A Citizens League
Research Report

It Takes a Region to Build Livable Neighborhoods

Urban Growth Strategies for the Twin Cities Metro Region

February 1997

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.

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Executive Summary

Today, the seven-county Twin Cities region enjoys a comparatively high quality of life. But not everyone shares in that quality of life, and conditions are likely to worsen if the region does not change the way it manages growth. Among the most pressing land-use issues:

New development is dispersed and predominantly low-density. This trend, while benefiting some private interests, creates problems for others. In particular, dispersed, low-density growth:

- displaces job growth in the suburbs from inner city labor pools;
- fails to provide an adequate supply of affordable housing;
- poses environmental threats;
- consumes large amounts of farmland;
- undermines good community design.

Poverty is increasingly concentrated in some Minneapolis and St. Paul neighborhoods, and is spreading to nearby neighborhoods and inner-ring suburbs. Poverty concentrations, in turn, have brought other social pathologies that have lowered the standard of living, convincing many people with financial means to live elsewhere.

Municipalities are increasingly seeking and competing for high-tax developments. Because of disparate property tax rates, there are inherent budget advantages for municipalities to attract and compete for commercial-industrial development, often giving financial incentives to relocate or retain businesses. Municipalities also receive revenue and other benefits from high-value housing, which encourages land-use regulations that increase the cost of housing while subtly screening out lower-value developments.

The "real" region has expanded beyond the seven counties, now encompassing as many as 24 counties. This functional expansion of the region undermines the Metropolitan Council's ability to properly manage regional systems like transportation.

Land use forces and drivers: Regional growth patterns are a combination of market forces and a heavy dose of government intervention. Among the **market forces** driving land use decisions include:

- **Consumer preferences.** Given current options in the market, home buyers with financial means prefer low-density, developing municipalities. This is due largely to a declining quality of life in the fully developed area for such critical factors as personal safety and public education.
- **Limited choice in the market.** The market's capacity for providing diverse options in housing and neighborhood designs appears limited, apparently bound by NIMBYs (Not-In-My-Back-Yard), government regulation, and a general reluctance to try untested housing developments and design techniques. This lack of choice might obscure the market's real preference for different types of housing and neighborhoods.
- **Urban disincentives.** Market disincentives make urban investment an increasingly difficult and risky decision, especially when compared to greenfield development. Some of these factors include high costs, lack of developable land, site contamination, technology and regulatory burdens.
- **Changing demographics.** With steady household growth over the next 25 years, the face and household makeup of the region is subtly changing, which could have a profound influence on future housing preferences and subsequent growth patterns.

Government policy and intervention: Government policy at all levels sets the parameters in which the land-use market operates, and has had a huge influence on settlement patterns. Some of the government-oriented influences of land use include:

- **Federal involvement:** Federal housing and infrastructure programs, along with tax expenditures like the home mortgage interest deduction, have made suburban living more practical and attractive to home buyers and businesses.
- **Infrastructure:** Land use and infrastructure are intricately related. Infrastructure expansions — particularly roads and sewers — are done to accommodate existing residents, but the

resulting increase in convenience also encourages additional development that might not otherwise occur. Infrastructure expansions to low-density areas, however, seem to have been a poor public investment. Significant cutbacks in federal funding will make future infrastructure expansions politically more difficult and locally expensive.

- **Public subsidies:** Public subsidies for land use hide or shift the real costs of individual land-use decisions. Despite the market's current preference for developing suburban and exurban locations, numerous subsidies provide still greater incentive to build more homes and businesses in these areas.

- **Municipal finance and the property tax classification system:** Municipal dependence on property taxes, combined with the state's property tax classification system, encourages municipalities to manipulate land uses to maximize property tax revenues. This leads to competition and overzoning for C-I and high-value residential development, and often neglects affordable housing. It also creates a development mindset that favors tax capacity over community design.

- **Municipal land-use regulations:** Municipal regulation — e.g. zoning, minimum-standards, building codes — is used to "cherry pick" desirable land uses, while subtly excluding people and developments that some deem "undesirable" (like affordable housing). This restricts opportunities and access of low-income people to new jobs, quality education, and an improved quality of life. Municipal land-use regulation has also undermined many elements of traditional community design.

What to do: Recommendations

Land-use policy will continue to fail until decision-makers and citizens understand that land use is an integrated, interdependent regional system. If improvements are expected with future growth, changes in land-use policy must give simultaneous and comprehensive attention to many issues that cross political and geographical boundaries.

The goal for land-use policy is to create a long-term vision for urban growth and the built environment in the seven-county region — a vision for how we want the region to look, to act, and to feel 25, even 50 years from now.

Principle #1: **Build communities that reflect a vision for livability.** Discussions of land use often give too little attention to the end goal — what the region should look like, feel like, and act like "when it grows up."

- Build inclusive rather than exclusive communities, particularly through greater levels of mixed-use and mixed-housing development. To do so, municipal zoning must be more accommodating. The Metropolitan Council also must commit technical resources to facilitate mixed development, and offer greater financial incentives for municipalities to achieve affordable housing goals.

- Build compact, efficient, and connected communities. In particular, more attention must be paid to local and regional urban form, including minimum density requirements where urban services are provided.

- Build communities that value public green spaces and the protection of natural resources. All levels of government must get serious about long-term preservation, and investigate the means necessary to acquire development rights of available open space. Governments must also re-evaluate various land-use policies — such as those for capital facilities — to ensure they do not conflict with the goal of preserving open space.

- Create a meaningful vision of the built environment at the street and neighborhood level, based specifically on the tastes and preferences of the people who live, work and play in the seven-county region.

Principle #2: **Empower effective regional governance.** The expansion of the "real" region beyond the original seven counties requires the state to somehow empower regions as they are *organically* and *functionally* defined.

- The Legislature must recognize the state's interest in land use, articulate basic principles and establish guidelines to help local governments achieve specific land-use objectives. The state must also assign and empower a state agency to implement this framework for more efficient land use on a statewide basis.

- The state must eventually match regional government authority with the region's organic and functional boundaries. Until such changes are made, the state must assume a supportive role in managing land use outside of the seven-county region.

- The Council should replace the metropolitan urban service area strategy (the MUSA "line") with a clear set of incentives and disincentives to achieve the urban form desired for the region.

Principle #3: **People should pay for the public services they receive.** The region cannot afford to copy wasteful and inefficient growth patterns of the past. Along with re-thinking our public investments, people must be held directly accountable for the costs they impose through individual land-use decisions.

For this reason, the Metropolitan Council should be directed and empowered to do three basic things relating to new and existing development:

- determine the "full cost" of development;
- create the necessary tools or methods for charging costs back to consumers;
- collect the appropriate fees from new and existing development for costs imposed on various local and regional systems.

Principle #4: **Future metropolitan growth should be redirected inward instead of outward.** Specifically, the fully developed area should be made more attractive to new development by eliminating current obstacles and introducing new incentives for redevelopment.

- The state or Metropolitan Council should create a "Metropolitan Redevelopment Fund" for all regional cities to be used specifically and only for the renewal/redevelopment of "used" land. In particular, additional resources should be dedicated to cleaning up contaminated sites in the fully developed area.

- The state should strengthen tax increment financing (TIF) as a redevelopment tool, while continuing to address TIF abuses related to greenfield and other development activities not related specifically to redevelopment.

- The central cities must fully capitalize on natural and other available amenities for new residential development. Riverfront redevelopment should be made a high priority.

Principle #5: **Relieve municipal dependence on property taxes by aligning taxes with public services delivered.** Municipal dependence on property taxes, and the resulting "cherry-picking" with high-tax developments, calls for a re-thinking of municipal finance and property tax systems.

- The state Legislature should construct a tax system that clearly establishes what level of government (municipal, county, regional or state) is responsible for specific public services.

- Municipalities should better align and connect taxing mechanisms with the public service being provided. In particular, property *taxes* should have direct correlation to property *services*.

- The Legislature should investigate and authorize different taxing vehicles so municipalities have the capacity to pay for services deemed necessary, while relieving the financial burden of raising general revenue through property taxes.

Principle #6: **Enhance citizenship at the regional level.** To empower regional changes in land-use policy, residents must identify with issues and act as regional *citizens*. Only through a regional citizenry can real change take place concerning land-use issues that transcend local boundaries.

- Change the selection process for Metropolitan Council representatives from gubernatorial appointment to popular election.

- Get the Metropolitan Council to be more aggressive with its legislative agenda, and to never miss an opportunity to act on the region's behalf, particularly at the Legislature.

- Local government officials — municipal, county, school, watershed district, etc. — must recognize and appreciate the importance of regionalism, and assist in educating residents in furthering the shared goals of a regional community.

I. Introduction

This report is about livable communities, and how to make sure ours remains one.[1]

The goal of this report is to present a long-term vision of our community into the 21st century: a vision of its growth, and our quality of life.

The focus of the study is the spatial structure of the Twin Cities region — land use patterns, infrastructure, and the built environment — and about how they come together to form livable communities in some places, while in other places they work against livability.

The report examines the causes and consequences of metropolitan sprawl in the Twin Cities region, recounts the social and financial costs of that sprawl, and suggests ways to stem those costs by shifting the path of future growth into a new direction.

The values that the Citizens League has long espoused underlie the recommendations of the report: equity and fairness, shared responsibility and cooperation, and citizenship. The recommendations call on Twin Cities citizens to think regionally, and to think long-term, about what the next 50 years of growth might bring.

This report does not offer solutions to the social problems that we find in our community. It does, however, explore ways in which our patterns of community-building can create livable places in which every citizen can thrive.

1 This is the fourth in a series of recent Citizens League reports on the urban and regional agenda for the Twin Cities metropolitan region. The League focused the first of these reports on affordable housing: *Why We Should Build Inclusive Communities: The Case for a Regional Housing Policy in the Twin Cities Metropolitan Area* (May 1994). One year later, the League issued a report on effective transit dealing with region-wide access: *Effective Transit: Invest in Access to Jobs and Services* (January 1995). The report on the global economy, released in 1996, addressed infrastructure and other investment issues related to the economic health of the seven-county region: *Compete Globally, Thrive Locally* (September 1996).

What's the Problem?

Today the Twin Cities metropolitan region is a wonderfully livable place. Many of its cities and neighborhoods are good places to live. Twin Citians enjoy a high quality of life, with a large proportion sharing in the American Dream of home ownership. So what's the problem?

The problem is that not everyone in the region shares in the high quality of life, and this problem is likely to worsen with our continued form of growth. The region is at a critical moment, still able to turn away from a path of decline, but not for long. Poverty has concentrated in our central city neighborhoods, and those concentrations are extending into first-ring suburbs, isolating residents from jobs and services. Better-off households move outward seeking more stable, more affluent neighborhoods, better schools, and lower crime rates. But this is a spiral with no end; constant outward movement perpetuates sprawl, diffuses community beyond its limits, and fosters inattention to civic responsibilities.

Continuing growth of this kind will exacerbate existing problems and introduce new ones. The seven-county Twin Cities region is expecting to add another 650,000 people by the year 2020 — comprising 330,000 more households — making us the fastest-growing metro area in the Midwest.

Growth itself is not the problem; it is the *form* of that growth that matters. A healthy economy needs a steady rate of growth, as we have enjoyed for decades. But the Twin Cities' growth pattern has reached a point of diminishing returns. Congestion is increasing beyond tolerable levels; commutes are becoming longer and more expensive; public transportation use is declining below levels that can support the system; and rural land at the metro edge is being gulped down by development, destroying the very settings that people seek as they move outward.

Since the mid-1960s, the metropolitan region has had a model regional government in the

Metropolitan Council. Over time, however, the Council's power and effectiveness has eroded as the region has outgrown Council boundaries. It is now time to revisit our approach to metropolitan management, and the Council and the State Legislature are doing just that. The Council's *Growth Options/Growth Strategies* project is the first effort in decades to seriously rethink land use and urban growth strategies for the seven-county region.

A Vision for a Livable Region

The metropolitan region is a single integrated system. The most critical shortcoming of urban growth policy is the failure to understand that interdependency. Individuals, businesses, nonprofits and very often governments find it difficult to think at a regional scale when they make decisions. The fact remains that a decision in one corner of the metro area will inevitably have an impact on a different corner of the region; changing one element of land use policy likewise can affect the entire system of metropolitan land use.

This report summarizes the impacts of the last several decades of growth, and asserts that we cannot afford another 25 years along the same growth trajectory. The tools and methods that can affect change are presented within these pages. What this report cannot deliver is the political will to use them, on behalf of a livable community for all.

II. Vision Statement

There are many perspectives for what constitutes a livable community. To most people, a livable community embodies such things as personal safety, quality education, and proper health care. We would agree.

However, there are many additional issues of livability to consider — issues of inclusiveness, access, opportunity, equity, and citizenship — many of which are embodied in how we physically utilize the land. The goal of this vision, then, is to maximize the physical use of the land to improve people's quality of life.

A livable community:

1) Encourages diversity and the land uses necessary to support and integrate people of all races, incomes, ages and physical needs.

2) Mixes land uses (e.g. commercial and residential) where appropriate to integrate basic services into neighborhoods.

3) Offers a wide variety of housing options, with reasonable integration of different housing types and prices together.

4) Accommodates multiple modes of transportation, including the auto, public transit, biking and walking.

5) Has distinct visual identity and flavor; it has signature structures, places, and well-designed public spaces.

6) Encourages and facilitates economic development and the opportunity for individual prosperity.

7) Invests in the physical upkeep and redevelopment of the built environment.

8) Places strong emphasis on public green space and parks, and encourages the wise use and protection of available natural resources.

9) Integrates its decision-making process across all levels of government.

10) Has residents who understand citizenship at the local and regional levels, who are proactive in dealing with both local and region-wide issues.

III. Findings

The "built" environment — the structural, physical development of land — in the seven-county region is the embodiment of past growth and land-use policies. On the surface, our physical environment offers numerous examples of positive outcomes and a high quality of life for many people.

However, scratch beneath the surface and the sheen begins to fade. While quality of life might be high for some, it is not good for many others. Equally important, we appear to be undermining and jeopardizing our long-term capacity to build and maintain quality communities in the years to come. Because the seven-county region is healthy in many respects, it can be hard to define exactly what is wrong with current land-use practices.

Specifically, what are the negative outcomes of current growth trends and land use practices? How and where does the seven-county region fall short of a livable community?

The following section outlines some of the negative characteristics and outcomes of past and present land-use practices in the seven-county region.

Finding #1: New development is dispersed and predominantly low-density, spawning problems of housing and transportation access, environmental degradation, auto dependence and poor community design.

Historically, big cities have been the centralized location for non-agrarian employment and housing. That has changed dramatically over the last 40 years, as housing and employment growth has dispersed greatly throughout the U.S., including here in the seven-county Twin Cities region.

This has resulted in a number of positive outcomes. It has created important new job centers, and sprouted new neighborhoods with housing for hundreds of thousands of new households, and helped the Twin Cities retain a steady and growing economy. However, such a growth tendency has consequences as well. Unlike other regions, the Twin Cities region has few significant natural barriers to impede growth in any direction.

Bridges have eliminated the region's few geographic barriers to outward expansion — the St. Croix and Minnesota rivers — and subsequently, growth has darted out in all directions, into rural areas of the seven-county region and beyond to surrounding counties, even into Wisconsin. From 1988 to 1992, outlying cities and townships beyond the developing ring of suburbs accounted for 22 percent of all residential building permits, up from 14 percent in 1983-87.[2]

Housing permits in six surrounding counties — Wright, Sherburne, Chisago, Isanti, St. Croix (Wis.) and Pierce (Wis.) — are at their highest level since the 1970s. From 1990 to 1994, Wright, Sherburne, Isanti and Chisago counties experienced a collective household growth rate of 13 percent , which is more than twice the metro region's growth rate of 6 percent.[3]

Growth is not only dispersed, but low-density in nature. Like other metropolitan areas, the Twin Cities region has developed in concentric rings of suburbs around the central cities, with densities of each arc being generally less dense than the one inside it. The seven-county region, however, differentiates itself by its persistent low density.

Minneapolis and St. Paul have residential densities of more than six household units per acre. The inner-ring suburbs generally have residential densities ranging from three to more than five households per acre, and densities continue to drop as you move away from the central cities.

The majority of developing-ring municipalities have residential densities below three households per acre — many hovering near two. Densities in outlying areas tend to fluctuate. Older, free-standing cities often have densities of two or three units an acre, while high-growth residential

[2] Tim Fleetham. "Economic Development, Appendix Four," *Keeping the Twin Cities Vital*, Metropolitan Council, February 1994, p. 4-8.

[3] Figures provided by David Rademacher of the Minnesota Demographer's Office, using 1990 Census Bureau figures for 1990 household totals, and State Demographer figures for 1994 households.

townships and rural "bedroom" cities average about one household or less per acre.[4]

All of this adds up to the Twin Cities region being the third least dense — or most sprawling — of the 25 largest metropolitan areas, behind only Atlanta and Kansas City,[5] and there are signs that current land development practices will lower the region's overall density still further.

From 1970 to 1990, the amount of urbanized land in the region increased 44 percent (or about 124,000 acres). At the same time, the number of households rose by 53 percent (about 300,000 households) — a "net consumption" of 0.4 acres for every new household. But from 1990 to 1995, a total of 43,000 acres were urbanized, while households increased by 69,000 — a net consumption 0.62 acres of land for every new household.[6]

In fact, a number of problems stem from dispersed, low-density growth patterns. For starters, it has separated job growth in the suburbs from labor pools most in need of jobs — namely the core neighborhoods of Minneapolis and St. Paul.

Historically, jobs and households (and the resulting labor pool) have had close proximity out of simple necessity. Auto mobility dramatically changed and disconnected this geographic relationship.

Like housing, employment has dispersed throughout the region. While the central cities continue to be the symbolic employment center in the seven-county region, the majority of job growth is taking place in developing areas. By the year 2000, the developing area will have one-third of the region's total employment, overtaking both the central cities and the fully developed suburbs for greatest percentage of the region's jobs.

Job Growth[7]	1980	1990	2000
• Central cities	42.8%	34.9%	30.6%
• Fully devel. suburbs	31.4%	29.4%	28.7%
• Developing suburbs	20.6%	28.9%	33.2%
• Rural area	5.2%	6.8%	7.5%

In 1960, there were 12 job centers in the seven-county region with at least 3,000 or more jobs. Today, there are 47.[8] From 1988 to 1993, Anoka, Carver, Dakota, Scott and Washington counties each had job growth rates of between 15 and 49 percent, adding about 68,000 new jobs to the region.[9]

Jobs also are spreading rapidly into largely rural, neighboring Wisconsin counties. By one account, from July 1994 to July 1995, 700 new jobs were created in St. Croix County, while Polk and Pierce counties added 550 and 200 jobs, respectively.[10] This dispersal of jobs does not present a significant problem for auto-owning commuters. The same is not true for many in the central cities, especially people of color.

Many low-skill manufacturing and other livable wage jobs have relocated from the central cities to the suburbs, a phenomenon familiar to big-city labor markets nationwide. Jobs in downtown business districts have become increasingly specialized, shutting out those with low-level education. These factors have created a mismatch between low-skill employment opportunities and

4 All of the figures on municipal residential density provided by Bob Davis of the Metropolitan Council, and are for the year 1990, the most recent comprehensive figures available. The data compared the total of all single and multi-family units in a municipality with the total land consumed only by the residential structure and the surrounding lot. Streets and other related land uses are not included in these density figures.

5 1990 Census of Population and Housing.

6 Figures for total urbanized land and new households provided by Michael Munson, Metropolitan Council senior planner, personal communication. Figures for 1990 to 1995 are estimates. One note: there is often an erroneous comparison made between land consumption and population growth. Population growth from 1970 to 1990 was 22 percent, while land consumption over this twenty year period was about 45 percent. However, land consumption is not a direct outcome of population growth (a family can have a baby without consuming more land). For this reason, a more accurate measure for land consumption is household growth, for which there is a measurable amount of land consumed. Job growth and other factors also affect the rate of urbanization, but were not calculated because most other development follows the development of households. Residential development also consumes a much greater proportion of land compared with commercial-industrial and other development, and as such, can be said to drive land consumption.

7 Regan Carlson. "Job Location: Appendix Nine," *Keeping the Twin Cities Vital*, Metropolitan Council, February 1994, p. 9-17.

8 Craig Rapp, director of Community Development, Metropolitan Council, personal communication.

9 Martha McMurry. "Minnesota Jobs Grew Vigorously From 1988 to 1994," *Minnesota Notes*, Minnesota Planning, June 1996, p. 6. During the same time frame, Hennepin and Ramsey counties saw 5.4 percent and 2.2 percent job growth (respectively, 55,000 jobs total) but the majority of job growth in Hennepin and Ramsey took place in the suburbs and not in Minneapolis and St. Paul.

10 Dennis Cassano. "Minne-sconsin," *StarTribune*, November 12, 1995, p. 1D.

the low-skill labor pool, most of whom live in the central cities because this is where most of the affordable housing exists.

A House Research report on unemployment and job access showed 43 census tracts in the central cities with an unemployment rate of more than 10 percent (a majority of whom were non-whites), compared with a regional unemployment rate of about 3 percent.[11]

While there are thousands of available jobs, our dispersed, low-density growth has created access problems for anyone without ready access to a car — which, maybe surprisingly, is almost one out of every ten households in the region, most of whom are poor or otherwise transit dependent and live in the central cities.[12]

A study by the Institute for Local Self-Reliance estimated that more than one in five Minneapolis households does not own a car.[13] What's more, reverse commute and other transit programs have proven ineffective and inefficient at connecting inner city labor pools to available jobs. This lack of access to economic and other opportunities for disadvantaged populations underlies much of what is wrong with today's growth patterns.

Dispersed, low-density development also struggles to provide life-cycle housing, particularly multi-family and other affordable housing options.

One possible remedy for poor access to growing job centers is to encourage workers of all wages to live where the jobs are. In fact, from 1990 to 1995, five of the top ten cities in job growth were also in the top ten in household growth — Woodbury, Eagan, Eden Prairie, Plymouth and Brooklyn Park. The top ten cities in job and household growth from 1990 to 1995 include:

Top ten cities	**Job growth 1990-95**[14]	Avg. housing values (1995)[15]
Bloomington	13,188	$110,810
Edina	8,429	$172,092
Plymouth	7,237	$135,920
Eagan	7,109	$108,999
Minneapolis	6,006	$81,041
Eden Prairie	5,259	$142,844
Minnetonka	4,739	$138,403
Brooklyn Park	3,763	$83,750
Woodbury	3,495	$121,437
Prior Lake	3,415	$107,714

Top ten cities	**Household Growth, 1990-95**[16]	Avg. housing values (1995)[17]
Woodbury	3,390	$121,437
Eagan	3,659	$108,999
Coon Rapids	3,422	$83,105
Plymouth	3,197	$135,920
Lakeville	3,043	$110,311
Apple Valley	2,562	$109,004
Eden Prairie	2,521	$142,844
Oakdale	2,206	$84,606
Maple Grove	2,124	$108,394
Burnsville	1,961	$106,218

These chart show several patterns, and demonstrates a second problem of dispersed low-density growth: many growing cities — particularly those where both job and household growth are high — are often expensive places to live, which usually means that affordable rental and owner-occupied housing is tough to come by.

Job opportunities are indeed exploding in fringe areas. But housing opportunities for *all* wage earners do not always follow, which effectively screens out many new workers from living near work. Of the top ten cities in job growth, only Minneapolis and Brooklyn Park have average housing values less than $100,000 ($81,041 and $83,750, respectively). Five cities have average housing values over $120,000. In fact, this is the *goal* in many cities — and a reasonable goal at that

[11] Donald Hirasuna. "Unemployment and Job Access," *Policy Brief*, House Research, October 1996. See appendix B.

[12] Metropolitan Council. *1990 Travel Inventory Behavior Summary*, June 1994, p. 26.

[13] John Bailey, *Making the Car Pay Its Way: The Case of Minneapolis Roads*, December 1992.

[14] Figures for 1990-95 job growth provided by Regan Carlson of the Metropolitan Council.

[15] Minnesota Taxpayers Association, *op. cit.*, *Fiscal Focus*, August-September 1995. The value cited is the estimated market value.

[16] Figures for 1990-95 household growth figures provided by Regan Carlson of the Metropolitan Council.

[17] op. cit., footnote 15.

— to have high job growth while sustaining high property values. The end result, however, is a low capacity to house people of all needs and incomes, which eliminated economic opportunities for many unemployed and under-employed people.

Multi-family rental units, in particular, are scarce in many of developing cities. Woodbury, the fastest growing suburb in the seven-county region, issued almost 4,000 residential building permits from 1990 to 1994. More than 80 percent were single-family, another 9 percent were townhomes, and just 10 percent were multi-family units.[18] In 1995, 95 percent of Woodbury's 882 residential permits were for single-family residences.[19] In the first quarter of 1996, all 160 permits went for single-family homes in Woodbury.[20]

This dominance of single-family dwellings is not catastrophic by some measures — obviously there is demand for this type of housing. But many of jobs being created in suburban markets are moderate-paying manufacturing and low-paying retail and service positions, and such workers are hard-pressed to find appropriate housing in many cases.

In defense of cities, one reason for this lack of multifamily housing is the state's property tax system, which strips much of the financial incentive from investing in multifamily projects. Recent studies by the Minnesota Taxpayers Association and the Minnesota Department of Revenue both concluded that the state had the second-highest apartment taxes in the nation.[21] Compared with residential homesteads, the 1996 class rate on market-rate apartments is almost three and a half times more than taxes on low-value homesteads (3.4 percent to 1 percent).[22]

Such high tax rates might normally make such developments attractive to cities for their tax-generating potential. But developers and other investors are reluctant to invest in new apartments because high tax rates rob most of the return on investment.[23] The Department of Revenue study concluded that high apartment taxes are probably part of the reason for a decline in new rental housing construction, which went from $258 million in 1992 to just $49 million in 1994.

Lacking any financial incentive for new construction, vacancy rates for apartments in the region have declined every year since 1989, going from 7.6 percent of all units to just 2.7 percent in 1995. Average rents have gone up during this time by about $100.[24] Local officials are often politically pressured by residents to block new rental housing in their neighborhoods (a mentality often referred to as Not-In-My-Back-Yard — NIMBY), adding yet another disincentive for investing in new rental housing.

Dispersed, low-density growth has created environmental problems.

Low-density urbanization brings with it a number of air and water quality concerns.[25] Along with the destruction of natural habitat, urbanization produces pavement and other hard surfaces, which increases water runoff, non-point-source pollution, erosion and sedimentation.[26] While both high and low-density growth produce "urbanization," low-density development arguably has a greater effect on water-related issues, particularly as measured on a per-unit basis.[27]

18 Metropolitan Council. *Residential Building Permit Trends in the Twin Cities Metropolitan Area: 1970 - 1994*, December 1995.

19 Metropolitan Council. *Residential Building Permits, January-December 1995*, April 1996, p. 7.

20 Metropolitan Council. *Residential Building Permits, January-March 1996*, May 1996, p. 6.

21 Minnesota Taxpayers Association, *50-State Property Tax Comparison Study*, June 1996; Minnesota Department of Revenue. *Study of Apartment Property Tax Relief*, February 1996.

22 Dept. of Revenue, *op. cit.*, p. i.

23 Steve Schachtman, president of Steven Scott Management. Resource testimony to the Livable Communities committee on June 6, 1996.

24 Apartment Search. "Rental Housing Statistics," 1996.

25 It must be noted that *both* low- and high-density urbanization create their own unique problems for the environment. But for brevity's sake, this report will concentrate on environmental threats caused by low-density development. At the same time, this report recognizes that elimination of low-density development would not vanquish environmental degradation caused by urbanization. However, addressing environmental issues related to low-density development could contribute to the future environmental health of the seven-county region, and deserves attention.

26 Environmental Quality Board. *A Question of Balance: Managing Growth and the Environment*. November 1993.

27 For example, *holding household units constant*, the amount of pavement and other non-penetrable surfaces is likely higher with low-density development. Low-density development would produce more total structures with a greater total surface area, not to mention proportionately more pavement dedicated for access roads, driveways, general parking needs and (hopefully) sidewalks. A high-density model — using the same number of units — would certainly produce a considerable amount of impenetrable surfaces within a developed area, but it also would leave a considerable amount of land completely undeveloped and free of *any* hard, unnatural surfaces. Moreover, at higher densities, environmental devices like storm

Newly developed low-density suburban areas often are poorly equipped to handle stormwater runoff. A group of five east-metro municipalities with runoff problems are currently considering a joint water control system for the watershed district costing upwards of $20 million.[28]

Individual sewage treatment systems: One little-recognized environmental issue related to low-density development (one unit/acre or fewer) is the proliferation of individual sewage treatment systems throughout the rural portions of the seven-county region and the entire state.

According to a Census analysis by the Minnesota Pollution Control Agency (MPCA), about 65,000 of the 922,224 housing units in the seven-county region use on-site systems (about 7 percent), and the MPCA estimates that 60 percent are failing to some degree.[29]

"Nonconforming systems discharge raw or inadequately treated sewage to surface and ground waters, resulting in potentially serious health and environmental consequences," the PCA said in a 1993 report, adding later that each individual source might not generate a lot of pollution, but the cumulative effect of nonconforming on-site systems "is a major concern."[30]

In fact, the PCA has made individual sewage treatment systems a priority area for 1997. One of its missions, according to a PCA official, is to gauge the full extent of the problems associated with on-site systems, and to devise a plan for dealing with problems.[31]

Individual sewage treatment systems are not themselves the problem. They were developed initially to sanitize raw sewage from farm houses and other rural dwellings, and in fact these systems provide very reliable treatment for up to thirty years. But these systems are no longer exclusively used for isolated farm houses. Today entire subdivisions use on-site systems, and the real problem lies in the proliferation and the concentration of such systems. Within the metro region, a number of municipalities outside the metropolitan urban service area are served exclusively by on-site systems, including Corcoran (population 5,498), Dayton (4,791), East Bethel (8,471), and Ham Lake (9,462).[32]

The situation is arguably worse just across the seven-county border. Almost 60 percent (about 28,000) of the 48,000 households in Chisago, Isanti and Wright counties are without central sewer services, and the PCA estimates that 80 percent of these on-site systems are nonconforming and failing to some degree.[33] Indeed, most on-site systems installed in the 1960s are likely at or beyond their designed life, and cities, counties, and the state have shown little interest in regular inspections.[34]

Studies have shown that concentrations of on-site systems pose a threat to groundwater and public health. For example, studies have shown a positive relationship between the prevalence of on-site systems and nitrates in drinking water. A state report stressed that single treatment systems do not appreciably contribute to ground water nitrate levels, but noted "the cumulative impact of multiple drainfields in a housing development are more noticeable."[35]

Concentrations of individual treatment systems — particularly near urban areas — can bring financial problems as well. When on-site systems fail, or the urbanized envelope reaches exurban

sewers become more practical and cost-effective as a way to deal with issues of water run-off.

28 Jim Broede. "Water runoff plan unveiled for five east metro suburbs," *Pioneer Press*, November 11, 1996, p. 1C; Dennis Cassano. "Downstream from development," *StarTribune*, November 26, 1995.

29 Number of households using on-site systems estimated by the PCA using the 1990 Decennial Census. Percentage of non-conforming systems estimated by the PCA in an informal survey of county planning and zoning administrators conducted in October, 1992. Both were conducted as part of 1993 report to the Legislature on unsewered areas (see next footnote).

30 Minnesota Pollution Control Agency. *Wastewater Treatment Needs in Unsewered Areas: Report to the Legislative Water Commission*, Unsewered Area Advisory Committee, January 1993, p. 1, 16.

31 Victoria Cook, PCA Water Quality Division, personal communication.

32 Minnesota Pollution Control Agency, "Incorporated Unsewered Communities," September 1995.

33 *op. cit.* footnote 29.

34 The state passed legislation in 1994 for on-site systems, but its real impact is yet to be determined. The legislation (Minn. Laws 1994, Chapter 617, referred to as the Individual Sewage Treatment System Act) includes requirements for minimum treatment standards, new construction, replacements, disclosures for new buyers, and mandatory licensing for all system installers. The PCA is expected to propose legislation during the 1997 session that would require formal inspections of on-site systems for home sales instead of the current "owner disclosure."

35 Minnesota Pollution Control Agency, and Minnesota Department of Agriculture. *Nitrogen in Minnesota Ground Water*, December 1991. See p. 11, and the summary of additional studies on Table I-2. It should be noted that studies also implicate irrigated agriculture as a main source of high nitrate levels in water from private wells.

areas and urban services are deemed necessary, very often on-site systems need to be "retrofitted" to the public system at considerable cost.

A study by the Builders Association of the Twin Cities (BATC) showed that long-term infrastructure costs to retrofit large-lot rural subdivisions with urban services is almost three times more expensive than expanding urban services in a planned, coordinated fashion.[36]

In one case, a group of 40 homes in the Township of Middleville in Wright County had failing on-site systems. The homes were located on the southeast shore of Howard Lake, and all were discharging waste either directly into the lake, or into a ditch or tile line that fed into the lake.[37]

Some of the houses requested and received annexation to city sewer and water services. The city issued $1.5 million in bonds to pay for the project, and special-assessed a little over $1 million back to the affected properties, leaving Howard Lake taxpayers with a bill of about $400,000. Property owners, however, will pay about $700 to $900 *every year for the next 30 years* to pay off their special assessments.[38]

St. Cloud recently annexed the Township of St. Cloud and a couple thousand households using on-site treatments systems on one-half- to three-quarter-acre lots. Today, the city is undertaking a 10-year project to retrofit 2,700 parcels to public sewer services. It will cost the city a total of $45 million, $30 million of which is being special-assessed to homeowners. That still leaves $15 million for the city taxpayers to pick up, mostly for general street replacement.[39]

Farmland: It might be stating the obvious, but low-density urbanization greatly affects the consumption of farmland. As urbanization creeps closer to available farmland, the speculative value of the land for future development outstrips the agricultural value and productive capacity of such farmland.[40] Often this leads to eventual urbanization of farmland, in part from the lure of a big pay-off. For their part, consumers have a penchant for big yards and a lot of elbow room, and developers are attracted to the flat, good-draining characteristics of farmland.[41]

Studies show the region is losing a significant amount of farmland, and once converted to urban uses, farmland can never go back to agricultural production, due to compaction and other factors. A study by the University of Minnesota's Extension Service determined that the seven-county region lost between 88,000 and 100,000 acres of farmland from 1982 to 1992 — roughly 10 percent of all farmland in the 13-county Twin Cities Metropolitan Statistical Area.[42] Although a majority of the converted land tended to be of lower quality for farming purposes, 38 percent was considered prime farmland.[43]

Low-density development undermines many traditional elements of community design.

By nature, low-density development departs from traditional community design. Through the use of big lots, low-density development is designed to provide the space and privacy that many people want, without sacrificing the benefits of and access to public and private services outside the home, particularly near major urban centers, which is made possible through regular highway improvements.

[36] The Builders Association of the Twin Cities, *The High Cost of Sprawl*, 1996, Appendix C, p. 8. The cost of infrastructure for contiguous development was estimated to be $15,000; for retrofitting large-lots simultaneously into higher urban densities - $27,500; and for retrofitting only existing large-lot developments with urban services - $43,000.

[37] MPCA, *op. cit.*, January 1993. See Appendix 2.

[38] Gene Gilbert, clerk, City of Howard Lake, personal communication.

[39] Steve Gaetz, assistant city engineer, City of St. Cloud, personal communication.

[40] Arthur Nelson, "Preserving Prime Farmland in the Face of Urbanization," *Ameriacan Planning Association Journal*, Autumn 1992.

[41] However, the exact impact of urbanization on farmland — the demand for undeveloped land for "urban uses" — is difficult to measure exactly because other factors are at play as well. For example, low crop prices, farmer retirement, and increasing conflicts with neighbors over things like tractor noise and farm smells contribute significantly to the market's ability to convert cropland to urban uses.

[42] Twin Cities Metropolitan Statistical Area is a federal designation including the seven county metro region, and Wright, Sherburne, Isanti, Chisago, Pierce (Wis.) and St. Croix (Wis.) counties.

[43] Thomas D. Wegner, Susan T. Ploetz, and Steven J. Taff. "Farmland Loss: A New Measure Sheds New Light," *Minnesota Agricultural Economist*, Minnesota Extension Service, University of Minnesota, Spring 1996, p. 1. The authors analyzed the most recent figures for total agricultural acres from both the Census of Agriculture and the National Resources Inventory, which excluded farmland enrolled in the federal Conservation Reserve Program (CRP). The authors included these CRP acres, and recalculated the "lost" farmland acres for both the TCMA and the rest of the state.

Certainly such design contributes to an individual's perceived quality of life. But often unrecognized is the negative impact that low-density development tends to have on community design. This can be seen most easily in the near-absolute separation of land uses in most new and developing cities.

In place of traditional mixed-use community design, low-density development separates and divides land uses into pods of single uses. Consequently, all land uses — residential, institutional, office, retail, industrial — operate independently of each other regardless of any natural relationships between different uses, like housing and jobs, or housing and schools or other community institutions. This eliminated any mutual benefits (like non-auto access) that arose from locating different but related land uses near each other.

This separation of land uses — human activity, really — was made possible and practical by the auto. The auto provided the first realistic means to physically separate uses without affecting a person's access to various needs, like gainful employment and a grocery store. It has provided the first real opportunity for people to live outside the reach of negative elements of urban life like pollution, while still enjoying the amenities of the major urban centers of the Twin Cities, like high-paying jobs and cultural attractions. It made low-density living possible and practical.

Accommodations for the auto have followed *en masse*, and municipalities today design specifically for the auto — more roads, wider roads, lagoons of off-street parking, larger residential lots to accommodate three- and four-car garages, and bigger setbacks so houses and kids are farther removed from noisy, congested streets.

Unfortunately, many of the physical attributes that define and give visual identity to a community get lost in the process of planning around and for the automobile. Parking requirements, street widths, and traffic flow have now become more important to planning commissions than architectural uniqueness or an attractive public streetscape. As a result, we can always find a parking spot, but unfortunately the surrounding environment is often bland and faceless.

Our accommodation of the auto has come largely at the expense of transit. Low-density development has diluted the critical population mass necessary to sustain good transit service — not to mention retail and other services. Consequently, regional bus service has experienced perpetuating cycles of service decline, ridership decreases and increased fares. This inefficiency ultimately affects the population that needs good bus service the most — those without access to a car.

That is not to say that transit is the superior transportation mode — indeed, continually falling ridership levels speak volumes about our desire for immediate access and mobility, which transit has been incapable of providing on a large scale. By design, low-density communities ultimately limit transportation options, and thus weaken the ability to serve people of more modest means and lifestyles. In the words of Hank Dittmar, executive director of the Surface Transportation Policy Project, "We have moved from a society with many travel options for trips to a society with few travel options."[44]

Finding #2: Poverty is increasingly concentrated in some Minneapolis and St. Paul neighborhoods, and is deepening and spreading outward to other neighborhoods and first-ring suburbs.

As noted earlier, many neighborhoods in the fully developed area offer a high quality of life — good housing, natural amenities and cultural attractions. But life in many neighborhoods of Minneapolis, St. Paul and some inner-ring suburbs is less than fabulous because poverty has gained a strong foothold. Worse yet, poverty is deepening and spreading slowly outward, bringing higher crime rates, wreaking havoc on kids and education outcomes, stagnating property values, and in general pulling down the quality of life in and spreading fear of the fully developed area.

Physical and social decline in urban areas is a multi-faceted condition, but has two main components: the out-migration of social and capital resources, and the replacement of this wealth by resources of lesser means. According to Adams, Lambert and VanDrasek:

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[44] Hank Dittmar. Remarks made at the Fifth Annual Conference of the Center for Transportation Studies, University of Minnesota, May 13, 1994.

"The process leading to urban decline is not a mystery. Middle and working-class households migrate out of the inner cities, taking their incomes and job skills with them. Consumer services and other employment opportunities follow them, as do many community institutions that are supported primarily by households with discretionary income. The out-migration of consumer power has an important impact...on the quality of institutions such as schools, community organizations, government services and the like."[45]

This migration of middle and upper-income households to the suburbs has happened gradually over the last four decades — the result of numerous market and governmental forces (which are discussed in detail in the "Conclusions" section). The result was predictable.

"Factors have conspired to make the central cities a place of concentrations—of poverty, of governmentally subsidized housing, of people who are denied choice in where to live (minorities in particular), of older housing in need of repair, of social services and of public transit. Opportunities for economic betterment, for many of its residents, remain out of reach."[46]

This is not to say that Minneapolis and St. Paul are unlivable. Many neighborhoods are very livable. But make no mistake, the concentration of poverty is becoming an increasingly severe problem in the fully developed area, and especially the central cities. As of 1990, the central cities had 28 percent of the region's population, but 60 percent of its poor. The poverty rate from 1979 to 1989 rose in St. Paul from 10.9 percent to 16.7 percent, and in Minneapolis from 13.5 to 18.5 percent. The rest of the seven-county region rose from just 4.1 to 4.5 percent.[47]

Things are much worse in the central cities' core — a bone-shaped group of neighborhoods around the two downtowns and linked through the Midway. The core absorbed 58 percent of the growth in poverty in the seven-county region from 1979 to 1989, adding 30,000 poor people to its total population *but growing in total by less than 10,000 people.* In other words, in ten years, 20,000 "non-poor" people left the core and were replaced one and one-half times over with people of lesser means. The rest of the region grew by 293,000 people, but added only 22,000 poor people.[48]

Minority groups are disproportionately represented among the core's poor (at least as measured by percentage rates). In fact, the proportion of people of color living in poverty in the central cities is higher than any central city in the U.S.[49]

Children are particularly hard-hit. More than half of all poor children in the seven-county region live in the core, and almost one of every two children in the core lives in poverty.[50] While the poverty rate for white children in both Minneapolis and St. Paul (city-wide) was about 12 percent in 1989, well over half of all children of color lived in poverty.[51]

There are numerous reasons why the entire seven-county region should be concerned about poverty's concentration — reasons beyond the obvious need for human concern and compassion. Poverty has a domino effect, and might be coming to a neighborhood near you:

"(The) concentration of poverty results in pervasive neighborhood deterioration, both physical and social. It is seen as creating a self-reinforcing pathology of social problems...(that) results in a decline in property values, which reduces the incentive for maintenance, causing further deterioration and further property value declines in an endless downward spiral...(which) ultimately lead to abandonment and the likely movement of the problem to adjacent areas."[52]

And spread it has. In 1970, there were 42 census tracts with a 20 percent poverty rate — six of

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45 John Adams, Laura Lambert and Barbara VanDrasek. "Poverty and Urban Decline: The Twin Cities Compared with Ten Other Metropolitan Areas," *CURA Reporter*, December 1995, p. 2.

46 Metropolitan Council. *Trouble a the Core: The Twin Cities Under Stress*, 1992, p. 5. Unfortunately, these are the most recent comprehensive statistics on poverty available, and come from the 1990 U.S. Census. While this data might be slightly dated, the situation today is likely no better than in 1989, and is arguably worse.

47 *Ibid*, p. 8.

48 *Ibid*, p. 8.

49 United Way, *The Face of the Twin Cities: Another Look*, 1995, p. 9. According to *Trouble at the Core*, (*op. cit.*, p. 14), poverty rates for minorities in 1989 were: African Americans (44%), Native Americans (56%), Asians (62%), Hispanics (31%).

50 *Ibid*, p. 8.

51 Urban Coalition, *Profiles of Change: Communities of Color in the Twin Cities Area*, August 1993, p. 17.

52 *Trouble at the Core*, *op. cit.*, p. 45.

which had a poverty rate over 40 percent. By 1990, there were 90 census tracts with a 20 percent poverty rate (114 percent increase in tracts), and 30 tracts with poverty rates over 40 percent (500 percent increase).[53] A number of inner-ring cities have seen poverty increases as well:

	1979	1989
Robbinsdale	3.7%	5.0%
Richfield	3.7%	5.5%
Fridley	4.2%	6.1%
New Hope	4.2%	6.5%
Brooklyn Center	5.4%	7.1%
South St. Paul	5.6%	7.5%
Columbia Heights	5.3%	8.5%
Lauderdale	7.2%	11.8%[54]

This shows that poverty is not merely a "central city thing," and parts of the inner-ring suburbs might be following the same path of decline as neighborhoods in Minneapolis and St. Paul.

Finding #3: Cities are seeking and competing for high-tax developments.

As noted earlier, most job growth is taking place in the developing suburbs and exurbs for a number of reasons. Some businesses seek lower-tax municipalities to get relief from high-tax urban areas. Many business owners move their companies to the suburbs so work is closer to home. Some companies might need additional land to expand operations and find most available options in the suburbs and exurbs.

For their part, suburban and exurban municipalities naturally want new business growth for a number of reasons, including new jobs and services for local residents. But cities also seek new business for tax advantages that commercial-industrial (C-I) uses bring to city coffers. Due to current property tax classifications, cities are even encouraged to compete for C-I and other comparatively high-tax developments.

A local study found widespread competition among municipalities in the seven-county region (or at least the *perception* of competition). A full 85 percent of municipal development officials surveyed agreed that there is competition for development among regional municipalities. The study showed that the greatest competition comes from neighboring cities, or cities in the same county that are similar in population.[55]

One visible indicator of this competition is the apparent overzoning of land for commercial and industrial uses. A recent inventory of Washington County municipalities showed that zoning for C-I uses in that county provided 12 times more land than was needed for predicted C-I growth in the county by the year 2015.[56]

The Fiscal Disparities Law of 1972 has done much to spread the C-I wealth among municipalities. It is held up throughout the country as a model worthy of copying, although no one has to date. However, while the law balances the playing field among communities with regard to regional C-I taxes, the local pay-off compared with residential development still heavily favors C-I development.

Competition for tax base growth has given rise to financial incentives for the relocation or retention of business. Widespread competition for local business development has spawned the practice of incentive-giving — tax abatements, land give-aways, and other sweetheart deals — by municipalities in an effort to lure commercial and industrial development out of cities, or to keep businesses from moving.

Financial incentives have evolved from good intentions — namely, the desire to promote economic development that otherwise would not occur due to various market constraints. But these incentives have evolved into a tool to influence the *timing and location*, instead of the *creation*, of economic development. Incentives might also be defensible if they encouraged economic development in areas of high unemployment, but this does not appear to be happening.[57] In fact, in many cases it is the cash-rich municipalities that

[53] Adams, Lambert, and VanDrasek, *op. cit.*, p. 5.

[54] Michael Munson. "Poverty Data: Appendix Ten," *Keeping the Twin Cities Vital*, Metropolitan Council, February 1994, p. 10-13.

[55] Edward G. Goetz and Terrance Kayser. "Competition and Cooperation in Economic Development: A Study of the Twin Cities Metropolitan Area," *Economic Development Quarterly*, February 1993, p. 63.

[56] Washington County. "Economic Base Overview," *Washington County Comprehensive Plan: A Policy Guide to 2015*, February 1996.

[57] Peter Fisher, and Alan H. Peters. "Taxes, incentives and competition for investment," *The Region* (a publication of the Federal Reserve Bank of Minneapolis), June 1996, p. 56.

can afford to offer financial incentives for economic development.

Very little research has been done to empirically measure the level and effect of financial incentives, so it is difficult to determine exactly the influence that incentives have on economic development.[58] There is, however, a multitude of individual examples where incentives were provided in attractive, fast-growing markets where no incentives likely were needed for economic development to eventually occur.

Regarding business location, local incentives appear to have significant influence. In a survey of leading Minneapolis manufacturers, one out four respondents said they were considering a move from Minneapolis. When asked what factors were involved, more than 40 percent said incentives from other municipalities were a reason for considering such a move.[59] A building industry magazine had this to say:

> "It is evident that while business tax incentives are not the sole deciding factor executives consider when expanding or relocating, they do play a role and can tip the scales in favor of one location over another."[60]

A Legislative Auditor's report said cities use tax increment financing (TIF) districts to compete for businesses, and companies also shop around for the best deal. In 1990 the City of Buffalo (Wright County) passed $645,000 in TIF bonding for a retail development anchored by Wal-Mart that city officials believed "would have located in the township or in one of several neighboring communities" had an incentive not been offered.[61]

In 1994, the City of Farmington paid $189,000 for land acquisition and site preparation to relocate a Lakeville pipe distributor/wholesaler to Farmington's industrial park. The city sold the company a lot in the industrial park for $1.[62]

The rapidly-growing city of Maple Grove created TIF districts in 1993 and 1994 on 70 acres of vacant land. Tax increments of $1.2 million went to reimburse a developer for land acquisition and site improvements for a SciMed research and development facility. The city also planned to issue an additional $2.2 million in tax increments for phase II construction of a second building.[63] The City of Woodbury provided $1.1 in tax increments to a distribution company for land acquisition and site improvement costs on a site just south of I-94.[64]

In the span of 18 months, beginning in early 1994, the city of Anoka gave away land in its Enterprise Park to six businesses. Of the six companies that relocated to Anoka, only one needed additional space, and four companies came from suburbs located within ten miles of Anoka.[65]

On a broader scale, a national survey of economic development organizations by *Site Selection* showed that 86 percent offered incentives to secure business development.[66] Nine out of ten respondents believed the role of financial incentives would either will increase (40%) or remain at current levels (52%). Survey respondents also reported a 25 percent increase in the number corporate inquiries for information and assistance in 1994 compared with 1993.

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58 Neither the Metropolitan Council and the Minnesota Department of Trade and Economic Development (DTED) keep tabs on the amount or impact of financial incentives at municipal level. DTED's biennial performance report is, however, beginning to measure more closely the outcomes of its Small Business Development Department, which provides loans and other economic development incentives.

59 Community Resource Partnerships, Inc. *City of Minneapolis: Introduction to the Business Base*, September 10, 1996, p. 16. In fact, municipal incentives was the fourth most-cited factor, behind city property taxes, crime and the state's tax climate.

60 Robert S. Peters. "Companies Reap the Spoils of Incentive Wars," *Area Development*, January 1996, p. 34.

61 Office of the Legislative Auditor. *Description of Selected Tax Increment Districts* [supplement to Auditor's *Tax Increment Financing* report], March 1996, pp. 13-14. This report briefly profiles over 400 TIF districts in 43 cities and 3 counties throughout Minnesota.

62 *Ibid*, p. 36.

63 *Ibid*, p. 53.

64 *Ibid*, p. 93.

65 Eric J. Wieffering and Lee Schafer, August 1995. "The New Venture Capitalist: Taxpayers," Corporate *Report Minnesota*, August 1995. According to this article, one company moved only four miles from Coon Rapids. The company was looking to expand, but turned down a Coon Rapid's incentive package that included $500,000 in tax increment financing. It moved when Anoka offered a package worth $800,000 to the company — a company with no outstanding debt and $16 million in working capital — all of which came unsolicited, according to company officials cited. See pp. 31-32.

66 Tim Venable. "Incentive Lures: Firmly Imbedded in the Location Equation," *Site Selection*, April 1995, p. 254.

Finding #4: The "real" region has expanded beyond the original seven counties, now encompassing as many as 24 counties under various "functional" definitions of a metropolitan region.

Land-use planning and management of the seven-county region is the responsibility of the Metropolitan Council. Technically, the Twin Cities metropolitan region encompasses seven counties — Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington — and their municipalities.

The boundaries of the seven-county Twin Cities region were delineated in 1967 in conjunction with the start-up of the Council. These seven counties were believed to encompass several systems that defined the metropolitan region. As a result, the Council was put in charge of supervising regional planning with respect to four systems that were deemed "regional" in scope: wastewater treatment, transportation, airports and parks and recreation.

On paper, a region is a geographically-defined area, much like a city, county or state. In reality, however, a region adheres more to *function* than it does to physical boundaries. As such, a region can be defined by travel patterns, economic development, environmental protection, urban services, or a host of other criteria that are not limited to geographical boundaries, but instead are related to human activity.

Using this broader definition for regions, the "real" Twin Cities region has expanded well beyond the original seven counties. By most definitions, today the "real" Twin Cities region encompasses at least 13 counties, and in fact, the federal government now uses just such a definition for the Twin Cities Metropolitan Statistical Area (MSA), which includes the seven metro counties, along with Wright, Sherburne, Isanti, Chisago, St. Croix (Wis.) and Pierce (Wis.) counties. By another measure — the 5 percent commuteshed — the region includes 24 counties, including four in Wisconsin.[67]

Other measures, like commuting patterns, show this expansion. In 1990, an average of 74,000 workers commuted daily into the region from surrounding counties.[68] In fact, at least 40 percent of all daily work trips originating in Wright, Sherburne, Isanti, Chisago and St. Croix (Wis.) counties came into the seven-county region.[69] Increased residential growth in these surrounding counties indicates that the number of in-bound commuters over the last six years has likely increased as well.

Ultimately, continued growth outside the seven-county region — and thus, beyond the Council's jurisdiction — undermines the Council's ability to properly manage regional systems. As noted above, the number of inward-bound commuters has a clear effect on the region's transportation system, yet the Council has no planning authority outside the original seven counties.

As the region expands, there also appears to an uncomfortable rift between different geographical parts of the region, a general detachment of people and cities from regional issues, and diluted the sense of regional identity and citizenship. There is a growing belief here and in other regions nation-wide that residents lack the broader ideals of community and citizenship for a region. This is important because research is increasingly saying that prosperity for cities and individuals in the 21st century depends largely on the health of regions.[70]

Today, it seems many people see regionalism — thinking and acting in a regional sense — as fundamentally opposed to the individual attainment of the American Dream of home-owning, car-driving, yard-mowing, private living. Anthony Downs calls the pursuit of these elements "unconstrained individualism." He adds that, "They represent the pursuit of an environment that maximizes one's own well-being, without regard to the collective results of such behavior."[71]

This mentality can be seen in municipalities. With 187 municipalities and 22 special-purpose jurisdictions in the seven-county region, a strong sense of parochialism now pervades any discussion

67 The 5 percent commuteshed includes those counties that have at least 5 percent of its workers commuting into the seven-county region for work, as defined by the 1990 Census.

68 Metropolitan Council. *1990 Travel Behavior Inventory Summary Report*, June 1994, p. 13.

69 Metropolitan Council. *Growth Options for the Twin Cities Metropolitan Area: A Report to the Minnesota Legislature*, January 1996.

70 Citizens League. *Compete Globally, Thrive Locally*, September 1996.

71 Anthony Downs. *The Need for a New Vision for the Development of Large U.S. Metropolitan Areas*, The Brookings Institute, August 1989, p. 2.

of growth and resource management. This all adds up to a region that is, in many respects, a whole that is less that the sum of its parts.

Moreover, the apparent prosperity of the suburbs and the decline of portions of Minneapolis, St. Paul and some inner-ring suburbs has created tensions between neighbors. The phenomenon of "cities vs. suburbs" is difficult, if not impossible, to quantify. But it appears to be a widely held belief, and there are plenty of anecdotes to demonstrate such a central city-suburban rift.[72]

The suburbs are often criticized for being smug, homogenous, and elite. Repeated examples include the many battles over affordable housing in the suburbs, or the ill-will over the flow of Fiscal Disparities money. On the flip side, the central cities are viewed as dirty, corrupt and unsafe. The sheer flood of people and resources leaving the central cities in the last four decades is a clear message about people's willingness to tolerate a serious decline in their quality of life in the central cities.

Unfortunately, the discussion of "regionalism" gets pushed into a cities-versus-suburbs diatribe, which usually ends up scapegoating the suburbs for egregious neglect of central city problems. Urban advocates love to point the finger at well-to-do suburbs who are believed to have a "let them eat cake" attitude toward the central cities and the region in general. Besides being counter-productive, such a mentality ignores real internal problems in the central cities that prevent cities in decline from helping themselves. It also overlooks some good-faith concern. Recent surveys by the Metropolitan Council showed there is real concern among suburbanites over the health of the central cities.[73]

But at other times, the pervasive "Not-In-My-Back-Yard" (NIMBY) attitude in the suburbs can be hard to overlook. Some suburban residents are only too happy to close the door behind them after moving from the fully developed area. As development pushes farther away from the region's core, people are naturally less inclined to care about the problems of the central cities, or other parts of the region — as the old cliché goes: out of sight, out of mind.

[72] Mike Kaszuba. "The great divide," *Star Tribune*, January 12, 1996, p. A1.

[73] Metropolitan Council. "Growth Options: A Summary of Public Comments," September 1996.

IV. Conclusions

Having outlined and highlighted some of the visible results of past and present land use practices, questions arise over the causes, and driving influences of such land use outcomes — what causes the land and our broader urban form to physically look and "act" like it does.

Specifically, what underlying forces determine land use in the region, or present obstacles to better land use outcomes?

There are numerous factors that, over time, have fueled the tremendous growth in the suburbs and exurbs, and the related decline in parts of Minneapolis, St. Paul and some inner-ring suburbs. Simply and generally stated, regional growth patterns are a combination of market forces and a heavy dose of government intervention at all levels, through policies both past and present.

Consumer choices, market options

First and foremost, heavy residential migration to the suburbs and exurbs is the result of consumers reacting to various needs and desires — very often a need that is simply *not* met in the fully developed area.

However, both consumer choices and market options are influenced by a number of factors, including incentives and trade-offs available in different market locations, and by current residents who want to control what the market offers in their cities and neighborhoods.

Market force #1 — Consumer preferences

Given current options in today's market, consumers with financial means prefer and are choosing low-density developing areas over the fully developed area. This migration is the embodiment of a "push-pull" effect on home buyers and businesses who end up leaving the fully developed area.

Much of the "push" comes from declining conditions in the fully developed area, and much of which can be attributed to the concentration of poverty in parts of Minneapolis, St. Paul and some inner-ring suburbs. This concentration raises issues concerning personal safety, education outcomes, neighborhood stability and related housing investments — all of which increase the motivation to find a new location with a higher quality of life.

Concentrations of poverty have brought higher crime rates, and eroded personal safety and security throughout the fully developed area, but particularly in core neighborhoods in Minneapolis and St. Paul. A local study of crime rates and poverty in Minneapolis showed that crime rates were much higher in poverty-stricken census tracts.[74] Surveys have shown that people throughout the region are becoming increasingly concerned about crime. In 1993, nearly nine out of ten people said crime was one of top two or three issues in the seven-county region.[75] In 1995, nearly 60 percent cited crime as *the single biggest* regional problem.[76]

In some cases, these fears may be overblown. Both nationally and locally, crime rates have been going down for many offenses. However, both Minneapolis and St. Paul are bucking major trends that tend to make newspaper headlines, which tremendously undermine perceptions of safety.[77]

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[74] Steve Cannon. *The Effects of Concentrated Poverty on Crime Rates in Minneapolis Tracts*, Humphrey Institute of Public Affairs, University of Minnesota, 1993, p. 1. The analysis used receipt of public assistance income as a proxy for poverty, and examined Type 2 crimes from 1987-89. It is critical to note that poverty itself does not *cause* crime — the vast majority of poor people are law-abiding. But the concentration of related social problems make such neighborhoods more susceptible to criminal activity.

[75] Debra Detrick. "Social Indicators: Appendix Five," *Keeping the Twin Cities Vital*, Metropolitan Council, February, p. 5-44.

[76] Center for Survey Research, *1995 Twin Cities Annual Survey*, University of Minnesota, commissioned by the Metropolitan Council, 1996.

[77] For example, the overall rate for serious crime in St. Paul went *up* 4 percent in 1995, while serious crime nationwide dropped 2 percent. In Minneapolis, while the rest of the nation saw an 8 percent decrease in murders in 1995, Minneapolis saw a whopping 56 percent increase — from 62 to 97 murders. The 1996 murder count appears to reinforce the idea that 1995 was no fluke. See Anne O'Connor and Maria Elena Baca, "Homicide increase prompts programs," *StarTribune*, May 7, p. B1; Tim Nelson, "Local: Serious crimes up in St. Paul," *Pioneer Press*, May 6, 1996, p. A1; and Lori Montgomery, "Nation:

Almost half of all serious crime occurred in the two central cities, yet they represent only about one-fourth of the total population in the seven-county region.[78]

Poverty concentrations affect education outcomes, and student achievement in central city school districts is the lowest in the seven-county region. A 1993 report by the U.S. Department of Education found that more than half of the students in schools with the highest concentrations of poverty were low achievers. By comparison, only 8 percent of students in schools with the lowest concentrations of poverty were low achievers.[79]

Such findings hold true in the Twin Cities region. About one out of four children in the Minneapolis and St. Paul school districts lived in poverty, and half of all children received free lunch.[80] Recent statewide results from Basic Standards tests showed that students in the Minneapolis and St. Paul school districts performed the worst out of all metro school districts, while test scores of students in metro suburban districts were among the best in the state.[81]

Unfortunately, low-performing students in central city schools leave an indelible impression on parents — rightly or wrongly — particularly those with the economic means and mobility to choose other school districts. Developers are keen to this as well, because school districts with high-achieving students create an immediate draw for prospective home buyers, and developers market such "soft" amenities along with the house they are trying to sell.[82]

Concentrations of poverty have brought instability to many neighborhoods in the fully developed area, which has led to stagnant residential property values. This stagnancy often leads to increased tax rates. Cities and towns depend largely on local property taxes to finance local government services. Local governments also depend on steadily increasing taxable value to keep up with increases in the cost of service that occur through inflation or service expansions.

Revenue from property taxes is a function of property *value*, and stagnant residential property values in the fully developed area put many cities in a tough position at budget time. This stagnancy is the result of a market unwilling to invest and live in neighborhoods that are perceived — again, rightly or wrongly — to be unsafe and unstable.[83]

In a number of regional cities, changes in residential tax base from 1990 to 1995 do not even equal the inflation rate over this period (about 17 percent). In all, there were 22 cities whose residential tax base from 1990 to 1995 did not match the rate of inflation — and only Anoka was *not* a central city or first ring suburb.[84] While

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Homicide off 8%; crime dips 4th year in a row," *Pioneer Press*, May 6, 1996, p. A1.

78 Minnesota Department of Public Safety. *Minnesota Crime Information 1995*, Bureau of Criminal Apprehension, Criminal Justice Information Systems, State of Minnesota, August 1996. Part I offenses include murder, rape, robbery, aggravated assault, burglary, motor vehicle theft and arson. See table 35. However, there are still many safe areas within the central cities or inner ring suburbs. In fact, some areas of Minneapolis and St. Paul are among the safest in the entire region. Factoring out the violent crime rate in the core (2,674 per 100,000 people), the rest of Minneapolis had a violent crime rate of just 465 in 1992 — which compares favorably to the fully developed area, and is reasonably in line with the rate experienced in the developing area (332/100,000 people). Unfortunately, the stigma of newspaper headlines and the conspicuous increase in some Part I offenses taints otherwise-safe areas as well. (For data comparisons, see Detrick, pp. 5-38, 5-40.)

79 U.S. Department of Education. "Improving America's Schools Act of 1993: The Reauthorization of the Elementary and Secondary Education Act and Amendments to Other Acts." *Education Week*, October 20, 1993, pp. 19-34.

80 Child poverty rates taken from 1990 U.S. Census data; free-lunch data is for the 1992-93 school year. See Michael Munson, "Poverty Data: Appendix Ten," op. cit., p. 10-16. These figures encompass the entire cities of Minneapolis and St. Paul, and not just children from the core portions of central cities.

81 Duchesne Paul Drew and Maureen Smith, "Skills-test results unveiled," *StarTribune*, May 24, 1996, p. A1; Debra O'Connor and Thomas J. Collins, "Basic skills test scores fall short," *Pioneer Press*, May 25, 1996, p. 1A; Duchesne Paul Drew and Maureen Smith, "For schools, tests to act as mirrors," *StarTribune*, June 9, 1996, p. A1.

82 Terry Forbord, vice president of land development, Lundgren Bros. Construction, testimony to the Livable Communities committee on March 28, 1996.

83 Some would argue that stagnant property values are desirable — and they can be on an individual basis, as tax obligations would remain reasonably constant. However, if the creation and accumulation of wealth is the goal, stagnant property values are not desirable. Homes are the single biggest investment for many people — particularly low and moderate-income households. As such, stagnant or falling property values make home-owning a poor investment.

84 Change in residential property values in regional cities from 1990 to 1995 provided by the Metropolitan Council, and cited in the *Star Tribune*. See Steve Brandt. "Falling values sap tax base of metro core," *StarTribune*, March 10, 1996, p. B1. Inflation rate computed by Citizens League staff using the Bureau of Statistics' Consumer Price Index for urban consumers from 1990 and 1995. The following cities' residential tax base did not keep up with the 16.6 percent rate of inflation from 1990 to 1995 (actual residential tax base increase is in parenthesis): Hilltop (-5.8%), Brooklyn Center (1.1%), Columbia Heights (4.5%), Crystal (6%), Fridley (10%), Lauderdale (2.9%), Robbinsdale (4.9%), Minneapolis (5.9%), St. Paul (7.4%), Richfield (8.4%), Lilydale (8.5%), Roseville (9.7%),

Minneapolis recently saw a modest increase in residential property values, the city's 1996 net tax capacity of $304 million is still considerably lower than the 1989 net tax capacity of $332 million — without any inflationary factoring, either.[85]

To off-set the lack of appreciation in residential property values, cities often have to increase the rate at which properties are taxed. Not surprisingly, a 1995 comparison of 103 municipalities in the metro region found that St. Paul had the fourth highest city tax rate on an average-value home at $39.30, and Minneapolis the ninth highest at $35.16.[86] By contrast, of the ten municipalities with the highest estimated home values, only one (Victoria) had a city tax rate above the regional average of $23.16, and most were well below this figure. They include:[87]

	Top ten estimated market value (1995)	1995 city tax rate
North Oaks	$275,629	$9.08
Orono	$238,218	$15.04
Wayzata	$228,526	$20.17
Deephaven	$223,307	$14.06
Medina	$215,644	$14.58
Minnetrista	$198,680	$20.55
Shorewood	$193,792	$18.47
Edina	$172,092	$15.58
Grant Twsp	$164,889	$11.18
Victoria	$161,570	$32.51
Minneapolis	$81,041	$35.16
St. Paul	$75,586	$39.30

Average city tax rate........................$23.16
Average housing value
for regional cities.......................... $97,498
Median housing value
for regional cities.........................$109,360

Hopkins (10.5%), South St. Paul (11.9%), Spring Lake Park (11.7%), New Hope (12.2%), Falcon Heights (13.2%), West St. Paul (13.2%), North St. Paul (13.5%), Golden Valley (13.5%), St. Anthony (13.8%), Anoka (14.5%).

85 Kevin Diaz. "Budget focuses on safety issues: Rising downtown property values allow mayor to boost spending," *Star Tribune*, November 8, 1996, p. B1. See related chart on year-to-year tax capacity on p. B6.

86 Minnesota Taxpayers Association, "Tax on average-value home in 103 Metropolitan Communities, 1995" (chart), *Fiscal Focus*, August-September 1995.

87 *Ibid.*

Criticisms of the property taxes aside, the system itself is predicated on taxing the *value* of property. However, owners of high-valued homes in the central cities take on a disproportionately high tax burden compared with high-valued homes in most suburban municipalities (particularly those listed previously). For example, a house valued at $105,000 in North Oaks would have paid $114 in city taxes in 1996, while the same house in St. Paul would have paid $517.[88] This removes any incentive to own high-value housing in the central cities, and gives middle- and upper-income people yet another reason to move from the fully developed area.

Along with the "push" of declining quality of life in the fully developed area, there are "pull" factors bringing people to the suburbs. As the region's population grows, additional housing must be added, and usually on undeveloped land. As a result, a majority of new houses are getting built in developing municipalities because they have by far the greatest stock of undevelopable land. Buyers looking for new homes have few options, then, besides the developing suburbs.

Buyers also are seeking new homes with more amenities — particularly elbow room with as few neighbors as possible, along with bigger kitchens, bathrooms and bedrooms, and two- and three-stall garages.[89] Houses with these on-site amenities exist predominantly in developing areas of the region. New housing is getting built in the fully developed area, but due to the scarcity of vacant land, it is a small fraction of all new units in the seven-county region.

Market force #2 — Limited choice in the market

The market's capacity for providing *real* choice in housing and neighborhood designs appears limited, apparently bound by government regulation, NIMBYs and a reluctance by both public and private sectors to try untested housing developments and design techniques.

88 Minnesota Taxpayers Association. *Minnesota Homestead Property Tax Review 1996*, Appendix 2, p. 17.

89 Dan Herbst (Pemtom Land Company), Larry Laukka (Laukka Jarvais Inc.), in testimony to the Livable Communities Committee on November 9, 1995; Hans Hagen (Hans Hagen Homes), Terry Forbord (Lundgren Bors. Construction), Todd Stutz (Rottlund Homes), in testimony to the Livable Communities Committee on March 28, 1996.

There is no disputing the popularity of low-density suburban subdivisions. As the saying goes, hundreds of thousands of people can't be wrong. They can't be wrong, but at least some home buyers might make choices that do not reflect their real preference for housing or neighborhoods simply because their real preference might not be offered in the market.

There are numerous factors that influence the market. Government regulation, NIMBYs and investment risk tend to dampen the market's appetite for anything but the safest developments. Evidence also exists that some people are not as enamored with typical low-density suburban living as current housing trends might have us believe.

Certainly some would choose suburban tract housing regardless of other options provided. But it could be argued that the housing market has done a poor job of providing a broad range of new-home and rental choices throughout the seven-county region. Suburban tract housing is popular, according to number of units sold, but some buyers might simply settle on a house and neighborhood in order to reap other suburban rewards like good schools and safe streets.

In fact, visual design surveys show that traditional suburban design for both residential neighborhoods and business corridors is not preferred by a significant number of people, yet it continues to be the prevailing design practice, indicating that buyers' preferences are driven by something more than (or at least in addition to) housing types and neighborhood designs.

In a Visual Preference Survey™ for the City of Portland, Ore., by Nelessen Associates, the preferred neighborhood design among survey respondents included things like high-quality pedestrian streets, public open spaces within neighborhoods, and general diversity in unit types and lot widths. The preferred housing types included small front yard setbacks, covered porches, sidewalks separated from the street with shade trees, minimal or absent front-access driveways, above-grade ground floors, and variations in design, detailing and roof form from nearby houses.[90]

[90] A. Nelessen Associates, Inc. *Picture This...* June 1993. Conducted for the City of Portland.

Such results need to be kept in perspective. Portland is not the Twin Cities. But it indicates there might be a significant untapped market for different housing and neighborhood options than those currently offered. A Metropolitan Council survey of 1,500 people showed that people prefer neither the growing suburbs nor the central cities as the ideal place to live. Instead, many prefer small city or rural settings.[91]

A *Consumer Reports* article on neighborhoods acknowledged a strong market for suburban cul-de-sac neighborhoods, but added that "researchers have found that many consumers do like traditional neighborhoods—or would, if offered the choice."[92] According to a developer's survey of residents living in four different traditional neighborhood developments (TNDs), 84 percent of respondents said they would again choose a TND over a conventional suburban development.[93]

That is not to say that neo-traditional, or "new urbanist" design would be a better alternative in all cases. But if combined with traditional suburban tract and cul-de-sac housing, the market would be providing many more housing options than it currently is. A nationwide survey of home-buyers in six urban markets showed that about 20 percent of respondents fully embrace the concept of neo-traditional neighborhoods, while about 30 percent like traditional suburban design. The remaining 50 percent or respondents like certain elements of both.[94]

Why doesn't the market offer greater options for housing and community design? Blame can be spread around to a number of parties. Lenders and developers alike have been known to get gun-shy about untested products, particularly when they already have a product that sells. Suburban tract housing, if anything, is a safe investment.

An urban growth report by the State of Washington noted that the last three decades of

[91] Metropolitan Council. "Growth Options: A Summary of Comments," September 1996, p. 40, 51.

[92] "Neighborhoods Reborn," *Consumer Reports*, May 1996, p. 28.

[93] Susan Bradford. "Are TND's Selling?" *Builder*, August 1993, pp. 76-79, citing a survey by John Schleimer of Market Perspectives, Roseville, CA.

[94] American LIVES. "Major Findings from 1995 New Urbanism Report," 1995. American LIVES is a market research firm in San Francisco. The survey polled 1,650 homebuyers and shoppers in a set of urban areas of Florida, Texas, California, Michigan, Colorado, and Washington.

development have been dominated by the separation of residential and commercial spaces, "and few lending institutions have expertise in both areas. The result is a lending bias against projects that attempt to integrate these uses."[95] Redevelopment, mixed-use, mixed-housing and other "non-traditional" projects suffer in the end, as does overall choice in the market.

This reduces the number of available housing choices within a given city or neighborhood, which affects low- and moderate-income households the most. Two-income households might have to settle for a "less-favored" housing option, but people looking for affordable housing often have *no* options in suburban locations. Where housing is restricted, so too are the opportunities afforded to people of lesser means.

"Not In My Back Yard" (NIMBY) undermines real market choice, and sometimes masks unseemly racist and classist attitudes. Today, a significant and increasing portion of new development is dictated by current residents of a neighborhood or city. This phenomenon involves sort of a reverse-market mentality: previous buyers (a.k.a. current residents) dictate market options for newcomers according to what current residents will tolerate, instead of a market dictated by prospective buyers.

NIMBYs oppose new development on the grounds that it will adversely affect the neighborhood's quality of life. NIMBYs have been around since the advent of neighbors and backyards, but have become increasingly militant. NIMBYs originally concentrated on undesirable but necessary land uses like prisons and hazardous waste facilities, referred to as Locally Unwanted Land Uses (LULUs), but in the name of preserving property values and other quality of life factors, NIMBYs have become BANANAs (Build Absolutely Nothing Anywhere Near Anything). A focus group of developers agreed that NIMBYs are more prevalent and carry more weight than ever in the development process.[96]

Urban and suburban NIMBYs traditionally manifest themselves in different ways. Urban NIMBYs often are viewed as wanting too much control over development projects, which complicates an already bureaucratic development process. Obviously, citizen participation in the development process is critical. However, at times demands are heaped onto a project to the point of scaring away developers and investors.

An official of the Minneapolis Community Development Agency noted that NIMBYs vary within the city's neighborhoods — some are very active yet reasonable, while others are less so. The official noted numerous redevelopment obstacles in the city, but acknowledged that NIMBYs play a role. "Some of them (developers) would just rather buy in a cornfield," the official said. "Sometimes (neighborhood residents) just ask for too many requirements."

Both urban and suburban NIMBYs seek homogeneity and/or exclusivity as a means to stable neighborhoods. When development is allowed, it must be similar to the existing built environment. As a result, homogeneity is rewarded and diversity shunned.

NIMBY as a mask for racism: NIMBYs particularly impede the provision of affordable housing in the seven-county region. Projects for moderate and affordable housing were recently challenged in both Chanhassen and Woodbury by residents who feared such housing would bring down their property values.[97]

This is not a uniquely suburban problem, either. A report by Rutgers University on the Neighborhood Revitalization Program in Minneapolis pointed out that one of the biggest obstacles to gaining approval of neighborhood plans was the strong opposition to including affordable housing.[98] A recent study by the Minnesota Fair Housing Center found clear evidence of discriminatory rental practices in Northeast and Southwest neighborhoods of Minneapolis.[99]

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[95] *Redevelopment for Livable Communities*, a collaborative publication by the Washington State Energy Office, Washington State Department of Transportation, the Department of Ecology and the Energy Outreach Center, 1996, p. 72.

[96] Speak Up! with representatives of the Builders Association of the Twin Cities, October 8, 1996. See Appendix C.

[97] Mike Kaszuba. "Lines are drawn over affordable housing," *StarTribune*, July 14, 1996, p. B1; Jessica Gross, "A difference of opinion," *Minnesota Real Estate Journal*, September 16, 1996, p. 14; Jim Broede, "Rental housing ruffles some owners' feathers," St. Paul *Pioneer Press*, September 17, 1996, p. 1B.

[98] Susan Fainstein, Clifford Hirst, and Judith Tennebaum. *An Evaluation of the Minneapolis Neighborhood Revitalization Program*, Center for Urban Policy research, Rutgers University, January 9, 1995.

[99] Minnesota Fair Housing Center, *Housing Discrimination: A Report on the Rental Practices in Two Minneapolis Communities*, December 1996. The study sent two testers to the same rental housing unit. The testers were generally similar to each other except for a single characteristic — usually race, but also family

However, there appears to be more at stake with NIMBYs than mere property values. Certainly some NIMBY protests are grounded in legitimate claims. But at times, NIMBY is a crude cover for racism and classism, for a fear of "those people" who might come with new development, particularly affordable housing.[100] A national commission on the NIMBY syndrome stated:

> "Residents who say 'Not In My Back Yard' may be expressing opposition to specific types of housing, to changes in the character of the community, to certain levels of growth, to any and all development, or to economic, racial or ethnic heterogeneity. In any case, the intention is to exclude, resist change or inhibit growth...(NIMBYs) reflect concern about property values, service levels, fiscal impacts, community ambiance, the environment, or public health and safety. Its more perverse manifestations reflect racial or ethnic prejudice masquerading under the guise of these concerns."[101]

The Minnesota Association of Realtors added this:

> "Concerns among homeowners about providing affordable housing in their communities (or 'NIMBY attitudes') form perhaps the most significant barrier to the provision of affordable housing. All of the regulatory barriers mentioned thus far can be manipulated and abused by homeowners who are not willing to assume responsibility for the provision of affordable housing in their neighborhoods. Under the guise of protecting the environment or making development more efficient, citizen groups propose and support exclusionary development regulations out of pure self-interest."[102]

NIMBYs are a powerful force because a "no change" attitude is easily translated to government action in the form land-use regulation. Consequently, NIMBYs can determine what the market will — and *will not* — offer in a particular area or neighborhood.

Market force #3 — Urban disincentives

Disincentives in the market make investment in the fully developed area an increasingly difficult and risky decision. Combined with incentives for greenfield development, the market for new development tips away from the fully developed area.

One obvious factor in the region's growth patterns is the simple ease of development in the growing suburbs and exurbs compared to the fully developed area. Numerous obstacles — like high costs, lack of developable land, urban brownfields, changing site preferences, technology and regulatory burdens — make development in the fully developed area more costly, time-consuming, and ultimately troublesome compared with development in growing fringe areas.

High cost of urban areas: High land values and tax rates make the fully developed area an expensive place from strictly a cost standpoint, which can and has influenced developers to seek out lower-cost areas to build new homes and offices, and persuaded some businesses to move out to lower-cost developing areas.

In 1995, the city tax rate for St. Paul city tax rate was fourth highest out of 103 municipalities surveyed in the seven-county region and the Minneapolis tax rate was ninth highest.[103] Land values in the two central business districts are the highest in the seven-county region, which further magnifies the effect of higher-than-average city tax rates. In a widely publicized move, TCF Financial Corp. decided to move its back-office operations and 400 workers to Eden Prairie,

and public assistance status. A total of 72 tests were completed in the Southwest and Northeast neighborhoods of Minneapolis. Seventy percent of all cases uncovered some type of discrimination, and evidence of race-based discrimination occurred in 60 percent of Southwest cases. In five cases, white testers were offered $5 to $10 monthly discounts in rent, with no such offers tendered to testers of color.

100 Two Speak Up! focus groups of urban advocates believed racism played a very large role in regional growth patterns. One Speak Up! was held with a dozen non-profit developers working in the two central cities, and the second one was with five neighborhood leaders involved in the NRP. Both groups noted that while attention is often focused on the suburbs — sometimes rightly so — there are many areas of the central cities that promote similar exclusivity. See Appendix C.

101 Advisory Commission on Regulatory Barriers to Affordable Housing. *Not in My Back Yard: Removing Barriers to Affordable Housing*, Report to President Bush and Secretary Kemp, Thomas H. Kean, Chairman. Washington: 1991, p. 8.

102 Aaron Dorfman, Michael Schloff and Glenn Dorfmann. *The Effects of Land Use Regulations on Housing Costs*, (draft), Minnesota Association of Realtors, 1993, p. 5.

103 Minnesota Taxpayers Association, "7-County Metro Area 1995 Tax Rates" (chart), *Fiscal Focus*, August/September 1995.

specifically citing high costs in downtown Minneapolis and high city property taxes as the reason for doing so.[104]

A survey of 673 manufacturing firms in the city of Minneapolis found that about one of every four is considering a move out of the city — a majority of them within a two-year time frame. Businesses cited city property taxes as the number one reason for stimulating such plans.[105]

Site preferences, lack of developable land, and urban brownfields: Businesses, particularly manufacturing, often prefer flat, one or two-level buildings with freeway access. Such sites demand a significant amount of land and the fully developed area has a significant *lack* of vacant land. St. Paul has approximately 600 acres of available industrial land.[106] Minneapolis has approximately 3,700 acres of available industrial land, but about 1,800 of it is in need of redevelopment from past use.[107]

Businesses in the fully developed area that are looking to expand frequently find themselves land-locked on a parcel, and piecing together individual parcels can be difficult and time-consuming. A shortage of vacant land also pushes up the cost of remaining vacant acres. Older portions of the region have a legacy of old buildings that may be functionally obsolete and prohibit reuse — or make doing so very costly. Razing such buildings is not only costly but adds time to the development process.

Many sites available for redevelopment are contaminated from past use, which must be cleaned before reuse is allowed. The problem of contaminated sites involves several factors:[108]

- much higher costs for site development;
- risk of responsibility (who pays for cleanup) and long-term liability, which makes the investment much more risky;
- delay in development, which stems from the time-consuming, bureaucratic process of government-ordered cleanup; this delay, in turn, costs developers money as they hold unused land.

Together, these factors make lenders, developers, and businesses become wary of holding title to urban property, particularly old manufacturing sites. Any title-holder to a contaminated property is at least partly responsible for cleanup, regardless of whether the person or company had any hand in creating the contamination.

The amount of contaminated acreage is significant. St. Paul alone has about 850 acres of land that is confirmed or expected to have some degree of contamination,[109] and Minneapolis is expected to have at least as much. Developers and lenders alike, however, are fearful of the investment risk, and often choose not to get involved. Instead of pursuing a contaminated site for development, developers and lenders will look for greenfields in order to lower their investment risk.

A General Accounting Office report noted, "The uncertain liability has encouraged business to build in previously undeveloped areas where they feel more confident that no previous industrial use has occurred."[110] It added that banks have been known to ignore foreclosure on contaminated properties rather than assume the costs of cleanup and future liabilities.

Minnesota, in fact, has made great strides in dealing with contaminated parcels. In 1988, the state set up the Voluntary Investigation and Cleanup Program (VIC) to set standards for site investigation and to provide action response plans for cleanup to property owners. Run by the state Pollution Control Agency (PCA), VIC provides information and technical assistance to site cleanup and gives landowners, lenders, and developers a realistic understanding of the extent of contamination, as well as the cost of cleanup.

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104 Sally Apgar, "Cost factors led TCF to plan move to suburbs," *StarTribune*, September 25, 1996, p. D1. Critics often point out that a city carries a very small portion of the total property tax bill, and as such the argument that cities are expensive places to do business is misleading because school and county tax rates can skew the overall property tax rate. However, when comparing total tax capacity rates (including city, county, school and miscellaneous), property tax rates in the two central cities actually *improve* on a comparative basis — St. Paul was 9th highest out of 103 municipalities, while the Minneapolis was 17th highest (see MTA chart cited above).

105 Community Resource Partnerships, Inc., *City of Minneapolis: Introduction to the Business Base*, September 10, 1996.

106 Roger Ryan, city planner, St. Paul Department of Planning and Economic Develoment, personal communication.

107 James Moore, manager of development services, MCDA, personal communication.

108 Linda Taylor. "Transferring Contaminated Property," House Research Policy Brief, December 1991.

109 Charlie McGuire, senior planner, St. Paul Department of Planning and Economic Development, personal communication.

110 U.S. General Accounting Office. *Community Development: Reuse of Urban Industrial Sites*, June 1995, p. 4.

VIC has brought approximately 2,500 acres back into productive use since its inception.[111]

In 1992 the state Legislature went a step further and passed the "Protection from Liability" law (a.k.a. the Land Recycling Act), which provided incentives for voluntary response and action for cleanup of polluted sites. It did so by capping liability for parties not originally responsible for the contamination, and providing liability protection once cleanup was completed. Once cleanup was PCA-approved, the state provided written, guaranteed protection from liability to the immediate title-holder, as well as the lender, and any future title-holder to the property.

The land recycling law also lessened cleanup standards on a case-by-case basis to match the future use of the cleaned site. In other words, a polluted site that would be a future surface parking lot would require less cleaning than a site with a future daycare center. Any parcel receiving less than a full cleanup is deed-restricted in order to protect the public from more intensive use of these sites in the future.

Cleanup programs by the Metropolitan Council and Department of Trade and Economic Development (DTED) are complementing these efforts by channeling money into the site cleanup. In its very first grant cycle in late 1995, the Tax Base Revitalization Program (TBRP, part of the Livable Communities Act run through the Metropolitan Council) gave out $3.8 million in grants to clean up 50 acres in 11 sites that were located predominately in the central cities and first-ring suburbs.

In just one year, TBRP grants have leveraged more than $40 million in private investment, and $7.7 million in additional public money (for new infrastructure, etc.). By 1996, the sites being cleaned already experienced an increase in net tax capacity of $1.7 million. At such a rate, money invested in the TBRP would pay itself back in two years. This investment also is expected to produce more than 1,000 new jobs when construction projects are completed, with a predicted average wage of $11.77 an hour.[112] Despite these efforts, site cleanup efforts touch a mere fraction of total contaminated acreage in the fully developed area, and the financial benefits reach but a handful of developers.

Technology: The information revolution — and telecommunications in particular — could have a huge impact on future growth patterns, as technology will allow more people to work off-site in their homes, further negating people's need to be near the fully urbanized area.

A report by the federal Office of Technology Assessment reported that the information technology revolution will hurt both central cities and inner suburbs, while driving even more economic development to fringe areas of metropolitan regions. This will occur because advanced telecommunications will allow businesses to maintain contact with customers and suppliers without the traditional proximity.[113]

In fact, a 1994 MnDOT study on telecommuting showed that one out of five paid employees in the seven-county region already is telecommuting at least one day a week.[114] Technology also influences market preferences. According to a Metropolitan Council report:

> "Changing technology is driving relocation and the pace of redevelopment in the industrial sector. Changes in production processes, fuel sources and transportation technologies result in higher turnover rates for facilities, thus a shorter useful life. From a Metro perspective, this will result in a growing stock of underutilized or vacant sites waiting for redevelopment."[115]

Regulatory burdens and procedural bureaucracy: Much has been made of the bureaucratic,

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111 Wayne Sarappo, project manager of the Voluntary Investigation & Cleanup Unit of the PCA, personal communication. Note: not all 2,500 acres were contaminated. Often, land owners will sit on a parcel rather than develop the parcel and risk having it assessed for contamination.

112 Figures provided by Hal Freshley, director of the TBRP for the Metropolitan Council.

113 Office of Technology Assessment. *The Technological Reshaping of Metropolitan America.* Washington D.C.: U.S. Congress, September 1995. One counter-argument, however, is that today's tenuous job security requires people to establish and maintain networking circles for future job prospects, which can be done best in the central business districts and other job centers.

114 Minnesota Department fo Transportation. *Telecommuting in the Twin Cities Metropolitan Area: A Report to the Minnesota Legislature.* State of Minnesota, April 20, 1994.

115 Tim Fleetham. "Economic Development: Appendix Four, *Keeping the Twin Cities Vital,* Metropolitan Council, February 1994, p. 4-3.

regulatory mindset of the central cities when it comes to development. Numerous developers testified that the development process is more time-consuming and convoluted in the central cities. The result? Developers are simply moving to areas more receptive to new development.

Despite the fact that Minneapolis has identified 1,800 industrial acres in need of redevelopment, historically it has been able to address only about 10 acres per year.[116] There are numerous reasons for this, but at least some of the blame likely can be pinned on bureaucracy. Regulations governing everything from historic preservation to environmental cleanup to strict building codes can add months to a project.

For example, universal building codes hold renovations and other recycling projects to the same standards as new construction, despite the fact that cities in the fully developed area do comparatively little new construction, especially residential. As a result, building standards for redevelopment and renovation have been criticized as unnecessarily high and costly, which ultimately dampens interest in redevelopment projects.[117]

Collectively, these urban disincentives tip developers' interests and favor to the developing fringe for the simple reason that it is more profitable and hassle-free to do so.

Market force #4 — Demographics

Demographics is a wild card with a potentially huge but largely unpredictable influence on future growth patterns. Not only has the seven-county region experienced steady growth, but the face of the region is changing in subtle ways. For instance, there has been a steady decline of two-parent households, and increases in single-parent and single-person households and households of non-related persons.[118] Future demographic changes will include a rapidly aging population and increases in minority populations.

The minority population today is still small as a percentage of the total population, but is increasing very rapidly. From 1970 to 1990, the African American population almost tripled to about 90,000; the Asian population increased about 1300 percent to 65,000; and the total ethnic population has more than tripled to about 210,000, about 9 percent of total population.[119]

An increasing population, combined with downward trends in household size, and an aging populace, is a likely indicator for more households, and particularly for units that are smaller, more affordable, and more likely to be rental. Whether this will occur is difficult to determine. From 1970 to 1994, while family size diminished, the size of an average new one-family residence increased about 40 percent, from 1,500 to 2,100 sq. ft.[120]

Government policies and market intervention in land use

Government policy at all levels, some of which goes back decades, has played a huge role in our settlement patterns. Whether at the local, regional, state or federal level, public policy sets the parameters in which the market operates.

The market, in fact, is a fairly consistent mechanism. However, people's desire to control and manipulate the market in their favor — often done through government policy — greatly influences the outcomes, and is responsible for many of the disparities we see in the marketplace today. As one person put it, "The market in fact differs less from place to place than do the institutions, political agendas, and policy instruments that regulate urban development."[121]

116 James Moore, MCDA, personal communication.

117 Gary Laurent, president, Laurent Builders, Inc., comments made at Citizens League Mind-Opener breakfast on December 13, 1996; Dorfman, *et. al.*, *op. cit.*, 1993; Citizens League Speak Up! with Minneapolis and St. Paul community development agencies (see Appendix C)

118 Michael Munson, "Population Growth and Residential Development: Appendix Six," *Keeping the Twin Cities Vital*, Metropolitan Council, February 1994, p. 6-2; United Way of Minneapolis Area, *The Face of the Twin Cities: Another Look; Trends Affecting Our Community Through 2000.* 1995, p. 29.

119 Munson, *op. cit.* p. 6-8.

120 U.S. Bureau of the Census and U.S. Department of Housing and Urban Development. "Current Construction Reports," series C25 (characteristics of new housing), 1994.

121 L.S. Bourne. "Self-fulfilling Prophecies? Decentralization, Inner City Decline and Quality of Urban Life," *American Planning Association Journal*, Autumn 1992, p. 511.

Over the last four decades, countless government policies have facilitated movement away from the fully developed area, while making Minneapolis and St. Paul a catch basin for the region's poor. Federal programs got the ball rolling. Add in public subsidies for development, the structure of municipal finance and property tax classifications, and countless land-use regulations, and government arguably has created much of the mess that it now hopes to untangle.

Public force #1 — Federal involvement

Federal programs and tax incentives started the tipping process decades ago that made suburban and exurban living more attractive than the central cities. Seeking to relieve overcrowding in many big cities, and in response to a housing shortage after World War II, the federal government provided much of the impetus for the decentralization of urban areas — a.k.a. suburbanization — more than 40 years ago.

Two federal housing loan programs, the Veterans Administration and Federal Housing Authority, started in the 1950s in an effort to make financing a new house easier and more affordable.[122] These programs reduced the purchase price of a new home by offering home buyers lower-than-market interest rates and long-term financing. Indeed, many would call this "tax expenditure" a subsidy.[123]

These housing programs created overnight demand for new-home construction, and created an immediate need for undeveloped land to build tens of thousands of new homes in the Twin Cities in what is now the first-ring suburbs. The current push into developing second and third-ring suburbs simply reflects continued demand for undeveloped land for new housing.

Two federal tax expenditures — the mortgage interest deduction and deferral or sheltering of capital gains for home sellers — are additional factors in the decentralization of metropolitan areas. While the mortgage interest deduction benefits all homeowners regardless of location, it is believed to encourage over-consumption of housing — big houses on big lots — most of which occurs in growing suburban and exurban areas.[124]

In 1996, federal tax expenditures for the home mortgage interest deduction totaled $51 *billion*.[125] Assuming the rate for claiming the tax deduction is constant regardless of the value of the house, owners of high-value housing automatically claim a higher deduction in total dollars. Proportionately, then, owners of higher-valued housing — who reside mostly in the suburbs according to median housing value statistics — receive the lion's share of tax expenditures claimed under this deduction.

What's more, home ownership levels are higher in the suburbs than the central cities to begin with, as the central cities have more rental housing as a percentage of all housing units. Low-income homeowners — who, again, are more likely to reside in the fully developed area according to statistics — also are less likely to itemize tax returns due to lower tax obligations.

Tax expenditures for deferral and sheltering of capital gains taxes on home sales is another federal tax expenditure with land use implications, totaling $21 billion in 1996.[126] To

122 Judith Martin and Antony Goddard. *Past Choices/Present Landscape: The Impact of Urban Renewal in the Twin Cities.* Center of Regional and Urban Affairs, University of Minnesota, 1989.

123 The Citizens League's 1994 report on regional housing policy sums up the "subsidy" debate over the home mortgage interest deduction and other supposed tax expenditures succinctly: "Some have argued that the value of of mortgage interest deductions and other tax expenditures should not be considered 'subsidies,' They object to the implication that, as one person said, "government is entitled to all your money, and any money they let you keep is called a subsidy." The counter-argument is that any given tax structure and at any level of expenditure, a reduction in tax for any group requires an offsetting increase in tax for someone else or a reduction in spending by an equivalent amount. Thus the tax expenditure is the moral and fiscal equivalent of spending on the favored group, and should properly be considered a subsidy." (see footnote 81, p. 30 of the Citizens League Report, *The Case for a Regional Housing Policy*, 1994).

124 It should be noted that the elimination of the mortgage interest deduction would not likely have had much influence on suburbanization itself. Most countries do *not* have the mortgage interest deduction, and suburbanization has clearly become a world-wide phenomenon. But the deduction has likely had an impact on the typical size of suburban lots and houses.

125 Office of Management and Budget, *Analytical Perspectives: Budget of the United States Government, Fiscal Year 1997*, United States Government, 1996. See section 5, p. 3 on commerce and housing expenditures (found on OMB home-page).

126 Office of Management and Budget, section 5. Capital gains taxes for residential real estate sales has two separate categories, which together totaled $21 billion. Capital gains taxes on home sales are *deferred* if a homeowner under the age of 55 buys or builds a new home of equal or greater value within two years of the sale of the original home. In 1996, such deferments equalled $16 billion. For those over age 55, a

claim waiver of capital gains taxes on home sales, a person must buy a home that is more expensive than the original. Most such move-up housing is found in the developing suburbs and exurbs.

These federal tax deductions hit home in Minnesota, too. The state estimates that the fiscal impact for Minnesota from just the home mortgage interest deduction and deferred or sheltered capital gains taxes equaled more than $363 million in 1996.[127]

Public force #2 — Infrastructure

Probably the greatest long-term inducement to America's suburbanization has been our infrastructure policy, particularly the huge investments made over the past 40 years to expand transportation and wastewater treatment systems.

Until fairly recently, the provision of infrastructure was often taken for granted. Federal infrastructure money was plentiful for decades, which removed much of the financial impact and consequence of individual land-use decisions.

The infrastructure boom began with the Federal Highway Act of 1956. Over the next four decades, the federal government spent billions to link major metropolitan areas. The federal government also was heavily involved in building wastewater treatment facilities in newly-built communities, and in reaction to the Clean Water Act of 1972.

These federal infrastructure programs had a huge impact on local and regional urban form. New, high-speed freeways provided excellent access to downtown business districts from remote locations, and new sewer and water facilities provided some of the in-home comforts people had become accustomed to. Combined, these federal infrastructure investments made non-urban living a real option for many urban workers.

However, infrastructure funding has flattened, and even declined in some cases, which will likely make future infrastructure expansions more expensive at the local level. In the past, federal money funded as much as 90 percent of big-ticket local infrastructure like bridges. That money is drying up, or being diverted increasingly to maintenance priorities. As a result, large-scale infrastructure expansion projects in the future will likely demand more state and local resources.

From 1972 to 1987, the wastewater department for the seven-county metro region received $469 million in state and federal grants — which paid for 90 percent of eligible costs to expand and improve the regional system.[128] But federal grants for capital sewer and water projects started drying up in 1987, and were eliminated by 1991, replaced by revolving loan funds to states.[129]

Fortunately, the regional wastewater system today is largely self-sufficient. But the system has not seen any major plant expansions in some time, and when it does, local and regional resources will be required to pick up a much larger portion of the bill.

Highway demand, in particular, is quickly outstripping the region's capacity for auto travel, and could worsen by several orders. The highway network in the seven-county region is arguably one of the nation's best, consisting of 657 miles of interstate highways and other principal arterials. The Twin Cities region has the fourth-most roadway miles per capita in the nation, and the sixth-most freeway lane miles per capita of any metropolitan region in the nation.[130]

Comparatively speaking, the regional transportation network operates well and has few critical problems. It has the shortest average

one-time capital gains tax *sheltering* can be claimed for up to $125,000 of "gain" from a house sale. In 1996, this federal tax expenditure equalled $5.2 billion.

127 Minnesota Department of Revenue, *Tax Expenditure Budget: Fiscal Years 1995-1997*, Tax Research Division, State of Minnesota, February 1995. An important distinction also should be made regarding these estimates. However, it is important to note that the elimination of these tax expenditures *would not* increase state and federal tax revenues by equal amounts. Each tax expenditure is estimated in isolation, with no regard for secondary impacts of one tax expenditure on another, or the impact that an expenditure repeal might have on taxpayer behavior. Also, elimination of the mortgage interest deduction might not have as big an impact on growth patterns as some think. No other country in the world has the interest deduction, yet basically every developed country is seeing similar low-density growth patterns.

128 Met Council Environmental Services. "Metropolitan Council Environmental Services: Overview, 1970-1995," 1996.

129 General Accounting Office. *Drinking Water: Safe Drinking Water Act Reauthorization Issues*, November 1995.

130 Chris Lester and Jeffrey Spivak. "Paving the way: Road sytem puts suburbs on the map," *Kansas City Star*, December 19, 1995, p. 9. Figures provided by the Federal Highway Administration.

commute time among the twenty largest metropolitan areas (21.1 minutes), and has the second-lowest roadway congestion — the result of plentiful roadways and an effective metering system.[131] Over the years, people have taken this highway mobility for granted, and now *expect* highway infrastructure to accommodate individual land-use decisions. As Adams, et. al., summed up:

> "Most of us now see transportation as an ubiquitous commodity: as with the telephone, we expect infrastructure and service everywhere, to reach any location as quickly and cheaply as possible."[132]

But already there are signs of worsening highway conditions. Between 1970 and 1992, the number of congested freeway miles more than quadrupled, from 24 miles to 106 miles. That figure is expected to top 200 miles by the year 2015 if no new highways are added.[133] Simply put, more people own more cars, they are driving them more often, and traveling longer distances for every trip. All the while, state financing for roads has been stagnant in real terms.

More cars: The number of regional households with two or more cars grew from about 80,000 in 1958 to almost 200,000 by 1970. By 1982, it doubled to almost 400,000, and by 1990, there were more than 500,000 households in the seven-county region with at least two cars.[134]

More roadway: Freeway construction followed to accommodate our preference for the auto, growing from just 5 miles 1950, to 350 miles by 1970, to 525 miles by 1990, averaging 10.5 new miles of freeway every year — not to mention countless miles of local streets.[135]

More vehicle miles: Increased vehicle ownership and more highways fueled incredible growth in regional travel. From 1970 to 1990, vehicle trips increased almost 75 percent, and vehicle miles traveled increased by 130 percent, while the regional population increased only 19 percent.[136] Trip length in exurban areas is up to 50 percent greater than in the central cities and developed suburbs, and these longer trip lengths alone have added 20 percent to total vehicle-miles traveled in the seven-county region from 1970 to 1990.[137]

Stagnant highway funding: According to a House Research report, the state spent $317 per capita in real dollars for highways in 1972.[138] Twenty years later, the state was still spending only $316 per capita, despite the fact that people were traveling substantially more miles and producing more road wear. Fuel-efficient cars also have kept gas-tax receipts comparatively flat. A 20-cent gas tax was once considered steep, but it has not increased since the late eighties, and now ranks closer to the middle among state gas taxes.

If the region continues to spread out it will have to do so without the support of new roads. Last year, the Metropolitan Council stripped $2.5 billion (more than a third) from its 20-year highway plan. As noted earlier, the region saw an average of ten new lane miles of freeway every year for the past four decades. In contrast, the Council expects about 20 miles of new freeways to be built *in the next twenty years*. In a May speech, Council Chair Curtis Johnson said:

> "I still don't think many people have noticed this, or pondered the implication that the roads you see out there are basically the roads you are going to have for the next twenty years."[139]

With the completion of the interstate highway program, it appears the federal government is in no position to underwrite new roads as it has in the past, if for no other reason that the nation now faces a huge backlog of highway maintenance.

131 Minnesota Department of Trade and Economic Development. *Compare Minnesota: An Economic and Statistical Fact Book 1994/1995*, 1995, p. 115.

132 John Adams, Melissa J. Loughlin, and Elvin K. Wyly. *Transportation Use in Minnesota: An Analysis of the 1990 Census of Population and Housing*, (project summary of *Long Distance Commuting in Minnesota*), Minnesota Department of Transportation, September 1994, p. 1.

133 Metropolitan Council. *1997-2000 Transportation Improvement Program for the Twin Cities Metropolitan Area*, April 1996.

134 Metropolitan Council. *1990 Travel Behavior Inventory Summary*, 1994.

135 Carl Ohrn, planning analyst, Metropolitan Council. Resource testimony to the Livable Communities Committee on January 25, 1996.

136 Metropolitan Council. *Transportation Development Guide Chapter/Policy Plan*, May 1995, p. 2-1; and Metropolitan Council, *1996-98 Transportation Improvement Program for the Twin Cities Metropolitan Area*, August 1995, p. 14.

137 *1990 Travel Behavior Inventory Summary, op. cit.*, p. 63.

138 Deborah Dyson. "Highway Spending in Minnesota 1972 to 1992," House Research Information Brief, October 1994.

139 Curtis Johnson, Metropolitan Council Chair, remarks made at the Center for Transportation Studies Annual Conference, Sheraton Park Place Hotel, May 14, 1996.

The U.S. Department of Transportation estimates that merely maintaining the overall condition of highways and bridges would require an *additional $10 billion* in annual capital spending over a twenty-year period.[140] By the year 2015, the regional highway system also will need major rebuilding, which will require additional resources over and above what the state is now collecting from road users.

With limited resources now available, it appears that persistent infrastructure expansions to low-density areas have been an expensive, low-yield investment of public dollars.

Often missing from growth discussions is any debate over what constitutes a wise and sufficiently ample public investment for infrastructure. Numerous studies conclude that urban form has a direct relation not only to capital costs for infrastructure, but to government operating costs as well. Many of these same studies implicate low-density development as a poor investment of public dollars.[141]

Low-density development, for instance, requires roads, and lots of them. Anoka, Dakota, and Washington counties all have more land dedicated for highways than for *all* commercial uses, and only Carver, Hennepin and Ramsey have better than a 2:1 acre land-use ratio for industrial to highway uses.[142]

A 1994 study by John Borchert and William Casey argues that infrastructure spending should be done in such a way as to encourage the greatest amount of private investment.[143] Today's biggest private investments are in widely dispersed suburban residential developments, which have produced a comparatively poor return on the public's investment, they note.

The two central cities and their fully developed suburbs averaged more than $6.5 billion in residential and commercial-industrial development for every $1 billion of public works. In the urbanizing fringe the ratio is $2.4 billion in private investment to $1 billion in public works. The authors note:

> "These data reinforce the idea that, given today's technology, public works investments in high-density areas are the most efficient, while investment in low-density non-farm areas is a relative luxury."[144]

Numerous studies provide additional evidence. A study for the Greater Toronto Area Task Force determined that the Toronto region could save 10-15 percent in capital investment for new infrastructure over 25 years by pursuing compact development over conventional suburban-type development. The study put future public costs of growth at $90 billion using current development models, and estimated savings would be between $10 billion and $16 billion if a compact urban form was implemented instead. The study also pointed out that a more compact urban form would subsequently decrease operating costs by $2.5 billion to $4 billion.[145]

The Canada Mortgage and Housing Corporation conducted a study of long-term development costs over 75 years. Unlike traditional short-term economic analyses of conventional suburban and compact development, this looked at emplacement and replacement costs of infrastructure. Over this 75-year period, compact development realized per-unit savings of about 9 percent over typical suburban-type development, most of which came from transportation, sewer and water-distribution costs.[146]

140 U.S. Department of Transportation. *Condition and Performance: 1995 Status of the Nation's Surface Transportation System*, 1995. In 1993, capital spending on infrastructure at all government levels was $39 billion, and the U.S. DOT report noted that maintaining highways and bridges in place today would require $49.7 billion. See pages 306-308.

141 It should be noted that the definition of "low-density" is not uniform through these studies, and in fact is vague in some cases. It is safe to say that the studies that follow in this text implicate *scattered or leapfrog* development as very costly. But the *exact* cost of typical, contiguous suburban development (at say, 1-2 units per acre) versus higher "urban" densities of 3-6 units per acre is less clear. The literature implies that there are incremental differences in infrastructure costs that favor higher densities, but again, the differences here are not always well defined. Also, each study typically measures different variables, which is part of the reason for widely fluctuating study results and cost differentials.

142 Metropolitan Council. *Land Use Profiles: Acreage Summaries and Maps by County*, 1995. Figures are for 1990, which are the latest comprehensive data available. Technically, Scott County's industrial to highway use ratio is 1.93 to 1.

143 John R. Borchert and William Casey. *Real Property Value in the Heart of the Midwest.* Center for Urban and regional Affairs, University of Minnesota, 1994.

144 *Ibid*, p. 8

145 Pamela Blais, *The Economics of Urban Form*, Berridge Lewinberg Greenberg Dark Gabor Ltd., prepared for the Greater Toronto Area Task Force, December 5, 1995.

146 Canada Mortgage and Housing Corporation, *Infrastructure Costs Associated with Conventional and Alternative Development Patterns*, regional Municipality of Ottawa-Carleton, 1995.

A Rutgers University study concluded that the state of New Jersey could save $1.4 billion (about 10 percent) cumulatively in road, sewer and water, and school infrastructure over 20 years by pursuing planned, compact urban form.[147] The Metropolitan Council's own *Growth Options* study estimated that the seven-county region could save between $1.5 and $2.3 billion over the next 25 years by moving toward an urban form that was more compact and centered on existing infrastructure.[148]

The cost of development — a literature review: When determining the cost of development to the public sector, three interrelated factors of urban form are important to consider:

- the pattern or grouping of serviceable properties;
- the density or intensity of development;
- the location and proximity of new development to existing development (contiguous versus non-contiguous) and relevant public services.

Along with these basic categories, there are a plethora of sub-factors that must be considered, including the type of development (residential, single-family or multi-family, etc.), public services offered (and at what level or standard), and existing capacity of various public services (such as sewers).[149]

At the site level, the pattern of development has a strong influence on costs. According to a study by the National Association of Home Builders, clustering houses can reduce on-site service costs by $2,000, or 15 percent.[150] A study by Duncan, et. al., investigated five different types of development patterns in Florida ranging from "compact" to "scattered" site. The study found that costs for capital public facilities went up generally as densities went down, and as development became disconnected from urban edges.[151]

A 1975 report by Dougherty, et al., studied the costs of off-site capital improvements (streets, utilities, fire and police service, etc.) under three patterns — "compact," "scatteration" and "leapfrog." The study found that outlays for compact development would be $2,000 per unit, while costs for scatteration and leapfrog could exceed $10,000, the biggest difference coming in roads and utilities.[152]

In a review of development-related studies, James Frank concluded that cumulative capital costs per dwelling for non-contiguous, low-density development (three units per acre) was more than $35,000 per dwelling. Development that is in a central location, with contiguous and mixed-use, mixed-housing development could cut that total cost to less than $18,000.[153]

A study last year by the Builders Association of the Twin Cities (BATC) showed that past urban service policies have resulted in thousands of two- to ten-acre housing developments that have consumed more than 130,000 acres of land just outside the MUSA — enough land to have potentially absorbed all regional growth for the next 25 years.

The BATC study showed that planned, contiguous development was considerably less expensive in the long run than unplanned leapfrog development. Analyzing six different scenarios ranging from contiguous development inside the MUSA to retrofitting large-lot developments outside the MUSA, the BATC study showed public costs were 1.5 to 2.8 times higher for leapfrog

147 Robert W. Burchell. *Impact Assessment of the New Jersey Interim State Development and Redevelopment Plan*, Rutgers University, prepared for the New Jersey Office of State Planning, Trenton, 1992.

148 Metropolitan Council. *Growth Options for the Twin Cities Metropolitan Area*, March 1996.

149 The methodology for these studies has changed comparatively little since the first comprehensive study on development costs was conducted by William Wheaton and Morton Schussheim in 1955. Entitled, *The Cost of Municipal Services in Residential Areas*, it was designed to investigate the costs of development as they related to density, lot size, location and development pattern, and included capital, operating, precipated and full costs (precipitated costs plus the allocated cost of inherited facilities).

150 National Association of Home Builders, *Cost-Effective Site Planning*, 1976.

151 James Duncan and Associates, Van Horn, Gray Associates, Ivey, Bennett, Harris and Walls, Inc. and Wade-Trim, Inc. *The Search for Efficient Urban Growth Patterns*, Tallahassee, FL: Florida Department of Community Affairs, 1989. The study's results were as follows: compact development averaged about $9,000 in costs; contiguous development ranged from about $10,000 to $13,000; and scattered development ran from $15,000 to $23,000.

152 Laurence Dougherty, Sandra Tapella, and Gerald Sumner. *Municipal Service Pricing Impact on Fiscal Position*. Santa Monica, CA: Rand. 1975

153 James Frank. *The Costs of Alternative Development Patterns: A Review of the Literature*. Washington, D.C.: Urban Land Institute, 1989. Frank's estimate of $35,000 included central sewer, water, curb and gutter and urban drainage.

development than contiguous development within the MUSA.[154]

Regarding density costs, a study of Loundon County, Va., looked at 1000-unit developments at four densities (5 acre, 1 acre, 0.37 acres, and 0.22 acres per unit) and attempted to compare the service costs and taxes generated by each development.[155] The study identified and compared four different costs that vary according to density: school operation, school transportation, road maintenance, and water and sewer operation. The study also identified a number of constant costs which were a function of the total number of new developments and people involved, including capital costs for public schools, law enforcement, fire/rescue, health/welfare, and general administration.

The study found that residential development at all densities created a net expense to municipal governments, which increased as densities decreased. The average revenue shortfall for rural five-acre lots was more than three times the level of high-density development ($2,200 per dwelling compared $700 per dwelling for high-density).

A study of three communities in Wright County found that the cost of providing public services for low-density development was up to four times more than providing the same service in higher density areas.[156] The study looked at development in the rural townships of Silver Creek and Otsego, with densities of one to five units per acre, and in the City of Buffalo, with densities of 10 units an acre.

Service costs in the two rural townships were almost $500 per unit more than the taxes generated by these households. The high-density model saw a similar, but substantially lower shortfall of just $115. The low and very-low density developments in the two townships also used more aggregate land — particularly prime farmland. The report noted that this cost difference would widen sharply in just a few years, because the two townships studied were facing a number of major capital improvements, including sewer and water expansion, and school improvements.

> "This study underlines the fact that it is fiscally sound to concentrate growth around areas with existing infrastructure and to discourage growth on large lots in farming areas."[157]

The Cost of Sprawl study in 1974 found that significant savings were achieved through higher densities. The study found that capital costs for the low-density development were 50 percent more than those of the high-density, planned development, and annual operating costs were 13 percent higher. The high-density community used about half as much land for transportation, and spending for roads and utilities was likewise half as much as the low-density model.[158]

Long-term infrastructure planning is badly overlooked for K-12 school facilities, despite huge annual capital outlays. The discussion of infrastructure is often very narrow, often stopping at roads and sewers. But in reality, infrastructure policy concerns a whole host of other public structures, including libraries, city halls, community centers, parks, and airports. For the most part, this infrastructure is amply planned and provided for throughout the region.

But despite huge annual investments, K-12 school facilities receive little long-term planning or coordination.[159] As Rep. Becky Kelso (DFL—

154 The Builders Association of the Twin Cities. *The High Cost of Sprawl*, April 1996, Appendix C, p. 8. This study assumed that low-density scattered-site housing just outside the metropolitan urban service area (MUSA) would eventually need to be hooked into public sewer services, and added in the costs of such retrofitting as these areas were urbanized. The study estimated that the cost of infrastructure for contigous development inside the MUSA to be $15,000, the cost for retrofitting large-lots simultaneously into higher urban densities was $27,500, and retrofitting only existing large-lot developments with urban services was $43,000.

155 American Farmland Trust, *Density Related Public Costs*, 1989.

156 Robert J. Gray and Joanne Dann. *Development in Wright County: The Revenue/Cost Relationship*, Resource Management Consultants, April 1989.

157 *Ibid*, p. iii.

158 Real Estate Research Corporation. *The Cost of Sprawl*, 1974. Despite its landmark status with anti-sprawl people, this study has come under criticism for its methodological approach. See Alan Altshuler, "Review of the Costs of Sprawl," *Journal of the American Planning Association*, 1977, pp. 207-209; and Duane Winsor, "A Critique of The Costs of Sprawl," *Journal of the American Planning Association*, 1979, 279-92. Despite methodological questions, even if the estimated effect from this study were cut by half or three-quarters, it would still represent a significant difference between low-density and high-density costs of development.

159 Based on phone interviews with Bill Marx, Fiscal Analyst for House Research; State Representative Becky Kelso (DFL - District 35B); and Dan Brian, Facilities Division, Minnesota Department of Children, Families and Learning.

Shakopee) *put it, no planning is done for* K-12 school facilities "until two or three hundred students show up and district officials say, 'What should we do with them?'"[160]

From 1986 to 1995, school districts in the seven-county region got the go-ahead for over $2 *billion* worth of new construction, remodeling and other capital improvements — $825 million in 1994 and 1995 alone.[161]

Some would argue there is no need to involve government bureaucracy in building new schools. Local residents are financially accountable for all capital improvements and expansions in their respective school districts, and many people believe the concern for facilities planning should end there.

But one reason for facilities planning is to better utilize infrastructure investments *over time.* There is evidence — although to date unquantified — that lack of planning has created unnecessary public costs as individual districts go through building cycles irrespective of the building cycles in neighboring districts.

Over the last 40 years, regional school districts have seen dramatic enrollment fluctuations. School enrollments exploded during the baby boom years, but then bottomed out until the early 1980s. Starting in about 1984, the "echo boom" generation bounced enrollment back more than 120,000 by 1995. School districts located in metropolitan counties (e.g. Hennepin and Olmsted) are expecting 54,000 more students by the year 2001.[162]

These fluctuating enrollments have had a notable influence on the utilization of school facilities. Following the building spree for young baby boomers, schools started closing their doors in great numbers in the late 1970s and early 1980s. In fact, from 1978 to 1995, regional districts closed 127 schools, including 37 in Minneapolis and nine in St. Paul. Most of this occurred from in just five years (1978 to 1982). In 1982 alone, 58 schools were closed throughout metro districts — 24 in Minneapolis.[163]

Since 1984 , however, when enrollments started to rebound, regional school districts have opened 105 new schools.[164] However, despite wide-scale closings just years earlier, the majority of school openings involved new buildings, and *not* old schools that were simply re-opened.[165]

Herein lies the central problem: enrollments are again booming, and hundreds of millions of dollars are spent annually to meet new enrollment demands. Yet no facilities planning is done on a broader regional scale that might offer ways to maximize public investments in school facilities both now and after peak enrollment periods. As it stands now, districts simply build anew regardless of whether excess capacity exists nearby, and the state is required to support any changes in operating costs for these new facilities.

Despite the enrollment plunge in the early 1980s, 20 school districts found themselves overcrowded already by the early 1990s. Apparently, inability to forecast school demand is the ideological obstacle that prevents any facilities planning. Yet highways are micro-managed under essentially the same criteria for demand, while planning for schools is done only to satisfy short-term enrollment cycles.

Lack of planning has likely played a role in the backlog of repairs needed in school districts throughout the state as well. A Minnesota Planning report said state schools were in need of about $1.5 billion in repairs, the result of deferred maintenance in the 1970s and 1980s.[166] Reeves and Milashius documented pressing repair needs in 85 percent of metro schools (400 in all).[167] A 1994

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160 Kelso, personal communication.

161 Aggregate figures on district approvals for capital spending were calculated from "Review and Comment" documents from 1986 through 1995 provided by the Facilities Division of the Department of Children, Families and Learning. These review and comment sheets list annual statewide bonding referenda that pass and fail in individual school districts.

162 Nancy Reeves and Linda Milashius, *Inventory of Twin Cities Metropolitan Area Public School Facilities*, Metropolitan Council, 1992; Minnesota Planning. "School E nrollment Growth to Cost $320 Million More," *Line Item*, November 1994, p. 2-3.

163 Figures calculated from annual figures contained in "New and Closed Public Schools" data provided by the Department of Children, Families and Learning for the years 1982 to 1995, and figures from Reeves and Milashius, *op. cit.*, 1992.

164 Department of Children, Families and Learning. "New and Closed Public Schools" 1984-1995.

165 It should also be noted that at least some of the schools were closed due to obsolescence, and to re-open them would have required substantial investments to upgrade these facilities for technology and other elements necessary in a modern classroom.

166 Minnesota Planning. *Within Our Means*, January 1995, p. 19.

167 Reeves and Milashius, 1992. See also a supplement to this report, authored by Linda Milashius, and published by the Metropolitan Council in August 1993. Needed repairs included heating and ventilation, electrical and plumbing

survey by the Minneapolis School District identified numerous building deficiencies that would cost the district $300 million to remedy.[168]

Public force #3 — Public subsidies

Public subsidies hide the real costs of land-use decisions, and facilitate development in areas where development would likely — or at least eventually — occur without any subsidy.

Unfortunately, larger questions of subsidy balance often are overlooked. The idea behind subsidies is to provide incentives for the market to do things it normally would not for lack of profit. Government subsidies, then, are meant to channel resources to areas that are poorly served by the market. As outlined earlier in this section, there are numerous obstacles to development in urban areas. This being the case, urban areas *should* receive more subsidies in order to overcome market obstacles.

Forty years ago, the opposite was true. The market had few good reasons to build new houses and start new businesses outside the urbanized area for the simple reason that access to and from remote locations was poor, and there were few good jobs and poor housing choices in rural areas. However, faced with a critical housing shortage in the 1950s, the federal government believed decentralization would provide benefits to society, and so provided subsidies to achieve this goal, which has subsequently benefited many people. In doing so, government eliminated the obstacles to decentralization for homeowners and businesses, which made such development profitable for the building industry.

Today, there are few obstacles getting in the way of suburban and exurban development, maybe aside from a growing number of NIMBYs. In today's housing market, for example, people are choosing suburban and exurban locations because they like the bigger yards, better schools and lower crime. Yet despite this market orientation, a number of subsidies still persist that make fringe development still more attractive. Such subsidies distort the real cost of individual land use decisions, give people additional reasons to leave urban areas. In the words of John Adams, geography professor at the University of Minnesota, "It's like asking teenagers to think about sex."[169]

Fortunately, more attention is being given to the real costs of development. It might surprise some that most direct costs of development — for sewer hook-ups, road frontage — *are paid for* by the developer, and simply passed to the home buyer. There are instances, however, where both direct and indirect costs of development are not paid for by new homeowners, especially in low-density areas, and as such are passed on in some form to the larger society.

This is particularly true when discussing regional costs. Pamela Blais notes that low-density development clearly receives subsidies for regional infrastructure like expressways, highways, and sewer and water service. Her argument is fairly straightforward: construction, maintenance and replacement costs for expressways and regional highways are paid for at the regional or state level. All residents contribute equally for these capital expenses, but the demand (and resulting benefit) for roads lies heavily with those living in low-density areas, because "residents of lower density areas generate more trips, longer trips, and (demand) a more a extensive road network" than those living at higher densities.[170]

A few local studies also have demonstrated that there are direct — if small — subsidies for low-density development at the local level. A Metropolitan Council task force on sewer rates determined that sewer access charges (SAC) paid only about two-thirds of the debt service incurred from sewer expansion projects — most of which benefits developing areas.[171] The shortfall is made up through the general revenue of the Metropolitan Council's Environmental Services.

A 1995 study from the Center for Urban and Regional Affairs (CURA) at the University of

systems, roofing, walls, windows, lighting, and foundation work. Because districts calculated repair costs in different ways, the authors said aggregate repair costs for the region could not be tabulated.

168 Don Haydon, director of facilities, Minneapolis Public Schools, personal communication.

169 John Adams, personal communication.

170 Blais, *op. cit.*, p. 45.

171 Metropolitan Council. "Sewer Rates/Cost Allocation Task Force" (preliminary draft report), January 9, 1996. SAC is a flat fee paid by a homeowner or business to hook up to the regional sewage treatment system. This fee is used to pay the debt of capital projects resulting from new development.

Minnesota argued that the current fee structure for sewer flow also subsidizes people living in low-density areas.[172] Environmental Services charges a uniform fee for each gallon of waste generated, irrespective of the actual cost of the treatment, which involves differences in terrain, soils, suitability of treatment facility location, and economies of scale — all of which would make densely populated areas less costly to serve on a per-unit basis.

The current uniform fee structure is not only inefficient, the authors argue, but inequitable as well, with the most densely populated areas subsidizing low-density areas. All totaled, the study estimated that the central cities subsidize other areas (particularly well-to-do southwestern suburbs) to the tune of $6 million annually.[173]

Considerable subsidies are hidden in the use of motor vehicles. There is growing concern that our auto-dominated transportation system is not paying the full cost of its use. A motor vehicle subsidy is defined "as any direct cost in providing for and using the [motor vehicle] system that is not paid for privately or through transportation user fees."[174]

Studies have consistently shown that motor vehicle users do not even pay the full costs of constructing and maintaining roadways, and fall far short when adding in other indirect and external costs. The resulting subsidies predominantly favor low-density areas, because households in developing areas traditionally own more autos, make more trips and travel the greatest distance per trip.[175]

According to the federal Department of Transportation, governments nationwide collectively spent $88 billion on highways in 1993.[176] However, only $61 billion (about 70 percent) was collected in highway-related fees and exactions by federal, state and local governments. The remainder comes from other general revenue sources. The local picture is no better. The Metropolitan Council estimated that total highway costs from 1993 to 2015 will be $6.34 billion, while related revenues from tax collections and other fees are expected to be just $4.56 billion — a shortfall of $1.78 billion.[177]

There is a significant revenue shortfall for local governments as well regarding motor vehicle use. Nationwide, local governments spent more than $23 billion on roads, yet collected less than $2 billion in revenues from motor vehicle users. Local governments make up the difference through property taxes and assessments, general fund appropriations, investment income or proceeds from bond issues.[178]

A study by the Institute for Local Self-Reliance found that motor vehicle users pay less than 40 percent of the costs for driver-related projects in the city of Minneapolis.[179] In 1992, the city spent about $77 million in capital and operational costs for transportation, of which only $28 million was paid for by fees or taxes on motor vehicle use. The rest — about $48 million — "is picked up by Minneapolis residents and businesses, largely in the form of property tax assessments."[180] While 90 percent of the city's road space is used by cars, 22 percent of Minneapolis households *do not even own cars*.

The same is true at the county level. According to Kathleen Caldwell, a financial manager with Hennepin County, motor-vehicle fees "fall considerably short" of paying all related expenses. In 1994, the county spent almost $63 million on roads, yet received only about $43

172 Barbara Lukermann, Thomas J. Luce, and Herbert Mohring. "Public Policies that Hurt the Urban Core," *CURA Reporter*, Center for Urban and Regional Affairs, University of Minnesota. March 1995.

173 It must be noted that Environmental Services disputed the claims of the Lukermann study. The current cost allocation system sees clean water as a regional health and environmental issue; therefore wastewater collection and treatment is innately regional, and should be enjoyed and paid for on a regional basis. Conversely, the basic premise of the Lukermann study was that the region's resources needed to be maximized, and a pricing structure should be used that rewards or penalizes people for the costs they impose on the system. The Sewer Rate/Cost Allocation Task Force also studied the flow charge, and recommended that this fee structure be kept in its current form.

174 Mark E. Hanson "Automobile Subsidies and Land Use: Estimates and Policy Responses," *APA Journal*, Winter 1992, pp. 60-71.

175 *1990 Travel Behavior Inventory Summary Report*, *op. cit.*, pp. 44-45.

176 U.S. Department of Transportation. *Condition and Performance: 1995 Status of the Nation's Surface Transportation System*, Washington D.C. 1995. About $43 billion is spent on operations, and $39 billion is spent on capital expenditures.

177 Metropolitan Council. *Choosing an Urban Development Option for the Twin Cities area: 1995-2020*, 1995, p. 8.

178 U.S. Department of Transportation, *op. cit.*, p. 79 (chart).

179 John Bailey. *Making the Car Pay Its Way: The Case of Minneapolis Roads*, Institute for Local Self-Reliance, December 1992.

180 *Ibid*, p. 1.

million in motor-vehicle revenue.[181] This shortfall is made up by property taxes and other general fund sources. From 1990 to 1994 the county levied $55 million in property taxes specifically for the county's transportation budget.[182]

Statewide there are 80,000 miles of county, city and township roadways that receive no aid whatsoever from the state's street apportionment program, about 9,100 miles of which are located in the seven-county region.[183] Most of it carries little traffic, but Minnesota's harsh weather exacts a heavy maintenance toll on all roads nonetheless, and these roads still carry basic operational costs like snow-plowing, most of which are ultimately funded through sources other than motor vehicle users.

Much of the problem with these subsidies stems from the public's perception of what constitutes "transportation costs." Most see it simply as building and maintaining roads. But it is much more intricate and costly than that. Traffic-related law enforcement, emergency medical services, traffic courts, employee benefits for state, county and local highway workers — even costs to the Department of Revenue, which collects fuel tax receipts — are all part of the transportation system, yet get woven into the general cost of government.

Using this broader definition of "highway expenditures," Chicago's Metropolitan Planning Council estimated that direct motor vehicle subsidies in that region were roughly $630 million a year — a subsidy of $135 per driver, and *did not* include any estimate of the indirect or hidden costs like traffic congestion, air pollution, traffic accidents and land opportunity costs. Including such external costs would have added $1 billion to $7 billion to the price tag in the Chicago region.[184] By comparison, the cost of motor vehicle crashes in Minnesota in 1995 alone was estimated to be $1.6 billion.[185]

Moore and Thorsnes estimated the average cost per mile of operating a car is nearly 78 cents, of which road construction and maintenance makes up just 20 percent.[186] After including private and social costs (air and noise pollution, accidents, congestion), Moore and Thorsnes estimate that drivers do not pay about 12 percent of this 78-cents-a-mile tab, or about 9 cents a mile. Multiplied by the number of vehicle miles traveled, and the nation rings up an annual bill of $200 billion that is not covered by drivers.

Other studies have come to similar conclusions. The federal Office of Technology Assistance estimated that drivers pay 73 to 88 percent of monetary costs of motor vehicle use, and only 53 to 69 percent of external, nonmonetary costs.[187] Hanson estimated direct and indirect auto subsidies to be $257 per capita, with each vehicle receiving a $412 subsidy.[188]

It is important to note, however, that studies routinely neglect to identify the *value* derived from motor vehicle use. Obviously the benefits people receive for auto use are many, and unfortunately it is hard to objectively weigh these benefits against the real and hidden costs of operating a car or other vehicle. At this stage, probably the only thing that can be done is to better understand and appropriately assess the full costs of auto operation.

Transit is fares no better when it comes to subsidies, which many transit proponents fail to recognize. In 1995, the Metropolitan Council levied $66 million in region-wide taxes to fund the regional transit system. The state pitched in

181 According to Vern Genzlinger of Hennepin County Public Works, the county received the following transportation-related revenues: federal - $12.8 million; state apportionment aid - $23.3 million; local participation - roughly $7.2 million. Genzlinger estimated that 75 percent of local participation funds (municipal contributions to the county) is derived from the state's street apportionment program to municipalities.

182 Summary data on Hennepin County's transportation revenue and expenditures provided by the Hennepin County Department of Public Works for the years 1986, 1988 and 1990-94.

183 Amy Vennewitz. "Minnesota Highway and Transit Financing," Senate Research, State of Minnesota, August 21, 1996. The 80,000 miles of "unfunded" roads make up 65 percent of all road surfaces in Minnesota, yet carry only 15 percent of the state's total travel. Breakdown of the 9,100 miles of roadway in the seven-county region that is not funded through the state's apportionment program is as follows: county roads - 817 miles; municipal streets - 6,665 miles; township roads - 1,638 miles.

184 Metropolitan Planning Council (Chicago). *The Cost of Driving in the Chicago Metropolitan Region*, February 1995.

185 Minnesota Department of Public Safety. *Minnesota Motor Vehicle 1995 Crash Facts*, State of Minnesota, 1995, p. 1. Not all of this total is necessarily "unpaid" by motorists — things like auto insurance costs for repairs are amortized by all motorists. However, other costs like lost work days fall on the larger society.

186 Terry Moore and Paul Thorsnes. *The Transportation/Land Use Connection*, American Planning Association, 1994.

187 OTA, *op. cit.*, p. 213

188 Hanson, *op. cit.*, p. 65.

another $35 million and the federal government another $10 million. Fares — or those "fees" paid by transit riders for the use of the system — brought in $44 million, or barely one-fourth of the costs of the transit system in 1995.[189]

But again, this brings us to the purpose of government subsidy. If people prefer to operate cars regardless of cost, there is questionable justification for the state to further subsidize such activity. In contrast, if providing transit is a service that the general public deems necessary, regardless of ridership levels, then a certain level of subsidy should be provided to achieve this outcome.

Municipal subsidies for economic development are common today, but produce questionable results for the public investment. As profiled in the "Findings" section, local municipalities are spending considerable amounts of money to influence the location and timing of economic development. In the process, the public sector is spending money for economic development that in many cases is likely to happen — maybe not immediately, but eventually — without any subsidy. Economic development subsidies from municipalities merely determine the winner of this competition for tax base — with the prize going to the highest bidder, and prize money coming straight from taxpayers.

Certainly there are other factors involved with the location of new business — including transportation access, lower tax obligations, expansion needs, and the desire of CEOs to have work close to home. Unfortunately, this report does not have the resources to determine whether all, some or no economic development would take place without municipal subsidies. In fact, there is no quantifiable data regarding the effect of municipal subsidies on economic development.

But there is substantial anecdotal evidence that questions whether such incentives are necessary for economic development to occur, which brings to bear whether these subsidies are good public investments. As governments at all levels slug it out to attract and retain businesses, "they struggle to provide such public goods as schools and libraries, police and fire protection, and the roads, bridges and parks that are critical to the success of any community."[190]

The trend in incentives, unfortunately, appears to be increasing because cities are fearful of being left behind the economic development train — *if they don't do it, someone will,* and the city with scruples will be hurt the most. From a regional or state perspective, the competition for tax base likely produces little overall value. A company lured from one city to another in the same region might create little in the way of additional jobs and tax base, instead merely shifting resources.[191] As one economist noted:

> "The approach of many economic development organizations is to shoot anything that flies, claim anything that falls."[192]

Many economic development strategies involve tax increment financing (TIF). The Legislative Auditor's report pointed out that TIF "has been used by cities to subsidize new development in some of the fastest growing, most desirable locations within the metropolitan area," including along the I-694 and I-494 beltways, and major freeway interchanges.[193]

For example, the Oakdale Crossing Business Park was initiated as an economic development TIF district in 1993. The TIF encompassed 82 acres of vacant land near I-494 and I-694. TIF funds will reimburse the developer of this four-phase office and warehouse development for land acquisition and installation of streets and utilities.[194]

While these projects undoubtedly help the cities using TIF, the amount of "shielded" property tax

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189 Vennewitz, *op. cit.*, 1996. Subsidies also vary widely within different regional transit services. "Opt-outs" and Metro Mobility receive significantly larger subsidies per rider compared to Metropolitan Council Transit Operations (regular service). For example, fares paid by MCTO riders make up 38 percent of MCTO's 1995 budget. Conversely, total farebox recovery from riders on opt-out buses was just 21 percent. Remaining costs associated with each bus rider is made up by property taxes, along with state and federal subsidies. See Deborah Dyson, "Metropolitan Transit Legislation: 1995-1996 Summary," *Information Brief*, House Research, January 1997.

190 Melvin Burstein and Arthur Rolnick. "Congress Should End the Economic War Among the States," *The Region 9*, Federal Reserve Bank of Minneapolis 1994 Annual Report, 1995, p. 3.

191 *Ibid*; Thomas J. Holmes, "Analyzing a Proposal to Ban State Tax Breaks to Business," Working Paper 544, Federal Reserve Bank of Minneapolis, 1995.

192 Timothy Bartik, an economist at the W.E. Upjohn Institute, cited in: Eric J. Wieffering and Lee Schafer. "The New Venture Capitalist: Taxpayers," *Corporate Report Minnesota*, August 1995, p. 33.

193 *Ibid*, p. 79.

194 Legislative Auditor, *Tax Increment Financing, op. cit.,*, p. 53.

in TIFs is substantial, and is ultimately compensated for by the state and other jurisdictions. Statewide, TIFs captured more than $200 million (about 6 percent) of the state's $3.3 billion tax capacity.[195] A 1994 study by House Research estimated that the state education aid would have dropped by $100 million if the increased property values captured in TIF were included in education aid formulas. This "education-aid" gap has increased almost 100 percent in only six years.[196]

It must be noted, however, that TIF laws have been tightened considerably in the last decade Legislative revisions of TIF laws in 1988, 1989, 1990 and again in 1995 have greatly scaled back the use and abuse of TIF. But there have been some unintended consequences.

Addressing the issue of "lost" or captured tax base, one TIF amendment reduced local government aid (LGA) proportional to the amount of tax capacity captured in TIFs. St. Paul has not created a new TIF district since early 1990 because "they have been unwilling to lose local government aid from the state."[197] This despite the fact that St. Paul has more than 800 acres of contaminated property that could qualify for TIF certification.

Other TIF reforms included a 1990 limitation of pooling and spending of tax increments from post-1990 districts. However, because post-1990 TIF districts are young and not generating large amounts of tax increment revenues, the report said it was still too early to evaluate the impact of these restrictions of post-1990 districts. The report did note, however, that nothing has been done regarding TIF pooling from districts created from 1979 to 1990, and recommended legislation eliminating use of excess increments for general improvement and community projects.

195 Dana Schroeder. "Value Captured in Tax-Increment Districts Rises Again," *Minnesota Journal*, April 23, 1996, p. 1.

196 Joel Michael. "Estimates of State Aid Impact of Tax Increment Financing, 1994 Update," *Information Brief*, House Research, July 1994. One significant qualification must be added here. The supposed "loss" of $100 million in educational aid assumes that all of the property value growth would have occurred without the help of TIFs, when in fact the policy function of TIF is to facilitate economic development that otherwise may not have occurred. However, it is likely that at least some of this economic growth would have occurred without the help of TIFs.

197 Legislative Auditor, *Tax Increment Financing, op. cit.*, p. 80.

Public force #4 — Municipal finance and property tax classifications

In a nutshell, the system of municipal finance, combined with the state's property tax classification system, pushes municipalities to seek high-tax developments, often to the neglect of lower-valued developments.

Any discussion of land use eventually comes to the issue of property taxes. Local units of government traditionally rely on property taxes for much of their operating revenue. Most cities raise between 15 to 40 percent of their total revenue from property taxes.

In 1994 for example, Minneapolis raised about $92 million of its $422 million in total revenue from property taxes (21%). Elsewhere in the seven-county region, the percentage of property taxes against total city revenue include: Coon Rapids (16%), Brooklyn Park (24%), Bloomington (30%), St. Louis Park (32%), Burnsville (34%), Maplewood (38%), and Minnetonka (38%).[198] Local school districts, on the other hand, typically receive about 40 percent of their total revenue from property taxes, although individual school districts vary widely.[199]

But the structure of local finance makes municipal governments and school districts even more dependent on property taxes than these figures might suggest. First, the property tax levy is the only flexible revenue mechanism available to cover municipal or school budget increases that are larger than expected. It is a revenue tool of last resort to some extent — once all other budget revenues are calculated, property tax rates are set to generate the necessary revenue to balance local budgets. If local units of government (municipalities, counties, or school) can't keep spending in line, property taxes usually are the first in line for increases.

198 Office of the State Auditor, *Revenues, Expenditures, and Debt of Minnesota Cities Over 2500 in Population*, December 31, 1994. Note, total city revenues used did not include any money from long or short-term borrowing done in 1994. It should also be noted that many cities receive substantial additional revenue from tax increment finance districts, which would normally (and will evenutally) go on regular property tax levies.

199 Tom Melcher, director of finance for the Minnesota Department of Children, Families and Learning, as cited by Janet Dudrow of the Citizens League in "Take Note" in *Minnesota Journal*, November 1996, p. 8.

Second, municipalities use property taxes to pay for general services, many of which are unrelated to the property itself (county social services, for example). Third, because property taxes are a function of property use and value, municipalities have an inherent interest in the types of property uses (e.g., business or residential) that are located within their taxing jurisdiction. Adams, et. al., summarized the local fiscal framework, and its problems, very succinctly:

> "The problem is that local units of government (municipalities or school districts, for example) are required to raise much of their money from *local* real estate taxes to pay for *general* government services such as schools, libraries, law enforcement, and courts, while also paying for optional local services such as swimming pools or parks. Consequently, the system encourages local governments to use zoning and land-use codes in ways that enhance the yield of real estate taxes per resident while keeping local government costs as low as possible. These policies lead to overzoning for commercial-industrial land and expensive, low-density housing, and to underzoning for low- and moderate-income housing."[200]

This dependence on property taxes pushes municipalities to seek property developments that offer the greatest pay-off in tax dollars, often referred to as the *fiscal impact* of development.[201] A development has a positive fiscal impact if it contributes more tax dollars than it consumes in government services; a development has a negative fiscal impact if it consumes more services than it pays for. Once the state's property tax classifications are considered in this equation, it quickly becomes obvious that not all land uses are created equal. Municipalities not only understand this, they take advantage of this imbalance wherever possible.

Under Minnesota's tax classification system, commercial-industrial (C-I) property is taxed at a rate several times higher than that of homestead property. A recent report showed that Minnesota had the highest tax rate in the nation for commercial and industrial property by a wide margin.[202] Because of this disparity in tax rates, municipalities reap more taxes when new development is made up of commercial and industrial projects.

It should be stressed that cities seek economic development for reasons besides merely to increase local tax revenues. Two important reasons for doing so are to provide additional jobs and services for local residents. However, as spending becomes more of an issue at all government levels, many municipal officials acknowledge the tendency to look at bottom-line tax revenues as an important justification to residents for new development.

The same dynamic holds true for residential property: there are inherent revenue advantages for municipalities to develop higher-priced housing. The first $72,000 of value in a house is taxed at 1 percent, and value over $72,000 is taxed at 2 percent. Holding the number of housing units constant, high-valued homes produces decidedly more tax revenue for local units of government.

To be sure, the tax differential among land uses is significant. A 1991 study by the City of Lakeville found that net revenue for a typical commercial property was $10,300 per acre, and industrial property was $5,600 per acre. High-value single-family homes had a smaller, but still positive impact on the city budget. However, as the value of housing decreased, lower- and average-value homes had a decidedly negative impact on the city's budget, meaning the average taxes of these properties did not cover the cost of services they consumed.[203]

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200 John S. Adams, Barbara J. VanDrasek, Elvin K. Wyly. "Minnesota's Housing: Shaping Community in the 1990s," *CURA Reporter*, Center for Urban and Regional Affairs, University of Minnesota, June 1996, p. 6-7.

201 Fiscal impact is the net cash flow of a particular development to the public sector, calculated by taking the tax revenue of a specific development minus the cost of government services provided to this particular property. For an excellent discussion on fiscal impact analysis and past fiscal impact studies, see Gene Bunnell, "If Development Doesn't Pay, Is that Good News? Fiscal Impact Studies Past, Present, and Future," Department of Urban and Regional Planning, University of Wisconsin-Madison, 1996; Robert Burchell and David Listokin. *Fiscal Impact Procedures and State of the Art: The Subset Question of the Costs and Revenues of Open Space and Agricultural Lands*, Cambridge, MA: Lincoln Institute of Land Policy, 1994.

202 Minnesota Taxpayers Association. *50-State Property Tax Comparison Study*, June 1996. Note: the ranking for industrial and commercial property is for property value over $1 million. When considering C-I property of $100,000 the state ranked 9th and 18th, respectively, in commercial and industrial taxes.

203 Tanya Jean Mayer and Jerry Schwinghammer. "Lakeville Growth Study: A Fiscal Impact Analysis," City of Lakeville, MN, August 1991. A similar study in Woodbury made similar, if more general conclusions. Both studies, however, also made a point of stating that community planning needed to consider more than simple cost factors. For instance, the

This is not meant to chastise local officials. They are merely doing their job within given parameters, looking for developments that have the most positive (or least negative) effect on tax rates. The blame for this scenario should be placed on the current method of municipal finance. It provides municipalities with *incentives* to seek high-tax, low-service developments.

This fiscally-oriented view of development undermines any real effort to build diverse communities, and gives municipalities the fiscal and political justification to screen out developments that do not "pay their own way."

Unfortunately, this fiscal mentality toward local development has created a land-use model that is based on tax-capacity rather than community design — on tax-generating developments rather than integrated, sustainable, attractive cities and neighborhoods. That is not to say communities do not and will not allow anything but high-tax developments. But it does set the tone for land use in many municipalities. In fact, given the parameters for generating local revenue, municipalities are in some respects foolish *not* to seek high-value land uses whenever possible.

Many people blame the suburbs for "creaming" the best residential and business developments. Such thinking is wrong-headed, because municipalities are simply acting within parameters defined by the state, and in the best interest of their residents. However, what often results are municipalities with exclusionary or restrictive zoning practices, which screen out — even discriminate against — lower-value developments that do not "pay their own way."

Several studies point out serious flaws regarding the "fiscal hierarchy" of different land uses, and the cherry-picking that ensues over high-value developments. First, there is a questionable assignment of derived "value." Fiscal impact automatically assigns negative "value" to school-aged children because they are a "net cost." According to one expert on fiscal impact:

> "The growing emphasis on cutting government costs has clearly had an effect on how planners and citizens have come to view and use fiscal impact analysis. All too often, fiscal impact studies have communicated the *cost* of things, but the *value* of nothing."[204]

Second, fiscal analysis assigns various costs to one "responsible" party, despite the fact that there may be several indirectly responsible parties. For example, commuter-related costs are often assigned to either C-I or residential property, instead of balancing costs through all uses.

Unfortunately, fiscal costs are not so nicely separated and delegated. There are inherent life-cycle needs as communities develop. New development — whether it be residential, commercial or industrial — will ultimately create demand for other unfurnished services.

A study in DuPage County pointed out that while some communities benefited from increases in business development, it had spill-over effects — like demand for more housing — that neighboring communities felt.[205] A report on Connecticut towns stated that residential growth will always follow commercial and industrial expansion, yet "most fiscal analyses, when determining that a commercial development is tax-positive, do not consider these 'secondary impacts.'"[206]

As a result, some communities deny developments like affordable housing on the grounds that they represent a net operating loss to the community. In doing so, that community will simply pass the residential development (and related financial "burden") onto a neighboring community. As Anthony Downs states, "Such beggar-thy-neighbor policies do not resolve basic social difficulties but instead try to change who must cope with them."[207]

Woodbury study stated, "Future land use planning, while it should consider the fiscal impact of future development, also needs to give weight to other factors when making land use decisions." (See adminstrative memo from Woodbury City Administrator Barry Johnson to the Economic Development Commission, August 27, 1996.)

204 Gene Bunnell. "Fiscal Impact Studies as an Argument for Growth Management: Insights and Limitations," Department of Urban and Regional Planning, University of Wisconsin—Madison, 1995, p. 22.

205 DuPage County Planning Department. *Impacts of Development on DuPage County Property Taxes*. DeKalb: DuPage County Regional Planning Commission, 1992.

206 Ad Hoc Associates. *The Effects of Development and Land Conservation on Property Taxes in Connecticut Towns*, prepared for The Trust For Public Land, New Haven, p. 14-15.

207 Anthony Downs. *New Visions for Metropolitan America*, Cambridge, MA: Lincoln Land Institute, 1994, p. 41.

Public driver #5 — Zoning and other municipal land-use regulations

Few government instruments have such a visible impact on local and regional growth patterns as municipal land-use regulations. Zoning, for example, maps out what type of development can go where on every municipal parcel, while indirectly determining what will *not* be allowed in certain places. In combination with other municipal land-use regulations, municipalities can essentially determine who can and who cannot live in their city or a particular neighborhood.

Used properly, zoning does much for the planned and orderly nature of local development. But critics of zoning charge that it has produced a number of undesirable outcomes. As commonly used today, it facilitates poor urban and community design, and can be used to achieve less-than-admirable goals. As Jonathan Barnett writes, "What has directed the new urbanization up to now is not so much the invisible hand of the marketplace as the deadly grip of outmoded zoning ordinances."[208]

As noted earlier in this report, strict zoning laws have created cities that are hyper-segmented and segregated into single-use pods. Despite its potential usefulness as a comprehensive planning tool, zoning undermines the integration of related land uses, and outlaws basic, traditional community and neighborhood designs. As James Howard Kunstler states:

> "Is Main Street your idea of a nice business district? Sorry, your zoning laws won't let you build it, or even extend it where it already exists. Is Elm Street your idea of a nice place to live?...Sorry, Elm Street cannot be assembled under the rules of large-lot zoning and modern traffic-engineering...the zoning laws say so."[209]

The biggest issue with zoning is not that it establishes separate-use zones — there can be very practical reasons for doing so. The problem lies in the fact that single-use zoning is applied uniformly across communities, allowing no deviations (with the possible exception of arduous variance approvals). Such an approach to community planning has destroyed literally hundreds of years of experience in how to physically construct communities.

One example is the elimination of apartments over single-story retail or other business shops. A classic urban form, such development creates immediate clientele for retail services, consumes no additional land, provides additional (and needed) rental housing, and eliminates the "dead zone" common to typical commercial strips after stores close for the evening.

Another example is the elimination of accessory apartments (also referred to as "granny flats," often built above a garage in a new home). With rental vacancies in the seven-county region around 3 percent, and affordable housing even tougher to come by, accessory apartments could help ease both conditions, assist the homeowner with mortgage payments, even offer intriguing possibilities for dealing with a quickly-aging baby boomer population. But single-use zoning codes outlaw accessory apartments.

Obviously, local lifestyle preferences play a role in determining zoning ordinances for a municipality, and many might prefer the separation created by single-use zoning. However, the strictness of most zoning ordinances gives little recourse for those who seek more integrated neighborhoods, and for developers wishing to provide such alternatives.

Municipal land-use controls have spawned exclusionary environments as well, sometimes masking racist and other unseemly attitudes toward diversity.[210] Often affordable housing is the target, and strict zoning ordinances are empowered further by narrowly-targeted regulations for buildings and lots. Minimum standards for things like house and lot size raise the bar for new development, usually at the expense of affordable housing. A national commission pointed out:

> "In community after community across the country, local governments employ zoning and

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208 Jonathan Barnett. "Accidental Cities: The Deadly Grip of Outmoded Zoning," *Architectural Record*, February 1992, p. 96.

209 James Howard Kunstler, "Home from nowhere," *Atlantic Monthly*, September 1996, p. 50.

210 Barbara Lukermann and Michael Kane. *Land Use Practices: Exclusionary Zoning, de Facto or de Jure?*; Center for Urban and Regional Affairs, University of Minnesota, 1994; For a good overview and summary of zoning-related issues, see also: Bradley C. Karkkainen. "Zoning: A Reply to the Critics," *Journal of Land Use and Environmental Law*, 1994.

subdivision ordinances, building codes, and permitting procedures to prevent development of affordable housing."[211]

In testimony to the state House of Representatives, Glenn Dorfman of the Minnesota Association of Realtors noted:

"Clearly, the standards governing such development aspects as density, house and lot sizes, frontages, sideyards, and building orientation and siting frequently limit the housing industry's ability to deliver affordable housing."[212]

Proponents of such regulatory practices usually point out that they protect property values. In fact, this "protection of property" mentality for single-use zoning and "minimum standard" regulations can be traced to a 1938 manual on loan underwriting from the Federal Housing Administration (FHA), which financed much of today's suburbia. In rating the credibility of potential loans, the FHA manual singled out social and racial classes as key determinants:

"If a neighborhood is to retain stability, it is necessary that properties shall continue to be occupied by the same racial and social classes. *A change in social or racial occupancy generally contributes to instability and a decline in values* (italics added)."[213]

Today, many homeowners and public officials would not publicly profess such a viewpoint, but the same mindset is arguably still present. Social and racial integration might have much broader support *in theory* today, but real implementation of diversity still faces many obstacles.[214]

Ironically, critics decry affordable housing efforts in the suburbs as "social engineering." But considering the multitude of government ordinances that *prevent* such developments today — zoning being the most obvious — it could be argued that exclusive middle and upper-income neighborhoods are the ones that have been "socially engineered." Again, the national commission had this to say:

"Government action is a major contributing factor in denying housing opportunities, raising costs, and restricting supply. Exclusionary, discriminatory, and unnecessary government regulations at all levels substantially restrict the ability of the private housing market to meet the demand for affordable housing...Some suburban areas, intent on preserving their aesthetic and socioeconomic exclusivity, erect impediments such as zoning for very large lots to discourage all but the few privileged households who can afford them."[215]

In theory, zoning was created to assist municipalities with orderly development. While it has largely achieved this mission, a secondary mission has fallen by the wayside. Zoning today has a "lowest common denominator" mentality. Instead of *encouraging* certain land-use outcomes, and urban forms that people and communities aspire to, zoning is used to *prevent* or block any negative externalities from nearby land uses, labeling as noxious most any land use that is not similar to what is already in place.

Inevitably, affordable housing gets neglected in many growing cities and townships. This, in turn, affects housing choices open to low- and moderate-income people outside of the central cities, and limits opportunities to jobs and other elements that would contribute to a better way of life for some living in poor conditions in the fully developed area.

211 Advisory Commission on Regulatory Barriers to Affordable Housing, *op. cit.*, p. 3.

212 Glenn Dorfman, testimony to the House of Representatives given on March 8, 1993, in response to housing legislation proposed by Rep. Myron Orfield.

213 Federal Housing Administration, *Underwriting Manual*, Washington DC: Government Printing Office, February 1938, Section 937.

214 Gregory Weiher. *The Fractured Metropolis: Political Fragmentation and Metropolitan Segregation.* Albany, NY: State University of New York, 1991.

215 Advisory Commission on Regulatory Barriers to Affordable Housing, *op. cit.*, p. 4.

V. Recommendations

One of the problems in dealing with land use in the past has been its narrow policy focus. In the process of fixing one problem, we've often created different problems. Land-use policy will continue to fail until decision-makers and citizens begin to understand the many intricacies and dynamics of land use.

Therefore the following recommendations must be viewed collectively in order to deal with the many component parts of land use simultaneously. Real change in regional land use will come only through comprehensive attention to numerous fronts. Real change also will not come quickly, as the built environment changes very slowly and deliberately. For this reason, it is critical that leaders first establish a vision for region's built environment, and then construct a broad policy framework to implement this vision.

Principle #1: Build communities that reflect a vision for livability.

When talking about the built environment, too often we talk about the means instead of the end, giving little attention to the ultimate goal or vision of how we want the region to look, to feel, and to act.

Building "livable" communities assumes there are some people in the seven-county region that dwell in "unlivable" communities, or that current methods and strategies for building communities somehow fall short in their ability to achieve certain goals for the places we live. So what exactly is involved with building livable communities? The following recommendations begin to define the characteristics common in communities that are livable from the neighborhood level to the regional level.

Recommendation #1: Involve citizens in creating a meaningful community vision.

The first step to building livable communities is to construct a vision for the built environment. The outcome of this vision should be a physical place that residents have an identity, indeed an *affinity* with.

This report outlined just such a vision for our built environment (see Vision Statement, p. 3). However, like many other "vision statements" that have preceded this one, our vision is missing is a significant element — input from the residents living in the hundreds of cities and neighborhoods region-wide.

Before anything else, then, the seven-county Twin Cities region must create a vision for its built environment based on the tastes and preferences of the people who live, work and play here.

Through the *Growth Options/Growth Strategies* project, the Metropolitan Council sought and received extensive input from citizens, public officials and private enterprise. But to date, the project has done little to demonstrate street-level outcomes — *what we could expect things to actually look like* given a particular growth strategy. The report also had little to say about the trade-offs and tools necessary to implement a particular strategy. As a result, "preferred option" is a bit misleading.

Municipal comprehensive plans are no better. All the colored maps in the world do little to show residents what their future neighborhood or city will look like at the street level. For both the Growth Options project and local comprehensive plans, issues of *community design* are absent from the discussion. Tragically, zoning and other land-use regulations are substituted for design. Not surprisingly, neighborhoods and entire cities might end up conforming to colored maps, but often do a poor job of achieving any sense of community.

If gauging people's *real* preferences is important in selecting a regional growth strategy, then clearly there needs to be more intensive, detailed surveying of people's preferences for housing, neighborhoods, general urban design, amenities, lifestyles — and particularly, what people are willing to pay to realize these preferences.

To give citizens real input over the future direction and vision of the region, the Metropolitan Council

should conduct a Visual Preference Survey™ — or some other comprehensive survey/design tool — to better understand specific land use and design preferences of Twin City residents. This tool should be used as part of any implementation strategy stemming from the Council's *Growth Options/Growth Strategies* project.

A Visual Preference Survey™ (VPS) uses a variety of images to allow people to design and construct a community they would prefer to live in. It does *not* determine whether people would rather live near a park or a regional landfill — such surveys are self-serving and do not accurately measure the type of physical and community environment that people want to live in.

VPS compares and contrasts urban design schemes (i.e. traditional suburban, neo-traditional) of different land uses (i.e. residential, commercial) to uncover the specific tastes and design preferences that people would like to see in their own city or neighborhood. A VPS-type tool is an educational tool that can help gain the public's support and buy-in for specific land use policies and strategies. Equally important, a VPS-type tool offers residents an opportunity for meaningful input into public policy matters, something which policy-makers should be eager to promote.

However, if there is a shortfall to VPS, it does not estimate the cost of preferred options. Here the Metropolitan Council could further strengthen such a survey by providing some cost relationships and other trade-offs regarding preferred land uses that people subscribe to. Such a survey, with relevant cost implications, would educate people about real lifestyle options, and could be used as one piece of a larger education campaign to develop a growth strategy for the region.

Recommendation #2: Build inclusive rather than exclusive communities.

A city must provide reasonable choices for all residents living within its borders. As discussed throughout this report, low-density development offer only limited options for housing, transportation and services, and excludes a significant number of people. While the outcome might not be intentional, zoning and other "minimum-standards" practices effectively screen out those with fewer personal resources.

One way to build inclusive neighborhoods and cities is through greater levels of mixed-use and mixed-housing development. By mixed use, we mean the integration of different land uses — normally commercial and residential. Instead of the separated, single-use zones common in today's new development, mixed-use integrates land uses for better proximity and access for all people. For example, putting housing closer to retail provides people with opportunities to walk, bike, or use public transportation.

Mixed housing refers to the integration of different housing types, styles, and price-levels among each other. Today, zoning codes prevent such mixing at the street level, preferring to separate apartments, townhomes and single-family homes into their own mini-zones. Building more mixed-use and mixed-housing developments offers ways to accommodate affordable housing in areas where supplies are low. Such efforts would subsequently lessen the concentration of poverty in parts of Minneapolis, St. Paul and some inner-ring suburbs by creating housing options for people of lesser means in alternative locations.

Such efforts do much more than simply "disperse the poor" as some believe. These measures provide opportunities for a better way of life to people that are isolated in poverty. Whether it be leaving a high-crime area, or living closer to work, or having access to better schools, this expansion of choice simply levels the playing field — providing lifestyle options and choices to *all* people instead of only to middle- and upper-income households.

This does not mean that each and every development should be mixed use or mixed housing. The idea is to facilitate variety and diversity in development in order to provide a range of options for people to choose from to best meet their needs for housing, transportation and daily services. The underlying notion is for communities to be more accepting and accommodating to all residents whatever their needs. Here, it appears many municipalities have considerable room for improvement to make their communities more inclusive:

a) **Cities zoning ordinances must accommodate and integrate a wider variety of land uses than is currently possible under single-use zoning practices.** Zoning flexibility will allow cities to integrate land uses where they are beneficial, and hopefully facilitate the inclusion of more affordable housing.

If cities — particularly developing cities — are to ever attain a sense of community identity with their built environment, zoning laws must be amended so cities overcome the cookie-cutter, strip mall, auto-oriented design paradigm that is so pervasive today.

b) **Cities and developers must engage neighborhood residents early in the development process in order to diffuse the common NIMBY syndrome that is common throughout the region.** Much of the NIMBY syndrome can be traced to residents fear of change in their neighborhood. One way to overcome this fear is to involve residents early in the development process, so they have both the knowledge of and input toward any proposed changes to their neighborhood or subdivision.

c) **Cities also must cultivate the political will to overcome NIMBYs and BANANAs who attempt to block any and all legitimate development efforts, particularly those for affordable housing.** Just as residents must be protected and involved in the development process, there also has to be strong political will to implement affordable housing goals and other equitable and common-sensical land-use measures regardless of the wishes of neighborhood residents to do otherwise.

d) **The Metropolitan Council should commit technical resources to facilitate mixed-use and mixed-housing development.** Mixed-use and mixed-housing developments can be expensive endeavors for both developer and municipality. City officials in St. Louis Park and Minnetonka noted that such projects exhausted staff resources because of the lack of familiarity with mixed development.[216]

Instead of scaring off cities and developers, this should remind people that change is neither cheap nor easy. Currently there is little incentive for cities to try such projects, and even fewer reasons for developers to do so. Receiving technical help might motivate cities and developers to push the design envelope of new development.

If cities are expected to pursue more mixed development, the Council will have to provide leadership — in the form technical know-how, or funds for hiring third-party experts — so cities can become familiar with the demands of mixed-use development.

e) **Greater incentives are needed in the Livable Communities Act for municipalities to achieve their goals for affordable housing.** The Livable Communities Act has provided a good starting point for exactly the kind of affordable housing initiative needed to relieve the region's poverty concentrations. However, critics have said the program's enforcement mechanisms are poor, and have few consequences for cities that do not achieve their affordable housing goals.

By most accounts, metropolitan municipalities provided ample affordable housing in the past because there was money attached.[217] That money is now gone, and with it, one of the Metropolitan Council's few leverage points. The affordable housing component of the Livable Communities Act was given an "incentive account" of $1 million in 1996, which will cap out at $1.5 million by 1998.[218] However, spread over approximately 100 cities involved in the program, this is too little to convince investors and municipalities to pursue affordable housing projects. A recent task force report predicted that existing funding from both public and private sources would likely produce less than half of the Metropolitan Council's goal for affordable rental housing (12,000 units by 2010).[219]

If the Council views the Livable Communities program as truly an incentive-based program

216 Speak Up! with suburban administrators, October 16, 1996. See Appendix C.

217 Back in the 1970s, the federal government had an "A-95 Review" process, whereby local cities applied for federal grant money in several programs. The A-95 Review required the Metropolitan Council to rank various local requests to help the federal government determine final allocations to cities. The Council also had direct control over federal "bonus funds." Many believe this pool of money provided the Council with an important lever in getting municipalities to keep regional interests in mind.

218 Metropolitan Livable Communities Act, SF 1019.

219 Livable Communities Housing Task Force. *Promises Deferred: An Analysis of the Affordable Housing Provision of the Livable Communities Act*, 1996.

for affordable housing, it must increase financial incentives to municipalities for achieving specific housing goals. Where exactly this money should come from is an important question, but cannot be answered definitively in this report. The state and Metropolitan Council should evaluate funds spent on various housing programs throughout the region. There appears to be a considerable amount of money devoted to housing assistance in one form or another. It might be time for the state to reconsider and reallocate available funds.

If the region decides more money is not the proper answer, or it lacks the political will to raise additional revenue, the region must invent new strategies for cities to "do the right thing" regarding affordable housing. For example:

- Cities might consider options that make it easier for developers to produce affordable, market-rate housing — such as increasing residential densities, and scaling back road and other standards that create higher costs to developers. In such a case, additional money is not as critical (although it still would be useful).

- Cities might find educational efforts useful as a pro-active approach to inform residents about the Livable Communities Act, its mission and benefits for the region, as well as success stories, thereby stripping some of the myths surrounding affordable housing.

- While cities should be encouraged and rewarded to "do the right thing" whenever possible, there is still a need for "sticks" that create some consequence for failing to achieve goals. For example, the Metropolitan Council (with support from the state) should link future infrastructure expansions and upgrades in the region to progress on affordable housing and other regional goals. As in years past, this would give the Council something tangible to offer in return for meeting regional goals.

Recommendation #3: Build compact, efficient, and connected communities.

Today, our towns and cities are not compact. It bears repeating that the Twin Cities Metropolitan Statistical Area is the third-least-dense of the 25 largest metropolitan areas, yet average land consumption continues to increase for new households. Our cities and towns are not connected. Yes, our highway network is extensive, but this connects only those with resources to own and operate a car (or multiple cars in the case of families). Our cities and towns might be efficient, but only to the extent that they produce balanced budgets. In fact, budgets and per capita spending for many cities and counties are outstripping the rate of growth.

Other questions persist. Could cities provide the same service for less money if our urban form took on a different shape? Might people derive a greater sense of community if the built environment were designed differently? Would people benefit if better connections were made between people and destinations — connections that are not exclusively designed around the auto? This report indicates "yes" to all of the above.

In particular, much more attention must be paid to local and regional urban form than has been in the past. Urban form relates directly to such fundamental land-use issues as transportation access and the cost of public services. Yet we refuse to gear long-term planning and strategy to the urban form necessary to achieve whatever outcomes are deemed desirable. Too often urban form is dictated by a collection of disconnected, individual land-use decisions.

This question of urban form at the street level is dealt with to a large degree by the recommendation for a Visual Preference Survey. — it provides the basis around which the larger urban form can take shape. But there are additional efforts that would help shape the region's broader urban form

a) **The Met Council should establish minimum density requirements when urban services are extended.** It is not outrageous to expect a certain level of outcome or value from a public investment. Current infrastructure policy has no criteria for determining whether various infrastructure is properly or fully utilized. Under current comprehensive planning processes, the Metropolitan Council can only require that local plans be modified when they exert *too much* pressure on regional systems like wastewater and roads.[220]

Tight budgets, however, require tougher standards, which is why the Council should establish minimum density requirements. Studies have consistently shown that infrastructure costs are related to density and spatial arrangement of structures. By establishing minimum densities, the Council might be able to better control both local and regional infrastructure costs. Achieving certain density levels also makes affordable housing and reliable transit more feasible.

Cities also could choose *not* to follow these minimum density requirements. In these cases, cities would be expected to assume more of the cost for infrastructure expansion projects benefiting their particular area, while finding other ways to contribute to regional goals for things like affordable housing.

b) **The state and Metropolitan Council must create a public transportation system that responds to the needs and demands of today's dispersed urban form and travel patterns.** If the region expects municipalities to commit to a vision of inclusive communities with mixed use and mixed housing, it must provide the component parts necessary to make such communities fully functional. Critical among them is effective public transportation.

To be useful, public transportation must be responsive to people's diverse needs and travel habits. Total percentage of trips taken on transit is less than 3 percent, or about 225,000 out of almost 9 million daily trips being taken on buses.[221] Building inclusive communities will demand an increase in non-auto access that the present transit system simply cannot provide. Improvements must match service with today's multiple trip segments and dispersed travel patterns, utilizing whatever means necessary to compete with single-occupant vehicles.

Many have criticized the Council's transit redesign process for tinkering with a transit paradigm that is no longer useful. Skeptics argue that the redesign effort merely rehashes an outdated and ineffective transit model.

The end goal of transit redesign should be an increase in ridership. The Council's current redesign project should be carried out because considerable time and effort has been put into it. However, the Council must set clear goals for ridership. If the redesign fails to increase ridership, the Council should start from a few basic principles, and develop an entirely new system of public transportation.

With a clean slate, future discussions on transit must identify the real role and expected outcomes of transit. Do we want transit to be a subsidized means of travel for those without cars in the central city? Do we want to increase the ratio of transit trips? Do we want to increase the number and percentage of single-occupant vehicles? By how much? Why? Should transit take people everywhere they want to go, regardless of service difficulties or costs? Should the region encourage urban forms that are easier to service? What, ultimately, are we willing to pay to achieve transit objectives?

Answers to the above questions should drive public policy toward an urban form that is transit-friendly, and provides a level of transit *access* that people are willing to patronize. Once transit is truly effective and user-friendly, this report believes that the state should follow with more public funding.

Recommendation #4: Build communities that value public green spaces and the protection of natural resources.

Very often, land use focuses solely on the *built* environment, assuming that development of any type is inherently the best use of land. Overlooked is the public realm, particularly as it is embodied in public green spaces — or simply, the *un*built environment.

The public realm within an urban environment has an immense influence on neighborhood and city character. Green and other open spaces play a particularly important role. Studies consistently

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220 Tom McElveen, deputy director of Community Development, Metropolitan Council, personal communication.

221 *1990 Travel Behavior Inventory Summary*, *op. cit.*, p. 15. For work-related trips, the transit percentage increases to 5 percent of about 1.1 million trips. During peak-traffic periods, the percentage of transit trips is also about 5 percent.

show that land values near green space enhance property values — it's the basis for designing golf courses within housing developments. A 1995 study by Hennepin Community Works shows that this is particularly true when there is *connected* green space, or "greenways" that link communities and destinations.[222]

Public spaces offer some of the region's greatest amenities — the Chain of Lakes, Minnehaha Parkway and Como Park are just three of the many natural gems in the Twin Cities region. But as the region grows, one might wonder whether cities are continuing that long-term heritage of quality public open spaces.

Municipalities and other government bodies must get serious about long-term preservation of open space, whether it be for public use or long-term farming in the region. In particular, strategies for conservation easements and the acquisition of development rights should be diligently pursued. There also is considerable public support for open-space preservation, and specifically for the preservation of farmland in the seven-county region. However, today's short-term, piecemeal approach to open space and farmland preservation prevents local and state government from achieving even modest objectives. To be truly effective, preservation efforts must move beyond short-term methods that merely postpone the conversion of undeveloped land.

Clearly, it is unreasonable to say *all* open space should be saved, and all farmland preserved. Regardless how successful infill strategies are, at least some growth will occur at the urban fringe. Instead of throwing up walls to stop all greenfield development, open space preservation must focus on a long-term vision, including:

- a clearer idea of what farmland in the seven-county region — and particularly, what farmland close to the urbanizing fringe — should be preserved for its high crop productivity;
- a clearer idea of the need and desire for green space (as well as other types of public open space) within individual municipalities and for the larger seven-county region;
- a clearer idea of the public's willingness to pay to achieve certain outcomes regarding open space;

Once these elements are identified, a clearer picture unfolds regarding the policy necessary to preserve open space. But preservation efforts *must* shift away from short-term programs and toward long-term strategies like the purchase and transfer of development rights. These tools satisfy the speculative value of farmland while acquiring development rights to farmland.

Purchase of development rights: Using this technique, a public body or non-profit organization pays a "fair market" price in return for a conservation easement that prevents any future development on specified farmland.[223]

The "fair market" price is based on the difference between the speculative value of land to developers and its value to farmers for crop production. Under such a transaction, the farmer retains full ownership and control of the property, and can even sell the land, but conservation easements protect the land from any non-farm uses, regardless of ownership.

Such an approach allows the farmer to benefit financially, and offers the buyer — usually a local government or non-profit conservation group — a discounted price to achieve its objective of preserving farmland without an outright purchase of the land. Despite the discount, however, purchase of development rights is comparatively expensive. It is used throughout the United States, particularly in the East, but in limited fashion because of the cost.

Transfer of development rights (TDR, also known as transfer of density): This approach transfers or "carries over" housing units from one parcel to another, with one parcel receiving a conservation easement, and the second parcel being developed at a proportionately higher density. An off-shoot

[222] The Hennepin County Works is a multi-agency program focusing on employment, public works and tax-base development. The program is based on the principle that neighborhoods connected to other communities by parks, waterways and other public amenities maintain high property values, have less crime and foster a better quality of life. See also Edie Grossfield, "Paving the way for green corridors," *Minnesota Real Estate Journal*, September 18, 1995.

[223] For more discussion, see section VII of *Planning for Agricultural Land Preservation in Minnesota: A Handbook for Planning Under Minnesota Statutes, Chapter 40A*, prepared by James Duncan and Associates in association with Iowa State University, for the Minnesota Department of Agriculture, June 1996.

of this technique is called "open space" zoning, which clusters housing units within a parcel, and places a conservation easement on the remaining open space.

Such an approach is considered a "win-win" — the farmer receives speculative profit from the land, the developer gets to develop the same number of units (sometimes more), and the local government is able to preserve farmland without spending any money up front. While this sounds like a simple and easy solution, a recent report said that a TDR is "better in concept than in reality," as few farmers have taken advantage of this program. "In practice, TDR programs are difficult to set up, administer and enforce...(i)t is, in short, an option for only the most adventurous local governments."[224]

In fact, the best tool for farmland preservation might be the concurrency of local, regional and state policy regarding urban growth, greenfield development, and open space preservation. Too often public policy fails to agree across sectors — one policy directly conflicts with another. Such is the case with open space preservation. One side of the policy mouth wants to preserve open space, while the other side builds roads and rezones for low-density development that facilitates easy consumption of open space.

The Duncan report said the best way to preserve agricultural land was for cities and other policy bodies to reexamine development standards and capital improvements programming "to ensure that they reinforce, rather than contradict, the goal of agricultural land preservation."[225]

The Metropolitan Council and the State Department of Agriculture must also recognize difficulties with preservation programs for local governments, and empower counties and municipalities to maximize available tools. Most farmland lies in townships and smaller cities in very rural areas or near the urban fringe. Small, part-time staffs are commonplace in such municipalities, and are ill-equipped to administer programs of any kind. Selling the land and approving a blanket rezoning is the easiest path for everybody, especially the farmer and municipality.

[224] ibid, p. VII-6.
[225] ibid, p. VII-6.

For this reason, the state and/or Metropolitan Council must provide either additional money or technical assistance to help local governments achieve preservation objectives, especially when they are consistent with regional and statewide goals.

Principle #2: Empower effective regional governance.

Consistent growth has pushed the urban envelop to the MUSA boundaries and beyond, into the rural parts of the seven-county region and neighboring counties. As such, the "real" region now encompasses a vastly greater area. While the original seven counties are still the technical definition of "the Twin Cities metro region," it is widely acknowledged that the real region includes as many as 24 counties.

This is the crux of the problem: the Metropolitan Council was established to oversee vital regional systems, yet its jurisdiction encompasses but a geographic fraction of what is now considered the real region. The main question is how the state can recognize and empower regions as they are *organically* defined, because their geographic jurisdictions have proven to be inadequate. A related question is the state's general role and interest in land use.

Recommendation #1: The Legislature must recognize the state's interest in land use, articulate basic principles and establish guidelines to help local governments achieve specific land-use objectives, and empower a state agency to implement this framework for more efficient land use.

Many land-use issues cross political subdivisions, and as such cannot be dealt with easily. For this reason, the state must exercise some power in dealing with these multi-jurisdictional problems. However, it must not take such responsibilities lightly. First the state must define what role it should have in land use, particularly in such issues as infrastructure, housing, farmland protection, and urban expansion.

To accomplish this, the Legislature should assign a task group to define what the state's interest and proper role should be regarding land use.

Because no agency is assigned the duties of statewide land use, this task group should be a cross-section of state agencies that play some role in land use. This commission should identify and establish fundamental, long-term planning functions for the state regarding land use, and the necessary guidelines to empower regions and municipalities to manage growth efficiently.

Recommendation #2: The state must eventually match regional government authority with the region's organic boundaries.

If the Metropolitan Council is to properly manage systems that are truly regional in scope, the Legislature must eventually correct the political mismatch between the organic boundaries of the Twin Cities metro region and its current seven-county boundary.

Ultimately, the state should restructure regional governance to match the functional characteristics that define a region. This means identifying those characteristics that define a region — like commutesheds, economic development, watersheds and other environmental traits — and constructing a political entity capable of effectively managing systems within these soft political boundaries.

Such a fundamental shift in governance will take much time and effort. Indeed, attempts for immediate changes in regional governance would be political suicide. In the short term, then, the state should maintain the Council's current seven-county jurisdiction, while assuming a stronger role in land use in areas immediately surrounding the seven-county region.

Recommendation #3: The Council should replace its MUSA line strategy with a clear set of incentives and disincentives to achieve a desired urban form.

Critics of the current MUSA line policy argue that it has not worked for managing growth, and has artificially inflated land prices inside the MUSA. In fact, the MUSA has staged growth reasonably well, which was its original intent. However, the MUSA has indiscriminately expanded the region in all directions, and produced unexpected consequences, like leapfrog development.

If the seven-county region is to achieve better growth outcomes, the Council should ultimately abandon its MUSA policy. In its place, the Metropolitan Council should create series of incentives and disincentives that establish clear and tangible guidelines, consequences and expected outcomes for urban service expansion.

This incentive structure would assist the region in achieving a desired urban form, and hopefully lead to a clearer distinction between urban and rural landscapes. Critics of today's growth patterns point to an aimlessness of new development that is neither urban nor rural. Attempting to pose as a rural landscape, new growth in rural areas is comparatively high in density, and its cookie-cutter approach undermines any attempt to preserve rural atmosphere. Indeed, much of today's development not only destroys rural character, but also eliminates any opportunity to develop in a cost-effective urban fashion as well. Establishing clearer expectations for urban service expansion might begin to distinguish rural and urban settings.

It will obviously take time and effort to hammer out this structure of incentives and disincentives. In the meantime, the MUSA line will have to play an interim role in regional land use. But once a better system for urban service expansion is in place, the MUSA should be eliminated altogether.

<u>Principle #3:</u> People should pay for the public services they receive.

As this report has repeatedly pointed out, the seven-county region cannot financially afford to develop in the future as it has in the past. Our past growth patterns are excessively expensive, land-consuming, and, in a word, wasteful.

In a time of tight public resources, people must be held more accountable for the system costs they impose through individual land-use decisions. This has not always been the case. The days of large federal subsidies appear to be gone, at least for the time being. But it has left a cultural expectation of entitlement.

As roads become more congested, and sewer access within the existing metropolitan urban service area (MUSA) becomes more limited, there will be mounting political pressure to expand roads and sewers. Importantly, however, our current fee systems do not pay the full cost of such expansions, particularly in the case of roads, and there will be little or no federal assistance for future infrastructure projects. Suffice it to say that people will need to carry more responsibility for the costs they impose on regional systems.

Recommendation: The Metropolitan Council should be directed and empowered to do three basic things relating to new and existing development:

- **determine the "full cost" of development;**
- **create the necessary tools or methods for charging costs back to consumers;**
- **collect the appropriate fees from new and existing development for costs imposed on various local and regional systems.**

Below is a more detailed discussion of such a study.

1) **The Metropolitan Council should identify *who* is creating *what cost* to *which system*, whether it be local or regional.** There is a lot of talk today about getting people to pay the "full cost" of new development. Unfortunately there is a poor understanding of exactly what those costs entail, who is responsible for them, and when. Particularly sticky is defining exactly what costs should be covered by government under the context of "the public good," and what costs should be passed on to residents in the form of user charges.

   For this reason, the Metropolitan Council should study and definitively calculate the true public cost of individual and collective land use decisions, including both local and regional infrastructure. The study's focus should be new development, but should also incorporate system costs from existing development.

   This study should establish a consistent methodology that municipalities can apply for their own purposes. It should also look at more than roads and sewers, and include a discussion of the effect of new development on schools, police and fire stations, libraries, city halls and other fundamental government infrastructure that provide service of some sort.

   Importantly, this study must define "adequate" levels of infrastructure, and identify whether infrastructure deficiencies already exist. Such deficiencies must be considered when determining what new development is responsible for. Too often newcomers make easy scapegoats because they amplify existing deficiencies. For example, a city might have only half the standard square footage of library space needed to service residents. Any new subdivision will automatically exacerbate this deficiency. Bringing existing infrastructure "up to code" is the responsibility of current residents, and new development should be expected to *maintain* this level of service.[226]

2) **The Metropolitan Council should determine equitable methods of charging the costs of development back to responsible parties.** Once development costs have been tabulated, the Council must create equitable assessment methods to pass proportional costs on to the consumer. Some immediate options include:

   a) **The Metropolitan Council and/or the State Department of Transportation should investigate road pricing schemes for the region's highways.** Road pricing is an umbrella term for fees charged to motorists for use of a road. Current road pricing options being considered include variable charges (called congestion pricing), toll roads, vehicle-mileage based taxes, and vehicle-weight based taxes. Road pricing is a concept whereby users pay directly for the use of the roadways — highways and freeways in particular.

      Road pricing, if implemented, would use state-of-the-art electronic toll collection technology to charge varying rates to all road users according to the time, place and duration of individual trips. The technology allows the charges to be assessed in free-flowing traffic through the use of transponders and other high-tech equipment. Demonstration projects for this technology have taken place throughout the United States with varying results.

[226] Dr. Robert Freilich, Citizens League Mind-Opener luncheon, November 4, 1996 at the Thunderbird Hotel.

Such a road pricing scheme can shape road demand through basic market principles and consumer behavior. As road consumption and related congestion increase, the price of the roadway increases as well, not unlike the way phone companies manage telephone line rates. It's basic supply and demand pricing.

Obviously, this would be a fundamental change in transportation philosophy, and should not be taken lightly. Such a strategy cannot be implemented in a piecemeal fashion, or traffic will be pushed to non-priced roads. For this reason, the state and Metropolitan Council need to continue studying the feasibility of road pricing, while funding demonstration projects to test potential impact on road use.

b) **The Metropolitan Council should increase the sewer access charge (SAC) to recover the true costs of sewer expansions, as recommended by a 1995 Council task force.[227] Moreover, the Council should reevaluate the SAC charge according to density and other cost considerations.**

The SAC charge is used to pay off bonds issued for wastewater expansion projects. However, some expansion projects are more expensive than others on a per unit basis because of density, topography, and other factors. For example, the sewer infrastructure necessary for noncontiguous one- or two-acre lots is likely more expensive on a per-unit basis than contiguous development of three to five units per acre. This being the case, the SAC fee should more closely reflect the real cost of individual wastewater expansion projects.

3) **The Metropolitan Council and all local governments must be authorized to implement and collect "impact" fees.**

With the exception of special assessments, neither the Council nor local municipalities have much power to recoup off-site "impact" costs from new development. This is because the state must specifically authorize such taxing authority for the purpose of raising revenue, and to date Minnesota has no such enabling legislation for impact fees.[228] Attempts to charge impact fees can end in threats of lawsuits, as demonstrated by a recent case with dedicated road fees in Eagan.[229]

For this reason, once costs are definitively tabulated, and once equitable models for charging back the cost of development are crafted, authority must be given to the proper level of government to collect these costs. Specifically, if impact fees are believed to an equitable vehicle for recouping the costs of development, the state Legislature should pass enabling legislation to authorize development impact fees. Such fees would allow the Council and municipalities to recoup some of the public costs of development.

Principle #4: Redirect future metropolitan growth inward instead of outward to undeveloped areas.

As demonstrated throughout this report, the balance of incentives and disincentives for new development heavily favors the developing suburbs and exurbs. For too long, investment has been pushed outward, often to the unintended neglect of the fully developed area. If the region expects to remain healthy in the coming decades, this must change.

Specifically, the market for new development should be tipped in favor of the fully developed area by eliminating current obstacles and introducing new incentives for redevelopment.

Some might say this runs directly contrary to the earlier principle of making people pay for what they receive. In fact it does not. This report favors public sector subsidies. But subsidies should be used for outcomes that the market currently is incapable of producing. Subsidies should not be given where the market is already very capable of providing choice to willing buyers. Such is the case now with fringe development.

[227] Metropolitan Council, "Report of the Sewer Rates/Cost Allocation Task Force" (preliminary draft), January 9, 1996, p. 10.

[228] National Association of Home Builders Research Center, *Impact Fees and the Role of the State: Guidance for Drafting Legislation*, prepared for the U.S. Department of Housing and Urban Development, and the Office of Policy Development and Research, December 1993.

[229] See Peter Kafka, "Eagan builders' fee tossed out on appeal," *CityBusiness*, May 24-30, 1996, p. 1.

According to the Metropolitan Council, a full 80 percent of growth today takes place in the developing ring of the seven-county region, in which case there is little need to provide additional subsidies for fringe development. Instead, subsidies should be "counter-market" — for those things that the market cannot or will not provide for lack of profit. In the case of regional growth, that means subsidies for redevelopment and development intensification in the fully developed area.

If capital and human resources are to be lured back to the fully developed area, subsidies to the fringe must be removed, and the central cities and first-ring suburbs must address disincentives that drive away people and developers — namely the lack of available land, urban bureaucracy, high costs, and the baggage of urban social ills.

Recommendation #1: The state or Metropolitan Council should create a "Metropolitan Redevelopment Fund" for all regional cities to be used *specifically and only* for the renewal and redevelopment of "used" land.

This fund must be able to generate significant capital — say, $20 million to $30 million — on an annual basis. This capital should be revenue-neutral to the state budget, and be generated from resources within the seven-county region. One possibility would be to impose some type of surcharge for greenfield development to help pay for redevelopment.

This fund should be tightly restricted for redevelopment purposes only, but allow for a range of uses, including infrastructure upgrades, acquisition and clean-up of properties, and loans to developers. Such a redevelopment fund would help overcome certain urban disincentives like the lack of developable land and comparatively high site costs, thereby creating more incentives to maintain and reinvest in the existing built environment, instead of the common investment inclination to build anew in greenfields.

First, however, the Council must determine the objectives of a metropolitan redevelopment fund, what this fund could expect to accomplish, and how it should be structured and funded. One structural possibility is to model the redevelopment fund on the Fiscal Disparities approach, whereby pooled money is redistributed based on defined needs.

Recommendation #2: The state, the Metropolitan Council and municipalities should place continued emphasis on contaminated site clean-up in the fully developed area.

The fully-developed area has a significant amount of contaminated land which is suspended from any subsequent redevelopment until cleaned. Finding ways to bring this land to the market quickly and cost-effectively would provide a significant boost to the fully developed area. The time, money, and liabilities associated with these parcels discourages interest because there are many other safer, less expensive, less time-consuming alternatives. For this reason, the public sector must provide some incentive for the market *to become* interested in such sites. For example, contaminated site cleanup might be a wise strategic focus of the "Metropolitan Redevelopment Fund."

a) **The Metropolitan Council and the state should invest more money in the cleanup of contaminated sites for introduction back into the market.** By most accounts, local efforts at contaminated site cleanup have been successful, particularly in comparison to metro areas nationwide. However, public funds are limited. The Metropolitan Council's Tax Base Revitalization Program (TBRP) is capped at about $7 million a year. The state Department of Trade and Economic Development is getting more involved in cleanup as well, but has spent only about $5 million between 1993 and 1996.[230]

   Clearly these efforts are helping, but it is not likely to have much long-term impact on tipping the development scales in favor of the urban area. Considering the early success of cleanup programs, the Metropolitan Council and state should investigate ways of increasing cleanup funds. For example, the Council should be authorized to issue bonds to pay for the wholesale cleanup of contaminated properties, while converting TBRP funds to pay off bonds.

230 Meredith Udoibock, Business and Community Development Division, Department of Trade and Economic Development, personal communication.

b) **The Metropolitan Council should conduct a market analysis to determine potential interest and salability of newly-cleaned contaminated sites.** Currently, the market's interest in newly-cleaned sites is not totally clear. Several government officials involved with cleanup programs believed there is no market for an influx of newly-cleaned parcels, mainly because of the baggage brought along by various social ills of the urban area.

However, others suggest there is in fact considerable interest in such properties because of their central location. This interest could be improved further if liability protection were further enhanced. Because there is potentially millions of tax dollars at stake with wholesale cleanup efforts, the Council should seek some expert market advice on the future marketability of contaminated sites, and channel funds accordingly.

Recommendation #3: The state should strengthen TIF as a redevelopment tool.

Any proposed Metropolitan Redevelopment Fund should complement other redevelopment tools and programs. The most widely used redevelopment tool — and abused, according to some — is tax increment financing (TIF).

Without question, TIF is a valuable tool for cities to reclaim unproductive property. But despite a number of recent reforms, TIF is still used and manipulated beyond its original intent. Too often it is used for economic development in locations that arguably need no additional incentives to develop — such as along transportation corridors and on undeveloped greenfield sites.

In some cases, legislative reforms have made TIF less attractive for redevelopment. One recent TIF amendment reduced a municipality's local government aid (LGA) proportional to the amount of tax capacity captured in TIF. As noted earlier, St. Paul has not created a single TIF district since 1990 because it is unwilling to sacrifice LGA money.[231] This is just one example where TIF must be made more user-friendly for redevelopment.

[231] Office of the Legislative Auditor, *Tax Increment Financing*, State of Minnesota, March 1996, p. 80.

But in addition to strengthening TIF as a tool for redevelopment, the state must continue to curb TIF abuses. Some possibilities include:

- disallowing the use of tax increment revenues to pay for general public improvements and community projects;[232]
- establishing clearer expectations for the "but for" test, and monitoring compliance of the "but for" test and other eligibility criteria more closely;[233]
- requiring that cities report certain TIF results, like the number of jobs created and the average wages paid.[234]

In fact, the state Legislature should consider broadening TIF authority and control to the regional level. Currently, there are few tools available that can influence redevelopment on a regional scale. *If* redevelopment is a regional issue, and *if* TIF is the best redevelopment tool available, then the Legislature should consider giving at least some control of TIF districts to the Metropolitan Council.

Admittedly, such a thought for local officials is tantamount to blasphemy — TIF is one of the few effective municipal tools for community development. Unfortunately, despite the wide use of TIF by municipalities, neither municipalities nor the state has any idea of the regional impact or outcomes of TIF districts. Because TIF is so pervasive, the regional government should have some say in how TIF is used to ensure that regional goals are not trampled. Noting previous abuses, an easy case could be made that regional interests have indeed been ignored in the past when it comes to municipal use of TIF.

The Council and TIF might well be a good fit. As noted, little is known about the real effect of TIF. As a planning agency, the Council's information-gathering capacity could keep a running scorecard of TIF successes and overall impact in redeveloping neighborhoods throughout the

[232] As recommended in the Legislative Auditor's TIF report, 1996.

[233] The "but for" test requires some evidence from the host city that the proposed development or redevelopment would not occur in the foreseeable future "but for" the use of TIF. The Legislative Auditor's report noted that numerous cities do not properly document or analyze how their TIF districts comply with the "but for" requirement.

[234] The Legislative Auditor's report found "that very few cities routinely collect information on the number of jobs created or salaries paid by businesses and industries receiving TIF support." See p. 88.

seven-county region. Such a set-up would relieve municipalities of time-consuming data collection, which they currently are asked to do, but woefully neglect. Meanwhile, the Council would acquire some badly-needed control and input into the region's redevelopment.

Recommendation #4: There is a regulatory problem in urban areas — a perception that it is not worth the headache to develop in the fully developed area. Cities need to investigate, find the exact source of the problem, and address the problem within the existing bureaucracy.

Exactly where this regulatory bottleneck occurs depends on whom you ask. Resource testimony implicated all parties to some degree — developers, residents, city bureaucracies — *because everybody points the finger at everybody else.* In the end, all play some role in creating the existing conditions. This report does not have the resources to exactly pinpoint and prioritize the multiple factors at play.

If more investment is desired in the fully developed area, the development process must be made reasonably easy and user-friendly. That will not get done without a serious effort on the part of cities to identify problem areas. The committee heard repeatedly that redevelopment is very difficult and more expensive than greenfield development. In light of this, cities need to take a closer look at their development process. A procedural review would help identify both internal and external factors that slow and obstruct the redevelopment process.

Critically important, this means understanding the expectations of all parties involved — developers, residents, and city planning bodies — and coming to some degree of compromise agreeable to all parties.

This internal review process should also eliminate those zoning ordinances, procedures, unnecessary standards and other regulations that make new development and renovation *unnecessarily* time-consuming and costly.

Reams of regulations monitor the simplest activities, and make the development process increasingly more expensive. To be sure, many of these regulations provide important safeguards of one sort or another. However, heavy regulation also is one of the factors that tips the scale in favor of fringe areas when it comes to new development. For example, the uniform building code is widely acknowledged to be a good regulation gone bad. This code holds rehabilitative construction to the same standards as new construction. This adds considerably to the cost of rehabilitation, and removes much of the incentive.

Cities in the fully developed area need to strive for greater regulatory flexibility, and possibly achieve this flexibility through the creation of a waiver system that provides relief from countless regulations. A waiver system could work this way: a city drafts basic criteria for new development. Once basic goals are satisfied, developers could request waivers from certain regulations in order to speed up the development process, and to save money. Obviously, all waivers would require approval from the host city.

Recommendation #5: The central cities must capitalize on available natural amenities for new residential development. In particular, riverfront redevelopment should be made a high priority.

An industrial legacy still lingers along the Mississippi River in St. Paul and Minneapolis. But there is great investment potential in transforming riverfront property to high-amenity housing. One needs to look no further than the Minneapolis Chain of Lakes as an example.

Significant efforts are being made to reclaim the riverfront in both Minneapolis and St. Paul.[235] But much more could be done. Riverfront property offers an excellent opportunity to reinvigorate and stabilize the housing market and residential tax base in the central cities. Waterfront property has always garnered top dollar on the market, and riverfront property offers excellent proximity to downtown in both Minneapolis and St. Paul.

At the writing of this report, St. Paul was debating a typical conflict concerning a 65-acre bluff site along the Mississippi River at West 7th

[235] For example, Minneapolis is expected to break ground in Februrary, 1997, on an important project along the Mississippi's west bank from Chicago Avenue to Portland, involving historic preservation of the Washburn Crosby "A" Mill, as well as some residential development and general mixed use. See Steve Brandt, "Reclaiming Mill City's river roots," *StarTribune*, December 18, 1996, p. B1.

and Otto Street. The city was debating whether to house a plastics manufacturer or residential development at the site. Previously, the property housed oil tanks, and contamination was expected.

Such a situation is not uncommon for both central cities. The choice is between immediate jobs or new, high-amenity housing, both of which have positive and negative consequences. However, there are limited opportunities and places for high-amenity housing, which historically provide excellent neighborhood anchors. Sites for industrial properties might be similarly limited, but this is dictated by market conditions, and not by geography.

In other words, there are numerous sites for industrial development within a city, but the same is not true for high-amenity housing. Opportunities for enhancing residential amenities therefore must be taken at every chance. This might create other hardships, like finding alternative manufacturing sites. But ultimately, St. Paul and Minneapolis must focus on what will provide the greatest long-term value on riverfront property.

Recommendation #6: The state and the Metropolitan Council should create and implement strategies for development intensification in targeted areas.

If the Metropolitan Council wants greater infill and redevelopment — which this report supports — then financial incentives must be provided to reward such activity.

For example, the Council currently has a property tax credit for businesses that locate along high-frequency bus routes. This report urges that complementary programs and incentives be investigated. For example, an infrastructure "intensification" credit could be created which waives the sewer access charge (SAC) for additional (not replacement) hookups for infill development in the fully developed area. Alone, such an incentive would have little influence. But packaging numerous incentives together could have a significant impact, and increase the likelihood of achieving infill and other intensification objectives.

Recommendation #7: State officials and appropriate special interest groups should continue to pressure federal policy makers for better equity with tax expenditures.

As outlined in this report, numerous federal policies — like infrastructure programs — influence local land-use decisions. In many cases, federal policies are tipping the market away from urban areas. One such example is the federal deduction for home-mortgage interest, most of which likely goes to suburban and exurban homeowners (and outlined earlier in the text).

The mortgage interest deduction was originated with good intentions, namely to encourage home ownership, which is believed to carry numerous additional benefits for neighborhoods. However, studies have shown the deduction has little influence on home ownership rates. Many other countries — Canada, for example — offer no such tax incentive for home ownership, yet have home ownership rates similar to the United States. Instead, the mortgage interest deduction allows individual home buyers to purchase more house than they would otherwise be able to afford.

The real issue with federal tax expenditures is resource allocation, and whether federal money gets to the places with the greatest need. A full analysis of the federal budget is outside the realm of this report. Suffice it to say many federal tax expenditures go beyond what is likely necessary to achieve the desired outcome. For instance, the home mortgage interest deduction is "limited" to debt interest of no more than $1 million, while allowing up to $100,000 in interest debt to be deducted on a second home. If the fundamental goal of the mortgage interest deduction is to move people from renting to owning a single primary residence, both measures go absurdly beyond the means necessary to achieve this goal, while giving billions in tax breaks in the process.

Federal tax laws also benefit areas and people with arguably fewer urgent needs. As outlined in the conclusions section, most of the tax expenditure for mortgage interest deductions and capital gains exemptions likely goes to suburban homeowners, and probably facilitates the trend of big houses on big lots.

Certainly, there are many other factors at play here as well, and the outcome itself is not "bad" by many measures. Nonetheless, a big house on a big lot is an outcome that the general public should not be subsidizing.

Admittedly, this report is unlikely to affect many current policies at the federal level in the immediate future. Ironically, the state Legislature seems unwilling to address problems within its *own* tax code that heap disadvantages onto certain groups. In particular, the state property tax code clearly favors owner-occupied houses over rental property, and other commercial and industrial property. Assuming similar values in a rental unit and comparable homestead, an average renter pays more than twice the property tax as a homeowner — this despite the fact that household income is far lower for renters than homeowners. It seems Minnesota must get its own tax policies in line before it can expect the federal government to do likewise.

But eventually, federal policies must be modified if the people of Minnesota hope to achieve the long-term goal of creating and stabilizing livable neighborhoods within the seven-county region and adjacent counties in Minnesota and Wisconsin.

Principle #5: Restructure municipal finance, aligning taxes with public services delivered.

As outlined in this report, and several earlier Citizens League reports, there is a clear need (not to mention public support) for property tax reform. Much of this confusion arises from a lack of accountability. There is neither a clear relationship of *what* government level should provide *which* service, nor a clear distinction of *who* should pay for such services, and *how*.[236]

This is particularly the case with municipal financing. As mentioned in the body of this report, municipalities use property taxes to pay for some services that do not relate directly to property. In the end, a restructuring of public financing is needed whereby the provider, service and the beneficiary are clearly defined and related.

Recommendation #1: The state Legislature should construct a tax system that clearly establishes what level of government (municipal, county, regional or state government) is responsible for specific public services.

For example, significant funding for both social services and education is borne at the local level (county and school district property tax levies, respectively). Arguably, such funding instead should be borne by the larger society — namely the state, or possibly region.

For this reason, and as previously recommended in the League's 1995 report on state spending *(Choose Reform, Not Declining Quality)*, the state Legislature should create a standard categorization of funding responsibilities that applies to the various levels and bodies of government. Under such a categorization, certain services that are defined as local would require local funding (i.e. municipal funding for municipal services), and state services would be funded through state-level revenue sources. Such a categorization of service responsibilities would, for one, clarify the funding responsibilities of local tax levies.[237]

Under such a proposal, funding for such things as education would most likely be removed from local property tax levies because responsibility for this public service lies at the state level.

Recommendation #2: Municipalities should better align taxing mechanisms with the public service being provided.

There are numerous examples where the mechanism of local property taxes is clearly unrelated to specific public services being provided. Education funding is a good example, or the funding and upkeep of parks. Yet local governments (municipalities, counties, and school districts), are forced to use local property tax levies to support various general expenditures

[236] For additional discussion on the state's property tax system, and corresponding Citizens League positions, see also: *Choose Reform, Not Declining Quality* (1995), *Minnesota's Budget Problem: A Crisis of Quality, Cost and Fairness* (1993), and *A First Class Property Tax System* (1986).

[237] The 1995 Citizens League report constructed an "ABC" plan which broke down service funding to three levels. Level A is basic service funding, which provides a basic level of service state-wide, and is the funding responsibility of the state. Level B includes categorical funding, whereby the state could make adjustments to basic service packages to target specific areas of need, say for more aid to fight crime in violent areas. Level C is for local preferences that are locally funded, meaning that any service add-ons to the basic Level A and B services are the responsibility of local taxpayers.

because they have no other means of paying for required services.

This dependence on property taxes, in turn, encourages municipalities — *at least in part* — to seek out high-tax developments to pay for increases in service costs, while hopefully protecting current residents from tax rate increases.

In hopes of defusing this practice, and to create better local tax-and-spend accountability, Municipalities and other local units of government should align revenue vehicles with the public service being provided — for example, property tax levies that fund only property-related services. Admittedly, this will simply shift some tax burdens. But this shift will make individuals more aware of and responsible for the cost of different government services. It also will create better accountability links between property taxes and related property services.

Moreover, moving to such property tax system will make property tax reform a much easier task, possibly even make it a moot issue altogether, by relieving the financial implications of any restructuring. There are huge financial interests at stake with restructuring the current property tax system. Revamping the system overnight would wreak havoc on the super-structure that has been built around the current system and its subtle inherent advantages. Softening the financial impact of property tax reform would eventually make it much more politically palatable.

Recommendation #3: Lastly, the Legislature should investigate and authorize different taxing vehicles so municipalities have the capacity to pay for the local services deemed necessary.

If passed, the previous recommendation might cause trouble for municipalities because it transfers funding responsibility from property taxes to some "other" local funding mechanism. At present, however, there are few other funding mechanisms available. For example, removing funding for parks from property taxes solves one problem, but creates another — where will the money for parks come from?

It might be well and fine to remove certain services from local property tax levies, but municipal, county and other local governments must also be provided with the right tools to generate the revenue necessary to provide services. Ideally, new taxing mechanisms will have a direct relationship to the service itself, so taxpayers can see a clear relationship between the cost of the service, and the service itself. In particular, where there are well-defined beneficiaries of a public service, the state should look to restructure municipal and other local services toward a system of user fees. Such user fees, in turn, should lead to commensurate declines in total property taxes levied.

Principle #6: Enhance citizenship at the regional level.

To truly empower effective regional governance, residents must identify with issues and act as citizens at the regional level. Only through an empowered regional citizenry can real change take place concerning issues that transcend local boundaries. Citizenship also is critically important in defining or creating "community." Traditionally, a community is a geographically coherent and bounded place that is the scene of both work and home life. Today, community might be different sites of common activity, like work, worship, or education.

Do we have a "regional" community? To many, the answer is no. Neighborhoods, even cities can cultivate community, but regions have a tougher time because people do not have a common understanding of what a region is or how it works.[238] One way to make the region stronger, and more capable of addressing regional problems, is to enhance citizenship at this level. At the same time, greater citizenship will help define and nurture a regional community. But this is much easier said than done.

Enhancing regional citizenship is not the task of the public sector alone. Indeed, among the most effective allies for such work are the religious communities in the Twin Cities area. Faith groups give both theological and practical definition to "community" which transcends political boundaries. The Metropolitan Council and other public bodies would do well to view the religious communities as a valuable resource for pursuing the educational challenge regarding regional

[238] John Adams, Professor of Geography, University of Minnesota, in testimony to the Livable Communities Committee, October 5, 1995.

citizenship.[239] This report applauds such efforts, and urges the faith community to continue this mission. In addition to this, there are other, simple ways of encouraging regional citizenship.

Recommendation #1: Change the selection process for Metropolitan Council representatives from gubernatorial appointment to popular election.

One of the biggest obstacles to solving regional issues is the fact that the region has no natural constituency. Electing representatives to the Metropolitan Council is one of the simplest ways to educate and engage citizens on a regional level. This also delivers a measure of political accountability for regional issues and the people in charge of dealing with them.

In lieu of changing to a popular election, the current appointment process could be changed to a fixed-term appointment, with subsequent appointees recruited by a non-partisan nominating commission. A second option would be to change the appointing body to a caucus of city mayors, county commissioners or other regionally-represented group of elected officials.

Recommendation #2: The Metropolitan Council must be more proactive in educating citizens about regional issues, and in pushing for their resolution.

Arguably, our fractured political discourse and lack of regional vision stems from the public's failure to understand important issues from a regional perspective. To combat this problem, the Metropolitan Council must be more aggressive in educating citizens and publicizing regional issues.

The Metropolitan Council stands as the principal spokesperson for the seven-county metropolitan region, yet its political and public visibility is often very poor. Critics of the Council note that while it does have a legislative agenda, too often things are done *to* the Council instead of *by* the Council — the result of being passive and reactive to issues rather than aggressive and proactive.

239 Among the religious agencies with ongoing programs of metro-wide education and action are Metropolitan Interfaith Council on Affordable Housing (MICAH), Roman Catholic Archdiocese Office of Social Justice, Interfaith Action, St. Paul Ecumenical Alliance of Congregations (SPEAC), Jewish Community Action, and Twin Cities Unitarian Universalists. These agencies are in contact with work through hundreds of local congregations of Christian, Jewish and Muslim faiths.

With limited political authority, and without an involved, well-defined constituency, the Council must be more aggressive with its legislative agenda to ensure that regional issues are heard by the lone body that can act on regional problems — the Legislature. Recent discussions around the *Growth Options/Growth Strategies* project has given the Council greater visibility with residents, the media, and the Legislature. Implementing a growth strategy will require residents and local governments to buy into a vision. For this to happen, the Council must never miss an opportunity to speak and act on the region's behalf, particularly at the Legislature.

But there are other actions and methods that the Council (and the state, for that matter) can look at to make citizens more aware of issues beyond their own parochial boundaries, and involved in building livable communities at the local and regional level. For example, the Metropolitan Council, state and/or university system could run land-use classes for city and town plan commissioners and elected officials to better educate them about urban design and land-use dynamics at the local and regional level.

Recommendation #3: Local government officials — municipal, county, school, watershed district — must recognize the importance of regionalism, and be willing to accept the role of spokesperson to educate local residents in furthering the shared goals of a regional community.

The Livable Communities Act (LCA) has done much to promote regional goals for affordable housing and other issues discussed in this report. Luckily, many local officials believe in the underlying principles of regionalism, and the objectives of the LCA. However, there are still countless battles over affordable housing, density, the cost of development, and the role of the Metropolitan Council in local land use.

The Council should be the torch-bearer for regional issues, but local officials can supply badly needed support by helping residents throughout the region understand policy issues in a larger regional context, and not simply in parochial terms.

Appendix A

Glossary of terms

Affordable housing — As defined by the federal government, housing that is affordable to people spending 30 percent or less of household income, which for homeowners equals 80 percent of median income, and 50 percent of median income for renters. As defined by the Metropolitan Council's Livable Communities Act, an affordable home is $115,000, and affordable monthly rent is $638.

BANANA — this acronym stands for "Build Absolutely Nothing Anywhere Near Anything," and refers people who militantly oppose any new development. See also NIMBY.

Brownfield — A parcel that has been environmentally contaminated from past uses (often manufacturing), and which must be cleaned up before further use of the parcel is allowed.

Central cities — Minneapolis and St. Paul.

Developing suburb — Second- and third-ring suburbs that are generally and typically younger and experiencing significant growth. As defined by the Metropolitan Council, these cities include (starting at 12 o'clock and running clockwise around the region): Arden Hills, Lexington, Blaine, Shoreview, Circle Pines, Vadnais Heights, North Oaks, Lino Lakes, Gem Lake, White Bear Lake, Grant, Dellwood, Mahtomedi, Birchwood, Willernie, Pine Springs, Oakdale, Landfall, Woodbury, Cottage Grove, Inver Grove Heights, Rosemount, Eagan, Apple Valley, Burnsville, Bloomington, Savage, Shakopee, Prior Lake, Eden Prairie, Chanhassen, Minnetonka, Woodland, Deephaven, Greenwood, Tonka Bay, Shorewood, Spring Park, Mound, Minnetonka Beach, Orono, Long Lake, Wayzata, Plymouth, Maple Grove, Brooklyn Park, Osseo, Coon Rapids.

Development — A change in the configuration, makeup and structural density of a given parcel of land, most often new buildings on open, vacant land.

Exurbs — The rural expanse extending beyond the urbanized edge of contiguous suburban cities in a metropolitan region. Such areas often exhibit traditional suburban characteristics and exceptionally low densities, and include suburban-style subdivisions, hobby and large farms, ranchettes, factories, and a scattering of small towns.

Fully developed area — Geographically encompassing Minneapolis, St. Paul and the inner-ring suburbs, the term characterizes cities that are considered "fully urbanized" or "built-out," and have little if any vacant, undeveloped land.

Greenfield — The opposite of a brownfield, this is another name for a vacant, undeveloped parcel of land that has seen no other use besides as farmland or other natural open space.

Impact fee — One-time charges imposed on residential development by local governments (municipalities, counties, school and watershed districts) to pay for new or additional public infrastructure required to support the new development.[240]

Inner city core (a.k.a. "the core") — A bone-shaped group of neighborhoods located around the two central-city downtowns and linked through the Midway, which has the highest poverty rates and the oldest development in the seven-county region.

Inner ring suburbs (a.k.a. first-ring suburbs) — Generally older suburbs that are fully developed and contiguous or near contiguous to Minneapolis and St. Paul. These cities include (starting at 12 o'clock and running clockwise around the region): St. Anthony, Lauderdale, New Brighton, Mounds View, Falcon Heights, Roseville, Little Canada, Maplewood, North St. Paul, Newport, St. Paul Park, South St. Paul, West St. Paul, Lilydale, Mendota, Mendota Heights, Richfield, Edina, Hopkins, St. Louis Park, Golden Valley, Robbinsdale, Crystal, New Hope, Brooklyn Center, Columbia Heights, Hilltop, Fridley, Spring Lake Park.[241]

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240 Office of Policy Development and Research, *Impact Fees and the Role of the State: Guidance for Drafting Legislation*. U.S. Department of Housing and Urban Development, December 1993, p. v.

241 As defined by the Metropolitan Council.

Land use — The physical utilization of property for human needs and demands, including homesteads, commerce and food production, but embodied in a wide variety of urban forms and designs.

Leagfrog development — Development that goes beyond government-established boundaries for planned urban growth, often responding to demands for lower land costs than are available inside urban growth boundaries, like the metropolitan urban service area (MUSA) here in the seven-county region. Such development usually consists of lots that are one acre or more in size and utilize on-site waste treatment and water services.

Life-cycle housing — A mix of housing types (single and multi-family) that accommodate a full range of housing needs for citizens with different socio-economic means and abilities.

Local government — Often used in reference to municipalities (cities and townships), but also includes counties, school boards, and watershed districts.

Low density development — As used in the text of this report, residential development that is less than three units per acre.

Metropolitan urban services area (MUSA) — The imaginary boundary drawn by the Metropolitan Council to delineate the area scheduled to receive urban service expansion in the form of regional sewer service and increased highway capacity.

Mixed-use development — The street-level integration of different land uses, normally commercial and residential, as opposed to traditional single-use zoning which separates different land uses from one another.

Mixed-housing development — The integration of different housing types (such as single and multi-family), styles, and price-levels amongst each other, which is prohibited in many cities through strict zoning codes.

Multi-family housing — Housing structures with two or more units that can be owner-occupied, but most often refer to rental units.

Municipality — City or township.

NIMBY — acronym for "Not In My Back Yard," the term refers to local residents who consistently oppose nearby development for reasons ranging from protection of property value, to preservation of existing atmosphere, to underlying racist and classist motivations.

Outlying area — Those townships and free-standing cities beyond the developing ring of suburbs. See also "exurbs."

Seven-county region — Established as a political jurisdiction in 1967, it includes the counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington.

Single-family housing — Individual housing structures on private lots.

Subsidy — Financial assistance by one person or government to another.

Tax increment financing — A development tool that enables a city to use the additional property taxes generated by a new development to pay for certain development expenses, essentially "capturing" the additional property tax revenue that would have gone to other taxing jurisdictions and using the "tax increments" to finance the development costs.

Twin Cities Metropolitan Statistical Area — The 13-county geographic definition used by the federal government for the "Twin Cities region," encompassing the seven metro counties, along with Chisago, Isanti, Sherburne and Wright counties, and Pierce and St. Croix counties in Wisconsin.

Twin cities region — A term loosely used to refer to the seven-county area under the jurisdiction of the Metropolitan Council, as well as the much larger "real" region that encompasses as many as 24 counties, including three in Wisconsin. The text uses the specific reference "seven-county region" when referring to what is traditionally called the Twin Cities region.

Urban form — The physical, structural and spatial characteristics relating to streetscapes, neighborhoods, cities, even regions, which dictate what the built environment looks and acts like within a given geographical area.

Appendix B

Work of the Committee

Charge to the Committee on Building Livable Communities

I. Background

There is a growing sense that current development patterns are not financially sustainable in the long-term, as the metropolitan area grows outward in successively less-dense arcs. Additionally, many people believe that policy problems — from transit to housing to schools — are a result of this sprawling pattern of development. This pattern is aided by political fragmentation, a lack of regional vision, and a number of financial and political disincentives that prevent investment in and upkeep of existing urban infrastructure.

It can be argued that the current development pattern is a slash-and-burn model — migration from urban centers to largely undeveloped suburban and exurban areas. But while long-term sustainability is a concern, Americans value personal independence, which is associated with the mobility of the automobile, and value the freedom to move up, which is often defined as moving out.

The Metropolitan Council estimates that 330,000 households will be added to the region by the year 2020. With that in mind, a discussion needs to take place as to where these new households should be located in order to fuel continued economic growth in the region while limiting the detrimental effects of servicing an ever-growing, *ever-expanding* population.

II. Context

For much of the 1960s and early 1970s the League concentrated on the design of the regional institutions that were doing the planning rather than looking at planning itself. In the last decade the League has looked at government policies that have created disincentives to redevelop the urban area and that have subsidized growth on the fringes.

Development patterns are complex. People move based on a variety of factors, some of which might have little to do with any concrete financial gain. Schools, crime, housing obsolescence and the path of least resistance are often powerful motivations. However, past and current policies clearly have had some unintended consequences. For example, poverty has concentrated in urban centers, as jobs and residential tax base have fled to suburban areas.

This study should identify the influences (or "drivers") behind current development patterns, and the positive and negative effects of this growth in the urban, suburban and exurban areas. *The study's end goal should be to identify the best overall growth outcomes for the entire region.*

It's also important to note that the perceived decline of "community" is complex and unquantifiable. But a sense of place is important in defining one's community, and physical design issues can contribute to a sense of belonging to a community. What is important is articulating a vision of a "livable city" from multiple perspectives — namely that a community is livable from *social, cultural, financial and ultimately regional* standpoints.

III. Focus of Charge

The Citizens League study committee should address these central questions:

1. What are the negative outcomes of current growth patterns?

2. What has influenced growth patterns, both past and present?

3. Can we afford to develop as we have in the past 25 years? Why?

4. What are the most desirable local and regional outcomes regarding development?

5. What obstacles face the region as it looks for better outcomes for growth?

6. What should be the guiding principles as the region and its member municipalities prepare for and manage future growth?

Committee membership

The committee on Building Livable Communities was co-chaired by **Don Fraser** and **Sally Evert**. A total of 50 Citizens League members took an active part in the work of the committee. In addition to the chairs, they were:

John S. Adams	Norma Lorshbaugh
Russ Adams	Charles Lutz
Alan Anderson	Sue Matthews
Patrick Boylan	MaryAnn McCoy
Scott Carlson	Thomas Moore
Walter Carpenter	Jim Myott
Erv Chorn	Bruce Nawrocki
Pat Cragoe	Patrick O'Leary
Bob de la Vega	Ed Oliver
Dan Dobbert	Randy Peterson
Ken Dols	Philip Raup
Linda Ewen	John Richter
Hugh Faville	Peter Rozga
Michael Hohmann	Steve Schenck
Fred Hoisington	Randy Schubring
Dan Hunt	Warner Shippee
Dave Hutcheson	Erika Sitz
Jim Jorgenson	Melenie Soucheray
Gary Joselyn	Eileen Troseth
Margaret Kirkpatrick	Barbara VanDrasek
John Knutson	John Wells
Paul Kuettel	Alice Wilcox
A. Scheffer Lang	Paul Zerby
Adeel Lari	
Raeder Larson	
Dick Little	

Committee meetings and resource testimony

The committee met for the first time on October 5, 1995, and concluded its deliberations on January 2, 1997. The Citizens League Board of Directors approved the final report of the committee on January 2, 1997. During this time, the full committee met 51 times, the committee studied a large and varied amount of printed materials, and heard from the following resource speakers:

John S. Adams — professor of geography, planning and public affairs, University of Minnesota.

Michael Anderson — executive director, Metropolitan Interfaith Coalition for Affordable Housing.

Joe Barisonzi — executive coordinator, Lyndale Neighborhood Association.

Joanne Barron — senior planner, Metropolitan Council, and director of the Livable Communities Demonstration Account.

Clint Blaiser — president and partner of the Halverson and Blaiser Group.

Helen Boyer — director, Environmental Services Division, Metropolitan Council.

Karen Christofferson — director of municipal affairs, Builders Association of the Twin Cities.

Dan Cornejo — development director, City of Robbinsdale.

Pat Dalton — legislative analyst, House Research.

Jon Elam — administrator, City of Maple Grove.

Paul Farmer — director of planning, City of Minneapolis.

Terry Forbord — vice president of land development, Lundgren Bros. Construction.

Hal Freshley — policy analyst, Metropolitan Council, and director of Tax Base Revitalization Program.

Hans Hagen — president, Hans Hagen Homes.

Beth Halvorson — executive director for Regional Public Policy, U.S. West.

James Heltzer — executive director, Washington County Housing and Redevelopment Authority.

Dan Herbst — president and owner, Pemtom Land Company.

Jim Hetland — inaugural chair of the Metropolitan Council, former president of the Citizens League.

Steve Hinze — legislative analyst, House Research.

Carl Holmstrom — former superintendent of Schools, St. Louis Park; board member of the Children First Initiative.

Curt Johnson — chair, Metropolitan Council.

Sharon Johnson — executive director, Community Action for Suburban Hennepin.

Tene Jones — director, Minneapolis Way To Grow.

Larry Laukka — president and owner, Laukka-Jarvis Inc.

Gary Laurent — former mayor, City of Shakopee; President, Laurent Builders, Inc.

John Kari — senior planner, Metropolitan Council.

David Long — senior planner, Metropolitan Council, and director of Local Housing Incentives Program.

Dr. Judith Martin — professor of geography, University of Minnesota.

Jeanne Massey — director, South Hennepin Regional Planning Agency.

Bob Mazanec — planning analyst, Metropolitan Council.

Martha McMurry — senior research analyst, Minnesota Office of the State Demographer.

Ted Mondale — State Senator, 44th District.

William Morrish — professor, University of Minnesota Professor, and program director of the Design Center for American Urban Landscape.

Michael Munson — senior planner, Metropolitan Council.

Myron Orfield — State Representative, District 60B.

Carl Ohrn — planning analyst, Metropolitan Council.

Matthew Ramadan — executive director, Northside Residents Redevelopment Council.

Rip Rapson — senior fellow, Design Center for American Urban Landscape, University of Minnesota; project director for the Community Connections Project.

Peggy Reichert — director of community development, City of Eagan.

Hazel Reinhardt — president, Hazel Reinhardt Consulting; founder, Minnesota Office of the State Demographer.

Steve Schachtman — president, Steven Scott Management.

John Shardlow — president, Dahlgren Shardlow and Uban.

Bruce Steuernagel — research director, JOBS NOW Coalition.

Todd Stutz — president, Minnesota Division of Rottlund Homes.

Doug Tenpas — former mayor, City of Eden Prairie; partner, Tetrad Group.

Lyle Wray — executive director, Citizens League.

During the final months of deliberations, the Citizens League shared its general findings and conclusions with a variety of organizations having some stake in the issues discussed in this report. The intent was to solicit feedback on the committee's work to date, and to specifically gather more input on how to solve some of the problems relating to urban growth. The Citizens League organized Speak Ups! with five groups:

Members of the Builders Association of the Twin Cities
Non-profit/community development agencies in the central cities
Lenders and building industry professionals
Neighborhood/community leaders in the central cities
Suburban officials and administrators

Acknowledgment on this list does not imply the individuals' endorsement of the final report or its recommendations. Approximately 36 participated in the five outreach Speak Ups! (See Appendix C for more detail on individual Speak Ups!). Several organizations assisted in convening these Speak Ups! in cooperation with the League. We acknowledge their leadership and assistance gratefully:

Builders Association of the Twin Cities
Minneapolis Consortium of Non-Profit Developers; Habitat for Humanity
Norwest Bank
People of Phillips

The Citizens League also conducted four Speak Ups! in June 1996 with its members. The purpose of these Speak Ups! was to allow League members to critique the committee's findings and conclusions, and to give input on committee direction. Approximately 45 Citizens League members participated in these four meetings. The League gratefully thanks participating members, and especially the hosts and moderators for facilitating these important discussions with Citizens League members:

Hosts	Moderators
Ann Cullen Smith	Fred Hoisington
A. Scheffer Lang	Dan Hunt
John Richter	Linda Ewen
Kent Eklund	Sally Evert

Meeting space

Meeting space was generously donated by **Minnesota Hospital and Healthcare Partnership** for the majority of the committee's 51 meetings. The League greatly appreciates such in-kind contributions to its study committees. Space for several early meetings was likewise donated by Abbott Northwestern Hospital.

Staffing

This report was prepared by Ron Wirtz. Lyle Wray provided staff assistance. Gayle Ruther and Trudy Koroschetz provided administrative support.

Appendix C

Description of Outreach Speak Ups!

[Please note: Acknowledgment on this list does not imply the individuals' endorsement of the final report or its recommendations.]

Speak Up! with members of the Builders Association of the Twin Cities
Thursday, October 8, 1996
Larkin Hoffman Daly and Lindgren Ltd.
7900 Xerxes Ave., Bloomington

Moderator: Dick Little

Speak Up! participants: Al Block (Town and Country Homes), Karen Christofferson (Builders Association of the Twin Cities), Dan Herbst (Pemtom Land Company), Bob Hoffman (Larkin Hoffman Daly & Lindgren Ltd.), Gary Laurent (Laurent Builders Inc.), Bruce Pankonin (Orrin Thompson Homes), John Waldron (Lyman Lumber Company).

[Participants received summaries of the committee's work to date in advance of the Speak Up!]

Several participants noted that mixed-use development is a useful design option, but is not the answer to every problem. Mixed-use has helped to broaden choice, but cannot satisfy the needs of all people. One participant pointed out that simply putting people near jobs does not guarantee that people will actually get jobs in those areas.

Asked about other design options, several participants talked about "planned urban developments" (PUDs), which were originally designed to facilitate creativity between developers and city planning staff. The problem with PUDs today is that the PUD process has become increasingly cumbersome and lengthy. Moreover, PUDs today allow small variations in things like setbacks and structure heights, but very little mixing of different land uses. The group also agreed that while city planners often agree with a developer's vision for a PUD, planning commissions and city council members are less trusting, and seek numerous concessions from the developer in return for some latitude on a project. As a result, the PUD development process "has lost its meaning" and many developers are now afraid to get involved in the PUD process.

The discussion then moved to redevelopment of the central cities. One participant recommended that the ward system be changed, because individual city council members hold considerable veto power—referred to as "aldermanic courtesy"—whereby other council members support the position of the council member where the development was taking place. Others commented that the need to comply with a multitude of ordinances has made development in the central city very time consuming.

Another participant said the challenge of central city revitalization boils down to three issues: 1) get rid of drugs; 2) cut crime; and 3) fix schools. Once these problems are solved, streamlining the development process itself will have more meaning. As it stands now, "the market" is not interested in living or doing business in the central cities, so developers are not interested either.

The group agreed that NIMBYism was becoming more of an issue throughout the region. Several members said there is no representation for prospective newcomers at public hearings, and NIMBYs carry considerable political weight with city councils and township boards. Asked what can be done, one participant said "pure raw education and facts" can work, but conducting countless neighborhood meetings is a long and torturous route, and is becoming less effective as well. The group agreed that more attention should be given to the comprehensive plans, and these comprehensive plans should carry more legal weight in order to provide city councils with political cover from NIMBYs.

Several participants noted the lack of infrastructure utilization as a matter of public policy. One person said that there were numerous pots of money — such as ISTEA, and the Metropolitan Livable Communities fund — that might influence better utilization of resources.

Participants acknowledged that the Metropolitan Council could (and in some cases had to) play a role in solving some contentious issues that crossed political boundaries, especially in light of the multitude of municipal and other government bodies within the region. The recent BATC report ("High Cost of Sprawl") advocated a stronger role for the Metropolitan Council—a proposal which scares many developers.

One final suggestion was to possibly enlist the Council as an appeal board. Too often the Council approves comprehensive plans, only to have city councils override their own comprehensive plans because of NIMBYism.

Speak Up! with non-profit developers and community development agencies

Monday, November 4, 1996
3:00 to 5:00 p.m.
Habitat for Humanity
3001 4th Street SE, Minneapolis

Moderator: A. Scheffer Lang

Speak Up! participants: Greg Finzell (Rondo Community Land Trust), John Flory (Whittier CDC), Jim Gabler (Whittier Housing Corporation), Harry Johnson (Lyndale Neighborhood Development Corporation), Susan Klover (Project for Pride in Living, Inc.), Ed Lambert (Minneapolis Consortium of Non-Profit Developers), Julian Loscalzo (Lexington-Hamline Community Council), Tim Mungavan (West Bank CDC), Linda Murtfeldt (Habitat for Humanity), Carol Neumann (West Side Citizens Organization), Karen Reid (Minneapolis Consortium of Non-Profit Developers), Michael Samuelson (Thomas/Dale District 7 Planning Council).

[Participants received summaries of the committee's work to date in advance of the Speak Up!]

One member noted a discussion of tax-exempt property was missing from the committee's work. There is a considerable amount of land in the central cities that cannot be taxed — freeways, churches, government buildings, etc. This land is serviced by the host city, and provides benefits region-wide and even state-wide, but provides no revenue for the host city.

Another participant noted that state and federal housing policies have adversely influenced the value of and motivation for reinvestment in the built-up areas. The resulting flow of subsidies is outward, and has a huge impact on the central cities. The concentration of poverty is the result of many years of housing policy at all levels of government.

Discussion turned several times to the lack of incentives regarding rental housing — both in the central cities and the developing fringe. Federal tax code changes have stripped much of the financial incentives to keep and maintain rental housing, and the state property tax code unfairly penalizes rental housing while providing huge subsidies to homeowners (like the mortgage tax deduction) at the partial expense of rental property. As a result, there is not an equitable return on investment between homestead and rental properties, and this must change.

There was wide agreement that the League report should address the race issue head on and in clear language. Participants also agreed that racism was a problem throughout the region — in the central cities as well as the suburbs.

Regarding solutions, one participant said the real estate tax system should be revamped, and programs or incentives added to make rental housing more attractive as an investment. There were suggestions for more state appropriations for brownfield cleanup, as well as procedures for getting greater community input about proposed development. Better control over the metropolitan urban service area (MUSA) and better leadership from the Metropolitan Council is also needed, the group said. There was a suggestion for linking approval of industrial developments to neighborhood housing policy to ensure that proper housing was available to people who work at these industrial businesses.

More attention is needed for rehabilitation and renovation, the participants said. Rehab standards are so high that it often chokes off efforts for renovation. Regarding "urban bureaucracy" problems, the group said that developers and businesses should work "authentically" with neighborhood groups. But the group also agreed that neighborhood groups can contribute to this bureaucracy, and should establish development conditions up front.

Speak Up! with lenders and building industry professionals

Wednesday, October 16, 1996
3:00 p.m. to 4:30 p.m.
Norwest Bank, 425 E. Hennepin Ave., Minneapolis

Speak Up! participants: Kathy Corley (Minnesota Non-Profits Assistance Fund), Tom Melchior (Maxwell Research), Arlen Nissen (Norwest Bank), Matthew Ramadan (Northside Residents Redevelopment Council), Mary Ruch (Norwest Bank), Bill Sarvela (First Bank).

Moderator: Bob de la Vega

[Participants received summaries of the committee's work to date in advance of the Speak Up!]

One participant said greenfield incentives and urban disincentives got to the heart of a number of issues, and this problem had to then be linked with issues of governance, and specifically with ways of making urban development and redevelopment more attractive. In the past, local governments utilized the power of eminent domain to a much greater extent than they do now; the decline in the use of that power has limited government's ability to piece together property for new development. The *Hollman* settlement (the recent $700 million settlement by the federal government regarding Minneapolis public housing), provides an excellent opportunity for development for the City of Minneapolis. It will provide approximately 60 to 70 acres of land for development near the middle of the city once the existing public housing is demolished as part of the settlement.

Regarding subsidies, focus group participants said it is hard to define exactly what a subsidy is in many cases. It was agreed that both urban and suburban communities and residents received subsidies. For the suburbs, the subsidy has to do mostly with the provision of infrastructure. Several people also gave instances of TIF subsidies.

A key future advantage for the central cities is its untapped labor pool, and public policy is needed to push education on behalf of both workers and employers because they both have a great stake in workforce readiness.

The role of government should be stronger in pushing for equity, one person said. For example, the inner city has always had a commitment to affordable housing. The suburbs have this commitment to a degree as well, but their commitment has wavered without financial incentives, especially without any system of accountability to ensure commitment to things like affordable housing.

Regarding mixed-use, one participant said that traditional bank lenders do not play much of a role in this type of development. Banks finance the developer in the short-term to actually build a development, and the financial risk is whether the construction of a particular development is simply completed. The long-term lenders are insurance companies and pension funds, and these lenders have more of a stake in promoting or discouraging mixed-use development.

It was noted that if mixed-use development is truly desired for policy reasons, subsidies will be needed because developers cannot make a profit under current market conditions. Developers are guilty of looking in the rearview mirror to see what has worked in the past, and then simply following this path. As a result, many "risky" projects never even make it to lenders for their consideration.

Participants widely agreed that brownfield sites held great potential for the central cities, but would take a significant public investment to redevelop. The group believed there was a market for newly-cleaned sites, and the market could absorb more sites than are currently being cleaned because many of these sites are in ideal locations. The public sector has provided valuable liability protections, but still more needs to be done to remove potential liability and make contaminated sites profitable for developers (and therefore for short- and long-term financiers). Several participants said a larger cleanup fund should be investigated.

Speak Up! with community and neighborhood leaders of the central cities

Wednesday, November 6, 1996
12:00 p.m. to 2:00 p.m.
People of Phillips
1014 Franklin Ave., Minneapolis

Speak Up! participants: Joseph Barisonzi (Lyndale Neighborhood Association), Jana Metge (Central Neighborhood Improvement Association), Kathleen O'Neill (Elliot Park Neighborhood, Inc.), Bart Putney (Stevens Square Community Organization), Donn Vargas (People of Phillips).

Moderator: Erv Chorn

[Participants received summaries of the committee's work to date in advance of the Speak Up!]

The group agreed that racism was a major factor at play in the Twin Cities region. The Neighborhood Revitalization Program (NRP) and the Minneapolis Community Development Agency (MCDA) were topics throughout the discussion. One participant noted that the media and real estate developers have had a terrible impact on perceptions of the central cities, and she questioned whether their motives were to steer people to or away from most neighborhoods in the central city. She said perceptions of safety are way out of whack, and these neighborhoods are good places to live.

The group agreed that urban policy was often a hindrance to getting things done; either the policies are old, outdated, and ill-fitted to current conditions and situations, or there is no policy whatever to facilitate certain activity. Several members spoke about the lack of project coordination at the city level, particularly across departmental lines, which makes projects more difficult and time-consuming. The group agreed that better teamwork throughout city departments would produce better results. One person suggested reconfiguring the bureaucracy, possibly by created "task teams" across jurisdictional lines that are focused on accomplishing whole projects instead narrow tasks.

Another participant suggested that some tasks be out-sourced to the neighborhoods themselves, because the neighborhoods know best what needs to get done and how to do it. Neighborhoods would take greater responsibility and enforce better oversight on development projects to make sure they are done well. One person said that the MCDA is trying to do too much — planning, implementation, and enforcement. In particular, implementation should be done at local level.

Group participants said there are too many incentives for businesses to not locate in urban areas, which also hurts the bargaining position of any neighborhood. One participant said financial resources are available for neighborhoods to offer modest incentives for redevelopment, but the money was difficult to access, and there was little flexibility in the MCDA process.

Speak Up! with suburban officials and administrators

Wednesday, October 16, 1996
11:30 a.m. to 1:30 p.m.
Citizens League office
708 S. 3rd Street, Minneapolis

Speak Up! participants: Mark Bernhardson (City of Bloomington), Dave Childs (City of Minnetonka), Jack Ditmore (Dakota County), Craig Rapp (Community Development, Metropolitan Council), Steve Sarkozy (City of Roseville), Charlie Weaver (City of St. Louis Park).

Moderator: Linda Ewen.

[Participants received summaries of the committee's work to date in advance of the Speak Up!]

Participants discussed the topic of municipal financing and property tax incentives, and generally agreed that the desire for industrial development is motivated by the desire to add jobs to a city. Several participants said government should restructure how it responds to the market. The property tax code is very outdated, and is hated by most everyone, yet still no one is willing to do anything about it.

The group inquired about the vision statement drafted by the Livable Communities committee, and after the statement was read aloud several participants offered unsolicited agreement with the basic tenets. One person in the group said this vision could be useful in defining the characteristics of sub-regions, as smaller cities could not be expected to provide for all of the elements described in this vision statement. Another participant said the vision could provide some regional context for cities to "do the right thing," which might eventually get at tough issues like affordable housing and the competition for commercial-industrial development.

One group participant pointed out that too many land use decisions don't require individuals to make trade-offs. For example, people take advantage of cheap mobility to get the other things they want in the suburbs— safety, good schools, rising housing values — while still enjoying the benefits of the central cities from many miles away.

Regarding solutions, the group agreed that the right approach was a "light touch" to encourage cities to do the right thing—rather than the stick treatment that penalizes cities for not doing something. One current example of the light touch is the regional tax credit for businesses that locate along transit corridors. The group suggested other incentives, including a surcharge on greenfield development; re-configuring tax-base sharing ("fiscal disparities"); and instituting a payroll tax for a redevelopment fund.

The group believed "fiscal disparities" is an appealing tool in theory, but is in reality another complication to the property tax structure. The group agreed that suburban communities want to help improve the health of the central cities; however, the group did not want to simply hand more money to the central cities, instead preferring incentives to spur more market involvement in the central cities.

The group believed mixed use was needed if the region expects to increase density. However, mixed-use development requires subsidies for developers to profit. Subsidies, one person stressed, should to go where the market is not currently responding. Suggestions for such subsidy funding included Livable Communities and TIF. Other suggestions for encouraging mixed use included identification of areas (particularly transportation corridors) that are appropriate to mixed use.

Participants generally agreed that mixed-use development makes heavy demands on local staff time, and that the Metropolitan Council should provide technical assistance for planning and implementing mixed use development. One member suggested constructing a specialized team to familiarize cities with dealing with mixed use, as well as other issues like brownfield cleanup.

Another member of the group cautioned that mixed use was not a cure-all. The trend toward two-income households and frequent job changes has reduced some of the advantages of putting housing near job centers.

Lastly, participants said the final report should capture the vision of the region, while creating steps to move toward that vision. The final report also must provide a compelling reason for change — why is change needed, and what does the region need or want 25 or 50 years from now that it doesn't already have, or is in jeopardy of losing along its present course?

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January 2, 1997

Minority Report to Citizens League Livable Communities Committee Report

A major thrust of this report is to spread low income housing throughout our metropolitan area. One of the more serious problems to be faced in gaining public acceptance of low income housing is the history of social problems, both real and perceived, that have been associated with such housing in the past.

To gain public acceptance of low income housing, programs must be developed to mitigate those social problems, and to develop a level of public confidence that those problems need not re-occur.

While the report does recognize that such social problems do exist, it does not attempt to recommend solutions mitigate those problems and to develop a level of public confidence that those problems need not re-occur. To make recommendations on building livable communities without dealing with those social problems is like trying to build a home on a foundation of bad soil without first stabilizing that soil.

Just as efforts to build a home on bad soil will meet with failure, so will the efforts to build livable communities on a foundation of unresolved social problems meet with failure.

WHAT THE CITIZENS LEAGUE IS

The Citizens League promotes the public interest in Minnesota by involving citizens in identifying and framing critical public policy choices, forging recommendations and advocating their adoption.

The Citizens League has been an active and effective public affairs research and education organization in the Twin Cities metropolitan area for more than 40 years.

Volunteer research committees of League members study policy issues in depth and develop informational reports that propose specific workable solutions to public issues. Recommendations in these reports often become law. Over the years, League reports have been a reliable source of information for governmental officials, community leaders, and citizens concerned with public policy issues of our area.

The League depends upon the support of individual members and contributions from businesses, foundations, and other organizations throughout the metropolitan area. *For membership information, please call 612/338-0791.*

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