

# MINNESOTA Journal

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## Tax increment financing: a whole lotta questions going on

by Bob DeBoer

After the Legislature reformed the state's property tax code in 2001, there was speculation that tax increment financing (TIF), a tool used by municipalities to subsidize development, might lose its allure. The tax code changes promised to reduce the revenue communities could raise using TIF. While that has happened, a review of the state's TIF data for tax years 2003 and 2004 shows that municipalities are continuing to create new TIF districts. The number of districts statewide increased from 1,813 in 2002 to 1,965 in 2004 (see Table 1).

TIF is a sometimes controversial economic development tool used mainly by cities to help subsidize the cost of redeveloping blighted areas, creating new development that produces new jobs, or, more recently, to create low and moderate-income housing where it wouldn't otherwise occur. TIF allows a municipality to "capture" the tax increment created by new or re-development and use it to finance certain development costs.

Property tax reform has made non-housing TIF districts riskier for municipalities because the state's reduction of tax rates on commercial-industrial property means that property doesn't produce as much tax revenue as before the tax code reform. How risky? To some degree that depends on whether the municipality is in a high-growth area or not. TIF has always been used aggressively by some high-growth cities to spur growth even more rapidly. That is one of the reasons it has been controversial.

"The reason you see a lot of TIF use in some high-growth areas is because it is low risk," explained Bill Connors, director of the TIF Division in the Office of the State Auditor from 1997-2002. The municipalities "have confidence they will grow, so they use TIF. It is much

riskier for a city that is not experiencing growth to use TIF."

But is using tax dollars to subsidize growth in already growing areas what the state Legislature actually intended when it created the TIF program? Or was the Legislature's intention to give struggling areas a tool to help them redevelop blighted areas and attract new economic development?

It is a policy question without a satisfactory answer, since the reasons for creating individual TIF districts vary with each municipality, and with each type of district.

The most commonly used type of TIF district, a "redevelopment district," is designed to help municipalities redevelop blighted areas or replace aging infrastructure. Municipalities can capture the tax increment from redevelopment districts for up to 25 years and use the revenue generated from that increment to finance redevelopment costs.

Economic development districts are the second most common type of TIF district. Unlike redevelopment districts, economic development districts do not have to be located in blighted areas, or areas that need substantial infrastructure replacements, but may be used to subsidize new development in "green field" areas that have never been developed. Economic development districts must generally be used to attract manufacturing jobs, although certain counties have an exemption for research and development, tourism, and telemarketing facilities. Subsidies for this type of district are limited to 10 years.

### The field is greener in high-growth areas

But is the use of economic development

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# School vouchers fail to solve the challenges of educating our children

by Charles J. Skemp

As a moderate Democrat, I read Elizabeth Mische's article, "Making a Liberal Case for School Choice," [Minnesota Journal, July 2004] with great interest. As a former teacher and former Department of Education employee, I have studied the issue of vouchers for years. After reading this article, I still am not convinced that vouchers will solve the challenges surrounding school choice. Arguing about union intransigence and the separation of church and state distracts us from the main arguments against vouchers—accountability, competition, and true accessibility.

The three main arguments for vouchers that I have heard over the years are: vouchers will allow poor children to attend schools of their choice; vouchers will increase competition which will improve schools; and, individuals should not have to use their own money to support other people's children.

## Affordability

When I taught at a private school in the early 1990s, tuition was around \$10,000 per year although the actual cost was closer to \$12,000, subsidized through investments. Today, tuition is close to \$18,000. Are proponents of vouchers advocating that we should cover full tuition at any school a student chooses? If so, the public could be spending about twice the current average per pupil to send one student to an expensive school. Or are advocates proposing that we limit vouchers to a specific amount, say \$3,000? If so, it certainly won't make \$18,000 tuition any more affordable for most families. It might not make the \$4,000 per year neighborhood parochial school affordable either. Also, if voucher money starts going into private schools, what would stop these schools from raising their tuition, perhaps to allow them to increase teachers' salaries to be more in line with their higher paid public school colleagues? Voucher programs don't adequately address these problems and, as a result, they can end up being little more than a discount for families who would send their kids to private schools anyway.

Assume we find an acceptable voucher amount. Students could take that amount with them to whatever school they choose. According to market theory, this could

## Percent of students at or above grade level on the Minnesota Comprehensive Assessment 2004

	3rd Reading	3rd Math	5th Reading	5th Math
Minneapolis *	82%	78%	85%	82%
Metro Private	86%	77%	88%	82%

\* Non-LEP, non-migrant, and non-special education students only. Source: Minnesota Department of Education

\*\*Average scores of 13 metro-area non-public schools. Source: *Star Tribune*, May 19, 2004

improve school quality because schools would compete to retain students/customers. However, true competition requires a level playing field, and the reality of education makes this unworkable for a few reasons: private schools can discriminate; and, measures of success are misleading.

## Accountability

Private schools choose their students. The criteria can be test scores, gender, religion, or family connections, to name a few. When I taught at a public school, we often got new students who had been expelled from a private school for academic or discipline problems. Private schools often are not equipped to teach children with physical, mental, or learning disabilities. For the relatively few special education students they have, they usually need to go to the local public school district for special education services.

If our tax dollars are going to private schools in the form of vouchers, do we as the public have a right to say that these schools can no longer be discriminating? Can we insist that they provide services to all students? Do private schools want government to be so intrusive? Accountability and non-discriminatory practices must follow tax dollars. So in exchange for public money, private schools gain the restraints of government regulation.

## Achievement

In addition to these questions of accountability and government regulation there is the question of how people choose schools. One common criterion is test scores. Minnesota newspapers publish the results of the Basic Skills Test (BST) and the Minnesota Comprehensive Assessment (MCA). At a glance, private schools often do better than their public school counterparts. Advocates of a market model use this as evidence of the success of competition,

and of the failure of public schools. However, disaggregate the data and you can see how well the public schools are doing. For example, according to Minnesota Department of Education data, non-special education, non-migrant, and non-Limited English Proficiency (LEP) students in Minneapolis are performing comparably to their private school counterparts. Third grade MCA scores show 82 percent of students in reading and 78 percent in math are performing at or above grade level. For fifth grade, the numbers are 85 percent in reading and 82 percent in math. The 13 metro-area private schools' scores published in the *Star Tribune* (May 19, 2004) show a range wide range of achievement, from 56 percent to 98 percent in reading (86% average) and from 45 percent to 93 percent in math (77% average) at third grade. The fifth grade scores range from 74 percent to 100 percent in reading (88% average) and 50 percent to 100 percent in math (82% average).

It is hard to determine how student mobility and language learning affect private schools. Private schools probably do not discriminate against students because of mobility or English-language acquisition, although the assumption here is that these students constitute a smaller percentage of the student body in non-public schools. However, when you examine the special education numbers, it is clear that the challenges of educating children with special needs lie heavily on the public schools. Last year, 85 students (approximately 1.4%) in non-public Minneapolis schools received special education assistance from the district. Contrast that with Minneapolis, which serviced over 6,000 special education students (approximately 15%) in the public schools. Statewide, approximately 117,000

*Vouchers continued on page 7*

# Viewpoint

## Having the “good life”—and a good time

by Sean Kershaw

### Our good life

It probably came as no surprise to anyone in 1973 that *Time* magazine chose as their cover-shot a picture of Gov. Wendell Anderson fishing (or holding up a fish that his aide caught, as the story goes). A public leader ... having a good time ... and exemplifying “the good life.” Of course! A source of public pride.



And Governor Anderson’s attitude made a difference to Minnesota. There was a direct connection between his infectious optimism and energy, and his ability to produce “miracles” for Minnesota.

Fast forward 21 years. Legislators hunkered down in their seats, bickering publicly and not really even pretending to like each other privately. Party officials are hunkered down in their ideological corners and not really even pretending that there is any middle ground in public life anymore. A public embarrassment.

How sad. It should come as no surprise then that participation in many aspects of public life has declined, and that our elected leaders get nothing done. A joyless

attitude produces a joyless outcome. The good life needs a good time!

Perhaps more importantly, having a good time makes the good life possible.

### A good time

I was reminded of this a month ago when I had the honor to meet one of the community’s leading civic philanthropists. We sat in her office, surrounded by sunlight and modern art, and talked about where we’d been as a community, the work she was involved in now, and where I hoped the League would be in the future. It was a blast. She had an amazing attitude and energy and a clear sense of optimism.

We were in the midst of talking about our plans when she paused and looked out the window.

“We have had *fun* doing this work — a good time. It’s certainly not been easy ... but it has always brought us such joy,” she said, referring to the work she and her husband have done in the community.

This comment gave me great pause then, and it still does.

Not only is there great joy in public life and public work, but there is a desperate need to have a sense of humor as we approach this work. Our future good life depends on having a good time.

### Why it matters

A sense of humor involves a willingness to take risks and demands that people not take themselves too seriously. Humor also requires a sense of perspective beyond the immediate circumstance. These are essential elements to successful public work.

I would rather spend two hours with someone I seriously disagree with politically, but who has a good sense of themselves and a good sense of humor than one hour with someone who agrees with me politically but is a humorless drone. (I call it “the beer test” or the “stuck-on-a-bus-together test.”)

Imagine, then, which of the two people are mostly likely to get things done in

public life. Public work and public success depend on bridging the gap between sometimes seemingly enormous personal and political differences. At some point you have to find a connection—a link to something larger and more important than yourself and these differences.

Humor breaks down these barriers and provides a common reference point. Not taking yourself too seriously actually helps other people take you more seriously.

### What we can do about it

Let me suggest two things we can do about this problem. The first involves a serious examination of our current political contribution regulations. The unintended consequence of our current law has been to make it impossible for legislators to socialize together outside of work and across party lines—to have fun privately before having to do work publicly. There is a direct connection between the inaction we saw this year and the lack of good will between these officials. Our leaders used to hang out together much more often, and they used to get a lot more done.

The second involves a request to each of you to help make the Citizens League the type of organization that promotes a good time—by creating the climate and the space for different perspectives to come together—and provides a place where serious work gets accomplished in the process. By building these relationships and these experiences the League will grow in size and effectiveness.

Perhaps we need to begin a Citizens League fishing opener tradition. Find a (legal) way to get elected officials and policy leaders together at a nearby but secluded lake to have beers, talk policy, and hang out. We could even have a fishing contest!

The elected official whose aide catches the biggest fish wins a prize! **MJ**

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districts in high-growth areas—areas where development is already occurring without benefit of government subsidies—putting slower growing and struggling communities at a competitive disadvantage? Maybe, but it is hard to say definitively, without further analysis. Some experts think so.

(For a breakdown of how the 52 largest users of TIF have fared since 2002, see Table 6 at [www.citizensleague.net](http://www.citizensleague.net).)

“The whole purpose of redevelopment districts are to create a level playing field with unsubsidized green field development, but that doesn’t happen when a green field development can be subsidized,” said Connors.

Joel Michael, an analyst in the Minnesota House Research Department and one of the state’s foremost TIF experts, has a similar view. “If the ability to use the subsidy is not limited, it reduces the value of the subsidy as a tool to direct the location of the development,” Michael said. “TIF is not a well-developed tool in any sense of whether or not you

ought to channel economic development to distressed areas,” he added.

In other words, it seems quite possible that communities with low growth and other barriers to development will have more trouble attracting development if the creation of TIF districts in high-growth areas continues unabated.

**Leveling the playing field**

Should policymakers ensure that TIF is used judiciously for the benefit of the entire state? This question takes us back to the way that TIF districts are created at the local level.

In Minnesota, the decision to create a new TIF district rests entirely with the municipality. Under the law, the municipality must find that development would not occur “but for” the use of TIF subsidies. This is known as the “but for” test. In the case of economic development districts for manufacturing, a municipality must also find that “but for” the use of TIF, the development would locate in another state.

That may not be a realistic standard for many communities, Michael said. “How can you expect a city to know whether or not a developer will go across the river to Wisconsin? It is more likely to be a decision between Farmington and Northfield.”

Some communities have also created redevelopment TIF districts in high-growth areas on shaky criteria in order to benefit from the longer 25-year subsidy. The case that first identified this practice in the late 1980s involved a dilapidated farmhouse on a site adjoining the Mall of America. It was used to classify the 40-acre farm it sat on as blighted and establish a redevelopment district. The law was specifically amended in 1990 to stop this practice. The law specified that higher percentages of the land needed to be “improved” in relation to the size of the parcel for the district to be a redevelopment district.

According to Connors, who is now city administrator in Evansville, Wisconsin, even after the law ~~TIF changed on page 6~~

**TABLE 1: CHANGE IN TAX INCREMENT FINANCING, TAXES PAYABLE 2002-2004\***

	# of Districts		TIF Net Tax Capacity			Total Net Tax Capacity			Net TIF Tax		
	2004	2002-04 Change	2004	2002-04	Change	2004	2002-04	Change	2004	2002-04	Change
METRO	663	8.5%	180,416,402	23,057,454	14.7%	2,357,399,739	390,706,865	19.9%	216,407,159	20,023,087	10.2%
NON-METRO	1302	8.3%	44,245,022	7,967,715	22.0%	733,096,088	118,392,541	19.3%	54,375,326	8,908,781	19.6%
STATEWIDE	1965	8.4%	224,661,424	31,025,169	16.0%	3,090,495,827	509,099,406	19.7%	270,782,485	28,931,868	12.0%

\* = Tables available for 2002-2003 and 2003-2004 at [www.citizensleague.net](http://www.citizensleague.net)

**TABLE 2: METRO AREA TAX INCREMENT FINANCING BY COUNTY, TAXES PAYABLE 2004**

County	# of Districts	TIF Net Tax Capacity	2002-04 Change	Total Net Tax Capacity	2002-04 Change	TIF NTC as a % of Total NTC	2002-04 Change	Net TIF Tax	2002-04 Change	# of Cities w/ TIF District
ANOKA COUNTY	82	16,629,051	43.5%	208,773,405	27.2%	7.97%	0.91%	16,787,665	30.0%	15
CARVER COUNTY	20	7,719,435	14.6%	61,385,064	29.2%	12.58%	-1.60%	9,124,737	13.7%	7
DAKOTA COUNTY	56	14,268,460	10.9%	325,781,521	23.5%	4.38%	-0.50%	13,476,420	-0.1%	12
HENNEPIN COUNTY	295	102,856,817	11.2%	1,145,985,077	15.8%	8.98%	-0.37%	133,537,184	8.7%	29
RAMSEY COUNTY	139	30,122,538	19.6%	386,876,036	22.4%	7.79%	-0.18%	34,382,892	15.5%	14
SCOTT COUNTY	29	2,150,882	-15.9%	73,546,264	32.8%	2.92%	-1.70%	2,409,826	-16.7%	6
WASHINGTON COUNTY	42	6,669,219	12.5%	155,052,372	19.0%	4.30%	-0.25%	6,688,435	4.7%	12
Metro Totals	663	180,416,402	14.7%	2,357,399,739	19.9%	7.65%	-0.35%	216,407,159	10.2%	95
Non-Metro Totals	1,302	44,245,022	22.0%	733,096,088	19.3%	6.04%	+0.14%	54,375,326	19.6%	329
Statewide	1,965	224,661,424	16.0%	3,090,495,827	19.7%	7.27%	-0.23%	270,782,485	12.0%	424

A complete table of Minnesota counties is available at [www.citizensleague.net](http://www.citizensleague.net).

**TABLE 3: MINNESOTA CITIES WITH TAX INCREMENT NET TAX CAPACITY OVER \$1 MILLION, TAXES PAYABLE 2004**

	TIF Net Tax Capacity (NTC) in Dollars			% Change 2002-04	TIF NTC as a % of Total NTC			TIF NTC % Rank		
	2004	2003	2002		2004	2003	2002	2004	2003	2002
<b>ANOKA COUNTY</b>										
ANDOVER	1,384,463	1,199,777	900,128	53.8%	6.7%	6.7%	5.7%	36	37	44*
ANOKA	1,949,649	1,755,466	1,565,437	24.5%	15.3%	14.6%	14.0%	8	12	13
BLAINE	2,038,960	1,796,326	1,128,598	80.7%	5.1%	5.3%	3.8%	44	45	50
COLUMBIA HTS	1,010,335	823,154	731,320	38.2%	9.5%	8.6%	8.3%	28	35*	36*
COON RAPIDS	2,466,338	2,076,096	1,931,197	27.7%	5.3%	4.9%	5.1%	43	46	45
FRIDLEY	4,216,629	3,810,890	2,553,259	65.1%	15.4%	15.2%	11.4%	7	11	22
RAMSEY	2,766,148	2,305,771	1,893,100	46.1%	17.7%	16.7%	15.5%	5	6	11
<b>BENTON COUNTY</b>										
SAUK RAPIDS	1,046,281	965,560	843,244	24.1%	17.3%	17.4%	17.3%	6	5*	4*
<b>BLUE EARTH COUNTY</b>										
MANKATO	1,194,889	1,276,892	1,080,703	10.6%	5.7%	6.6%	6.1%	40	38	42
<b>CARVER COUNTY</b>										
CHANHASSEN	3,958,013	3,789,131	3,309,835	19.6%	15.3%	16.2%	15.8%	9	7	7
CHASKA	3,470,363	3,155,099	3,006,092	15.4%	19.7%	20.4%	22.3%	3	3	2
<b>DAKOTA COUNTY</b>										
APPLE VALLEY	1,872,019	1,585,266	1,408,950	32.9%	4.5%	4.3%	4.3%	47	50	49
BURNSVILLE	3,741,413	3,446,241	3,105,259	20.5%	6.3%	6.2%	6.1%	37	40	41
FARMINGTON	1,313,408	1,190,901	1,042,879	25.9%	11.6%	12.9%	13.8%	21	16	14
INVER GROVE HTS	1,243,646	2,797,284	2,348,203	-47.0%	4.6%	11.7%	10.9%	46	22	25
LAKEVILLE	1,684,733	1,511,523	1,409,425	19.5%	4.1%	4.3%	4.6%	50	49	48
MENDOTA HEIGHTS	1,313,744	1,330,031	1,367,141	-3.9%	8.0%	8.7%	9.8%	34	33	29
SOUTH ST PAUL	1,260,804	1,157,989	1,083,759	16.3%	10.2%	10.3%	10.6%	27	28	26
<b>HENNEPIN COUNTY</b>										
BLOOMINGTON	6,985,030	7,343,849	7,413,432	-5.8%	5.9%	6.4%	6.9%	39	39	38
BROOKLYN CTR	3,097,215	2,515,034	2,407,666	28.6%	15.0%	13.2%	13.4%	11	15	15
BROOKLYN PARK	6,942,139	6,708,677	6,634,524	4.6%	13.5%	14.4%	15.6%	15	13	9
CHAMPLIN	2,316,292	2,315,306	1,997,883	15.9%	13.9%	15.9%	15.7%	14	8	8
CRYSTAL	1,130,675	1,178,210	1,152,131	-1.9%	7.7%	8.7%	9.2%	35	34	31
EDEN PRAIRIE	1,620,280	1,070,532	261,957	518.5%	1.9%	1.3%	0.4%	52	52	52*
EDINA	6,949,064	6,909,331	6,513,676	6.7%	8.3%	8.9%	9.0%	33	32	33
GOLDEN VALLEY	3,581,949	3,513,027	2,664,380	34.4%	11.4%	12.2%	10.2%	22	20	28
HOPKINS	1,650,349	1,659,191	1,578,808	4.5%	11.0%	11.7%	11.6%	24	23	21
MAPLE GROVE	2,106,931	1,960,613	1,748,257	20.5%	3.5%	3.7%	3.7%	51	51	51
MINNEAPOLIS	47,011,477	46,237,759	42,735,702	10.0%	15.2%	15.7%	15.3%	10	10	12
MINNETONKA	3,381,494	3,402,504	3,394,120	-0.4%	4.4%	4.6%	4.8%	49	48	46
RICHFIELD	3,654,185	2,651,737	3,502,536	4.3%	13.2%	10.9%	15.8%	16	27	6
ROBBINSDALE	1,110,365	1,201,582	1,094,694	1.4%	13.2%	15.8%	15.6%	17	9	10
ROGERS	2,159,226	2,224,862	1,631,324	32.4%	25.1%	28.9%	27.5%	1	1	1
ST LOUIS PARK	4,313,399	3,792,061	3,352,152	28.7%	9.1%	8.4%	7.9%	31	36	37
WAYZATA	1,574,329	1,370,312	1,210,829	30.0%	12.9%	12.6%	12.3%	19	18	18
<b>LYON COUNTY</b>										
MARSHALL	1,047,781	965,546	806,193	30.0%	14.1%	13.9%	12.3%	13	14*	19*
<b>OLMSTED COUNTY</b>										
ROCHESTER	3,138,517	3,156,419	2,724,607	15.2%	4.5%	4.9%	4.8%	48	47	47
<b>RAMSEY COUNTY</b>										
MOUNDS VIEW	1,834,053	1,684,994	1,291,524	42.0%	21.5%	21.7%	19.1%	2	2	3
NEW BRIGHTON	2,586,522	2,109,206	1,950,210	32.6%	14.3%	12.7%	13.2%	12	17	16
ROSEVILLE	2,469,017	2,506,066	3,108,466	-20.6%	5.6%	6.2%	8.4%	41	41	35
ST PAUL	16,458,189	14,655,305	13,291,072	23.8%	9.3%	9.1%	9.2%	30	31	30
SHOREVIEW	1,426,915	1,289,723	1,185,545	20.4%	5.6%	5.7%	5.8%	42	44	43
VADNAIS HEIGHTS	1,460,016	1,389,187	1,267,784	15.2%	10.6%	11.1%	11.4%	25	26	23
WHITE BEAR TWP	1,176,974	972,116	793,758	48.3%	10.4%	9.9%	9.1%	26	29*	32*
<b>RICE COUNTY</b>										
FARIBAULT	1,031,668	928,211	756,023	36.5%	9.3%	9.3%	8.5%	29	30*	34*
<b>ST. LOUIS COUNTY</b>										
DULUTH	5,762,813	4,520,088	4,300,251	34.0%	13.2%	11.9%	12.1%	18	21	20
<b>SCOTT COUNTY</b>										
SAVAGE	1,203,575	1,086,465	1,053,506	14.2%	6.0%	6.1%	6.7%	38	42	39
<b>STEARNS COUNTY</b>										
ST CLOUD	1,746,417	1,998,332	1,885,071	-7.4%	4.8%	6.1%	6.2%	45	43	40
WAITE PARK	1,218,986	1,056,605	945,999	28.9%	18.6%	17.9%	17.2%	4	4	5*
<b>WASHINGTON COUNTY</b>										
OAKDALE	1,946,955	2,123,409	1,902,211	2.4%	9.0%	11.2%	11.2%	32	25	24
STILLWATER	1,795,830	1,659,880	1,276,611	40.7%	11.2%	11.6%	10.5%	23	24	27
<b>WRIGHT COUNTY</b>										
BUFFALO	1,058,450	896,718	798,301	32.6%	12.6%	12.6%	13.1%	20	19*	17*

\* = was not over \$1 million NTC in TIF for this year.

Source: Minnesota Department of Revenue; calculations by the Citizens League

municipalities continued to stretch the definitions of improvement, by including gardens and lawns as “improvements” to enlarge redevelopment districts. This practice was uncovered in 2001 by the State Auditor’s Office, but no one is sure how many redevelopment districts were formed this way before the Legislature amended the law again in 2001 to stop

this practice.

One of the main problems with TIF in Minnesota, said Connors, is that “cities and consultants that rigorously apply the law are at a disadvantage.”

In 1996, the state auditor’s office was given responsibility for the oversight of TIF districts, but there is no real authority to oversee how districts are formed. The

state law governing TIF says it’s up to local governments to determine if the “but for” test applies, so the state really doesn’t have a role in the determination, Connors explained. The auditor’s office generally examines districts when they are about to be closed and looks for violations in the use of the funds, or increment, produced by the TIF district.

“It would take something pretty outrageous to challenge the city’s determination,” Michael agreed.

So how many high-growth areas are using TIF aggressively and what could be done to make the use of TIF more judicious on a statewide level?

To some degree, it is because of the local control of TIF that there is little ability to judge whether subsidizing development in high-growth areas is necessary or even desirable. More analysis of the data and types of TIF districts would be required. About one-half of the cities that capture more than \$1 million in TIF net tax capacity (see Table 3) might intuitively be thought of as communities with strong growth, but there is no standard for defining a high-growth community, according to Michael Munson, a top planner at the Metropolitan Council.

Taking a look at cities across Minnesota with more than 10 percent of their total net tax capacity captured in TIF (see Table 4), it is harder to know if perhaps 20 of those cities could be considered high-growth. In addition, even though the municipalities listed in Tables 3 and 4 are high impact users of TIF, they represent only 91 of the 424 municipalities using TIF in 2004.

Connors notes that in Wisconsin, a local joint review board must approve the formation of a new TIF district. The review board is made up of representatives from the city, county, school district, vocational-technical college district, and a citizen member. While the vast majority of TIF districts are approved in Wisconsin, Connors speculates that a more stringent review process in Minnesota, involving more stakeholders, might reduce the number of districts proposed.

Creating a methodology for determining high-growth areas—and whether those areas should be able to subsidize develop-

## **TIF use continues upward in 2003 and 2004**

**By Bob DeBoer**

Last year in the *Minnesota Journal’s* annual review of the state’s tax increment financing law, or TIF [*Legislature’s compression of commercial/industrial tax rates reduces revenue for tax increment financing districts, May 2003*], we reported that municipalities were seeing large reductions in TIF revenue for taxes payable in 2002, the first year state property tax reforms took effect. A look at the data for 2003 and 2004, however, shows that municipalities across the state are continuing to create new TIF districts, and that revenue in those districts—calculated as net tax capacity—has risen 16 percent over the two-year period. (See Table 1).

Since 2002, the number of TIF districts has increased statewide, from 1,813 to 1,934 in 2003, and to 1,965 in 2004.

Tax increment financing (TIF) is a tool used by cities and other development authorities to finance certain types of development costs. The program was established by the state legislature in 1979 to allow cities or other authorities to create TIF districts to help subsidize the cost of redeveloping blighted areas and the creation of low and moderate income housing, and to create economic development and jobs.

Tax increment financing enables a city to use the additional property tax revenue generated by new development to pay for certain development expenses. With TIF, the city “captures” the additional property taxes generated by the new development within the district that would have gone to other taxing jurisdictions and uses the “tax increment” to pay some of the development costs that the owner, developer, or local government otherwise would have paid.

Some examples of TIF-eligible costs are the acquisition of land or buildings, the demolition of substandard buildings, site preparation, the installation of utilities or road improvements, and the construction of low-and moderate-income housing.

The up-front costs of TIF-subsidized development are often financed with the proceeds from general obligation bonds, revenue bonds, or loans. The debt service on those obligations is paid with the tax increment generated by one or more TIF districts.

Some TIF districts use an alternative to bonds or loans, known as pay-as-you-go financing, where the property owner or developer pays the development costs upfront and is reimbursed with the tax increment generated by the TIF district.

Tracking the relationship between TIF net tax capacity and the municipality’s total net tax capacity shows how much of the city property tax base is “captured” for land development subsidies through TIF districts. The percent of a city or township’s total net tax capacity captured in TIF districts is an indicator of how aggressively TIF is used on the local level and how much it reduces the property tax base of the city (see Tables 2 through 4).

*TIF continued on page 7*

ment with TIF—will take much more detail and evaluation. But the wide use of TIF subsidies and the process for creating new districts should be reconsidered if TIF

is to be an effective tool for economic development in all of Minnesota. MJ

students receive special education services. About 2,000 (1.7%) are in non-public schools. The aggregate test scores do not reflect this challenge

This is not to say that all public schools are meeting the needs of all their students or that special education students cannot learn. There is an achievement gap between students of color and white students, as well as between students in poverty and their middle-class peers. There is a need for school improvement and reform. However, we need to be sure we focus on how to improve public schools to meet the needs of all students and not use only limited information (aggregate test scores) to argue for vouchers or make final decisions about where to send our kids.

**The greater good**

The third argument for vouchers—it’s my money and my kids—is something we can’t do much about, short of mandating refresher courses in civics and economics. We do need to concern ourselves with the “general welfare” as stated in the Constitution and invest in our children because of the long-term benefits to them and to our society.

There is a lot of choice in the public school system. Open enrollment, charter schools, Advanced Placement, Post-Secondary Enrollment Options, alternative learning programs, special education, integration districts, online learning, and magnet schools are some of the many options parents and students have. Unlike private schools, all of these systems are accountable to the taxpayer and open to public scrutiny. Can we develop more choices? Yes. Can we improve the existing system to meet the needs of all students? Yes. Should we send public money to schools that can discriminate and are not accountable? No. Would private schools be willing to subject themselves to the restrictions, regulations, and scrutiny that come with public funding? I doubt it. As a society, it would be better to put our energies into improving our public schools to meet the needs of all students. Keep them accountable, competitive, and accessible to all. MJ

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**TABLE 4: MINNESOTA CITIES AND TOWNS WITH MORE THAN 10 PERCENT OF NET TAX CAPACITY (NTC)\* CAPTURED IN TIF DISTRICTS**

Rank	CITY/TOWN NAME	County	TIF NTC as a % of Total NTC	Net TIF Tax	# of Districts
1	DUNDAS	Rice	34.2%	284,271	2
2	LILYDALE	Dakota	30.9%	321,773	1
3	RUSH CITY	Chisago	30.8%	445,030	5
4	ROGERS	Hennepin	25.1%	2,416,576	12
5	LAKESIDE TOWNSHIP	Cottonwood	24.6%	188,102	1
6	MOUNDS VIEW	Ramsey	21.5%	2,242,808	5
7	ALBANY	Stearns	20.2%	288,668	9
8	CHASKA	Carver	19.7%	3,844,135	4
9	SPICER	Kandiyohi	19.2%	292,577	7
10	ANNANDALE	Wright	19.2%	282,682	8
11	WAITE PARK	Stearns	18.6%	1,270,009	4
12	PELICAN RAPIDS	Otter Tail	18.6%	198,729	5
13	AVON	Stearns	18.5%	176,766	2
14	SAUK CENTRE	Stearns	17.8%	543,605	8
15	RAMSEY	Anoka	17.7%	2,754,228	8
16	SAUK RAPIDS	Benton	17.3%	1,568,291	12
17	GAYLORD	Sibley	15.7%	163,217	10
18	ROCKFORD	Wright	15.5%	428,188	5
19	HINCKLEY	Pine	15.4%	189,761	2
20	OSSEO	Hennepin	15.4%	419,603	9
21	FRIDLEY	Anoka	15.4%	4,061,089	16
22	FREEMAN TOWNSHIP	Freeborn	15.4%	69,221	1
23	ANOKA	Anoka	15.3%	2,023,853	2
24	CHANHASSEN	Carver	15.3%	4,935,563	6
25	MINNEAPOLIS	Hennepin	15.2%	68,636,786	103
26	BROOKLYN CENTER	Hennepin	15.0%	4,467,975	4
27	RUSHFORD	Fillmore	14.9%	151,126	2
28	WALKER	Cass	14.8%	189,548	7
29	PRESTON	Fillmore	14.4%	127,890	6
30	NEW BRIGHTON	Ramsey	14.3%	2,949,647	23
31	OLIVIA	Renville	14.2%	189,571	6
32	HOWARD LAKE	Wright	14.1%	157,244	8
33	MARSHALL	Lyon	14.1%	1,421,362	9
34	CHAMPLIN	Hennepin	13.9%	2,437,302	5
35	ST PAUL PARK	Washington	13.7%	369,542	2
36	BROOKLYN PARK	Hennepin	13.5%	8,489,277	16
37	AITKIN	Aitkin	13.5%	133,381	5
38	RICHFIELD	Hennepin	13.2%	4,266,279	31
39	ROBBINSDALE	Hennepin	13.2%	1,441,951	7
40	DULUTH	St. Louis	13.2%	7,066,324	17
41	WAYZATA	Hennepin	12.9%	1,625,542	6
42	TORNING TOWNSHIP	Swift	12.9%	66,153	3
43	BUFFALO	Wright	12.6%	1,098,522	6
44	SILVER CREEK TWP	Lake	12.5%	222,771	2
45	LITTLE FALLS	Morrison	12.0%	629,997	24
46	CHISAGO CITY	Chisago	11.7%	285,772	3
47	PERHAM	Otter Tail	11.6%	204,369	12
48	FARMINGTON	Dakota	11.6%	1,452,029	16
49	MAPLE PLAIN	Hennepin	11.4%	257,910	4
50	GOLDEN VALLEY	Hennepin	11.4%	4,490,666	2
51	MAPLE LAKE	Wright	11.3%	138,438	6
52	LESUEUR	Lesueur	11.3%	270,445	10
53	STILLWATER	Washington	11.2%	1,907,081	7
54	HOPKINS	Hennepin	11.0%	2,224,077	13
55	LIVERNE	Rock	10.9%	229,864	15
56	LONG LAKE	Hennepin	10.9%	286,255	7
57	WINDOM	Cottonwood	10.7%	280,719	14
58	PINE ISLAND	Goodhue	10.7%	204,599	7
59	VADNAIS HEIGHTS	Ramsey	10.6%	1,451,340	16
60	BLUE EARTH	Faribault	10.5%	176,420	11
61	WARROAD	Roseau	10.4%	142,089	5
62	WHITE BEAR TOWNSHIP	Ramsey	10.4%	1,164,154	11
63	FAIRMONT	Martin	10.3%	517,395	19
64	LONG PRAIRIE	Todd	10.3%	190,455	5
65	SOUTH ST PAUL	Dakota	10.2%	1,289,993	3

\* = List does not include cities and towns with under \$500,000 in total net tax capacity

# TakeNote

## Policy Tidbits

**Judges appointed by President George W. Bush are more conservative** than those appointed by Presidents Nixon, Reagan or Bush's father, according to a study published by the American Judicature Society. The study, co-authored by Kenneth Manning of the University of Massachusetts-Dartmouth and Ronald Stidham of Appalachian State University, analyzed 70,000 court decisions in civil rights cases—those focused on abortion, freedom of speech, right to privacy, gay rights and race relations—and found that judges appointed by President Bush made what they considered “liberal” decisions only 26.5 percent of the time. In comparison, Nixon appointees made those decisions 37.9 percent of the time; Reagan appointees 32.3 percent; and the first President Bush's appointees 32.2 percent. The American Judicature Society is a non-partisan organization of judges, lawyers and others involved in justice administration.

**The average working woman spends roughly twice as much time caring for children** and on household chores than the average working man, according to a study released by the U.S. Department of Labor in September. The study also found that almost as many women as men have jobs, 78 percent to 85 percent, respectively. At the end of the work day, however, two-thirds of the women surveyed started what women's rights activists call their “double day,” preparing meals and performing chores around the house. Comparatively, only 34 percent of men reported helping with meals, and only 19 percent reported doing housework.

The survey of 21,000 Americans was conducted by the Department of Labor's Bureau of Labor Statistics. Feedback was separated into 12 categories and 426 subcategories of activity, allowing for personalized answers, according to the *St. Petersburg Times*. The survey was the first in a new program aimed at tracking the trends of how Americans use their time.

Diane Herz, the survey's project manager, told the *New York Times*, “We got two different reactions from people to these results. Some said it proved that nothing had changed between men and women. Others were surprised that the differences weren't greater.”

**Billboards featuring real-life before and after pictures of female methamphetamine addicts** are on display across the state of Wyoming as part of a campaign to increase awareness about the harsh effects of the drug. The “Extreme Meth Makeover” billboards show photos of an attractive, healthy woman and that same woman with a yellow-grey complexion and skeletal features, captioned “After meth.” The photos illustrate the hideous physical effects—massive weight loss, rotting teeth, an unappealing complexion and hair loss—the drug can have on users. The Wyoming Department of Family Services hopes that the graphic billboards will catch the attention of young people. Since the billboards went up in June, parents have contacted the Department of Family Services to say the billboards have created opportunities to discuss the dangers of meth with their children.

**Minnesota's labor market is showing signs of an upswing**, according to the state Department of Employment and Economic Development *Minnesota Job Vacancy Survey*. The most recent survey, covering the period from April to June, showed the statewide unemployment rate dropping from 4.8 percent in March to 4.2 percent in April, and an estimated 65,340 job vacancies in Minnesota during the second quarter. Of the 33,400 jobs Minnesota has gained since the end of the recession, 26,300 came between June and April.

Seasonally adjusted initial claims for unemployment also came in well below expectations, and job vacancies increased year-over-year for the first time since the state began the survey in 2000.

Manufacturing had its strongest perfor-

mance to date: production job vacancies were up 70.5 percent over last year, and transportation and material moving job vacancies were up 68 percent in second quarter 2004. Computer and mathematical occupations also continued to strengthen, showing more than a 100 percent increase in job vacancies from a year ago. Office and administrative support occupations seem to have turned the corner, with job vacancies up 2,990 jobs compared to last year. [www.deed.state.mn.us/lmi/publications/jobvacancy/](http://www.deed.state.mn.us/lmi/publications/jobvacancy/)

**After more than 200 years of history**, the United States may soon no longer be a majority Protestant country. According to a new study by the National Opinion Research Center (NORC) at the University of Chicago, the number of Americans identifying as Protestant had dropped from 63 percent in 1993 to 52 percent in 2002. During the same time, the number of people who said they had no religion went up from 9 percent to nearly 14 percent, many of them former Protestants. The study's authors concede it is possible some of those who formerly identified as a member of a Protestant denomination now choose to identify simply as “Christian,” which would put them the “other” category on the survey. “The change is another example of how the country is moving toward becoming a nation of minorities,” said Tom W. Smith, Director of NORC's General Social Survey. Smith suggested immigration will probably further decrease Protestant numbers but could keep Catholic rates stable.

*Take Note compiled by Amy Stenson and Citizens League and Journal staff.*