



Minnesota Journal

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More cities creating more TIF districts, but value falls due to C-I rate cuts

The number of Minnesota communities using tax-increment financing (TIF)—a financing tool for attracting development or redevelopment—continued to grow in 1998, as did the number of TIF districts.

But, while the number of districts was growing, the amount of tax base “captured” by TIF districts—or set aside to pay development costs—declined in 1998 (the most recent data available), due to a legislative change in the way commercial-industrial (C-I) property is valued for taxation.

by Dana Schroeder

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 from 1,509 in 1997 to 1,617 in 1998, an increase of 7.2 percent.

The amount of tax base set aside in TIF districts broke a three-year growth streak by declining by three percent in 1998 to \$226.0 million. The last time TIF value had

decreased was in 1994, when C-I property values were in a period of decline.

The tale in 1998 is different, however. Statewide, the market value of all types of property grew at a healthy pace—6.9 percent—from \$1.878 billion in 1997 to \$2.008 billion in 1998. 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 2.7 percent, even as its market value was growing.

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Ventura fate rests on candor, independence

by Dana Schroeder

Jesse Ventura’s legacy as Governor will depend on sticking with a focused agenda and remaining true to his campaign’s candor and independence, according to former DFL Congressman Tim Penny. Penny is now a senior fellow at the Humphrey Institute of Public Affairs and an informal Ventura advisor. He addressed the Citizens League’s annual meeting May 4 in Minneapolis.

Ventura had unique success in attracting historically cynical and uninvolved younger voters, Penny noted, pushing overall turnout to 62 percent of eligible voters. “There is great promise with this new administration,” he said, “but if he doesn’t succeed, it will only fuel past cynicism.”

Penny listed a series of tests he believes will help determine Ventura’s ultimate success as governor.

The first test, Penny said, has been the Governor’s ability to achieve success on a limited policy agenda in his first legislative session. That agenda has focused on tax cuts and

Does confining young people to ‘adolescence’ need rethinking?

Could we maybe get further dealing with the problems of adolescents if we got rid of the whole notion of *adolescence*?

Clearly, it’s a fairly recent notion—of having a separate time of life, almost a separate group of people, aged 12 to 19.

Before the early 1900s there was childhood and adulthood. There were big transitions to be made in growing-up, of course. But young people did move into the adult world without this stage in-

by Ted Kolderie

between where they are no longer children, but not yet treated as adults; behaving like adults, but not given serious work to do; expected basically to “go to school”.

After the 19th century, when children were treated so badly, there was an understandable impulse to give them a real childhood free from work. Less defensible, perhaps, is the belief that prolonging childhood is a good thing in itself.

This institution—adolescence—is now in serious trouble.

Some rethinking came April 30, when Theodore Sizer’s colleagues and friends gathered at Brown University to commemorate his lifetime of work with young people. Planned for months, it took place less than two weeks after the shootings at Columbine High School touched off a national discussion about “what’s gone wrong?”.

Sizer was a young dean of the Har-

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Workforce development for the new economy

The legacy of the last 70 years of labor surplus—more workers than jobs—brings with it a certain amount of baggage—most notably an unwavering focus on job creation and re-employing dislocated workers.

Such a focus was understandable, given the demands of social stability to get people into the workforce. Our policy of “jobs, jobs, jobs,” satisfied the employment needs of workers and businesses were able to use this influx of labor to expand output.

New problems often arise when conditions change, yet our thinking and actions do not change accordingly. Despite the fact that unemployment is at historic lows and our workforce participation rates are among the highest in the country, the implicit objective of many government programs continues to be unemployment reduction.

Last year’s federal Workforce Investment Act is a good example. While there was originally hope that the law would usher in some new thinking, it ended up being a rerun of “Unemployment Reduction Acts” of the past. Resources continue to be targeted according to unemployment levels in a given area; “performance” data focuses on ensuring that individuals are employed for at least a year.

What this legislation overlooks is the fact that unemployment is no longer the core challenge. That’s not to say we should ignore or forget those who still have not been able to find and retain a job. Far

Penny

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rebates, more money for K-12 education and creating several permanent endowments with proceeds from the state’s tobacco settlement.

“The Governor is well-positioned in this session for victories on all four of those issues,” Penny said. “And, if he succeeds in chalking up a win on the issues he established as priorities, that sets the stage for the kind of stature that may help him in the future.”

Viewpoint

by Lyle Wray

from it. But we can and must address other challenges—namely the intersection of a labor shortage and the emerging “new-knowledge economy”—that have replaced the

For example, despite talking the language, we still have a long way to go to make “lifelong learning” a reality and to support it through policy and investment. Productivity

“We have a huge job-training and postsecondary education infrastructure, crafted in a different era and designed to address different problems from those we have today.”

unemployment problem in urgency and scale.

For example, one byproduct of the labor shortage and new economy is a growing vacancy rate in higher-skilled jobs that pay family living wages. In many cases, it looks like the training pipeline is nowhere near adequate to close this gap. This and other new workforce-related problems will require a shift in emphasis away from the unemployment reduction model to improved workforce development.

There is currently a huge disconnect between the demand and supply sides of a skilled workforce. When employers are begging for skilled workers—and paying good wages—the supply side of the system needs to be able to respond. That’s not happening fast enough or in the needed scale in many cases today.

The next test, Penny said, will be what the Governor does to establish his own agenda, once the Legislature ends its 1999 session. “This is the time to be creative and for the Governor’s highly talented cabinet to shine through. If he can begin to deliver better satisfaction and a better sense of value for our tax dollar, those will be remarkable achievements.”

Governor Ventura’s long-standing legacy, Penny said, will also depend on continuing to convince Minnesotans that their state government is doing business differently. “He was elected in large part

increases in the future will not be derived much from a shrinking pool of new workers entering the workforce, but rather will come from incumbent workers (who make up the large majority of the workforce) who continually upgrade their skills.

But systematic training for this population is still new thinking for us. There is no parallel system in place now for employers and employees to easily and rapidly increase the skills of the workforce necessary to remain globally competitive. To wit, the higher education system still often refers to adult learners as “nontraditional students,” as if they somehow are doing things out of order or against some unwritten rule.

In general, we have a huge job-training and postsecondary education infrastructure, crafted in a different era and designed to address

different problems from those we have today. We must revisit policy, funding streams and practice to get key vacancies filled faster and move toward a higher standard of training competence.

This, then, is the challenge facing the current Citizens League study committee on workforce for the new economy, which had its first meeting in late April. The committee is investigating how to make the workforce development and training system more driven by employer needs and less driven by what postsecondary and other training systems want to offer.

The committee will study the changes necessary for both public and private training systems to adjust more quickly to these new economic realities and workforce needs. The group will also look at funding systems, private-public partnerships and other policy options that will facilitate the shift to a faster-moving, higher-quality, employer-fitted job training system.

This system must meet the needs of employers in filling jobs on the higher end of the “job food chain” (high-skilled, high-paying), while creating job opportunities and career ladders for people at whatever their given skill level. The committee’s final report will hopefully be a “must read” for the 2000 legislature as it takes up the issue of workforce training for the new economy.

Lyle Wray is executive director of the Citizens League.

Part of meeting that test, Penny said, is to make good on the pledge the Governor has made to increase citizen involvement and access. He’s doing that partly through a weekly radio talk show, Penny noted, allowing citizens to have a regular dialogue with their Governor.

Penny also said he expects to see Ventura take a major governmental reform initiative on the road that will include a Constitutional amendment creating a unicameral legislature. “He feels passionately about how a unicameral legislature could address much of what frus-

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Editors give Ventura mixed reviews, favor gift ban

Mankato Free Press praised (Apr. 8) Gov. Ventura’s first legislative veto, which he called “a

“perfect example of unnecessary government regulation.” The bill would have required rain-check devices on irrigation systems to monitor moisture and prevent automated irrigation systems from turning on after a certain amount of rain. **Red Wing Republican Eagle** said (Apr. 15) recent special elections show that “the Reform Party has a long way to go before it can be considered a true force in Minnesota politics.” It said the future of the Reform Party “rests firmly in Ventura’s hands” and that he must “prove that a Reform governor can make a difference working with a Legislature controlled by the mainstream parties.”

St. Cloud Times said (Apr. 13) “very little of consequence has been decided” 100 days into Ventura’s administration and 34 days from the end of the legislative session. It said Ventura has been “utterly disengaged from the legislative process to date.” The paper said the Governor could “head off a special session by taking charge, wielding the power and prestige of his office and his popularity to forge legislative compromise.”

Free Press said (Apr. 13) Ventura’s first 100 days have “been like no other Minnesota governor’s honeymoon.” It said his major achievement has been to use his celebrity status to bring attention to

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On Balance

Opinions were blossoming furiously in state newsrooms.

the state. It also said his choices for cabinet officers “have been outstanding.” On the negative side, the paper said his political philosophy and legislative priorities are “not at all clear.” As Governor, the paper said, “he should have some top priorities that he is willing to fight bitterly for.” It also called Ventura’s “thin skin” and “obsession with his personal wealth” “troubling traits.” **Rochester Post-Bulletin** said (May 1) Ventura’s “shoot-from-the-hip style” helped get him elected, but as Governor, he “has to learn some tact.” It criticized his remarks about concealed handguns in the wake of the Littleton shootings.

Republican Eagle called (Apr. 28) the final weeks of the legislative session somewhat like “watching sausage made.” It said they offer “the strongest grounds for consideration of a unicameral legislature,” which both Gov. Jesse Ventura and House Speaker Steve Sviggum support. “The question all Minnesotans should ask,” the paper said: “Do more legislators really do a better job?”

Republican Eagle criticized (May 4) a legislative proposal that would trigger a reverse referendum in counties and cities of more than 2,500 population if a government unit proposes an increase in its levy of more than two percent or more than the consumer price index, whichever is greater. It said measures like this one and statewide ini-

tiative and referendum proposals could allow “a relatively small group of citizens to control decision-making.”

St. Cloud Times said (May 3) the Legislature should leave the ban on gifts to legislators alone. “In the old days, before the ban, the image was one of legislators going from one special interest group reception to another for their meals...We don’t want a return to those days. We want a law that is simple to follow. Leave well enough alone.” **Fergus Falls Daily Journal** said (Apr. 30) the exceptions to the gift ban approved by the state Senate cumulatively “destroy the gift ban.” It called on the House to defeat the gift ban relaxation bill or, if necessary, for Gov. Ventura to veto it. **Duluth News-Tribune** said (Apr. 30) the House leadership should kill “this ill-conceived move to bring the Legislature back to the bad old days when some lawmakers...played their position for all it could offer. Once down that road is enough.” **Free Press** said (Apr. 30), “Minnesotans need to know that their lawmakers aren’t being unduly influenced by favors or money when they cast their votes. The gift ban offers that confidence.”

Star Tribune said (Apr. 27) the Legislature should follow the Senate’s lead and “fix, don’t flatten the Profile of Learning.” But it criticized part of the Senate proposal that allows a majority of licensed

teachers and the school board to vote to seek a waiver from the Profile standards. **Duluth News-Tribune** agreed (Apr. 24) that the Senate and the Governor should save the Profile. But it said some refining of the Profile “might not be all bad.” It said allowing the school board/teacher vote “would certainly be preferable to scrapping the Profiles entirely.”

St. Cloud Times endorsed (Apr. 25) Gov. Ventura’s approach to use of the state’s tobacco settlement: Send \$1.7 billion back to taxpayers and invest \$1.3 billion. It lauded Ventura’s idea of setting aside a portion of tobacco settlement funds for public-private partnerships to help people in poverty reach self-sufficiency. **Duluth News-Tribune** said (Apr. 15) the tobacco money should be used to improve the health of Minnesotans. “The tobacco money is not like the surplus,” the paper said. Investing a major part of the tobacco settlement to produce revenues that will improve the health of Minnesotans “should be a done deal.”

St. Paul Pioneer Press said (Apr. 19) accountable state agencies must have control of the funds if the state decides to invest part of the tobacco settlement in programs to discourage youth smoking. It said the Minnesota Partnership for Action Against Tobacco (MPAAT) will already receive a fund of \$202 million to finance tobacco cessation and research programs, but any further public money should go to a state agency accountable to lawmakers and the governor.

Penny

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trates us about the current process,” Penny said, including the role he sees conference committees play in promoting partisan posturing by legislators.

Penny said he believes Ventura could play a unique role in engaging the public in promoting property-tax reform. “This is an issue where study upon study has already been conducted. But you need someone of the Governor’s stature

to take this on and involve the public directly to get the input that’s necessary. I think he’s open to taking on that challenge. If he does that, I think the people will respond and I think they will stay engaged.”

Communications ethics

Former Rep. Penny began his annual meeting remarks by decrying a lack of what he called “ethical commu-



Governor Jesse: At least once a week he’s all talk!

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Adolescence

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vard Graduate School of Education, then headmaster of Phillips Andover, then the author of the “Horace” books about high schools, then head of the Annenberg Institute at Brown. Today he and his wife are coprin-cipals of a charter school in Devens, Massachusetts.

His friends are people who’ve devoted their lives to helping kids by changing schools and to developing smaller schools, in which kids become secure adults and in which the object is to teach young people to use their minds well.

Some important things were said at the gathering that suggest the question is partly what (good) school is, but partly, too, whether formal education ought to be the *only* route to advancement for youth.

“Adults have disappeared from the lives of adolescents,” said Deborah Meier, founder of the Central Park East school in New York City. “We have deliberately created (schools) in which it is impossible for adults to know kids well. Kids know no one but their peers. And all this gets worse the closer kids get to adulthood.”

“We have created a separate society for adolescents,” said Sheldon White, professor of psychology at Harvard. Adolescence—not even a concept until about 100 years ago—was a coming-together of the new high schools, the child-labor laws and the special legislation for juvenile offenses.

“We assumed it was in the public interest to get kids out of the work-force,” White said. “Maybe this ought to be reappraised. Maybe we ought to re-invent child labor.”

Young people do work, as someone pointed out, but not so they can advance. They work so they can be marketed to, as consumers. As White noted, adolescence did also create jobs for adult professionals, such as social workers and teachers.

To get a perspective on the current notion that education-is-the-only-way-up, you really have to go back in history. Look, for example, at what Paul Johnson, a British popular historian, wrote in *The Birth of*

the Modern about what was accomplished in the years after 1815 by people who came from truly disadvantaged backgrounds, who went to work early and who had almost no formal education:

● Michael Faraday, the scientist, “was born poor, the son of a Yorkshire blacksmith. He had no education other than a few years at a school for the poor, but as a book-binder’s apprentice he read the works he bound...”

● John Otley, the geologist, “had no education apart from village schooling and set up as a basket-maker.”

● James Naysmith, the engineer, “started as an apprentice coach painter. His son, James, inventor of the steam hammer, made a brass cannon at the age of nine.”

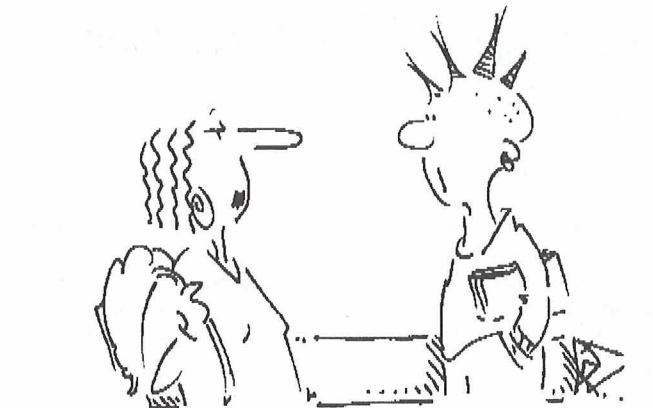
“We should consider: Is any class of persons in America today so systematically discriminated against as young people?”

● Henry Maudsley, “perhaps the greatest of all the machine-tool inventors, began work at 12 as a powder-monkey in a cartridge works.”

● Matthew Murray, “the great engine designer, began as a kitchen boy and butler. Richard Roberts, brilliant inventor of power looms, was a shoemaker’s son, had virtually no education and began as a quarry laborer. John Kennedy, the first great builder of iron ships, was another poor Scot who received no schooling except in summer and started as a carpenter’s boy.”

In *Longitude* Dava Sobel told the story of John Harrison, who solved “the greatest scientific problem of his time”. He invented a clock that would carry the true time from the home port to anywhere in the world. Harrison had no formal education or apprenticeship to any watchmaker.

In *The Maritime History of Massachusetts*, Samuel Eliot Morison writes about Mary Patten, wife of the captain of a clipper ship. “In 1858 on a voyage around Cape Horn, her husband fell ill. The first mate was in irons for insubordina-



“It scares the heck out of me to think that formal education might turn me into some weirdo adult-type person!”

tion; the second mate was ignorant of navigation. Mrs. Patten had made herself mistress of the art of navigation during a previous voyage. She took command and for 52 days she navigated the ship of 1,800 tons, tending her husband the while, and took both safely into San Francisco.” She was 19.

“We should consider: Is any class of persons in America today so systematically discriminated against as young people?”

It was a time when new fields of activity provided opportunities for young people to get serious responsibilities early and to rise as rapidly as their abilities and energies would take them. They did amazing things. Some of their roads, bridges and other public works still stand in England, still in use.

Are we to believe that these abilities have been lost in young people today? Or is our society simply failing to let them have, early, the responsibilities and opportunities to achieve?

Sadly, Johnson recounts, even in the 19th century adults soon took away the opportunities for young people. Crafts, guilds and unions “set up barriers to the self-advancement of able poor youths,” using requirements for apprenticeships and credentials to protect jobs for themselves.

A principal device has been to prolong schooling, to build the notion that young people learn only in school and to make education the only route to advancement: a high school diploma, then a college degree, now graduate work.

Several problems within the institution of “school” make the discrimination against certain young people even worse.

● Schools, especially in the suburbs, are far too large. Big buildings hold down average costs per student and produce teams that win championships. But these are largely adult interests, not student interests. Too many kids are isolated. Sizer and others have long argued for schools of a size such that every student is needed.

● Too often in school “ability” is defined as intelligence that is abstract, conceptual, verbal. But third or more of people have aptitudes that are spatial, tactile, visual. Too often people with this aptitude are set down as “not smart,” told they are “not college material.” Their careers are blocked; their talents wasted.

● Schooling is expensive. But the financing cannot flow just to needy students: The public universities want the money appropriated to institutions. This cuts off still more youth from formal education.

It is heresy today to question the idea of education as *the* route to advancement. Yet the whole idea of an adolescence removed from adult responsibility and real life may have become a wrong idea. A belief is not right simply because it is widely held.

We should consider: Is any class of persons in America today so systematically discriminated against as young people?

Ted Kolderie is contributing editor of the Minnesota Journal.

Penny

Continued from page3

“ion” among many elected ers, especially in the Congress.

Reforms like open meetings and personal and campaign finance disclosure requirements have largely eliminated blatant corruption among politicians, Penny said. “But, we have a growing belief with the electorate that there’s something not quite right in politics. I think a lot of this has to do with how politicians communicate.”

To address these concerns, Penny outlined what he called “four standards for ethical communication in politics”: Elected officials must be consistent, complete, clear and cautious in what they say to the electorate.

TIF

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The change in taxable value of C-I property, which would most affect values, was particularly large. For example, a commercial building with a market value of \$1 million in both 1997 and 1998 would decline in taxable value from \$44,400 to \$38,050, or 16.7 percent.

The drop in TIF captured value has state and local officials concerned

As an example, Penny said it’s not ethical for members of Congress to “rail against pork-barrel spending” and then include a record number of specific projects benefiting their districts in legislation like last

“Ventura was elected in large part because of the different approach that he took to communicating with us during the campaign.”—Former U.S. Rep. Tim Penny

year’s federal highway bill. Politicians also need to be careful, Penny said, “to say what they mean and understand what the public understands them to be saying.”

And, politicians need to tell the whole story, not just the half of the story that promotes their point of view. One classic example, Penny

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. (See accompanying article on page 6.)

The tax base captured in TIF districts in 1998 amounted to \$226,048,367, or 6.23 percent of the state’s total property tax base of more than \$3.6 billion. This is about the same as the 1996 percentage of value captured by TIF (6.21 percent), but lower than the peak of 6.7 percent reached in

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 \$200,000, its tax capacity value for taxes payable in 1998 would have been \$6,050—2.7 percent of the first \$100,000 of market value and 4.0 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.)

said, is how some politicians talk about “spending cuts” when they’re really talking about reductions in increases in spending that would otherwise occur.

Cautious on political future
In response to a question about his own political future, Penny joked that his candidacy “is not imminent. The prospect of my returning to elective office is slim. There is some interest. I do care enough about public service.”

But, Penny said he’s reluctant to re-

1993 and 1994. (See chart on page 7.)

TIF districts
The number of TIF districts with captured value grew from 1,509 in 1997 to 1,617 in 1998, an increase of 7.2 percent and a net growth of 108 districts. The seven-county metro area saw a net increase of 41 TIF districts, from 550 to 591, a 7.5 percent increase. Nonmetro districts grew by 7.0 percent, from 959 to 1,026, an increase of 67 districts.

As of 1998, 404 communities—in 83 of the state’s 87 counties—had TIF districts with captured value, a net increase of 18 communities from 1997. Twenty-four new communities—all but four in Greater Minnesota—had TIF districts with captured value in 1998, while six communities that had districts with captured value in 1997 had none in 1998.

According to the State Auditor’s Office, there were 2,019 TIF districts in the state required to file reports, but only 1,617 of the districts captured some tax-base value in 1998. The average district with value contained captured value of \$139,795.

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

enter elective politics because of the process of getting on the ballot in the first place. “You have to fight your own party to get nominated,” he said. “You have to cater to this group and that constituency that has nothing to do with getting elected by the voters.”

Penny also said the difficulty of getting through the nominating process increases the length and cost of campaigns and decreases voter interest. But, he said he thinks proposed reforms like Saturday caucuses and conventions, a June primary and having a presidential primary in Minnesota would help attract younger and other disaffected voters to participating in the two major political parties.

Dana Schroeder is editor of the Minnesota Journal.

state’s tax base, it contained 77 percent of the tax base captured in TIF districts. Metro area TIF districts, on average, are nearly six times larger than nonmetro districts, with the average metro-area TIF district containing captured tax base of \$295,191, and the average non-metro TIF district, \$50,283.

Largely because of the legislative changes that reduced the taxable value of C-I property, the average value in TIF districts declined in 1998 by 8.9 percent statewide, by 7.6 percent in the metro area and by 13.6 percent in Greater Minnesota.

Cities using TIF
The 404 Minnesota communities with TIF districts with captured value in 1998 averaged four districts each, with an average of \$559,526 in captured TIF value for each community.

The 98 metro cities with TIF districts averaged six districts per city and captured TIF value of \$1,780,184 per city. In the metro area the captured TIF value amounted to 7.65 percent of the area’s taxable value.

The 306 nonmetro communities with TIF districts averaged 3 1/3 districts each, with an average of \$168,596 in TIF value for each community. The TIF captured

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value amounted to 3.83 percent of the nonmetro taxable value.

Fifty-five of the 404 communities with TIF districts had \$1 million or more of their 1998 tax base captured in TIF districts, one less than last year. All but 11 of these communities are in the seven-county metro area; 18 of them are located in Hennepin County. The five cities with the highest TIF tax base were **Minneapolis**, \$43.9 million; **Bloomington**, \$13.7 million; **St. Paul**, \$11.0 million; **Duluth**, \$7.0 million; and **Brooklyn Park**, \$6.7 million. The top five cities were the same as in 1997.

Although TIF districts in Greater Minnesota tend to have lower value, a number of nonmetro communities have a large percentage of their tax base tied up in TIF districts. In 1998, 122 communities had more than 10 percent of their tax base captured in TIF districts—85 in Greater Minnesota and 37 in the metro area. That's one less than surpassed the 10 percent mark in 1997. Thirteen of these communities—three metro and 10 nonmetro—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 **Landfall** (Washington Co.), 51.0 percent; **Claremont** (Dodge Co.), 46.2 percent; **Clontarf Twp.** (Swift Co.) 39.2 percent; **Des Moines Twp.** (Jackson Co.), 37.3 percent; and **International Falls**, (Koochiching Co.), 36.0 percent. **Minneapolis** had 13.6 percent of its tax base captured in TIF dis-

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"I wish the Legislature would mind their own business and let us take care of the business of giving business the business!"

How do changes in C-I taxable values affect a TIF district?

Assume in 1996 a city has a substandard building it wishes to entice a developer to redevelop. It is surrounded by five other parcels with substandard buildings, each worth \$200,000.

In order to attract a developer to replace the building, the city declares the parcel with the substandard building a "project area" and creates a tax-increment financing (TIF) district that includes the project area. Costs for acquiring the substandard building, demolishing the building and putting in new utilities will run \$750,000.

But the developer can acquire a similar parcel in a neighboring community for only \$250,000, so the city decides to match that price in selling the prepared parcel to the developer.

The city declares the "original tax capacity" of the TIF district as follows:

	Original Market Value	Original Tax Capacity
Developer's parcel	\$250,000	\$9,900 = \$100,000 x .03 + \$150,000 x .046
Remainder of TIF district	\$1,000,000	\$38,000 = 5 (\$100,000 x .03 + \$100,000 x .046)
Total District	\$1,250,000	\$47,900

Original tax rate = 115.0 percent

Taxes on original tax capacity = \$55,085 = 1.15 x \$47,900

The city projects the parcel and new building will be worth \$850,000 by 1998 after redevelopment. It then projects an annual "tax increment" of nearly \$32,000 to help pay off the cost of preparing the property for the developer. (If the district is formed after May 1, 1988, the TIF district does not get to keep the extra revenues generated on the captured value due to a higher tax rate than that in force when the district was formed—in this case \$1,380, that is, (1.20 - 1.15) x 27,600. Instead, those excess revenues are distributed to all the local governments that would normally lay claim to taxes on the property: the city, the county, the school district and any special districts.)

	Projected Market Value	Projected 1998 Tax Capacity
Developer's parcel	\$850,000	\$37,500 = \$100,000 x .03 + \$750,000 x .046
Remainder of TIF district	\$1,000,000	\$38,000
Total	\$1,850,000	\$75,500

1998 tax rate = 120.0 percent

Projected 1998 net tax increment = \$31,740 = 1.15 x (\$75,500 - \$47,900)

But legislative changes in the way commercial-industrial property is valued for tax purposes in 1998 lowers the value of the redeveloped building and, thus, the value of the tax increment, below projected levels, as the example below shows.

	Actual 1998 Tax Capacity
Developer's parcel	\$32,050 = \$150,000 x .027 + \$700,000 x .04
Remainder of TIF district	\$30,250 = 5 (\$150,000 x .027 + \$50,000 x .04)
Total	\$62,300

But to make the calculations of the tax increment more fair, the Legislature required that the new C-I class rates also apply to the original tax capacity.

So the adjusted original tax capacity = \$38,300 = \$8,050 + 30,250 = (\$150,000 x .027 + 100,000 x .040) + 5 (\$150,000 x .027 + \$50,000 x .04)

Thus, the actual 1998 tax increment = \$27,600 = 1.15 x (\$62,300 - \$38,300) The project is, then, short by \$4,140 (or 1 percent) in its projected 1998 tax increment revenues (\$31,740 - \$27,600), which may require the city to raise taxes on non-TIF property to pay back some of the costs of readying the property for the developer.

Further reductions ordered by the Legislature for in the C-I class rates in tax year 1999 will exacerbate this effect.

St. Paul had 7.3 percent.

Net TIF taxes

The net captured taxes in TIF districts amounted to \$287.3 million in 1998—\$223.4 million in the metro area and \$64.0 million non-metro. That was a slight decrease statewide (-0.5 percent), a slight decrease in the metro area (up 0.8 percent) and a decrease of \$3 million, or nearly five percent, in non-metro communities.

But looking at the net taxes per district shows a more dramatic picture of the impact of reductions in the taxable value of C-I property.

- Statewide, the net TIF tax per district declined by 7.1 percent to \$177,686;

- In the metro area, the net TIF tax per district declined by 6.2 percent to \$377,942;

- In nonmetro communities, the net TIF tax per district declined by 10.1 percent to \$62,334.

Declines such as these have worried state and local officials about the ability of TIF districts to pay off the costs of preparing districts for development, since lower TIF values mean lower than projected dedicated "tax increments."

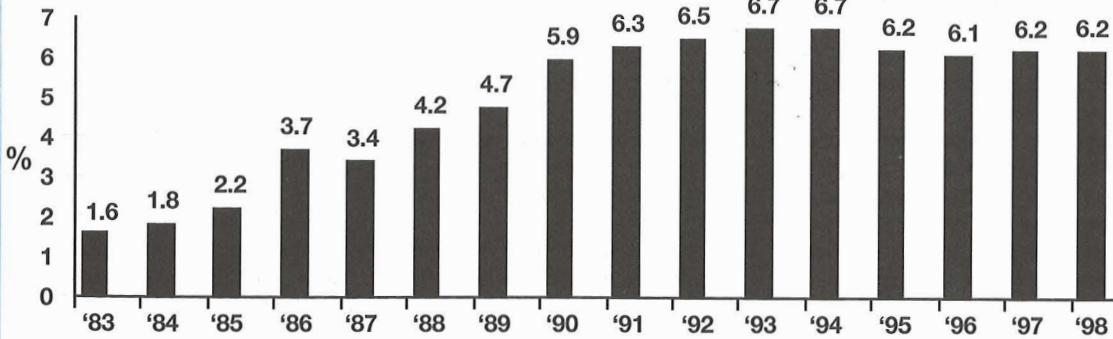
The five cities with the highest amount of captured value all showed a decline in TIF taxes per district in 1998:

- A drop of \$163,438, or 12.1 percent, in Minneapolis;

- A drop of \$81,444, or 4.7 percent in Bloomington;

- A drop of \$86,375, or 5.3 per-

PERCENT OF MINNESOTA PROPERTY TAX BASE IN TAX-INCREMENT FINANCING DISTRICT (BY TAX YEAR)



cent in St. Paul;

- A drop of \$17,819, or 2.8 percent in Duluth;

- A drop of \$65,734, or 8.8 percent in Brooklyn Park.

Drops of that magnitude could cause TIF districts to come up short on scheduled bond payments. And further reductions in the taxable value of C-I property in effect for tax year 1999 will exacerbate the problem.

The state has established a \$2 million fund to help cities make up their TIF shortfalls, but has not yet made any grants from the fund. According to Joel Michael of the Minnesota House Research Department, the House tax bill appropriates an additional \$1 million to the grant fund. The tax bills of both the House and the Senate allow cities expanded authority to pool funds from successful TIF districts to pay off deficits in other districts. The Senate bill grants extensions for two TIF districts to pay off deficits and the House bill for one other district.

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,

chaired by Sen. John Hottinger (DFL-Mankato) and Rep. Edgar Olson (DFL-Fosston), recommended that the TIF law not be recodified. According to Michael, the committee thought any changes had too much potential "to further confuse and complicate the law." Also, he said, "the TIF community was generally not comfortable that the rewriting involved with recodification did not involve substantive changes."

Michael said both Senate and House tax bills cut off authority to use TIF for social and recreational facilities, such as community centers, ice rinks, etc. The Senate bill only applies to new districts; the House bill applies to new spending after next Jan. 1.

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 first affects taxes paid in 1999, cities—and counties or other units of government, if they

choose—could forgive taxes or a portion of taxes on a 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, 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.

Michael said local units of government are using the abatement process, particularly for projects that don't qualify for TIF. He said this year's House tax bill eliminates the restrictions on school districts' ability to abate taxes.

Dana Schroeder is editor of the Minnesota Journal.

TAX-INCREMENT FINANCING, TAXES PAYABLE 1998

	'98 TIF captured tax capacity	% change over '97	'98 net TIF tax	% change over '97	No. of TIF districts*	% change over '97	No. of cities with TIF dist.	'98 TIF captured tax capacity per dist.	'98 total tax capacity	% change over '97
Metro area	\$174,458,016	-0.7%	\$223,363,779	0.8%	591	7.5%	98	\$295,191	\$2,281,236,469	-2.5%
metro	51,590,351	-7.6	63,954,663	-0.5	1,026	7.0	306	50,283	1,346,671,560	-3.0
Statewide	226,048,367	-2.3	287,318,442	-4.6	1,617	7.2	404	139,795	3,728,804,972	-2.7

*Includes only those districts with captured value. There are an estimated 2,019 TIF districts in the state, including those with and without captured value.

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

Home-loan denial rates lower in region than nationwide

The Twin Cities has been identified as one of the most segregated urban areas in the country and many believe the practice of redlining—though unlawful—still happens regularly here. It might surprise some, however, that minority applicants in the Twin Cities had a home-loan approval rate in 1997 significantly higher than applicants nationwide of similar race and ethnic background.

According to information from the Home Mortgage Disclosure Act (HMDA), the nationwide denial rates for conventional home-purchase loans for both African Americans and American Indians were over 50 percent, but about 20 percent for those groups in the Twin Cities. The denial rate for whites nationwide was about 25 percent, but about half that in the Twin Cities. Asians had the lowest denial rates of all ethnic groups—just over 10 percent nationwide and about eight percent locally.

The loan denial rate was also considerably lower for Twin Cities residents across all income levels. For example, low-income applicants nationwide had a denial rate of almost 50 percent, compared with just 30 percent for low-income Twin Citians.—*Ron Wirtz.*

The refrain has come around again: We need smaller classes and more spending on education per pupil in order to provide satisfactory instruction.

Maybe what we need is to look outside the education box for a bit. Consider: Average per-acre crop yields for corn, wheat and soybeans have improved 40 to 60 percent since the 1960s. And according to University of Minnesota economist Brian Buhr, each sow in the breeding herd today produces twice as much pork as 30 years ago.

The result of these and other productivity improvements? The share of the U.S. consumer dollar spent on food has dropped from 21 cents in 1950 to 11 cents today. We spend less of our disposable income on food than anywhere in the world or at any other time in history.

We owe this godsend for consumers to breakthroughs in scientific knowledge, investment in research and mind-boggling new technologies—

Take Note

"Be it ever so humble, there's no place like home."—J.H. Payne

and to relentless and increasing market pressure on producers to improve quality and lower cost.

It's not a perfect analogy, of course. Pigs may be more amenable to productivity improvements than calculus students. And hog farmers would be quick to point out that consumers' gain has been their loss. Still, isn't there something we can learn from down on the farm?

—*Janet Dudrow.*

Am I missing something? I thought LRT was supposed to ease downtown congestion. But according to Laurie Blake's April 22 *Star Tribune* column, inclusion of LRT on 5th Street through downtown will *create* congestion. All of the current traffic on 5th Street would be rerouted to 3rd and 7th, which are *already* congested, according to Minneapolis traffic managers. But drivers are supposed to just find "a way to get around congestion." Incredible. Spend nearly half a billion dollars to carry only 6,000 net new riders and get the added bonus of gridlock in downtown. What a deal.—*Phil Jenni.*

How useful is it, really, for the eighth-grade test scores to be reported in terms of the legal status of the school they attend? Reporting how children did in public school, in private school, in home school, in charter school only fuels a political debate. Wouldn't it make more sense—wouldn't it be more accurate—to relate student performance to the kind of *learning program* in which the student is enrolled?

Colorado is starting to do this in its charter-schools program, at least. It was striking, last year, how many of the schools in which kids were scoring higher than the district average were schools using one particular learning program: the Hirsch "Core Knowledge."—*Ted Kolderie.*

Most everyone has a soft spot for struggling farmers today. Innovative solutions, however, are in short supply. The discussion about how to help the agricultural industry seems to focus mostly on how much immediate aid government

should provide and how large crop subsidies should be in the future.

But a movement is afoot among farmers in eight plains and southern states (not Minnesota): forming cooperatives that produce and market a value-added product from a commodity crop. These farmers figured out it was a losing battle to simply sell crops as raw materials, and formed the 21st Century Alliance, which has spun off several cooperatives focusing on different commodities.

In one of its first endeavors, the Alliance raised \$2.5 million from 350 farmers and bought an idle flour mill, which now produces flour for tortilla makers. It hopes to put 34 to 40 cents more per bushel in farmers' pockets than they would otherwise receive in the commodity markets. It has started similar coops for farmers in the dairy, bean and straw industries.

The typical minimum investment required to join one of the coops is about \$5,000.—*R.W.*

The Office of the Independent Auditor of British Columbia is about to begin a performance audit of BC's K-12 schools to determine whether students are safe from violence, intimidation and harassment at school (*Vancouver Sun*, May 5).

The idea was first discussed months ago, before the school shootings in Colorado and Alberta gave the issue fresh urgency. Errol Price, who will lead the audit, said they'd be look-

ing at whether school policies and practices foster a climate of tolerance and respect among students, in addition to evaluating preparedness for a violent incident.

On April 30 the province's education ministry earmarked \$1 million in new funding to expand its Safe Schools program, begun as an anti-bullying initiative for K-7 students. Its Safe School Centre provides information, resource materials and examples of "best practices" in school safety. For information: www.safeschools.gov.bc.ca.—*J.D.*

My, aren't we civilized? "Taxes are what we pay for a civilized society," said Oliver Wendell Holmes in 1904. According to a recent publication of the Tax Foundation, the price of civilized society has gone up—a lot. Even after adjusting for inflation and expressed in 1998 dollars, the per capita tax burden in the early 1900s was \$366, two-thirds for state and local taxes and the other third for federal taxes. Today the average per capita tax burden is nearly \$10,000.

The proportions are also reversed. Today more than two-thirds go for federal taxes and only 30 percent for state and local taxes. Few would dispute that the average person's life has improved greatly this century. Socially, politically and economically our society is more just and equitable. But would Justice Holmes think our society 27 times more civilized today than at the turn of the century?—*P.J.*

Contributors to "Take Note" include Minnesota Journal and Citizens League staff members and Janet Dudrow, policy analyst at Dorsey and Whitney.

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PERIODICALS
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Citizens League Matters

May 18, 1999

News for Citizens League Members

Welcome

New and returning members

Tom Abeles
Clark Arneson
Anita Segador Beaton
Jim Brimeyer
Michael C. Brown
Mary Cerkenik
Thomas H. Clarke
Nancy Disch
Margaret Getman
Bob Held
Helen Hyllested
Wes and Deirdre Kramer
Adrienne Mason
Mary Morris
Frederick Norkeh
Jim Roth
Bernie Ruffenach
David Schaaf
Diane Teff
Barbara Van Drasek
Jim Varpness

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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.

Accolades, awards and Armenia at annual meeting

As expected, League members were enthralled by **Tim Penny's** thoughtful and evocative comments on the current state of politics and policy. (A summary of his remarks can be found in this issue of the *Minnesota Journal*.)

While the subsequent question and answer was devoted entirely to Penny's discussion, League business was the topic of conversation at the start of the evening.

League President **George Latimer** got things started by acknowledging Board officers from last year: **Mary Anderson**, president, **Matthew Ramadan**, secretary and **Christine Roberts**, treasurer. Mary Anderson was presented with a plaque acknowledging her service as president.

Latimer also presented bound copies of the League's report, *Help Wanted: More Opportunities Than People*, to committee co-chairs **Gary Cunningham** and **Steve Keefe**. Co-chairs **Katie White** and **Kent Eklund** also received bound copies of their committee report, *New Wrinkle on Aging: Baby Steps to 2030*.

Two students, representing **Summit Academy/OIC's Positive Force Program**

were presented a plaque which read: *With appreciation to Summit Academy/OIC for its participation in the Citizens League report Help Wanted: More Opportunities Than People.*

Executive Director **Lyle Wray** followed Latimer by outlining the League's current program, including several exciting projects which have significant long-term potential for the League.

Just a few days before the annual meeting, Wray presented a paper in Yerevan, Armenia at a conference on democracy building in the former Soviet Union and Central and Eastern Europe.

The paper entitled, "Mobilizing Civic Participation in Local Governance: What, Why and How", was part of a United Nations regional conference called "Decentralization: Conditions of Success."

This conference indicates the growing national interest in the League's successful methods for involving citizens in policy making.

Wray cited another example. The League was recently awarded a grant from the Alfred P. Sloan Foundation to complete the preparation of a book on citizen engagement in

government performance assessment. The grant is a follow-up to the work initiated last year by a project team spearheaded by the League that includes Paul Epstein and Stu Grifel from New York and Martha Marshall of Haymarket, Virginia.

Finally, with the assistance of League Board member **Bill Diaz**, a former program officer at the Ford Foundation, the League is working on a major grant request to strengthen the existing network of regional civic organizations and provide workable, proven models for establishing new organizations.

The League has targeted a half-dozen large national and international foundations for this request. If successful, the League envisions two additional steps. First, expanding the concept of regional civic organizations internationally with appropriate cultural adaptations and local partners. Second, developing curriculum for engaging young people in collective problem-solving efforts in their communities.

While expanding the reach of the League's work, these grants also provide needed resources to improve our core study committee program.

Seniors and disability in 2030

The Citizens League study committee on "Seniors and Disability in 2030" began its work April 19, under the direction of co-chairs **Emily Anne Tuttle** and **Phil Riveness**. Tuttle, a former state legislator and Hennepin County commissioner, is currently a member of the Citizens League Board of Directors. Riveness is also a former state legislator and was recently appointed by Governor Ventura to the Metropolitan Council.

The committee is in the process of investigating the transportation, housing, healthcare and day support services currently available to seniors with disabilities in Minnesota. This will be followed by an examination of various demographic and societal trends in order to make recommendations regarding the need for system improvements by the year 2030.

To date, the 35-member committee has heard resource testimony from two panels: one composed of individuals living with disabilities and the other of individuals who work with minority seniors.

Testimony has also been provided by: **Bob Held**, Director, Division of Continuing Care for the Elderly, Minnesota Department of Human Services (MDHS); **Jim Varpness**, Director, Division of Aging and Adult Services, MDHS; **Steve Lund**, Executive Director, Minnesota Homecare Association; **Mary Youle**, Director of Housing and Community Services, Minnesota Health and Housing Alliance; **Janet Anderson**, Program Director, Lyngblomsten Service House; and **Dr. Robert Kane**, Director, U of M Center on Aging.

The committee will continue hearing testimony through the end of the month, with work on the final report scheduled to begin after Memorial Day. The committee is scheduled to conclude by the end of June.

Workforce Training in the New Economy

The enthusiasm shown for the Citizens League's report, *Help Wanted: More Opportunities Than People* has seeped into a follow up committee the League is doing on workforce training.

The League's Committee on Workforce Training in the New Economy, chaired by **Roger Hale**, recently retired CEO of Tennant Company, has attracted a committee of about 75 people.

The *Help Wanted* report noted that the existing workforce training system fell short of employers' and workers' needs, but was unable to go into much depth in analyzing the problem or offering solutions. This Citizens League study committee will seek answers to some of the following questions:

- Why, when so many

employers are begging for skilled workers, is the workforce training system not able to supply employers with enough workers with the "right" skills? And why are the demand and supply systems for trained workers not better aligned and linked today?

- How can we realign the existing workforce training system to better meet existing and future employment demands, particularly in high-tech areas?

The committee convened its first meeting on April 27. Resource testimony began on May 11 with **Maureen Steinwall**, President and CEO, Steinwall Inc.; **Duane Benson**, Executive Director, MN Business Partnership; and **Rick Krueger**, President, High Technology Association. They talked about the current alignment of demand and supply systems for skilled labor.

The committee has a tentative workplan geared around producing an action plan for the year 2000 legislative session, and hopes to conclude its work in September.

You can follow both these committees on the League web site. Minutes, issue papers and other relevant materials will be posted on the site. Please visit:

www.citizensleague.net

Board of directors 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.

The League Nominating Committee, chaired by immediate past president **Mary Anderson**, consists of **Kent Eklund**, **Steve Keefe**, **Marina Lyon**, **Rafael Ortega** and **Lee Pao Xiong**.

According to League by-laws, any member of the League may be nominated for director upon the written petition of 25 League members submitted to League secretary Gary Cunningham at least 25

days before the election.

The eight members elected will fill the spots of the following Board members whose terms expire this year: **Mary Anderson**, **Calvin Clark**, **Suzanne Fuller-Terrill**, **Peter Gove**, **Marie Grimm**, **Pam Neary**, **Christine Roberts** and **Matthew Ramadan**. Anderson, Gove, Grimm, Neary and Roberts are ineligible to run for another term.

Member recruitment

From time to time, the League recruits members from lists we trade with other organizations. We did so this spring and are mailing a membership invitation soon. Although the mailhouse does everything it can to remove current members from the solicitation, the process is not perfect. If you are a member and get an invitation to join—our apologies. Please give the packet to a friend and recruit a new member.