, was chartered by the Minneapolis school board and opened on Feb. 17. It now has 30 children in grades three through six, recruited mainly, according to Principal Robert Bilyk, by word-of-mouth. Each student is provided with a home computer.

Bilyk said the school was originally developed to serve homebound students and students not being served by other schools, such as students who had been home schooled. So far the school does not have any homebound students, but is serving mostly former home schoolers, as well as some students who came from other schools. The school has attracted students from Minneapolis, as well as from St. Paul, Blaine, Brooklyn Center and other areas.

Bilyk described the curriculum as “quite rigorous.” Students come to the school two days a week from 9 a.m. to 3 p.m. The other three days

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## Legislature refuses to back down on C-I tax rates, compensatory funding

*Editor's note: The 1998 Legislative session has begun to fade into memory and most of the big decisions are already well known to Citizens League members. There were important developments on issues the League follows that didn't get much attention, however. And a few proposals tantalized us to the possibilities for next session. Below, a roundup of some of these week-page developments.*

### Economic development incentives

A bill sponsored by Sen. John Hottinger (DFL-Mankato) and Rep.

by **Janet Dudrow and Ron Wirtz**

Karen Clark (DFL-Minneapolis) would have required governments and businesses to disclose publicly financed business subsidies and the public benefits that resulted from the subsidies.

The proposal was the result of the Corporate Subsidy Reform Commission, established by the 1997 Legislature to look into ways of stemming the bidding wars for economic development. The bill worked its way successfully

through the Senate but procedural quibbles in the House scuttled it for the session. Some legislators, local government officials and business groups also had expressed concern that the bill language was too vague. The Commission is now thrashing out some of the technical questions in anticipation of a second try in the 1999 session.

Several Citizens League studies have concluded that many publicly-financed “economic development” subsidies direct scarce resources to activities that produce

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# Beyond LRT: What's next on public transit agenda?

The deal is done. The Legislature and the Twin Cities region have made an almost unprecedented commitment to public transportation by pledging money—lots of it—to a light-rail transit (LRT) line in the Hiawatha corridor.

It's no secret the Citizens League opposed the LRT proposal. But the deal is done, and now is not the time to complain about a decision that's been made. Instead, the League and the community should devote our collective energies to making sure we create the conditions that will help the line succeed.

To do that, we should address two pressing questions. First, what will it take to make the LRT line work, and work as part of the region's total public transit system? Second, what should be on the transit agenda next for the whole metropolitan area?

## How will we make the Hiawatha LRT line work?

The first concern is to ensure that the Hiawatha project comes in at a reasonable cost. Other metro areas' horrific experiences with capital cost overruns suggest we'll have to keep a sharp eye on project management from the beginning.

But that's just a start. The Hiawatha corridor must meet two more substantive challenges. First, the LRT line will have to compare favorably with the single-occupancy automobile in convenience and cost to the commuter. Trains won't do that automatically. A great deal of creative thought will have to go into the physical design and service

## Viewpoint

by Lyle Wray

infrastructure in order to lure people out of their cars.

Second, the LRT line will have to contribute to improved transit service for work trips to other locations besides downtown Minneapolis, the airport, the Mall of America and the University of Minnesota. Those are popular destinations, but even so, the Hiawatha corridor accounts for only three percent of total trips daily.

Effective public transit requires an effective combination of vehicles, facilities and services, such as a combination of big and small vehicles providing express service with few stops; state-of-the-art stations that provide commuter information and personal services, such as a dry cleaners and convenience grocery; and smart technologies, such as debit fare cards and computer tracking of vehicles. (For a fuller discussion of these strategies, see the January 1998 *Minnesota Journal*.)

## What next?

One of the arguments that helped to sell the Hiawatha LRT project was that it was the perfect opportunity to shake loose the first significant investment in Twin Cities transit in a long, long time. A chance to break the logjam.

Now that the logjam has been broken, we ought to ask, Where are the logs? What's the plan, the vision

for the comprehensive transit system the region must have to meet its really pressing concerns—easing congestion hotspots, improving workers' access to the downtown business districts, ensuring mobility for transit-dependent people, improving air quality?

Even more important, who should be in charge and held accountable for delivering these results?

The Hiawatha corridor, again, accounts for only about three percent of the region's trips. We shouldn't allow the LRT line to lull us into assuming that something is being done—or will happen automatically—about the other 97 percent of trips. Nor should we swallow the line that we need more LRT lines to do anything more about our transit needs. Simple arithmetic suggests that the region simply can't spend the huge amount of money a regionwide light-rail system would demand, and it's certainly not the most likely solution to our problems. We need more resources, yes, but we have to be smarter in defining the results the resources must deliver.

A strong political push by county regional rail authorities put LRT over the top. Who are the advocates for the next steps for public transit, including the broad range of strategies besides LRT? Equal passion will be needed to harness the

momentum of this big new investment and move ahead on a comprehensive agenda.

1999 is a biennial budget year. Citizens ought to expect the Metropolitan Council—the region's lead transit agency—to present an aggressive proposal for transit investment and services.

This proposal should include a "big picture" about what mix and level of public transit funding is most effective for the metropolitan area. The case should build on recent studies showing that our metropolitan area spends less per capita than other similar U.S. cities, yet appears to be one of the most productive and efficient.

The Council's 1999 legislative agenda should address a number of issues: the facilities, vehicles and operations necessary to significantly increase ridership in multiple-passenger vehicles; a capital plan for jitneys, shared-ride taxis and other deregulated transportation services; small and large buses; park-and-ride lots; high-occupancy vehicle meter bypasses and exclusive lanes.

The groups who were mobilized by the very effective political strategy for LRT must now keep the pressure on to improve the system for the other 97 percent of trips in the metropolitan area. Let's see if we have the will to act—now that the logjam on public transit has been broken.

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

# Editors value state basic skills testing, want it to stay

## On Balance

*Don't fail to test out these views.*

**St. Paul Pioneer Press** said (May 1) the state should "sigh with

relief when reviewing scores from 1998 graduation basic skills test." It called on adults to "cast aside politically motivated nays on the value of the test and the standards movement in general, and instead focus on those districts that need additional help." **Fergus Falls Daily Journal** said (Apr. 30) the Association of Metropolitan School Districts study suggests it may be time to make changes to the basic skills tests and that the governor and other advocates of testing "should be willing to recognize that fine-tuning is necessary, and should support the process." **West Central Tribune** (Willmar) said (May 4) it's important to remember that many factors affect the results of the basic skills tests—special education status, English language proficiency, income level, quality of parenting, parental education level and how much parents value education.

**Rochester Post-Bulletin** said (May 4) the main significance of basic test results is that "the testing program is in place and schools are taking it seriously." It said the more fruitful comparisons are those from one year to the next in the same schools. **Duluth News-Tribune** said (Apr. 29) the state should find out whether some questions on the basic skills tests are too hard by having an independent assessment of the

tests' difficulty. "The state should not buckle to pressure by educators to revise the test unless such a study shows that the questions are pitched unfairly high...It is easier to challenge the test than to impart the knowledge kids need to pass it—but that's the wrong approach." The paper pointed out (May 1) that districts where a high percentage of students passed "may want to gloat," but should compare themselves with students in other industrialized nations in Europe and Asia. **Star Tribune** called (May 5) the tests "a reasonable measure of what students about to enter high school should know."

**Duluth News-Tribune** said (May 6) state officials should end the two public schools (one in Vesta and one in northwestern Minnesota) serving predominantly members of the religious group the Brethren. It said the taxpayers should not subsidize the group's desire to keep computers, videos, TV, radios and recording equipment out of their children's schools.

**Pioneer Press** said (Apr. 8) the

Legislature decided to get rid of the state Board of Education as "retaliation" for the board's proposed Diversity Rule. It noted the board's work on the Graduation Rule and said, "Clearly the board's role of putting forth unpopular ideas is necessary."

**St. Cloud Times** encouraged (Apr. 7) people to make better use of the region's bus system, especially with the new off-hours, door-to-door reservation bus service scheduled to start in December for after 10 p.m. on weekdays and from 8 a.m. to 6 p.m. on Sundays. **Fergus Falls Daily Journal** said (Apr. 28) results of a recent survey show that bus service in Fergus Falls serving the entire public, rather than only senior citizens and disabled persons, is not financially feasible. **West Central Tribune** encouraged (Apr. 23) better use of the vehicles already on the road to provide public transportation—private, volunteer drivers, inter-city bus service and vans and buses. **Star Tribune** said (Apr. 23) the Los Angeles light-rail fiasco "raises cautionary flags...that Twin Cities light-rail

developers would do well to heed.

**Star Tribune** said (Apr. 23) the federal government should grant Minnesota the waiver it has asked for in its application for funds through the Children's Health Insurance Program (CHIP). Minnesota would use the money to enroll uninsured children in health coverage, whether or not the child was eligible for some other government program. **St. Cloud Times** called on (Apr. 8) legislators to stand up to the Minnesota Citizens Concerned for Life (MCCL) and pass the health and human services bill, even if it does not have an amendment banning partial-birth abortion. **Star Tribune** called (Apr. 8) a legislative deal to scrap \$250,000 in family-planning funds earmarked for rural clinics because of MCCL opposition "a bad deal all around, for everyone." **Mankato Free Press** praised (May 2) a new program to provide health services to veterans at 23 Mankato-area clinics, so vets won't have to drive to Minneapolis or Sioux Falls for their health care, except for specialty visits. **Duluth News-Tribune** said (Apr. 30) state health programs and private HMOs must do a better job of getting children vaccinated at an early age.

# Legislature

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little net gain to the state or metro region as a whole. The subsidies can fuel parochial competition or simply protect firms from the need to change, the League has said. In its 1996 report on economic competitiveness (*Compete Globally, Thrive Locally*) the League acknowledged that disarming unilaterally in the bidding war for development was risky. "Fierce competition means that some spending on location incentives will continue," the League said, "but business subsidies must be used much more judiciously, and governments and businesses held accountable for the results of this spending."

Stay tuned for what will likely turn into an interesting debate in 1999.

## Property tax reform

The 1998 Legislature made good on last year's promise to continue compressing property-tax rates by reducing the burden on commercial and apartment property. Commercial-industrial (C-I) class rates, for instance, were reduced (for taxes payable in 1999) from 2.7 percent to 2.45 percent for the first \$150,000 of value and from 4.0 to 3.5 percent for value over \$150,000. The change is expected to result in a \$45 million tax saving to businesses next year and should make a dent in Minnesota's top ranking in C-I property taxes nationally.

The League has long urged the Legislature to move away from the property-tax classification system—which disproportionately burdens rental housing and C-I property—and toward levying property taxes on market values. A more equitable property-tax burden would improve accountability for local government spending, boost

the region's competitiveness as a business location and increase the supply of affordable rental housing, the League has said.

Last year's breakthrough on property-tax reform was the first significant step forward in years. The 1998 Legislature's resolve was tested by election-year jitters and acute political pressure from home- and cabin-owners.

Those pressures weren't resisted completely. The 1998 changes bring the distribution of property-tax burden among property types closer in line with the distribution of market values. But because legislators lowered class rates on several property types—including higher-valued homesteads—the impact of the C-I and rental property reductions was diluted.

**Transportation and transit**  
While most of the attention and

Continued on page 4

# Metro area will need \$4 billion in new elderly housing

*Edited excerpts of remarks by Dan Lindh, president and CEO, Presbyterian Homes of Minnesota, to the Citizens League on Apr. 14.*

Currently in the metro area—11 counties—there are about 57,000 different kinds of units and that represents a little under 20 percent of the 65 and over population. The kinds of facilities that are included there: adult foster care, different kinds of assisted living, board and lodging, condominium and ownership models, coops, both the federally subsidized HUD and MHFA

stock, city-sponsored public housing and, in addition, nursing home units.

About 32 percent of the units are nursing home today. That represents about 6 1/2 percent of the population 65 and over. The national average is about 4 1/4 and dropping. With the moratorium, we're anticipating that in Minnesota that number will be down to about 3 1/2 percent by 2010, which may be accelerated if additional beds come out of the system.

The use of nursing homes has changed dramatically. One-half of all nursing home admits today are for stays of less than 30 days. It used to be even as long as 10 years ago that the average length of stay was over three years. Today that is under a year-and-a-half, maybe pushing down around 15 months, with maybe two-thirds of the beds in total being used for longer term kinds of stays.

We anticipate in the next 20 years about 38,000 new units will need to be put into service in the metropoli-

tan area to keep up with demand: 8,000 nursing home, 10,000 low-income, 9,000 moderate, 6,000 assisted living, ownership model more than doubling during that time period and housing alternatives, which would be adult foster care and other kinds of things, 2,000.

We anticipate the infrastructure cost in '98 dollars for that to be about \$4 billion. We think the out-state number for the same will be about \$3.5 billion.

## The Minnesota Journal

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

Annual subscription rate for nonmembers is \$40 for 12 issues. Orders may be placed at 612/338-1111 or by mail at the above address.

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



# Legislature

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resources for transit went to the Hiawatha corridor, significant investments were made in other transportation areas as well.

In particular, the Metropolitan Council received \$32.5 million in regional bonds for transit improvements, including \$12 million for a new bus garage to replace the dilapidated garage at Snelling Avenue and \$4.5 million for improved transit communications. The remaining \$16 million was the second half of a two-year capital improvement plan that includes 100 new buses with cleaner-burning engines, new transit stations off I-35W, and three new suburban park-and-rides. Council officials called the 1998 session "one of the most successful in years."

## Higher education

With the help of Sen. Steve Kelley (DFL-Hopkins), the Citizens League came close to seeing the central recommendation of its latest report, *A Competitive Place in the Quality Race* (January 1998) make it into law.

The report advocated the creation of a university-industry-state partnership—called the Northstar Research Coalition—to accelerate investment and activity in high-tech research at the Twin Cities campus. After some revisions from the League's original recommendation, a bill authored by Sen. Kelley was passed out of the Senate's Higher Education Budget Division.

The bill did not, however, receive a hearing in the House Higher Education Finance Committee. But it was kept alive for a short time in the Higher Education Conference Committee, and Sen. Kelley testi-

fied on behalf of the Northstar proposal at a late March conference committee meeting. Additional support for the proposal was provided by Thomas Wollner, 3M vice president of corporate staffing, who sent a letter supporting the partnership concept to conference committee members.

In the end, however, the Northstar proposal died in conference committee from lack of support from House members. Rep. Joe Opatz (DFL-St. Cloud), who was a mem-

*"More important was what legislators didn't do. Ultimately, they didn't back off from their 1997 policy that virtually all of the compensatory aid should follow the kids who qualify for it."*

ber of the conference committee, said several members were reluctant to support a quasi-independent partnership when the University was capable of creating such an entity without any legislative action.

Sen. Kelley added that University support for the proposal was lukewarm throughout. University officials, including President Mark Yudof, saw Northstar as a new technology transfer strategy, one which might ultimately cut into existing or future state allocations to the University. The intent of Northstar is to enhance and accelerate investment in high-tech research at the University—a message that will be honed as the League looks forward to the 1999 session.

In all, \$73 million in supplemental higher education spending was approved, and split fairly evenly between the University and Minnesota State Colleges and Universities (MnSCU) systems. Maybe

ironically, \$10 million was approved for a higher education/industry partnership. However, the money will be used to establish a new training initiative between MnSCU and Northwest Airlines to train technicians in the refurbishment of planes.

In its *Competitive Place* report the League also supported (with qualifications) President Mark Yudof's \$249 million capital request to catch up on deferred maintenance and invest in new technology, mostly on

lower concentrations of poverty. Legislators this year were under pressure to reverse or soften the new policy. The League early in the session urged the 1998 Legislature to insist that districts implement the 1997 law. The League also said that teachers and parents at the sites—those closest to at-risk students—should be empowered to create and run their own improvement strategies.

The final 1998 omnibus K-12 bill provided a modest appropriation to ease the transition to the new targeted appropriation, and allowed district offices to keep authority over five percent of the pre-1997 compensatory allocation.

More important, however, was what legislators didn't do. Ultimately, they didn't back off from their 1997 policy that virtually all of the compensatory aid should follow the kids who qualify for it. Ninety-five percent of the pre-1997 appropriation, and 100 percent of the compensatory appropriations hereafter, must go directly to the schools the eligible students attend—and the schools will have authority to decide how it's spent.

It's a powerful new opportunity for teachers, school administrators, communities and parents to take charge of their own school improvements. It also was an example of legislative courage in the face of some very tricky implementation challenges, not to mention tremendous political pressure.

Other good news for education reform: The Legislature appropriated funds for building lease aid for charter schools, helping to level the fiscal playing field between charter and district schools. And after vigorous debate, the Legislature declined to prohibit charter schools from hiring their own teaching-and-learning professionals. In a statement to education leaders early in the session, the League asked "If the school community—including parents—is convinced that Edison Project or Sylvan Learning or another for-profit firm is the best program for their students, and if the school's board is willing to be accountable for the results, why should the Legislature get in the way?"

Janet Dudrow and Ron Wirtz are research associates at the Citizens League.

# Cyber Village

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They are required to log in on their home computers by 9 a.m. Homebound students would not be required to be on-site two days a week.

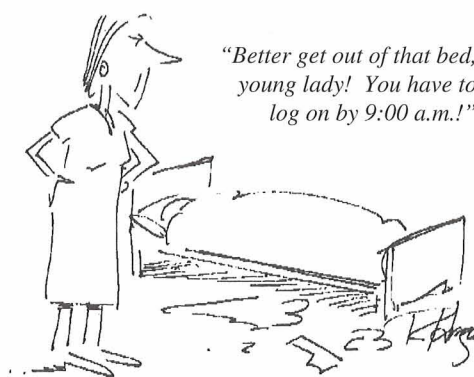
When students are at home they spend 75 minutes each day doing programmed computer learning in math, reading and spelling. The activities are customized to match each child's skill levels.

After completing the programmed learning, the student pushes a button on the computer to retrieve activities the teacher has developed in math, science, global studies and literacy. Some of these activities might take a child away from the computer, Bilyk said, such as having students write in traditional journals.

When the students are at home, they can connect with their teacher by computer and they can communicate back and forth in real time. Each computer is equipped with a white board, Bilyk said, allowing a teacher to demonstrate, say, a math problem by hand while the student watches, or vice versa.

Even when the students are at home, the school's teachers are at the school during traditional school hours, helping the students and developing curriculum, Bilyk said. The school currently has two full-time teachers, two part-time teachers, a part-time tutor and support staff, including computer support.

Since state law prohibits charter schools from educating or providing revenue to students who are



home schooled, Bilyk is quick to point out that any formerly home-schooled students enrolled at Cyber Village are just that: formerly home schooled.

"We're primarily responsible for the child's learning," Bilyk said, "but we collaborate with the parents. The child is at home three days a week and the parents are involved." The school is aligned with the graduation standards and does all the required standardized testing.

Parents are able to see their child's progress on computer, although teachers also hold conferences and send written reports, since not all families are comfortable with computers. He said if school officials do not believe the student has support at home, they suggest the school might not be a good fit.

Bilyk said the school intends to expand to grades three through seven next year and to grades three through eight the following year. The school intends to serve 75 students next year, with 45 slots reserved for students who come on site two days a week and 30 slots reserved for homebound students. It will add one more full-time teacher and one more part-time teacher. Each full-time teacher would be

assigned 15 students who come on site and 10 homebound students.

Because only a few spots are left for next year for the on-site students, Bilyk said the school may decide to expand to 100 students next year, with 60 on-site students and 40

homebound students. If so, the staff would add a fourth full-time teacher. No more than 30 students would be on-site at any time, with some students coming on Monday and Tuesday and others coming on Wednesday and Thursday.

## Homebound students

Bilyk said the school is now ready to try to actively recruit homebound students. He said he hopes to work with the Minneapolis special education office and with University and Fairview Hospitals to get referrals of homebound students.

"Our program would allow teachers to better connect with students" than current programs that send a tutor to the homebound students several times a week, he said. Cyber Village would take on the primary responsibility for the homebound student, collaborating with the parents and with teachers at the student's regular school.

Although he said the school hasn't yet established a guideline for how long a student would have to be homebound to enroll, he thinks two to three months might be the minimum.

But Tom Murray, coordinator of homebound, home schooling and summer school for the Minneapolis

Public Schools, isn't sure Cyber Village will be a strong alternative for many homebound students.

Murray said the district serves about 250 homebound students each year. Students must anticipate an absence of 15 consecutive days or 15 intermittent days during the school year to qualify for homebound instruction. "Very few of those kids are out for two or three months at a time," he said. Many suffer intermittent absences due to sickle cell anemia, asthma or chemotherapy.

He said when he is setting up a tutor for homebound students, 90 percent of the time he uses a teacher or other staff member from the student's school. "Relationships are absolutely critical to these kids," he said. "Taking a teacher from the school establishes some incredible bonds with the family. The teacher becomes a mentor and part of the family."

"The difficulty of taking students experiencing disease, illness or injury and re-enrolling them in a school with a totally different approach would be a challenge," Murray said. He said he has had a few homebound students who are in court-ordered home detention with monitoring bracelets and that perhaps the school's approach would work with them. They are usually ordered home for only about six weeks, though.

Murray said that for students who are out of school for an extended length of time, Cyber Village "could open up a whole new world with the computer. I'm just not sure how many students fit that bill."

Dana Schroeder is editor of the *Minnesota Journal*.



*"The Citizens League is telling us we should sometimes be happier about what legislators didn't do than what they did. Good concept... Now, about those chores you have in mind for tomorrow..."*

# Another view: Expanding airport is area's death knell

As a resident of south Minneapolis of over 40 years, I had to respond to Jeff Hamiel's article in the April 14 issue of the *Minnesota Journal*. The Metropolitan Airports Commission (MAC) is politically blind. Anyone can see that the current airport is not sufficient to take the Twin Cities into the 21st century and that its expansion is the death knell for otherwise thriving communities like south Minneapolis,

Richfield and Bloomington. To think that an airport which occupies the smallest parcel of land of any major U.S. airport and with parallel runways poised over some of the most remarkably beautiful neighborhoods in the nation is worthy of expansion is not to think at all.

The plan to squeeze in a north/south runway, not parallel to any existing runway, will prove to be a billion-

dollar delay tactic that serves no real purpose to aviation. An exclusive-use runway will serve as few take-offs and landings as the current 04/22 runway in the next 10 years, not enough to discuss.

The MAC has not done its job representing the people of Minnesota.

It is with a heavy heart that I have decided to leave the city with my

family to find some peace and quiet further from this misguided, expanding airport. In 10 years time, when the MAC is scrambling to find a suitable space for a proper airport, I hope that we all will remember the monumental disservice done by the MAC and all who had a hand in this pathetic 2010 "plan."

William E. Fifer, Minneapolis (soon Minnetonka)



TIF

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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 captured in TIF districts in 1997 amounted to \$231,443,783, or 6.21 percent of the state's total property tax base of more than \$3.7 billion. As the chart on page 6 shows, this is higher than the 1996 percentage of value captured by TIF, but lower than the peak of 6.7 percent reached in 1993 and 1994.

(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 \$200,000, its tax capacity value for taxes payable in 1997 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 comparisons**  
The number of TIF districts with captured value grew by eight percent in 1997—from 1,397 to 1,509—the third year of growth after a nearly five percent decline in 1994. The growth rate in districts was nearly the same within the metro area (7.8 percent) as outside it (8.1 percent), a change from the

previous year when the number of metro districts remained nearly static. About two-thirds of the growth in districts occurred outside the metro area, which saw a net growth of 72 districts, compared to a net growth of 40 districts in the metro area.

As of 1997, 386 communities—in 83 of the state's 87 counties—had TIF districts with captured value. Twenty-four new communities—all but one in Greater Minnesota—had TIF districts in 1997, while eight communities that had districts in 1996 had none in 1997. (Included in these figures are the communities of Norwood and Young America in Carver County, which both had tax increment districts in 1996, but which merged into one community, Norwood Young America, in 1997.)

According to the State Auditor's Office, there were 1,897 TIF districts in the state required to file reports; only 1,509 of the districts captured some tax-base value in 1997.

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 76 percent of the tax base captured in TIF districts. Metro area TIF districts, on average, are 5.5 times larger than nonmetro districts, with the average metro-area TIF district containing \$319,339 of captured tax base, and the average nonmetro TIF district, \$58,193.

Fifty-six of the 386 communities with TIF districts had \$1 million or more of their 1997 tax base captured in TIF districts, seven more than last year. All but 13 of these communities are in the seven-county metro area; 16 of them are located in Hennepin County. The five cities with the highest TIF tax base were **Minneapolis**, \$43.8 million;

**Bloomington**, \$15.3 million; **St. Paul**, \$10.1 million; **Duluth**, \$7.4 million; and **Brooklyn Park**, \$6.2 million. The top four cities were the same as in 1996, but Brooklyn Park replaced Roseville 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 1997, 123 communities had more than 10 percent of their tax base captured in TIF districts—89 in Greater Minnesota and 32 in the metro area. That's 16 more than surpassed the 10 percent mark in 1996. Twelve of these communities—all but Carver County's Chaska outside the metro area—had more than 25 percent of their tax base tied up in TIF districts.

The five communities with the highest percentage of tax base captured in TIF districts were **Claremont** (Dodge Co.), 40.9 percent; **International Falls**, (Koochiching Co.), 38.2 percent; **Clontarf** (Swift Co.) 38.1 percent; **Dundas** (Rice Co.), 37.7 percent; and **Des Moines Twp.** (Jackson Co.), 37.1 percent. **Minneapolis** had 12.8 percent of its tax base captured in TIF districts; **St. Paul** had 6.3 percent.

As a whole, the seven-county metro area had 7.5 percent of its tax base captured in TIF districts in 1997, compared to 4.0 percent in Greater Minnesota. Tax base captured in TIF districts grew by 8.0 percent in the metro area and by 9.4 percent in Greater Minnesota.



"Pardon our giddiness, but the idea of being asked by our esteemed city colleagues, instead of told, strikes us as somewhat humorous!"

The net captured taxes in TIF districts amounted to \$288.7 million in 1997—\$221.6 million in the metro area and \$67.0 million non-metro.

Net TIF taxes made up 6.1 percent of the property taxes levied by all taxing jurisdictions in the state in 1997. 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 39 percent as high as all other property taxes levied in 1997 by cities and townships across the state.

**Legislative review**  
Because of concerns about inconsistencies in the laws governing TIF, the 1997 Legislature set up a legislative task force to study TIF recodification. The committee is chaired by Sen. John Hottinger (DFL-Mankato) and Rep. Edgar Olson (DFL-Fosston). According to Joel Michael of the House Research Department, the focus of the task force's work is to reorganize and improve the language of

Continued on page 7

TAX-INCREMENT FINANCING, TAXES PAYABLE 1997							
	'97 TIF captured tax capacity	% change over '96	'97 net TIF tax	% change over '96	No. of TIF districts*	'97 total tax capacity	% change over '96
Metro area	\$175,636,292	8.0%	\$221,646,499	3.9%	550	\$2,339,866,519	7.5%
Nonmetro	55,807,491	9.4	67,029,303	8.6	959	1,388,938,453	6.2
Statewide	231,443,783	8.4	288,675,802	5.0	1,509	3,728,804,972	7.0

\*Includes only those districts with captured value. There are an estimated 1,897 TIF districts in the state, including those with and without captured value.  
SOURCES: Minnesota Dept. of Revenue, State Auditor's Office

TIF

Continued from page 6

TIF laws, not to make substantive changes. He said, though, that "if the process raises issues with substantive implications, they may take those on."

Michael said the group is aiming to have a first draft ready in August and a bill for the 1999 Legislature.

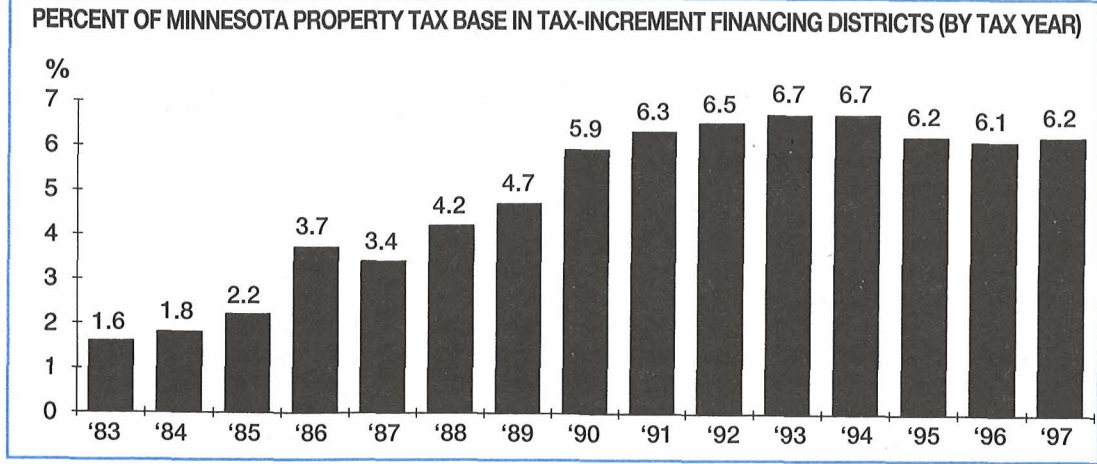
TIF issues

The continued ratcheting down of the rates at which commercial-industrial property is valued for tax purposes, which began in tax year 1998 and will continue next year, will reduce the amount of revenue generated by some TIF districts, Michael said. Since existing projects were based on the valuation rates in effect when the projects were created, he said some projects may find themselves close to a deficit situation.

Another ongoing concern is the effect of TIF on state school aid payments. Michael said the state had an additional \$112 million in 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.

And, Michael said, a lawsuit by the Opus Corporation alleging that the City of Minneapolis misapplied tax-increment financing in an existing tax-increment district on the Nicollet Mall could have implications for how cities can use existing TIF districts. The city wants to build a Target store on the 900 block of the Nicollet Mall and Opus wants to develop an office building there.

Opus contends that the city should have to meet the "but for" test that new TIF districts must meet: that even accounting for the cost of the assistance provided through TIF financing, the TIF-assisted development will add more to the city's tax base than any development that would occur without assis-



tance. The city argues that because the TIF district where the Target store is proposed is an already-existing district, the law does not require the city to meet the test. The condemnation proceeding used by the city is also in contention in the lawsuit.

The city won the first round in the trial court and the case is now before the Court of Appeals, with oral arguments scheduled for June 3, according to Jim Moore of the Minneapolis City Attorney's Office.

Rebecca Yanisch, executive director of the Minneapolis Community Development Agency (MCDA), said the city believes the trial court decision "clarified the process we've used was appropriate. My position is that we were found to have met the legal requirement."

Yanisch said the city met the but for test when the TIF district was established. According to the MCDA's Phil Handy, the TIF district covers about 4 1/2 city blocks and contains several developments that have already occurred: the Hilton Hotel and Towers and the Target headquarters office building.

"Our position is that even if we had to do the test over again, we could have met the clause," Yanisch said.

Michael said the outcome of the case could affect the way cities, suburbs and regional centers can use existing TIF districts for further development.

**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.

Under the new tax abatement program, which will first affect taxes paid in 1999, cities—and counties or other units of government, if they choose—could forgive taxes or a portion of taxes on the development for a certain time period, up to 10 years. School districts can only abate a portion of their taxes under the program—and only for one year at a time—but the state will not pay increased state aid to cover the cost of the abatement. 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.

Interestingly, House Research's Michael said the Metro Inter-County Association requested that counties not be allowed to abate taxes, so they wouldn't get requests from cities to do so—a proposal that made it into the Senate tax bill but did not survive in conference committee.

Bemidji is one city that has used the new tax abatement process. According to Bemidji Mayor Doug Peterson, the city is working to attract a large retail and office development on 100 acres of empty land that used to be the site of the Beltrami County Fairgrounds. The project is expected to attract \$18 million in new development and 400 to 600 new jobs.

The city has bonded for \$2.8 million to pay for streets, infrastructure, curb and gutter and lighting for the development and to cover the cost of one business relocating. The project is underway and construction could begin as early as June.

Peterson said the city originally intended to use TIF to cover its costs. They learned, though, that the area was ineligible for a TIF district because it was largely vacant land and did not include buildings to be torn down. So the city decided to take the abatement approach. Both Bemidji and Beltrami County agreed to abate all new taxes on the area for 10 years. The school district declined to join in abating taxes on the project, Peterson said, because it is trying to pass a \$48 million bond issue to build a new high school and grade school.

Peterson said the city is very pleased with the tax abatement process. "We think it's a wonderful tool," he said. "It's much easier to implement than TIF. We don't have to deal with the state. I would highly recommend it. As long as you can get along with your county board and your school board, it can be done."

Dana Schroeder is editor of the Minnesota Journal.



# States' equalizing doesn't close school funding gaps

Continuing controversy in the Legislature over the compensatory education funding issue, as well as the education funding adequacy lawsuits in Minneapolis and St. Paul, led us to take another look at a 1997 General Accounting Office (GAO) report on funding gaps between poor and wealthy school districts. The report, based on 1991-92 school year data, suggests that local tax efforts by poor school districts have done more than state efforts to close the funding gap between poor and wealthy districts.

The report, *School Finance: State Efforts to Reduce Funding Gaps Between Poor and Wealthy Districts* (Feb. 1997), found that wealthy districts had, on average, about 24 percent more total funding per weighted pupil than poor districts. It found three factors that affect the funding gap between a state's poor and wealthy districts: (1) the extent to which a state targeted funding to poor districts; (2) the state's share of total funding; and (3) the relative local tax effort of poor districts to wealthy districts.

Interestingly, targeting was found to be the least important in explaining the funding variation. The state's share of total funding accounted for more of the funding gap, while the relative local tax effort of poor districts to wealthy districts accounted for most of the variation. In 35 states, poor districts made a higher tax effort than wealthy districts.

The report concluded that states that want to further reduce the funding gap between poor and wealthy districts must put greater resources into increasing the state share of total funding, increasing their targeting effort to poor districts, or both.

Minnesota ranked well in its 1991-92 equalization efforts, coming in seventh highest among the 50 states, with a measure of 80.1 percent, compared with a national average of 62 percent. (A score of 100 percent would mean that poor and wealthy districts making the same local tax effort would have the same total revenue available per pupil.)—Dana Schroeder.

**The Legislative Audit Commission** selected on April 6 the next topics for program review by the

## Take Note

"Money begets money."—J. Ray

Office of the Legislative Auditor: juvenile out-of-home placements, feedlot regulation, occupational licensing and regulation, the Metropolitan Mosquito Control District, state building codes, and counties' use of administrative penalties for violations of solid and hazardous waste ordinances.—Lyle Wray.

**Congress is debating** proposals that would temporarily increase the quota of H1-B immigration visas, which allow noncitizen high-tech professionals, such as engineers and computer programmers, to work in the U.S. for six years under company sponsorship. Information technology (IT) industry groups say the current 65,000 annual quota is expected to be met by mid-year, the result of a boom in IT business and a shortage of skilled IT workers in the U.S.

The House version, sponsored by Rep. Lamar Smith (R-Texas) would raise the annual cap to 95,000 the first year, 105,000 the second, and 115,000 the third, then revert to 65,000. It would require companies to pledge that they won't lay off American workers to hire immigrants and that they have made a good-faith effort to hire Americans first. The Senate version would raise the cap to 90,000 for five years and does not include the Americans-first requirements.

The debate over H1-B visas hits close to home. Minnesota's high-technology companies say they're in dog-eat-dog competition for every software designer and engineer in the country. The companies are turning to India, Taiwan and Latin America to find the people they need and express frustration over what they regard as outmoded immigration laws.

At a recent study committee meeting, Daniel Luthringshauser, vice president of international development at Medtronic, summed up the sentiments: "The Immigration and Naturalization Service has to wake up. We're no longer living in a world where we can build walls and keep people from moving around."—Janet Dudrow.

**The more things change...** Following in the footsteps of Michigan, Vermont scrapped its school funding system, replacing it with a system largely dependent on a new statewide property tax. (Michigan opted for statewide sales tax). Under the new funding scheme, revenue will go toward a \$5,000 block grant for each pupil. Wealthier towns can impose higher local levies, but even this money would be distributed using an equalization formula.

The new law goes into effect next year, and reverses the current 30/70 ratio of state/local revenue, essentially substituting state property taxes for local property taxes. The new measure contains several "income-sensitive" measures to protect lower and middle-income households, including a state property tax cap of two percent for households earning less than \$75,000. These "protective" measures, in turn, are being financed by six different tax increases and a new telephone tax.—Ron Wirtz.

**The Des Moines Register**, now a Gannett paper, has been increasingly critical of Iowa's southern-state strategy for economic growth: tax concessions to induce firms to "bring jobs" to the state. A company won't be lured to Iowa, the editorials say, if it can't get workers; over the past 25 years, Iowa has ranked 40th in population growth.

So, they argue, Iowa should focus on making itself attractive to today's information-based companies—like the pacific Northwest

and the Twin Cities. "When somebody announces, 'I'm being transferred to the Twin Cities,'" the *Register* wrote, "the response is usually 'Wow! Good for you. That's a great place to live.'"—Ted Kolderie

**A recent Reliastar study** found the Twin Cities metro area tops in the nation when it comes to saving for retirement. Statewide, 72.4 percent of households have a retirement savings plan (IRA, 401(k) or Keogh plan) compared with a U.S. average of 59.4 percent.—J.D.

**A year after our Legislature** got Minnesota back in the lead of the nation's charter-school movement, California has almost caught up. The bill approved in the Assembly 60 to four and in the Senate 29 to three opens the way for new schools (as well as conversions), will allow both districts and now also the state board to grant up to 100 charters a year and will ensure that the schools can be legal entities and receive full, fair financing directly from the state. It is the Minnesota model. Groups normally opposed to the charter idea supported the legislation as an alternative to having the measure come up as a constitutional amendment on the ballot next fall.

In Wisconsin, at the urging of the Wisconsin Association of School Boards, the Senate voted to adopt Minnesota's model of charter schools as discrete entities. In Milwaukee the Common Council voted to move ahead with the nation's first program of city-sponsored charter schools.—T.K.

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

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- ▶ Minnesota Journal

## GETTING

## THE JOBS

MN's Labor

Shortage **DONE**

The New Citizens League Study

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[www.citizensleague.net](http://www.citizensleague.net)

## Keep up with "Getting the Jobs Done" online

One of the best features of the new League web site is the link to the League's latest study, *Getting the Jobs Done*, which is looking at the labor shortage.

The homepage of our web site is reproduced above. If you are interested in the labor shortage study, click on the icon on the right. You'll find the charge to the committee, bios of the committee chairs, minutes of the meetings, transcripts from the Mind-Opener series that kicked off the study and policy briefs prepared by

the staff. We even have links to about 20 other sites with more information on the topic.

Many members of the committee are receiving their materials electronically. You can keep track of the committee and even participate by emailing comments to the staff.

Beyond the advantage of keeping track of the study committee, the League web page gives you information about League events, includes portions of the *Minnesota Journal* and even has

bios of the staff. Still to come—links to a comprehensive list of interesting public policy sites.

David Erickson of E-Strategy, Inc. designed the new web site and manages the weekly updates. He also provided invaluable help to the staff in making the transition to a new server for both the web page and the League's email address.

So check us out, and add a bookmark at [www.citizensleague.net](http://www.citizensleague.net).

## Election to be held on June 30

Each year League members elect eight people to three-year terms on the League's Board of Directors. This year the election will be held on June 30. All members of the League will receive a ballot and election instructions in the mail around the beginning of June. Officers and additional directors are appointed to one-year terms at the League's annual transitional meeting.

Nominating Committee Chair **Mike Christenson** has announced the following slate of candidates:

**Marcia Keller Avner**, Public Policy Director, Minnesota Council of Nonprofits; **Gary Cunningham**, Associate Collegiate Program Leader, Humphrey Institute; **William Diaz**, Senior Fellow, Humphrey Institute; **Linda Ewen**, Human Services Planner, Anoka County; **Jean Harris, M.D.**, Mayor, Eden Prairie; **Susan Heegaard**, Director, Intergovernmental Affairs, Department of Children, Families and Learning; **Steve Keefe**, Director, State Government Affairs, Honeywell, Inc.; **Sean Kershaw**, Director, Business Resource Center, City of St. Paul; **George Latimer**, Distinguished Visiting Professor of Urban Studies, Macalester College; **David Olson**, President, Minnesota Chamber of Commerce; **Bob Vanasek**, Public Affairs Consultant; **Lee Pao Xiong**, Director of Government and Community Relations, Concordia College.

Besides Christenson, Nominating Committee members were: **Mary Anderson**, **Matthew Ramadan**, **Ted Kolderie**, **Peter Martin** and **Rafael Ortega**.

## Other Citizens League news

### League attracts national foundation grant

The Citizens League was recently awarded a grant from the Alfred P. Sloan Foundation in New York City. The grant is to study ways to ensure effective local government performance assessment with citizen involvement. Paul Epstein from New York and Martha Marshall from Washington are also involved as partners in the study. This topic is, of course, one in which the League has had a long interest. League executive director Lyle Wray is also known nationally for his work in this area and will take the lead staff role. The League also has a grant request—for the public leadership initiative—pending with the Surdna Foundation. We should get news on their decision in the next 30 days.

## updates

### Member recruitment

In late April the League sent membership invitations to lists given to us by MPR and the Historical Society. Although the mailhouse does everything it can to remove current members, the process is not perfect. If you are a member and got an invitation to join—our apologies. But please give the packet to a friend and recruit a new member.



# Citizens League Matters

May 19, 1998

News for Citizens League Members

## Welcome

Frank Belgea  
Beryl Singleton Bissell  
James R. Casebolt  
Joan Cleary  
William Cox  
Peter Dick  
Michele Fedderly  
Michael G. Ferber  
Mark Frazier  
Renee Frederickson  
Maria Gomez  
William Hedrick  
Donna Herbel  
Richard J. Herrmann  
Ron Hoffner  
Edward A. Howe  
Lucy V. Hulme  
Jeannette S. Hunter  
Todd Johnson  
Beth Kadoun  
Robert Kane  
Steve Lepinski  
Dan Lindh  
Ronald Luehmann  
Pauline Matthees  
Mimi Nachman  
Susan C. Otto  
David Pence  
Eugene Piccolo  
Betsy Siegel  
Gary L. Stenson  
Hal Tearse  
Robert Webber  
Wendy C. Wehr

thanks: Chuck Lindemann

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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.*

## a new WRINKLE on AGING

An average of nearly 100 people packed into the University Club for each "A New Wrinkle on Aging" Mind-Opener. This ongoing series is a joint effort by the Citizens League and the Minnesota Department of Human Services (DHS), and part of the "Project 2030" initiative being carried out in partnership with the Minnesota Board on Aging.

Up next in the series is a noontime luncheon featuring **Dr. Marilyn Moon**, senior fellow at the Health Policy Center at the Urban Institute in Washington, D.C. Dr. Moon will discuss federal entitlement programs and the implications of a rapidly devolving federal service sector.

The meeting will be held on Tuesday, May 19 at noon at the Sheraton Metrodome (near 35W and 280). Cost is \$20 for League members; \$30 for non-members. Pre-registration is required.

The series will conclude with a half-day symposium on Wednesday, June 17, 1998 featuring health care expert and former U.S. Senator **Dave Durenberger** as the guest luncheon speaker.

After an opening address by former U.S. Representative **Tim Penny**, three concurrent break-out panel discussions will be held to discuss long-term care, building age-sensitive communities and maximizing an aging workforce in today's economy. Panelists include **Dr. Rosalie Kane** from the University of Minnesota, **Jim Solem** of the Metropolitan Council, and **Duane Benson** of the Minnesota Business Partnership.

The event will be held from 10 a.m. to 2 p.m. at the Radisson South, I-494 and Hwy. 100, Bloomington. Cost is \$40 for Citizens League members, and \$50 for non-members.

DHS has contracted with the League to provide a non-partisan advisory report regarding the policy implications of an aging baby boom generation. A task force, co-chaired by **Kent Eklund** and **Katie White**, will create a vision and a design for public systems that would effectively deal with and provide service to an aging population.

## COMING EVENTS

### Marilyn Moon

Tuesday, May 19, noon - 1:30 p.m.

### Symposium featuring

**Dave Durenberger and Tim Penny**

Wednesday, June 17, 10 a.m. - 2 p.m.



## SPONSORS

A New Wrinkle on Aging was organized in cooperation with the Minnesota Department of Human Services. Additional financial support was provided by:

### Allina Foundation

**Halleland Lewis Nilan Sipkins & Johnson**  
**Medtronic, Inc.**

**Metropolitan Area Agency on Aging**  
**St. Jude Medical, Inc.**

In-kind support was provided by: **Center on Aging at the University of Minnesota**, and **Senior Health Policy Fellowship at the University of St. Thomas.**