



Minnesota Journal

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MnSCU: fundamental changes to meet state's needs

Higher education is confronted with major challenges as we move toward the 21st century. These aren't just big challenges, but fundamental ones that go to the heart of what we do and how we do it.

Along with most of today's great enterprises, higher education is challenged to redesign delivery systems and products. Computer and telecommunications companies have done it. The banking and health-care industries have done it.

by Judith S. Eaton

Higher education must do it.

Minnesota State Colleges and Universities (MnSCU) recognizes these fundamental challenges and we are responding with fundamental changes that will allow us to meet the state's needs in the years ahead.

Planning for change
MnSCU has embraced a strategic

planning process to reshape our enterprise around several key goals. If approved by the MnSCU Board of Trustees on Dec. 18, this plan will be the blueprint for fundamental change in our system of 37 colleges and universities—a clear sign that we intend to move from the traditional to the innovative, emerging as a performance-based, technology-driven, learning-centered higher education system com-

mitted to results and focused on performance.

Our strategic goals have grown from extended conversations with the people MnSCU serves. In the largest sense, this is not MnSCU's plan, but Minnesota's plan for MnSCU. The planning process began last spring when MnSCU gathered perspectives from focus groups of opinion leaders across

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Ag land, high TIF use lead to Scott's higher tax rates

by Gary L. Cunningham and Michael Nguyen

The Minnesota Taxpayers Association and the Citizens League have again provided a valuable service with their recently published 1996 annual property tax survey. In dealing with an issue as complicated and divisive as property taxes, the Citizens League and the Minnesota Taxpayers Association have done a good job in providing citizens and the press with "sound bites" on which to formulate judgments

Regarding local government expenses and revenues. However, the impact of property taxes in any given area is driven by a number of independent variables, including local government expenditures.

From a homeowner's perspective, a property tax bill is a reflection of local governments', schools' and special district spending. Of the top 10 highest taxed communities in the survey, three were in Scott County and three in Carver County. We believe this distinction is not coincidental, nor is it simply a result of high expenditure levels by the local government units. There is clear and convincing evidence to suggest that both differences in development patterns among communities and the Minnesota property classification system have a significant impact on tax rates.

Scott County recently conducted a study to determine why our tax

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Break property tax in two: local services tax, state tax

by Ann H. Rest

The 1997 legislative session provides an unprecedented opportunity to enact comprehensive property-tax reform. First, commercial and industrial property values have rebounded, which makes it possible to reduce the share of property taxes paid by that class of property, without dramatically increasing the burden on other classes of property. Second, the upcoming forecast is likely to show that the state treasury will have a large surplus. Because of the surplus, the Legislature and Governor Carlson will feel pressure to reduce taxes; among the taxes most in need of reduction are property taxes. Taxpayers are not likely to settle for a mere prop-

erty-tax freeze, when the state's healthy fiscal situation makes property-tax reductions and comprehensive reform of the system possible. Third, the threat of a one-year property-tax freeze, followed by an unspecified successor, may prompt some interest groups that are inclined to oppose comprehensive reform to become active participants in negotiating the elements of such reform.

I have developed a comprehensive reform proposal, which I have been refining throughout the summer and fall in response to feedback I have received from interested parties. My proposal meets all of the goals any comprehensive reform

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Between 1970 and 1994, the United States economy—measured in terms of the Gross Domestic Product—almost doubled. During the same time period, the Index of Social Health assembled by Fordham University in New York City showed our country's social well-being fell by almost 50 percent, to its lowest level in 35 years of measurement.

First, the good news. Over 25 years, five of 16 social problems have improved: infant mortality by 60 percent, drug abuse by 18 percent—though more recent evidence of teen backsliding may erode this finding, high school dropouts by 23 percent, elderly poverty by 52 percent and food stamp coverage by 2.5 percent.

Now for the bad news. Eleven of 19 social problems became worse over that same period of time. Child abuse worsened by 345 percent, teen suicides by 95 percent, out-of-pocket health-care costs by seniors by 72 percent, child poverty by 42 children, health-insurance coverage by 40 percent, access to affordable housing by 30 percent, unemployment by 25 percent, the income gap between rich and poor by 21 percent, real wages by 16 percent, homicides by 15 percent and alcohol-related road deaths by 2.5 percent. The problem that worsened most in the 1990s was the income gap between the rich and the poor.

In contrast, our economy at the broad summary level is doing well, with record low unemployment, strong economic growth and

emerging labor shortages. While there are some major challenges covered over by these averages, there is broad agreement on the outlines for economic development to respond to these challenges—despite much jockeying for position and favor in public and private funding systems. There is much less agreement on the “social and human capital side.”

To paraphrase a slogan from the 1992 election—“It’s the economy, stupid”—we should remember, it’s not just the economy, stupid, it’s the social fabric, too. How do we approach the “other half” of the picture in Minnesota?

Let us start with the work of Robert Putnam of Harvard University, the speaker at the Citizens League’s 1994 annual meeting, who has devoted a good deal of effort to looking at how stronger social linkages—from soccer teams to choirs—predict stronger economies. More recently, he has studied the decline in citizen participation in civic organizations, which is much lower than it was 70 years ago. The likely suspect for this decline is the more than six plus hours of television watched in the average American family each day. Recently Putnam has begun gearing up a project to look at what should be done to reverse this decline in social capital.

There is a real question of just what will make a difference in this

decline in social capital and in reversing some of the alarming social trends just described. Here are a few ideas:

Focus on common ground and track progress. More can be made of the Minnesota Milestones project, which involved 10,000 Minnesotans in selecting goals for our future. We need to raise the visibility and relevance of these goals in ways pioneered by Oregon, where counties and cities have picked up and run with frameworks with a good deal of social content.

Reinvent citizenship and community. Current systems for citizen involvement—from budget hearings to public opinion polling—are necessary, but not sufficient, for an engaged citizenry. We need to pioneer new approaches. As the League recommended in its last report on local government, we should consider radical devolution of some community services to neighborhoods. We need to be creative in providing reasons for citizens to be engaged in their communities.

Invest in human capital. One child in five living in poverty and high levels of school failure among low-income students is not a prescription for a happy future. Spending smarter on human capital—whether fully funding Headstart or having clear, basic educational goals, such as every child reading by the first or third grade—can pay dividends. Currently, we are on the path of

building and filling more jails, at an annual cost per inmate equal to an Ivy League college education.

Figure out what works and use it. Many areas of social concern are subject to wide variations in diagnosis and prescription of solutions, let alone organized strategies to get the job done. We need to get clarity on what works for the social problems described in the Fordham work and to find practical solutions for them. The philanthropic community and academia, as well as government, have joint responsibilities here.

A new social contract. For too long, we have spoken of citizens as passive clients or customers. We need to get a lot smarter at building up and on strengths—whether the Search Institute’s asset-based approaches for healthy youth or community activist John McKnight’s asset-based community development. We need to craft a new relationship of synergy between state and local government programs and an invigorated community and engaged citizenship.

In the words of the Fordham University’s Marc Miringoff, “The decline in the social health of children and youth tells us something about the future shape of our society. It’s a warning sign.” We must heed that warning and get on with major changes.

Lyle Wray is executive director of the Citizens League.

Editors concerned about parties, voting, endorsements

Princeton Union-Eagle said (Oct. 10), “Personal politics has replaced party organization...The all-powerful political action committees must be reigned in...Could we bar or limit contributions directly to candidates and emphasize giving to the party organizations?” **Duluth News-Tribune** said (Oct. 23) easy voting is good, but mail balloting presents too great an opportunity for voter fraud to be adopted statewide. **Mankato Free Press** said (Nov. 4) voting by mail should be in place by the next election. **West Central Tribune (Willmar)** made a tongue-in-cheek suggestion (Oct. 17) of term limits for voters, in which a certain percentage of the population would be given the responsibility of voting each election year. It would be a civic responsibility like serving on a jury and the assignment would rotate through the population. “The rest of us could install ‘P’ chips in our television sets to automatically filter out the political messages that give us so much cause for depression, anxiety and paranoia.” **St. Cloud Times** said (Nov. 1) the Minnesota Citizens Concerned for Life (MCCL) undermined its credibility by “urging the election of a pair of oddballs” to the Supreme Court “solely on the basis of *perceptions* of the personal beliefs of two capable and respected justices,” Paul Anderson and Edward Stringer.

The Minnesota Journal

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On Balance

Opinions tabulated with no early projections.

Duluth News-Tribune criticized (Oct. 15) University of Minnesota regents for asking legislators for a 19 percent budget increase. “(O)fficials must make a better case than they have if they expect lawmakers to give them more and give relatively less to K-12 education, social services, corrections and local government aid.” It said (Nov. 4) state finances, not the regents, are the “enemy of university employees’ wish to keep the status quo” with tenure. “There isn’t enough state money to keep all tenured faculty on staff, hold tuition to a reasonable level and do everything else the university wants to...If they’re wise, faculty members will accept reasonable reforms of tenure as part of a needed effort to keep the university’s costs under control.” **Star Tribune** said (Oct. 11) weakening tenure would “put the University of Minnesota out of step with its peer institutions.”

St. Cloud Times criticized (Oct. 15) Gov. Arne Carlson’s suggestion of using a portion of the state surplus to build a \$300 million riverfront ballpark for the Twins. It

said the surplus would be better used for longer range concerns, like overhaul of the state’s system of taxation and spending. A new baseball stadium would not bring equal benefits across the state, so perhaps tax assistance could be drawn from the metropolitan area. **Pioneer Press** said (Oct. 21) the St. Paul City Council should not require approval by the voters for any major league sports deal requiring an investment of more than \$1 million. **Star Tribune** said (Oct. 16) the Vikings should be patient about solving their stadium problem and understand the Twins’ needs must be met first. **Duluth News-Tribune** said (Oct. 14) a stadium should be paid for by the Twins “or any private citizens who want to kick in.” The paper said government support should be limited to the kind any business can expect. It said (Oct. 16) the state shouldn’t pay for renovating the Metrodome for the Vikings or the St. Paul Civic Center to attract a pro hockey team, either. **Free Press** said (Oct. 18) the Vikings’ proposal for a new stadium, on top of the Twin’s stadium request, could “force any such proposals to

self-destruct—and ultimately force the teams to finance their own stadiums.”

Duluth News-Tribune said (Oct. 14) the state’s graduation rule should help assure that more graduates will be ready for the work force. It said (Oct. 24) the state’s ban on statewide testing of students should be removed, but said the Governor should not link his approval of removing the caps on state funding to such testing. **West Central Tribune** said (Oct. 23) the present commissioner of education is not really a commissioner but “only a spokesman for the governor on education.” It said the State Board of Education, not the governor, should appoint the commissioner, as was done until 1983.

MnSCU

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the state, as well as from surveys of employers, alumni and students. We also collected data about the economy, the population and the state’s educational system.

After analyzing this information, the MnSCU board developed five tentative strategic themes and a tentative vision statement. Then we stopped. We decided the planning process couldn’t continue without talking even more broadly to the people of Minnesota. So, we scheduled a dozen town meetings across the state in September and October. Nearly 1,600 Minnesotans attended, expressing their hopes, dreams and concerns about the future of higher education in the state. We also held town meetings within the system, exchanging ideas within the MnSCU community.

All of these conversations helped us to refine our new vision statement and transform our tentative themes into goals that better reflect the ideas of the people MnSCU serves.

Generally, the comments Minnesotans gave us at the town meetings and other sessions fell into four broad categories. Minnesotans told us to:

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Indianapolis aims to compete regionally and internally

Edited excerpts of remarks by Michael Williams, chief financial officer, Indianapolis Department of Capital Asset Management, to the Citizens League on Oct. 22.

This is the city of Indianapolis’ vision: to become a competitive city with safe streets, strong neighborhoods and a thriving economy.

I’ve developed my own acronym. I call it CAPS. You’ve got competition, both regionally and internal to the city. You’ve got accountability at all levels: accountability for

elected officials, for the people who work for them. There’s accountability throughout this model. You’ve got performance. And service delivery.

These are the six major tools:

- Activity-based costing. What activity-based costing does is take those services and take not only direct costs, general ledger costs, but all the indirects, central-type services, management, controller’s office, human resource and allocates those down to the activity level.

- There are cost measurements. There is a unit cost measure, which measures efficiency.

- There’s an output-type measure, which is how much of that activity you’re performing.

- Then you have a productivity-type measure, which is how much of that service or product you’re producing in a given period of time—how many crack seals did you do in a week, how many fire runs did you do in a month?

- Then there are quality measures, which is more of a perception of how you’re performing as a government, more of the outcome-type measure of how the citizens perceive what we’re doing.

- In the performance budget what you see is that same activity with an activity-based cost. The performance report is how we are performing based on those outputs said we would do in our budget process.

High-performing organizations know purpose, customers

Edited excerpts of remarks by Peter Hutchinson, superintendent, Minneapolis Public Schools, and president, The Public Strategies Group, to the Citizens League on Oct. 15.

There are five key elements that we've found in high-performing public organizations:

● **Core strategy.** What we find when we look around the country at high-performing public organizations is that they know what their purpose is. They're clear about what their purpose is. One of the things we know about low-performing public organizations is that they are swamped with purposes. Each legislative session or each special interest group that's come along has heaped onto these organizations another thing that they're required to do, another highest and most important priority, yet one more thing to focus on.

● **Clarity about the customer.** The customer is more often than not in the driver's seat. This, of course, runs directly contrary to our experience in most public organizations, where the decision about what services to offer or what quantity or the quality or the price

are made by the organization itself. And we actually codified this when we made exclusive regional territories for many of our public service organizations. If you think about it, every city, every county, every school district has a defined service territory. They're the exclusive provider within that territory of all public services. Those of us that are citizens, we kind of take what the organization provides us.

High-performing organizations press back on the assumption that there's only one provider or only one way to do it and take advantage of the opportunities that are provided for them when you think about the subject of choice. They try to put their customers much more in the driver's seat and give the customers much more power about what can and can't happen.

● **Third, the strategy of consequence**—that is, making performance matter. The really sad part of many public organizations is that performance doesn't seem to matter. The question, then, is, How do we hold organizations or people accountable for what they do?

We actually think of three different ways to put this together. One we

call enterprise management. This, in a sense, puts parts of organizations or whole organizations in a competitive world and lets them rise or fall based on their ability to provide service.

The second version of the same thing, where we're not quite ready to really cut people loose and there may be good policy reasons not to cut people loose would be managed competition, where there might be a collection of competitive providers that are identified. But we manage the competition to be sure that other public policy concerns are taken into account.

The third basic, underlying strategy is what's called performance management. It's simply managing the incentives and disincentives within the organization itself. Things like merit pay are an example of a performance management technique that are used in organizations.

● **This is the public sector we're talking about, so inevitably we have to talk about the subject of control.** What are some of the options if we want to retain a sense of consistency in what we do, but delegate or empower deep in the organization?

The first, of course, is to actually engage in empowerment. But you can't do that unless you've got the core right. If we're going to delegate, you need to be clear about what our core expectations are.

High-performing organizations have turned away from enforcement as their only goal and they've embraced a concept which we call winning compliance, which is a very different approach to compliance strategy.

● **The fifth characteristic of high-performing organizations is their culture.** The culture in which most of our public employees operate today is a culture that starts with the assumption that people are going to mess up. The alternative is a culture that is very entrepreneurial in its orientation. In these organizations people have their eyes not on their bosses and on the political leaders who are their authorizers. They have their eyes on the customers, on the citizens. They're constantly reaching out to get information from citizens about what will work better and how to improve things even more.

Oregon Benchmarks led to reinvention of government

Edited excerpts of remarks by Barbara Roberts, former governor of Oregon and director, Program for Senior Executives in State and Local Government, Kennedy School of Government, Harvard University, to the Citizens League on Oct. 28.

I have to tell you where the real reinvention of government came in my administration. It came when we focused on something called the Oregon Benchmarks. The Benchmarks were in their infancy when I began my term. They were created by my predecessor. He actually put the design in place, but they hadn't been implemented yet.

I bring them to your attention, because I think they represent one of the most successful tools or processes that I've ever discovered to create collaborative, results-driven, measurable government rein-

vention. It all began the only way that any collaborate effort can be successful—with a shared vision that included thousands of citizens in my state. We built a strategic document that defined what our vision was of all these thousands of citizens. The document was called *Oregon Shines*. The thousands of citizens who put it together from all over the state came together in every part of the state and they met for two or three days at a time to try to articulate what their dream was for their state, what they wanted for their state's future. These were not unambitious goals.

People in my state have high standards and they have beliefs in doing things right. This is what they wanted—three major priorities: to have the best educated and prepared work force in the nation by the year 2000 and the best in the world by year 2010. Minor little

request. They also wanted to have a healthy and diversified economy that would create well-paying jobs. They wanted to have a healthy environment that would reflect our state's commitment to our quality of life today and in the future.

The Benchmarks are the indicators of the progress that Oregon has made towards achieving that shared strategic vision that the people in our state said they wanted. Just as blood pressure and cholesterol serve as signs of a patient's health, the Benchmarks serve as signs of Oregon's social and economic and environmental health. Benchmarks measure the progress toward Oregon's vision. We know what the vision is. The citizens identified it. The Oregon Benchmarks identify how we're doing toward that vision.

They keep our leaders at the state

and local level, our agencies, our service organizations, our citizens focused on achieving those results. We get focused on outcomes. We keep track of results. Oregon leaders can invest or prioritize or adapt or modify based on the measurements of success or failure to reach these clearly defined goals.

But let me tell you what it really means in terms of collaboration and solution building. What it tends to do is create partnerships across every boundary that you can imagine. Imagine that you have this shared vision and you have this agreed-upon set goal. You decide where you are now and where you want to be with your vision. Benchmarks are about helping you close the gap between where you are and where you want to be.

MnSCU

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1) Strengthen access, choice, quality and affordability;

2) Increase MnSCU's outreach to communities and businesses;

3) Improve the connection with K-12 education; and

4) Improve the quality of life in Minnesota.

Our task here was several-fold. We had to meld our early thinking as expressed in the tentative themes with what Minnesotans told us. We had to make sure our strategic goals were truly a commitment to action and results. Most of all, we had to be certain that the goals reflected hard choices and clearly defined a specific path for MnSCU. *We could not fall into the trap that awaits much of higher education: developing strategic goals that were too general and failed to clearly define the future.*

How we are responding
MnSCU received many valuable suggestions from the people of Minnesota, and we incorporated many of those ideas into the strategic goals the Board of Trustees will consider in December. We also added a sixth strategic goal—strengthening our partnership with K-12 education. Adopting these goals—as distinct from many other worthwhile goals we might have considered—sends two messages to Minnesota: MnSCU puts students first. MnSCU also highly values teaching and learning. Here is a summary of the six strategic goals:

1. **Providing academic accountability to the people we serve: measuring student achievement in all areas of learning.** We need to ensure that students, employers and taxpayers are fully informed of the academic effectiveness of each MnSCU institution by regularly

measuring how well our students are learning. Taxpayers deserve information about the academic effectiveness of our institutions. We need to measure the learning gains college students are expected to make and report the results in a systematic fashion.

2. **Easing student mobility between institutions and among educational programs through skill-based transfer.** We want to make sure that students can transfer between MnSCU institutions through the confirmation of their skills and competencies, as well as the acceptance of their academic credits. What Minnesotans wanted most from the higher education merger that formed MnSCU was greater ease for students to transfer between and among colleges and universities. We will be working hard to make that happen by increasing the flexibility of our system.

We also will be working to change the basis for how students transfer. No longer can it be sufficient to allow transfer to occur solely on the basis of completing the appropriate courses with a passing grade. Thus, we may be looking at various measures (tests, portfolios) that demonstrate how well students can integrate and apply what they've learned in their courses and programs. That way, we'll be able to certify to the transferring institutions and to future employers that they are certifiably competent in the essential skills of their chosen career fields.

3. **Rethinking career education to ensure students get the skills and competencies they need for a lifetime of careers—not just a first job.** We want to strengthen student skills in their chosen technical or career fields. But we must go beyond that if we are to do justice to our graduates. We also have to provide them with strong technology skills, especially in the use of computers and information tech-

In its September 1996 report, Compete Globally, Thrive Locally, the Citizens League recommended the following action steps aimed at postsecondary education: clearly differentiating the missions of the state's public higher education systems; reversing the decline in higher education's share of the state budget; providing a greater share in the form of need-based financial aid; developing a broad, statewide model for a "virtual university" that will transform the delivery of higher education; and collaborating with employers to develop specialized workforce training for key activities and industries.

Copies of the report are available from the League at 612-338-0791.

nology. And we need to make sure they have the transferable skills that are prized in any career field—the ability to think analytically, express oneself clearly and work with diverse individuals in a team setting.

4. **Ensuring that electronic education becomes a core element of MnSCU to enhance classroom teaching, while connecting students, schools, colleges and universities, businesses and communities.** MnSCU needs to guarantee to the people of Minnesota that its colleges and universities are on the cutting edge of information technology and the rapidly increasing electronic capacity to restructure and deliver teaching and learning. In short, we must gain the understanding needed to eagerly apply technology in all relevant facets of our statewide learning community.

This commitment speaks directly to the concerns Minnesotans express about access, quality and affordability. The information technology revolution promises to change all aspects of higher education dramatically, especially in the ways teachers teach and students learn.

Fortunately, MnSCU has gained an early advantage through our Electronic Academy initiative, which is enabling us to create a wealth of exciting classroom opportunities that electronically connect our faculty with students all over the state.

5. **Aligning our programs with the needs of communities and businesses.** This goal is a commitment to continuously monitor the dynamics of our state—with regard to demographic, geographic, social and economic issues—and to ensure that our programs are consistent with the needs of citizens, businesses and communities.

In an era of financial constraint, this will require MnSCU to become more efficient and productive. Our institutions will need to continually assess the needs of the people and institutions we serve and reallocate resources to align our programs and services accordingly.

6. **Strengthening our partnership with K-12 education.** We heard



"I'm taking small engine repair but I gotta take these other classes in case I switch over and land a job as a rocket scientist!"

Minnesotans say emphatically that higher education needs to work more closely with K-12 education in Minnesota. We addressed this concern by incorporating it as a sixth strategic goal. This goal calls for a statewide effort to reach out to K-12 education.

As the state's largest provider of teachers, MnSCU needs to focus on preparing them to use the new technologies more effectively and to work with students of increasingly diverse backgrounds in their classrooms.

We also need to work with the schools to reduce the number of students who need developmental education, in both K-12 schools and the colleges and universities. And we need to help enhance the quality of K-12 education in fundamental ways, especially in terms of the basic skills and competencies that Minnesota high school graduates need to succeed.

Next steps

The strategic plan, as I've outlined it, is long on desired results, but awaits the details of implementation. Those will come later. Our immediate intention is to seek ratification of the six strategic goals by the Board of Trustees. Then we will begin to plan the tactics and programmatic activities needed to achieve those broad goals.

The strategic plan will drive everything we think about and do at MnSCU, as we seek an enhanced quality of life and improved economic competitiveness for the people of Minnesota. It's a plan for fundamental change and an important step toward tackling our fundamental challenges.

Judith S. Eaton is chancellor of the Minnesota State Colleges and Universities (MnSCU).

Scott County

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capacity rate—as well as Carver's—is higher than in the other outlying metro-area counties of Anoka, Dakota and Washington. We hypothesized that Scott County's tax rate historically was driven by a proportionately lower level of commercial/industrial development in comparison to the other outlying metro-area counties. We postulated that as counties developed, the burden of expenditures would be distributed among a larger population base, therefore reducing per capita expenditures and tax rates, thanks to economies of scale. We also wanted to determine if the impact of tax-increment financing was significant in affecting the county's tax rate.

The study showed that from 1973 through 1996, Anoka County's tax capacity rate increased 9.3 percentage points; Carver's, 18.9; Dakota's, 6.7; Scott's, 10.5; and Washington's, 6.5. (Carver County's high tax-capacity rate increase was due to both its high percentage of agricultural property and its large percentage of tax capacity captured in TIF districts.) With the exception of Carver County, the average increase in tax-capacity rates among outlying metropolitan counties over a 23-year period was 8.3 percentage points, with a range in the increase of approximately four percentage points. The counties that experienced low tax-capacity rates in 1973 (Anoka, Dakota and Washington) continued to have low tax-capacity rates in 1996. Counties that initially had high tax-capacity rates in 1973 (Carver and Scott) continued to have high tax rates in 1996.

While there is variation in the tax-capacity rate from year to year, Scott County's rate of tax increase over time is not significantly greater than other outlying metro-area counties. Without considering

the relative historical increases in the tax-capacity rates across counties, one could erroneously infer from the annual Citizens League/Minnesota Taxpayers survey that Scott and Carver Counties have increased taxes more substantially than other outlying metro-area counties.

The results of this study indicate that several factors combine to make Scott and Carver Counties' tax rates higher than other outlying metro-area counties. Scott and Carver are rural, yet urbanizing, areas and have a larger percentage of agricultural tax base than other metro-area counties. Due to Minnesota's property tax classification system, agricultural property is taxed at lower percentages than residential and commercial/industrial property, resulting in a smaller tax base. From 1973 to 1992, Scott County and Carver County had the highest proportion of agricultural tax base of the five counties in the comparison group. By 1992, while agricultural properties made up between 1.5 percent and 4.5 percent of the total tax capacity of Dakota, Anoka and Washington Counties, Scott's total tax capacity was 12 percent agricultural and Carver's nine percent.

In order to determine the impact of the various property classifications on the tax rates, we conducted a simple correlation analysis. This analysis showed that there is a strong positive correlation between the amount of tax capacity generated from agricultural properties and the level of the tax rate. All other factors held constant, a higher level of agricultural land in a given county will directly increase the tax capacity rate. Scott and Carver Counties' tax rates have historically been high for this reason.

Surprisingly, and contrary to our hypothesis, Scott and Carver Counties have a relatively high proportion of commercial/industrial (C/I) tax capacity. Of the five outlying

counties, Dakota County had the highest percentage of C/I tax capacity in 1992, at 34.01 percent, followed by Scott at 33.39 percent, Carver at 32.45 percent, Anoka at 32.21 percent and Washington at 21.54 percent.

However, since the mid-1980s, cities in Scott and Carver Counties have made heavy use of tax-increment financing (TIF), resulting in a significant amount of this C/I tax capacity being captured in TIF districts. (Revenue raised from property captured in TIF districts is dedicated to paying off the costs associated with preparing an area for development and is not available for the general revenue needs of the city or county.)

In 1992, Scott County had 10.73 percent of its total tax capacity in TIF districts, while Carver had 14.95 percent; Anoka, 7.58 percent; Dakota, 3.77 percent; and Washington, 3.10 percent. By having a significant portion of their tax capacity in TIF, Scott and Carver Counties have not yet benefited from the proportionately higher levels of commercial/industrial tax capacity. As a result, residential properties are forced to pay a higher proportion of the taxes.

A study published in *Urban Studies* in 1992, "Population Density and the Cost of Providing Public Services" by Helen F. Ladd indicates that there is a U-shaped relationship between per capita spending and density levels. This analysis fits with our research on the outer-ring counties in the metro area. As Scott and Carver Counties continue to develop and reach socioeconomic patterns similar to Washington and Dakota Counties, their property tax rates and per capita spending should decrease. Ms. Ladd's research further documents the increasing burden of capital investment and services that counties experienced during their growth phase.

It is clear from our research that there are a number of variables that drive the tax rate. Chief among them are local government expenditures and the mix of residential, commercial/industrial and agricultural properties. The property tax classification system, as defined by the Legislature, and metropolitan regional development policy will continue to have a significant

impact upon the tax rate in any given metro-area county. The Metropolitan Council's proposed growth options amendments—including specifying a large section of Scott County for permanent agricultural use—could adversely impact Scott County's tax rate. The upcoming discussions on property-tax reforms in the 1997 Legislature will also have important ramifications in determining local government fiscal policies.

Through its new fiscal policy Scott County has reduced the county's tax rate over the last two years from 50.21 percent in 1995 to a proposed 1997 rate of 41.14 percent. This decline of 18.1 percent is based upon the Scott County Board of Commissioners' commitment to fiscal responsibility. Scott County's fiscal policy:

- limits the county's operation growth to the growth in new residential construction;
- sets specific limits on spending priorities prior to establishing the annual budget;
- limits departmental requests for new employees;
- evaluates department budget requests based on previous year's performance; and,
- uses innovation to decrease dependency on labor intensive services.

In essence, the new policy is designed to take a market approach to managing Scott County's fiscal affairs and is based upon the philosophy of living within our means.

In many respects, Scott County is managing the portion of the property tax bill over which it has control. County government spending is directly linked to the service mandates of the state. Currently there is much discussion about decreasing state aid to counties and shifting these resources to schools. The various proposals to reduce county aid could further exacerbate the burden of property taxes for all citizens.

Gary L. Cunningham is the Scott County administrator and Michael Nguyen is management analyst for Scott County.

Property tax

Continued from page 1

proposal should attempt to achieve: simplifies the property-tax system, reduces reliance on local property taxes, increases the accountability of state and local government officials, provides more tax relief directly to taxpayers rather than to local governments, ensures that all local governments have adequate resources to provide basic services and complies with the "Price of Government" resolution.

The proposal breaks the property tax into two separate taxes—the local services tax and the state property tax. All local services tax levies—county, city, town, non-school bond referenda, and school bond referenda levies—will be spread on tax capacity. The local services tax base will be simplified compared to the current system, and the class rates will be compressed, so that all types of property will pay more nearly equal taxes for local services. Only four class rates will be used to determine tax capacity:

- 0.5 percent for agricultural property;
- 1.0 percent for homesteads and 1 to 3 unit rental properties;
- 1.5 percent for apartment buildings with 4 or more units; and
- 2.0 percent for commercial, industrial and public utility properties.

Under current law, Minnesota has a state property tax—the general education levy—but most people do not realize it is a state tax. The proposal will make clear that the Legislature is responsible for setting the rates for this tax. The state tax rates will be applied directly to taxable market value, not to tax capacity, so that it will be easy for property owners to calculate the amounts of their taxes. The state tax rates will be fixed in statute, rather than determined by dividing the amount to be levied by the value of the tax base, as with the current general education levy.

When the proposal is fully phased in, only two tax rates, tentatively set as follows, will be used to determine tax amounts:

- 2.4 percent for commercial,

industrial and public utility properties; and

- 1.2 percent for other income-producing properties (residential rental properties; agricultural land and buildings) and personal use properties (residential homesteads; agricultural homestead house, garage and one acre; and cabins).

Exemptions from the state property tax will apply to portions of the market values of certain kinds of property: the first \$115,000 of market value of personal use residential property; the first \$200,000 of market value of family farm property (agricultural homestead land and buildings); and the first \$60,000 of market value of main street business property (commercial, industrial and public utility). In addition, low-income apartments are exempt. The proposal establishes uniform qualifying standards for low-income apartment status.

The state will pay all school operating costs. The proposal changes only the source of funds for school operations, but not the amount of funds that each school district receives under current law. The state property tax revenue collected by the counties will be paid into the state general fund. State resources will pay for all general education costs (all costs currently funded by non-referenda levies or state aid not used to equalize referenda levies). As with the current system, revenues from the state property tax will need to be supplemented with revenues from the individual income tax and sales tax to fully fund school operations.

The only remaining local property tax levies for schools will be voter-approved, debt-service levies.

In its August 1995 statement, Building a Legacy of Better Value: Choose Reform, Not Declining Quality, the Citizens League recommended categorizing services into three levels:

- *Level A services, determined to be of compelling state interest, (such as a basic package of K-12 education services); 100 percent state-funded through statewide property taxes and other state revenue sources;*
- *Level B services, state-funded adjustments to offset cost factors outside of local control; 100 percent state-funded by statewide property taxes and other state revenue sources;*
- *Level C services, desired by a local community, but of no compelling state interest; funded from local property taxes and other local revenue sources.*

The League recommended moving away from the classification system and toward levies on market value. The state share of K-12 funding would increase to at least 75 percent, while the state share of city funding would fall. Copies of the statement are available from the League office at 612-338-0791.

School districts will be exempt from the notice and hearing requirements of the truth-in-taxation law.

Voters in school districts can raise additional, discretionary operating revenues for their schools by adopting local income-tax surcharges. These taxes will be surtaxes on the state income-tax liability of residents of the school districts that pass referenda. They will be equalized by the state, so school districts will receive about the same revenue per pupil for the same surtax rate.

More of state funds for property tax relief will be paid directly to taxpayers. To provide property-tax relief directly to individuals and to better target relief to those with low incomes, the property-tax refund will be simplified and expanded. A uniform threshold percentage of income will be used; maximum refunds will be increased; and the program will be restructured so that most homeowners will receive refunds. The law changing the property-tax refund to a credit on the property-tax statement will be repealed.

Less state aid will go to local governments for property tax relief, but state aid still will be distributed to counties, cities and towns so they have the funds necessary to provide basic services. State aid formulas for counties, cities and towns will be rewritten to distribute aid based on need. The "grandfathers" in the city local government aid (LGA) formula initially are substantially reduced and over time will be completely phased out. Homestead and agricultural credit aid (HACA), an untargeted aid, will be repealed. Counties and towns will receive

LGA under new formulas based on need.

Truth-in-taxation notices will be substantially revised. Substantial changes to the truth-in-taxation notices are being considered, including elimination of information regarding prior-year property taxes. The focus will be on proposed changes in local spending levels and the impact those spending decisions will have on current-year local property taxes.

All types of property will have reduced tax burdens. The types of property with the highest class rates under the current system—commercial, industrial and public utility properties, apartments, cabins, and some homesteads—will receive significant property-tax reductions under the proposal. Homeowners who live in school districts that have passed referenda to levy additional property taxes for discretionary school operations will receive property-tax reductions from the elimination of those levies. Residents of those school districts, however, will be subject to the local option income-tax surcharges that replace those levies. Many homeowners will receive additional property-tax relief from substantially increasing the funding and broadening the eligibility for the property-tax refund.

The proposal corrects many of the fundamental problems with the current property tax system. The current system has elements of both a local benefits tax and a wealth tax. This dual nature leads to many of its problems, much of its complexity, and the widespread perception of its unfairness. In response, the Legislature tinkers with it almost every year, causing disruptions to the budgets of local governments. The proposal resolves the internal conflict in the current system by separating the conflicting components into two separate taxes, the local services tax and the state property tax. In the process, the property-tax system is made easier to understand, fairer and more stable and property taxes on all types of property are reduced.

Ann H. Rest (DFL-New Hope) is chair of the Minnesota House Committee on Taxes.

"Think of our high property tax as the price we pay for wide-open spaces."



Excess levies, aid stable as share of school spending

In a recent *Commentary*, Minnesota Education Association President Judy Schaubach charged that the state isn't adequately funding schools, since increases in the formula allowance have not kept pace with inflation over the past five years. "It is bad public policy," she argued, "for the state to continue to force school districts into going to local tax levies in order to adequately fund their schools."

Schaubach is only partly right. It's true that the formula allowance per pupil has shrunk in real terms. But there has been a substantial increase in state general fund spending on several items—special education, class size reduction and technology, for example—that are not included in the formula allowance. And between 1991 and 1996, the tax revenue contributions to education spending each year have stayed at about 60 percent state and 40 percent local, according to Tom Melcher, director of finance for the Minnesota Department of Children, Families and Learning.

There has been an increase in the number of districts with referendum revenue, but since 1993 the state has equalized excess levy revenues. Excess levy and aid have not increased as a share of total education spending, Melcher said. In 1992, about seven percent of total education revenues came from local excess levies. In 1997, local excess levies, combined with the state-paid referendum equalization, still accounted for seven percent. That means the portion of education spending that came from local levies actually declined, Melcher said.

Finally, Melcher said total state and local tax revenues spent per pupil on K-12 education have grown about four percent, after accounting for inflation, between 1991 and 1997.

Are we spending enough on elementary and secondary education? Schaubach's right: That's a worthy question for public debate. But the other worthy question is, How do we get the most learning for the increasing amount of money we spend?—Janet Dudrow.

Market (mis)perception? Ask most any developer or real estate agent, and they will tell you that traditional suburban development is so

Take Note

"Let us reform our schools, and we shall find little reform needed in our prisons."—J. Ruskin

pervasive because that is what buyers want—big houses on big lots.

Yes and no. In one survey that tested the visual preferences of homebuyers and shoppers, fewer than one in three people preferred the typical suburban subdivision over neighborhoods with neotraditional elements—a greater mix of uses and housing types, higher densities, and multiple transportation nodes. In contrast, about one out of five preferred neotraditional neighborhoods.

The remaining half of respondents showed they greatly preferred the community image created by neotraditional development, but rejected the trade-offs that density implied. The survey concluded that most buyers did not want the all-out neotraditional small town quite yet, but added that conventional suburban designs are losing favor. "A cookie cutter suburb is no longer a safe bet at all," the survey said.—Ron Wirtz.

Secretary of State Joan Growe is reconvening her electoral reform commission on Nov. 20 to consider proposals to the 1997 legislative session. Previous recommendations by the commission passed in the Senate and in House committees, but stalled on the House floor.

The commission would have compressed the six-month time span for political parties to pick their candidates. It called for pushing March precinct caucuses ahead to April, moving the September primary back to August and holding a presidential primary with mail-in ballots on the same day as caucuses.

"In my mind the low turnouts at this year's precinct caucuses and primary election say very clearly that something needs to be done about getting more people involved," says Growe.—Betty Wilson.

The share of children born out of wedlock has soared since the mid-1960s—a sixfold increase for white children, to 20 percent, a threefold increase, to 66 percent, for black

children.

Business Week (Oct. 14) reports on a new study by George A. Akerloff of the University of California at Berkeley and Janet Yellen, a member of the Federal Reserve's board of governors. The team is skeptical of the argument that rising illegitimacy is the result of too-generous welfare benefits or the notion that poorly-educated black men are viewed as bad husband material.

Their theory: The availability of the pill and the legalization of abortion weakened young women's bargaining position when it came to sex. Akerloff and Yellen conclude that "the sexual freedom embraced by many single women left others who were opposed to contraceptives and abortions (or who were ignorant of their use) with no bargaining power in their relations with young men. And once pregnant, they could hardly use a condition that could be terminated as a condition for marriage."

The researchers conclude that the solution is to provide single women with easier access to contraception and to force fathers to support their out-of-wedlock children.

Seems policymakers ought to at least consider a strategy of helping young women strengthen their bargaining skills—or to realize when the "bargain" isn't worth it.—J.D.

It seems the extra Minneapolis voters drawn to the polls because of

the presidential election took kindly to the school district's request to renew its excess levy referendum which was approved by a 70 to 30 percent margin (105,991 to 44,733).

Fourteen percent (18,013) more people voted on this year's referendum than on the 1990 referendum—held in a nonpresidential year—which passed by a 65 to 35 percent margin (86,893 to 45,823). While the no vote was relatively stable, the yes vote increased substantially this year: the measure received 19,098 more yes votes and 1,085 fewer no votes than in 1990.

Voters in 1992, also a presidential election year, weren't so friendly to St. Paul's last excess levy referendum, which was defeated by a 53 to 47 percent margin (60,794 to 54,830). St. Paul is the only school district in the metropolitan area without an excess levy in effect.

The reasons for the different election outcomes in the two cities are not immediately obvious. Both have low percentages of households with children 18 and under—23 percent in Minneapolis and 29 percent in St. Paul, according to 1990 Census figures. And both have rapidly increasing public school enrollments: St. Paul's grew by 22 percent (from 35,730 to an estimated 43,767) between the fall of 1990 and this fall, while Minneapolis's grew by 17 percent (from 41,139 to an estimated 47,960).—Dana Schroeder.

"Take Note" contributors include Minnesota Journal and Citizens League staff members and Betty Wilson, a freelance writer and former Star Tribune political writer.

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Citizens League Matters

November 19, 1996

News for Citizens League Members

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Tom Selinger
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Shef Lang

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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. Suggested dues for membership are \$50 for individuals and \$75 for a family membership. Other categories are also available. For more information on membership, please call 338-0791.

CL 44th annual meeting set for November 20 *David Broder and Haynes Johnson are featured speakers*

Renowned broadcast and print journalists **David Broder** and **Haynes Johnson** will give the keynote address, "Lessons and Lost Opportunities: Health Care and Gridlock in America," at the 44th annual membership meeting of the Citizens League.

The meeting will be held Wednesday, November 20 from 5:30 to 7:30 p.m. at the Lutheran Brotherhood auditorium, 625 Fourth Avenue South, Minneapolis.

As two of America's best-known journalists, Broder and Johnson had unparalleled access to the major players in the ferocious battle to reform the health care system. In *The System*, Broder and Johnson paint an extraordinary portrait of democracy under siege. They portray a system of government and politics that is fundamentally broken.

Their book is only partially about health care. Written by two consummate Washington insiders, it's really about the inner workings of the current political system. The book has been described as "must reading" for citizens who want the system to be accountable to the people it is designed to serve.

David Broder is a national political correspondent for the *Washington Post* and a regular on CNN, *Meet the Press* and *Washington Week in Review*. A

Pulitzer Prize winner, he is the author of the best-selling *Changing of the Guard*.

Haynes Johnson has reported on every president since Dwight D. Eisenhower for the *Washington Star* and *Washington Post*. He, too, won a Pulitzer Prize and is the author of *Sleepwalking Through History* and is a commentator on *Washington Week in Review* and the *NewsHour with Jim Lehrer*.

The Citizens League tackles the system

Twin Cities community leaders who spoke at last month's League Board retreats were as pessimistic as Broder and Johnson about the current political system.

Public officials and policy-makers are disheartened and dispirited. Policy paralysis (particularly implementation) has set in in many areas. Citizens are disillusioned and angry about government for failing to solve problems, yet

citizens also sense that many of our public problems result from dysfunctional private behavior for which government solutions are not the answer.

In the public's mind the balance between the public, private and non-profit sectors has gone off track. There is a general belief that the public sector is not a good "buy" and that it cannot really deliver. For government to function properly as a collective problem-solving mechanism, it must resell the concept of the public sector to a skeptical, if not hostile, general public.

Modern Challenges of Public Leadership

But there is hope. The League Board concluded that there is a need for cross-sectional conversations, convening and collaboration—less "preaching to choirs" and more reaching across lines of division to find

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Thanks to the following for their support of the Citizens League Annual Meeting: The Allina Foundation; Halleland, Lewis, Nilan, Sipkins & Johnson; Medtronic, Inc.; St. Jude Medical, Inc.; and United HealthCare Corporation.

Broder and Johnson will be available after the meeting to sign copies of their book, which will also be for sale at the meeting.

Cost of the meeting is \$20 in advance and \$25 at the door. To make reservations, or for more information, please call the League office at 338-0791.

K-12 committee hits the books on student achievement

What menu of K-12 education reforms should be on the agenda of the 1997 Legislature as it seeks to improve student achievement in the face of tight resources? Sixty-three Citizens League members, led by co-chairs Carl "Buzz" Cummins and Pam Neary, have been busily developing an answer to that important challenge.

The committee is focusing on four key issues, exploring questions such as:

- **Site-based funding of education.** Should the state Legislature provide per-pupil education aid directly to the school site in which the student enrolls, rather than to districts? What, as a matter of

state policy, should the Legislature do to provide school sites with the authority over site budgets? What institutional arrangements are needed to enable individual schools to improve student achievement?

- **Assessment.** What kind of assessment system should be developed to ensure that all Minnesota students are learning? How should assessment be tied to the teaching and learning task? Should Minnesota adopt a uniform assessment system so that student achievement can be meaningfully compared across districts and schools?

- **Early childhood foundations.** Education researchers,

including Johns Hopkins' Robert Slavin, say that the one step that would have the biggest impact on student achievement is to ensure that all children can read and do basic arithmetic by the end of third grade.

What would have to change in order for Minnesota to ensure that all students are able to read and do third-grade arithmetic by the end of third grade? How could or should resources be targeted to ensure proper academic foundations in grades K-3? What systems of assessment would be required?

- **Improving the education system's performance with students of color.** What poli-

cies should the Legislature consider, while it seeks to decentralize decisionmaking to schools, to address the achievement gap between white students and students of color? What kinds of assessment systems would be required to ensure that students of color are learning? How should such assessments be tied to accountability for teachers, schools, and districts? What steps could the legislature take to prevent learning deficits in the preschool years among students of color?

The committee will finish its report by mid-November and forward it to the Citizens League Board of Directors for consideration at the December 18 Board meeting.

Building Livable Communities enters "home" stretch

Report looking to add value to debate on regional growth

The League's Building Livable Communities study committee is in the final stages of its deliberations, and hopes to release its final report sometime in December.

The committee is currently debating recommendations, and reviewing other sections for final modification.

The thrust of the report asks whether the region can afford to continue growing and developing as it has in the past.

The report will profile the region's growth patterns of the last 40 years, and identify the drivers of these regional land use patterns. The report will then recommend numerous changes so the region can properly manage growth to the year

2020 and beyond.

The report will address a multitude of issues. Those receiving particular attention include:

- the concentration of poverty in the central cities;
- the influence of subsidies on land use and development;
- the effect of the property tax code on land use at the municipal level;
- the impact of inflexible zoning and land-use regulations;
- the expansion of the "real" region beyond the original seven counties;
- the proper role of the Metropolitan Council in managing regional growth.

The committee is still working on specific strategies for imple-

menting change. It is using a half dozen principles as a broad framework for recommendations regarding the region's future land use policies. The principles include:

- Pay for what you get.
- Redirect growth inward instead of outward to undeveloped areas of the region.
- Build communities that are inclusive rather than exclusive.
- Protect undeveloped areas.
- Empower effective regional governance.
- Enhance citizenship at the regional level.

The committee has been meeting weekly since October of 1995, and still sports a dedicated roster of about 50 committee members.

Citizens League response (continued from page 1)

and build support for solutions. The Citizens League must move beyond diagnosing and admiring the problems to successful action. In short, the League must invent new solutions.

At the annual meeting, League president Mike Christenson will unveil a new initiative that will explore the modern challenges of public leadership in a period of hostility toward the public sector on one hand, and entrenched special interest groups on the other.

The League initiative will consider the challenges of recruiting, training and retaining the best and the brightest public leaders, and of rebuilding trust between citizens and their government by restoring faith in public leadership.