

TRANSPORTATION & REGIONAL GROWTH

a study of the relationship between transportation and regional growth

*A
collaboration
among:*

University of Minnesota
Center for
Transportation Studies

Center for Urban
and Regional Affairs

Minnesota Department
of Transportation

Metropolitan Council
of the Twin Cities

Minnesota Local Road
Research Board

Case Studies of Development in the Minneapolis-St. Paul Metropolitan Area

Report #14 in the Series:
Transportation and Regional Growth Study

Prepared by

Barbara J. VanDrasek and John S. Adams
Department of Geography, University of Minnesota

Published by

Center for Transportation Studies, University of Minnesota

UNIVERSITY OF MINNESOTA

CENTER FOR
TRANSPORTATION
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UNIVERSITY OF MINNESOTA

CTS 04-07

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September 2004

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Center for Transportation Studies
University of Minnesota
200 Transportation and Safety Building
511 Washington Avenue SE
Minneapolis, MN 55455

CTS 04-07

Opinions expressed in this report are those of the authors, and do not represent official policy of the study's sponsors. Any remaining factual errors are the sole responsibility of the authors.

Technical Report Documentation Page

1. Report No. CTS 04-07	2.	3. Recipient's Accession No.	
4. Title and Subtitle Case Studies of Development in the Minneapolis-St. Paul Metropolitan Region		5. Report Date September 2004	
		6.	
7. Author(s) Barbara J. VanDrasek and John S. Adams		8. Performing Organization Report No.	
9. Performing Organization Name and Address Department of Geography 414 Social Sciences Building University of Minnesota Minneapolis, Minnesota 55455		10. Project/Task/Work Unit No.	
		11. Contract (C) or Grant (G) No.	
12. Sponsoring Organization Name and Address Minnesota Department of Transportation 395 John Ireland Boulevard St. Paul, Minnesota 55155		13. Type of Report and Period Covered Final Report	
		14. Sponsoring Agency Code	
15. Supplementary Notes			
16. Abstract (Limit: 200 words) <p>This report brings together several aspects of land development dynamics that have been examined in previous reports of the Twin Cities Regional Dynamics section of the Transportation and Regional Growth Study, in a series of place-based case studies of Minor Civil Divisions (MCDs) and school districts within the Minneapolis-St. Paul metropolitan region.</p> <p>The report focuses on the local property tax as the locus of interaction between municipal revenue generation and service provision, and the K-12 education finance system in the State of Minnesota.</p> <p>The report finds that local units of government are vulnerable to larger spatial trends over which they have little control, and thus an absence of region-wide or statewide policies to equalize support for PreK-12 education funding and delivery of services will encourage competition for development dollars and uneven development across the region.</p> <p>The report is part of a series, "Transportation and Regional Growth," funded by the Minnesota Department of Transportation.</p>			
17. Document Analysis/Descriptors Land use Transportation Property tax		18. Availability Statement No restrictions. Document available from: National Technical Information Services, Springfield, Virginia 22161	
19. Security Class (this report) Unclassified	20. Security Class (this page) Unclassified	21. No. of Pages 171	22. Price

Opinions expressed in this report are those of the authors, and do not necessarily represent official policy of the study's sponsors. Any remaining factual errors are the responsibility of the authors.

ACKNOWLEDGEMENTS

The authors wish to thank the members of the Technical Advisory Panel for this project, for their input over the course of the project, and the Minnesota Department of Transportation for its financial support for this study.

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EXECUTIVE SUMMARY

Introduction

The Minneapolis-St. Paul metropolitan region's population and territorial extent expanded vigorously after World War II, with census commuting data showing that by 2000 it comprised at least 24 counties in Minnesota and Wisconsin. This study illustrates consequences for cities, townships, and school districts of regional population growth and the increasingly dispersed land development that accompanies it. Specifically, we describe some of the problems and issues that arise from the ways that development imposes fiscal burdens on local governments—specifically the school districts, the cities, towns and townships.

As the built-up area sprawls outward in all directions, it encounters a network of cities, towns, and townships (i.e., minor civil divisions, or MCDs) along with a network of school districts. Each MCD and school district is defined by more-or-less stable boundaries. Encroachment of new land development, households and businesses into an MCD produces profound changes within it, while changing its relationships with other MCDs and with the school district serving the new development.

In a recursive cycle of cause and effect, new housing units added to an area attract additional households along with their wealth and purchasing power. New growth means that the city, town or township containing the new houses and households is obligated to supply them with municipal services. But a development containing new houses and new households also lies within one or more school districts, and state law requires that school services be provided to children living within a district's boundaries. Depending on how the development process unfolds, it triggers demands for new services along with claims for new tax revenues to support them, and it may lead to support for additional development or deflect subsequent development into other areas. This report describes and analyzes this process, its implications, and its relationships with the region's major transportation systems.

School Districts, Local Governments and Land Development

Local governments are obliged to finance the services that are needed and that local voters demand. But until recently schools and municipal services have both been supported disproportionately by local property taxes. The fact that the school districts and local

governments draw tax revenues from a common property taxes resource puts them in competition with one another for acquiring and using that tax resource. Decisions made by a city to permit or encourage housing developments impose burdens on the school district or districts that must then provide services to pupils drawn into their jurisdiction by the new development. The city, town or township wields the controls over development, but the school districts play no direct role in decisions about how or when development occurs. Yet the school district is responsible for accommodating demands on it that follow from development.

The goal of this study is to present these issues, then to illustrate with a series of case studies the fiscal and political challenges faced by a sample of Twin Cities-area MCDs and school districts as they coped with consequences of population growth and dispersed development between 1970 and 2000. The study addresses a public policy situation located at the intersection of (1) the metropolitan growth and land development process, (2) local political geography in Minnesota and Wisconsin, and (3) state and local fiscal relations.

Four Suburban Cities

From a list of several hundred Twin Cities-area cities we selected four that experienced the development process at different times and at different locations. The four illustrate how the development process affected each one.

Brooklyn Center is an older inner-ring suburb on the southern edge of the Anoka Sand Plain adjacent to North Minneapolis. The city received a major influx of lower-middle-class and working-class households from the older and more industrialized Minneapolis neighborhoods close to the Mississippi River, while suburb-bound white-collar and middle-class households from the Near North and western parts of North Minneapolis tended to relocate to the northwest toward Golden Valley, Robbinsdale, Crystal and New Hope. Between 1980 and 2000 Brooklyn Center's population dropped from 31,000 to 29,000 while newer Brooklyn Park, its northern neighbor, saw its population rise from 43,000 to 67,000 during the same period.

Over the past three decades, Brooklyn Center has become an aging first-ring suburb with declining incomes, stable to declining population, growing social and economic problems, an exodus of businesses, a weakened real estate market discouraging maintenance or new housing investment, and a reluctance of outside investors to invest in business development. This combination of trends made life difficult for the city government as well as for the school district

serving pupils living in the city. Even though the city is well served by Interstate and other high-quality highways, its social geography presents difficulties that highways alone cannot resolve.

Eagan is a fast-growing second-ring suburb south of St. Paul and Mendota Heights. Its population grew from 21,000 in 1980, to 47,000 in 1990, to 64,000 in 2000. Undeveloped land is disappearing fast, but some older areas are already undergoing redevelopment. Eagan benefits from a young and prosperous population, plus corporate headquarters, commercial, industrial and office activity providing jobs and tax base to pay for city infrastructure and modern municipal services.

But as the city fills and has begun to age, it confronts planning problems such as noise impacts on sites beneath airplane flight paths heading to MSP's main runways. A longer-term planning issue is Eagan's relatively homogeneous housing stock and commercial infrastructure, which is new and in good shape today but eventually will become old rather abruptly, as did Richfield's, Brooklyn Center's and those of other first-ring suburbs. But Eagan's location near the airport and on the outer margins of middle-class and upper-middle-class housing sectors emanating outward from western St. Paul and South Minneapolis have been an advantage to Eagan's continued growth and prosperity. Like Brooklyn Center, Eagan is served by a network of Interstate and other excellent highways, but unlike Brooklyn Center its business and employment base and the prosperity of its households support the city's current economic vigor.

Maple Grove is a third-ring suburb northwest of Minneapolis beyond Brooklyn Center, Brooklyn Park, Crystal and New Hope, and during the 1990s was fast developing on the outer edge of the built-up area. Its abundant natural site amenities supplemented its attractive location for the development wave that engulfed the city just as Interstate highways through the city were completed. A certain segment of middle- and upper-middle class households at the leading edge of the residential submarket originating in western North Minneapolis, augmented by newcomers to the Twin Cities, wanted that lifestyle and flocked into Maple Grove. The city government's main challenges in the face of development pressures include managing pressures for development, and managing its remaining agricultural land as it is scheduled for development.

The city grew from a population of 21,000 in 1980, to 39,000 in 1990, to almost 50,000 in 2000. It has been prosperous in recent decades, with steadily rising household incomes and a virtual absence of poverty. The housing stock is the primary regulator of who lives in Maple Grove, and most of its housing stock is of recent vintage and priced well above the metropolitan area median. The system of Interstates and other major highways serving Maple Grove is excellent

today, and like Eagan, the prosperity of its households and businesses sustains its economic and demographic vitality. One difference between the two is that Maple Grove is much farther from the central city because of the early and vigorous development of the easily accessible northern suburbs of Minneapolis. Eagan, on the other hand, although close to Minneapolis and St. Paul as the crow flies, was poorly linked with either city by high-capacity trunk highways until relatively recently. By comparing the three cities—Brooklyn Center, Eagan, and Maple Grove—we show how an absence of excellent highway connectivity can retard the development of a suburban city, but the presence of excellent highways in no way assures growth and development.

Hutchinson is a separate small city in McLeod County west of Carver County, about 50 miles west of Minneapolis, and surrounded by farmland. It lies well beyond the built-up margins of the Twin Cities metropolitan area but its population and economic expansion have been affected by the westward growth of the Twin Cities area. Hutchinson's population stood at about 8,000 in 1970 and in the following three decades it reached over 13,000 by 2000. The growth of population in Hutchinson and its relationship to highway infrastructure and to growth of jobs in the city is different from the trends observed in the three cities closer to the core. In those cases the housing developments occurred first and attracted new residents, which were followed by commercial and office developments as businesses pursued new purchasing power. In the Hutchinson case, the addition of jobs in the city in the early 1970s preceded the population increases and housing construction.

Major expansion in commercial, industrial and office activity occurred in the period 1972-82. As new jobs multiplied, there was an accompanying flow of new residential construction. The expansion of Hutchinson jobs initially attracted commuters from the Twin Cities area from surrounding McLeod County. Over time, local populations expanded with local workers preferring to live closer to their jobs, and others who enjoyed living in Hutchinson but who commuted to jobs elsewhere. A series of excellent highway connections supports Hutchinson businesses as well as its residents and commuters.

Changing Revenue and Expenditure Profiles of Suburbs through Time

We selected Brooklyn Center, Eagan, Maple Grove and Hutchinson to illustrate how the suburban-exurban development process around the Twin Cities occurred at different times in different places, and how those differences are reflected in profiles of how the cities raised revenues and made expenditures from 1970 to the present. As the region grew in population

and economic activity after 1945, new suburban land development successively engulfed former agricultural areas located beyond earlier built-up urbanized areas. Brooklyn Center today is losing population while facing expensive growing social and economic problems. Investment capital and purchasing power are directed to more promising destinations, so it is hard to be optimistic about the city's prospects unless it is able to tap a substantial amount of redevelopment assistance from external public and private sources.

Eagan is a fast-growing second-ring suburb, and with rapid population growth and prosperous households and businesses has been able to accommodate growth while keeping per-capita costs under control. For the time being it should be able to finance its city services from its array of revenue sources, but in the long run of several decades, the city that grew fast will age abruptly, a prospect that city leadership seems to understand, and is addressing with current planning and redevelopment initiatives.

Maple Grove, the third-ring suburb northwest of Minneapolis, also was fast developing in the 1990s on the outer edge of the built-up area, with revenues keeping pace with its expanding municipal outlays. The city's local fiscal situation resembles that of Eagan in several respects, and should remain stable for several decades into the future.

Hutchinson, the freestanding city beyond the built-up margins west of the Twin Cities metropolitan area, is nevertheless experiencing the impact of exurban development and is striving to accommodate it. If its growth and development remain steady, its ability to accommodate change and to create a city with a diversified internal structure will help assure long-term stability and satisfactory fiscal health like several of Minnesota's regional centers outside the greater Twin Cities region.

Because suburban and exurban cities vary considerably in their growth rates and the mix of households and businesses that they end up with, their ability to raise municipal revenues, pay their bills, provide essential services, and maintain their relative attractiveness compared with other cities varies as well. The differences among suburban and exurban places are many, with all contributing in some way to the eventual fiscal challenges and opportunities that confront residents and their leadership. Some places have long and distinctive histories, local culture and traditions that local leadership can build on in shaping a vision that can sustain a continual renewal of the place. Some places believe in comprehensive land use and development planning, while others resemble a free-for-all. Some places are endowed with attractive amenities like hills, lakes and streams that invite creative development and encourage construction of attractive

homes, while others are merely rolling cornfields and pastureland. Some suburban greenfield sites lie on the outer edges of elite sectors of previously developments and invite more of the same, as when Edina developed on the southwest edge of Minneapolis's Lake District, and Eden Prairie developed on the southwest edge of Edina. In contrast, a series of working-class and lower-middle-class suburbs emerged on the edge of Northeast Minneapolis, extending the character of its distinctive neighborhoods into Columbia Heights, Fridley, Coon Rapids, and Blaine.

The fiscal stresses imposed on a city differ during successive stages of its development—from a quiet agricultural township, to a new suburb with population doubling every ten years, to a maturing city with growth rates leveling off and development mainly of a fill-in type, to a fully-developed city, to a mature place starting to show its age and perhaps beginning to lose population, or households, or both as efforts to redevelop get underway. At each of these periods or stages, expenditure levels per capita and the mix of expenditures differ. In the early years, city infrastructure often leads the way as roads and bridges, and water and sewer supply service to new developments. General government expands along with complexity of its responsibilities. As a city's housing and population matures with its commercial-industrial activity, public safety requirements rise along with corresponding capital and operating outlays.

A city that is prosperous can and often does finance many of its needs from internal sources using taxes and fees. It may decide through its elected officials that it wants services that it is quite willing to pay for with extra taxes—libraries, swimming pools, well equipped parks and sports facilities, an elaborate community center with professional staffs. In contrast, a city that has capital or other needs it cannot easily pay for from internal sources might seek external funds in the form of intergovernmental grants. Our suburban cities at any given time vary in their expenditure patterns much as households do. Some earn and spend more than others. Some are more willing to use borrowed money than others. Some have a higher level of wants and needs than others. Some are better led and managed than others. Over time, a city that once was well able to handle its responsibilities may find itself in financial difficulties.

In the dynamic Twin Cities metropolitan setting with more than 600 local units of government, nothing stays the same. In its great complexity, the region provides a competitive context where households and businesses are free to come and go. Under these conditions of administrative fragmentation and high household and firm mobility, it is difficult for a city to maintain its rank on the various measures of attractiveness, fiscal soundness, efficiency, or civic vitality. The report describes these spatial-temporal dynamics for a sample of suburban cities—dynamics

that become even more complex and subtle when the interplay of cities and school districts is considered.

Cities and School Districts

The fundamental dynamics of the interaction of MCDs and school districts are somewhat circular:

- MCDs—cities, towns and townships—need and want good schools.
- Good schools attract family households to MCDs.
- Good schools keep housing values up and appreciation rates up for all units in the MCD.
- Local taxes are levied to support a portion of the school budget, but municipal and school property taxes are additive, and thus schools and cities are in competition for property tax dollars.
- When real estate taxes rise, they rise for all property types.
- Local leaders may seek relief for residential property taxpayers by attempting to attract non-residential development.
- Depending upon the particular forms of non-residential development in the MCD, residential property values may be enhanced or undermined.
- Depending on the balance or imbalance between extra tax revenues produced and extra municipal services needed due to the development, the MCD may find itself better or worse off following its development initiatives.
- Households will “vote with their feet,” choosing their preferred mix of taxes and services.

As the region continues to grow, development spreads into new areas and redevelopment proceeds selectively within older areas. The relative income and wealth positions of MCDs and school districts are in constant flux. Well endowed and well located places prosper while others fall behind in a continuing struggle between what is paid and what is received, between what is wanted and what is needed.

We examined the significant variables that have affected the funding levels and thus the performance of school districts, and that simultaneously intersect with MCD local finance issues. They include district size and geographical extent, population density and pupil transportation needs, per-pupil costs and tax base, population and pupil growth rates, and taxpayer support for schools and for municipal services.

In a series of school district case studies we examined different ways these variables occur and intersect within specific settings. For example the **South Washington County School District** is a “multi-city district” that serves parts or all of Woodbury, Cottage Grove, Newport, St. Paul Park, and Grey Cloud Island Township along with small areas of Afton and Denmark Township. We chose this district because the MCDs within it vary greatly in their population growth rates and development levels. For example, Woodbury leads in its cohort of school-age children served by the district and that proportion is growing while Cottage Grove has an aging population and not much new development.

A pair of case studies focuses on the **Anoka-Hennepin School District** and the **Chaska School District**. These districts also have multiple MCDs, but in each district a single city was the primary population cluster when the district boundary was established, so schools are clustered because population is clustered. Both districts serve large areas that encompass a number of cities and townships in order to capture sufficient pupils to make full-service schools viable, but (1) households are dispersed over a wide area which means large transportation costs and reduced involvement in school activities due to costs in travel time, expense, and safety issues, (2) contributions to the property tax base from undeveloped areas are low, and (3) assessed valuations of the district are unevenly distributed because development clusters around the core city.

The last case study is the **Richfield School District**, which is essentially congruent with the City of Richfield, plus two small areas of east Edina. For a city like Richfield with its own school district, the balance between municipal taxes and service delivery changes as the population ages and declines at the same time that city infrastructure deteriorates and requires reinvestment. There are fewer households to pay for services, and a smaller pupil base on which to draw state aid to pay for schools.

What Next?

The 2001 Legislature acted to eliminate the general education levy, beginning in the 2002-03 school year, leaving operating referendum levies as the only means available to school districts to generate additional operating funds (over and above the state-mandated minimum) from property taxes. Under the new financing structure, the state bears an even larger share of the cost, and a far smaller share of K-12 general education will be funded by local property tax. The changes were meant to relieve homeowners, landlords, and businesses of a large item on their property tax bills.

Since those legislative changes were implemented in 2002-03, the anticipated local property tax relief achieved by shifting the general education levy to the state budget has been complicated by the efforts of school districts to augment state funds through local levy referenda. Additionally, laws dictating Local Government Aid (LGA) formulas have continued to change as well, and so the overall long-term results of the 2001 attempt to reform education funding are not yet clear. The recent reductions in overall state funding have led to increased local efforts to raise K-12 funding within districts, and so the difference in the property tax burden before and after the 2001 reforms is not proving to be as significant as was hoped for all municipalities. Rather, school funding is becoming increasingly uneven across the region, as some local referenda succeed and others fail.

The diversity among the places in this study is explained in part as a function of their geographic situation within the Twin Cities region: whether they are in the path of population growth or commercial/industrial development; whether their residents are aging or their pupil populations are on the rise; and whether their place within the regional transportation system promotes growth and development, or decline and increasing fiscal difficulties. The relationship between school district dynamics and transportation is mainly through their mutual relationship with land development. The case of Eagan illustrated that the potential for growth can be suppressed until the highways are completed. The Hutchinson case also illustrated that if the roads were not there, Hutchinson probably would not be growing as it is today.

The conclusions of the study support the assertion that the fortunes of individual places within the metropolitan area are subject to the larger-scale spatial dynamics of the region. Places located away from the paths of outward growth and development might find themselves struggling harder to generate needed local revenues than their neighbors that lie in the paths of growth. Especially hard-pressed are multiple-city school districts that encompass diverse

municipalities, some with aging and some with young and growing school-age populations. The fact that the fortunes of individual municipalities are subject to larger regional population and development dynamics, over which localities have little control, means that the 2001 restructuring of education finance, coupled with declining state budgets, threatens to return the state to the uneven landscape of “haves” and “have nots” with regard to K-12 funding levels across districts.

Regardless of local preferences or incomes or political will, the fact remains that highways and airports do have some effect on land development, and that some MCDs have advantages in this regard, especially if they are favorably located in terms of other site and situation conditions. The current political trend is toward greater local control of local development, which may exacerbate these problems. Planning and directing growth both locally and cooperatively at the regional level is one approach to avoid inefficiencies, but is politically complicated. Geography is a powerful birthright. There is only so much a place can do to overcome it.

Chapter 1

Case Study Project: Overview

Introduction

The greater Twin Cities area surrounding Minneapolis and St. Paul has been growing steadily in population and geographical extent since World War II. Today it extends over 24 counties in Minnesota and Wisconsin. As the built-up area sprawls outward in all directions, it encounters a network of cities, towns, townships and school districts with more-or-less stable boundaries. The encroachment of new land development into these minor civil divisions (MCDs) produces profound changes in each MCD so affected, and changes the relationships between and among the MCDs themselves. For example, a new development of 100 housing units located at or beyond the continuously built-up metropolitan area attracts 100 new households. The city or town or township containing the new houses and households must supply local services to them. But the households also lie within one or more school districts, and state law requires that school services be provided to children living within the district boundaries.

Two problems arise from the ways that the development process imposes burdens on local units of government, particularly school districts and MCDs. One is the need facing those local governments to finance the services that are needed. The other is the fact that schools and municipal services both have been supported disproportionately by local property taxes. The fact that different local governments all draw funds from a common property taxes resource puts them in a kind of competition with one another for acquiring and using this limited tax resource. Moreover, decisions made by a city to permit or encourage development impose burdens on the school district or districts that must provide services to children drawn into their jurisdiction by the new development. The cities control development, and the school districts play no direct role in decisions about how or when development occurs.

This is a situation located at the intersection of (1) the metropolitan growth and land development process, (2) local political geography, and (3) state and local fiscal relations. It is to this situation and related issues that this report is addressed.

The Transportation and Regional Growth Study

Part I of the Transportation and Regional Growth Study produced two volumes of analysis of land development in the 24-county Minneapolis-St. Paul. Those reports portrayed and discussed the connections between **transportation** and **land use** from various perspectives: local land development, school district finance, housing markets, highway transportation links, and local government actors (**Figure 1.1**). The chapters that follow represent attempts to dissect the dynamic that shapes our metropolitan region into its component parts, and to demonstrate the processes by which these elements interact in specific places. They contain a different kind of cross-sectional analysis, the case study, which cuts vertically through the several layers of landscape development portrayed in our earlier work.

We selected several MCDs from our original 24-county study area, and in this report we take a close look at how the variables that shape initial development and the forces that drive change come together in each place. The approach is a traverse across several geographical scales, starting at the metropolitan region, then zooming in to look at individual local units of government (school districts and Minor Civil Divisions), then reassembling those constituent parts to illustrate selected dynamics of the metropolitan system.

The boxes within the chart represent selected elements of metropolitan dynamics that are included in the investigation; the arrows indicate interactions among those elements. The chart itself illustrates a general argument, as presented in our earlier work, about the structure and dynamics of the region in recent decades. We argue that economic and social incentives guide the behaviors of individuals, households, businesses, institutions, public agencies, and local governments. These behaviors shape land use patterns and transportation activity. These land use arrangements and transportation systems feed back to influence subsequent behavior, in a continuing process of “circular and cumulative causation.”

The case studies developed in this report illustrate for specific places the general processes that connect highway transportation and regional growth:

- Economic growth accompanies population increase and brings new residential development, mostly at the edge of the metropolitan region.
- This growth brings new jobs.
- Commercial development follows new residences and the purchasing power of the households that occupy them.

Twin Cities Regional Dynamics

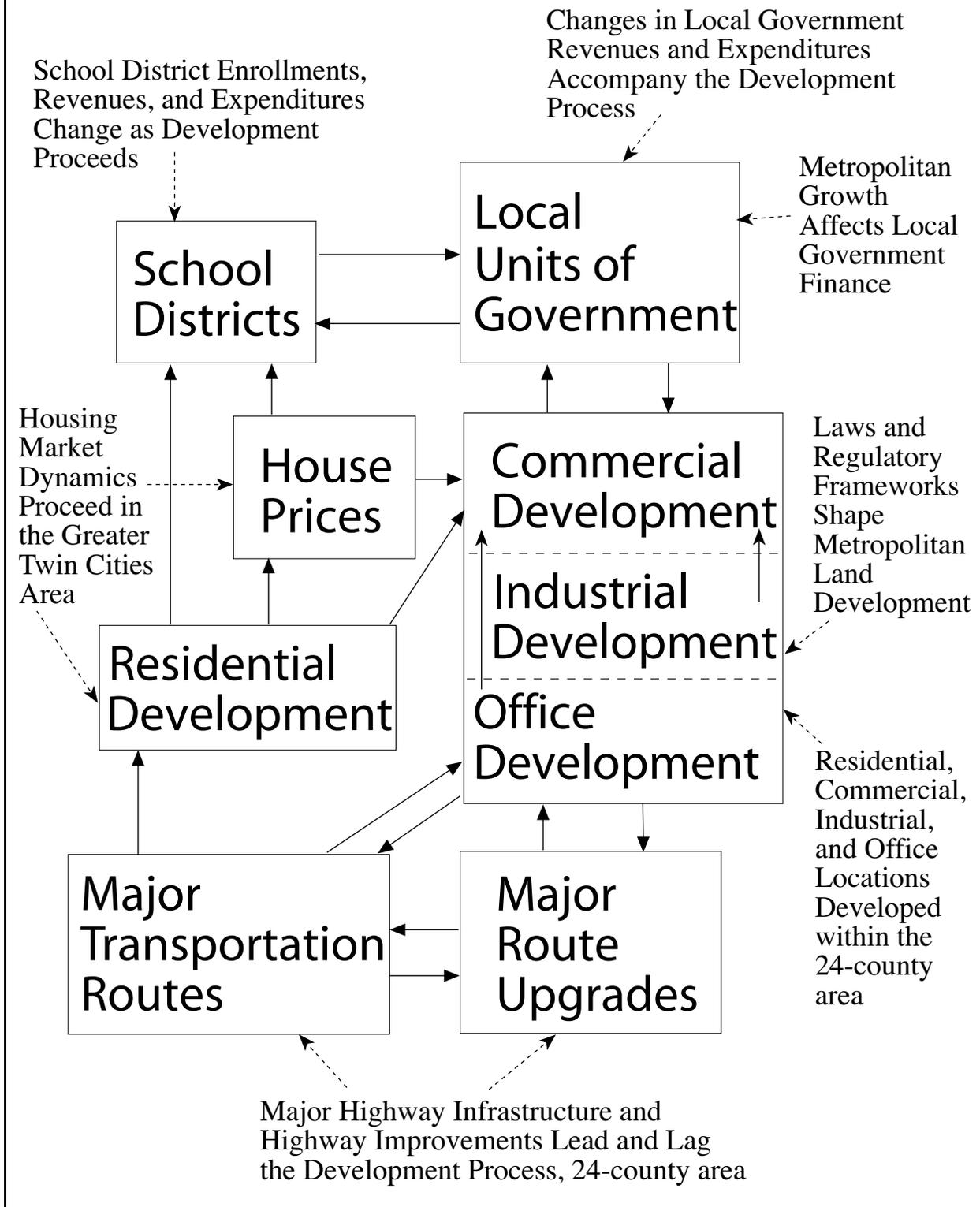


Figure 1.1. Transportation and Regional Growth Study: 1970-2000

- Industry expands at the edge on open sites, and adds jobs that in turn attract more households.
- Office construction proceeds in the two downtowns and at other accessible locations around the region.
- The region's highway network facilitates dispersal of these activities across all parts of the metropolitan built-up area.
- Economic changes yield higher household incomes, disaggregation of business into separate components at diverse locations, multiple employers, and more females in the labor force.
- Demographic changes mean more people, living longer.
- Both economic and demographic changes lead to increased travel demand, and higher auto usage, in more vehicles over longer distances.
- Travel demand begins to exceed highway infrastructure, and congestion results.

This set of case studies suggests that the economic costs and benefits of this development process accrue unevenly, across both time and space, to different subareas—and thus sub-populations—of the metropolitan region.

Local decision making also is presumed to be a driver of change in each of these case studies, because we have observed that places with similar initial resource endowments, located within similar situations within the metropolitan area, sometimes develop in quite different ways. Local governments are obligated to raise revenues to meet costs, and frequently plan land use within their jurisdictions, with an eye toward minimizing municipal expenditures and maximizing property tax revenues, using development subsidies and zoning codes to direct, restrict, or promote different kinds of land use. While there are limits to the extent to which local leaders can influence development within their cities, their goals and objectives and their decisions do make a difference.

Geographical Conditions and Forces that Shape Twin Cities Places

An MCD may lie within or outside the dominant directional paths of a metro area's outward growth and development. Three features of the greater Twin Cities area have defined the dominant sectors of post-war suburban development. First was the pre-war circulation network and related Twin Cities interactions with regional markets and sources of migrants to the cities. Second was the supply of suburban land that lay ripe for post-war tract house development. Third was the distribution of population within the central cities that supplied much of the post-war suburban push outward.

Five Historic Spokes of Growth

At the beginning of the post-World War II building boom, almost all jobs in the metropolitan area were located inside the two central cities. At the same time, most of the land available for expansion of the housing stock lay outside the cities. There was no plan for a new and different program of development for the transportation and utility system, so patterns of residential expansion followed the existing circulation network which joined potential suburban neighborhoods to the central cities (**Figure 1.2**). [1] That suburban circulation network was rather thin, consisting of a few U.S. and Minnesota highways that fanned out radially from the downtowns into the surrounding countryside. These paved highways were supplemented by a thin web of additional paved roads, along with section-line roads and many on half-section lines. Most were gravel or graded dirt, as they had been since the 1920s.

The most extensive development of paved roads followed five historic spokes of scattered suburban development. The largest and most important spoke pointed westward from Minneapolis, through Hopkins to the hilly, wooded, indented shores of Lake Minnetonka. Another pointed northeast from St. Paul to White Bear Lake. A third extended southeast from St. Paul along the railroad-industrial belt to South Saint Paul. Another followed flat land southward from downtown Minneapolis through an area of truck farms to the bluffs of the Minnesota River. The fifth and least developed followed the rail-industrial zone along the Mississippi River upstream from downtown Minneapolis along the route of three of the five main railroads to the northwest. [1] The legacy of these early spokes of growth is a series of old cities and towns that grew up in an earlier time, and by the post-war era contained old industrial activity with adjacent housing, some dating from the 19th century. White Bear, Anoka, Hopkins, Shakopee, Hastings, and South St. Paul are examples.

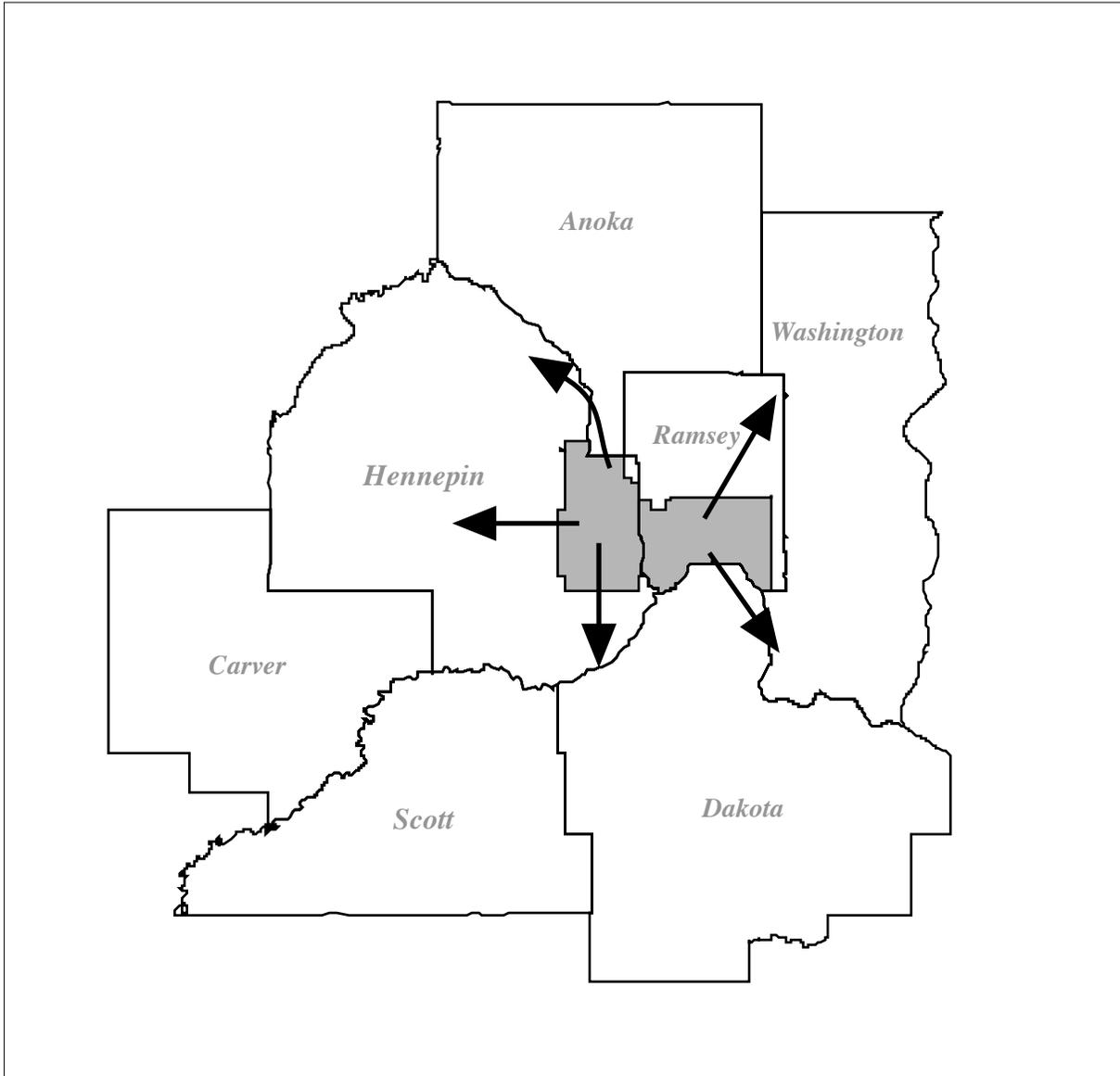


Fig. 1.2. Five Historic Spokes of Twin Cities Area Growth

Based on analyses by John R. Borchert. See R. F. Abler, J. S. Adams and J. R. Borchert. *St. Paul-Minneapolis: The Twin Cities*. Cambridge, MA: Balinger Publishing Company, 1976, pp. 53-54.

Supplies of Developable Land

Suburban portions of some of these historic spokes were served by streetcar lines, for example to Hopkins, White Bear Lake, or South St. Paul. But these lines and the old industrial areas that they served were generally bypassed by the new suburbanites. Moving from a large old industrial city to a small old industrial city was not an attractive option (**Figure 1.3**). Instead, the new suburbanites were served by the hundreds of small builders who constructed the majority of new post-war houses using mainly farmland at the edges of existing development. The main sectors of suburban expansion through the 1960s were south, northwest, and north of Minneapolis, and north of St. Paul. Early thrusts of post-war suburban residential development in these directions created demand for expanded and new highway capacity, which when provided reinforced development in these same directions.

New Housing Demand from within the Central Cities

Well over half the population of Minneapolis at the end of World War II lived in South Minneapolis. Given the tendency of households moving to newer and better housing to move outward from their current housing, it was obvious why Richfield and central Bloomington boomed quickly from 1945 through the 1960s. A large supply of new housing in those suburbs was accompanied by an equally large effective demand—a demand that was steadily supplemented by large-scale migrations from rural areas west, southwest and south of the Twin Cities into the rental housing stock south of downtown Minneapolis.

The second largest population base in Minneapolis in 1945 was in North Minneapolis, which supplied demand for new housing being added in nearby suburbs of Golden Valley, Crystal, Robbinsdale, New Hope, and Brooklyn Park. East Minneapolis had only a small population, with lower incomes and less inclination to move outward. So suburban development in Columbia Heights and beyond was modest in volume and pace in the early post-war years.

Western St. Paul held the majority of that city's population in 1945, but a substantial amount of vacant land inside the city still was available at the end of the war, so suburban development outside the city was delayed compared with Minneapolis. When it did begin to flourish, Roseville was the first major suburb to boom. The East Side was slow to fill, and suburbs near the East Side were slow to develop.

In the context of these eccentric patterns of post-war suburban development around Minneapolis and St. Paul, we can see that an MCD may have resided within or outside the dominant paths of the region's outward growth. The fast growth sectors have mainly been on the western

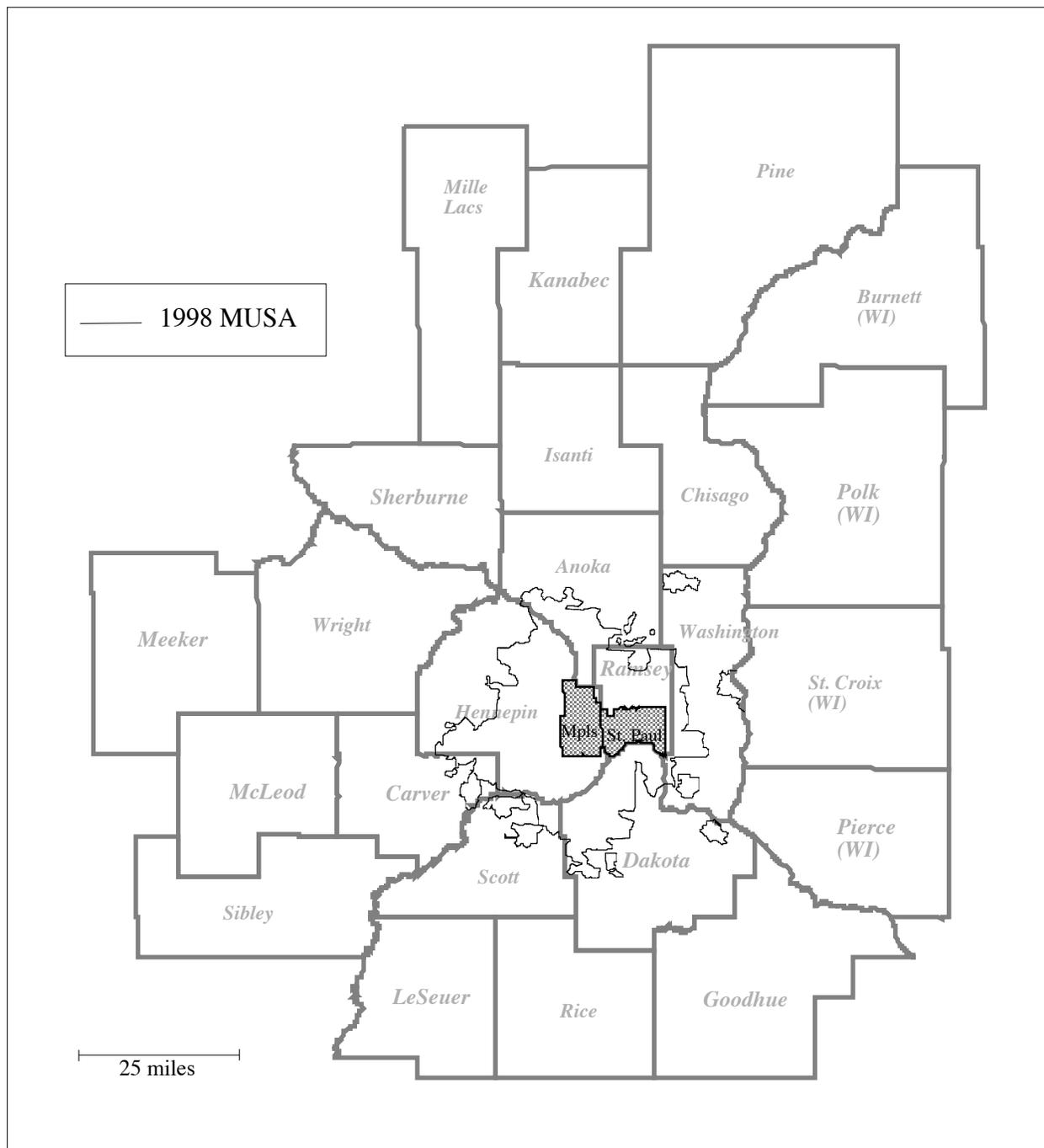


Figure 1.3. 24-County Study Area with 1998 Metropolitan Urban Services Area (MUSA) Boundary

side of the Twin Cities area, and have usually been aligned with major transportation routes, which helped fuel that outward development. Perhaps the best example was the opening of I35W through Richfield and Bloomington in the late 1950s, spurring their already vigorous development.

We selected the case studies to represent the diversity of geographical settings (e.g., within or outside major sectors of suburban expansion) and the variety of eras (e.g., 1950s vs. 1970s vs. 1990s) when MCDs experienced their first wave of suburban development. Rural townships devoted mainly to farming that happened to lie in the path of a major development sector in the 1950s experienced growth and development in one pattern. Small, old industrial cities lying outside fast-growth sectors had a different growth and development experience in the 1970s. Farm service centers lying in the path of rapid suburban development charted still another course in the 1990s, which differs from the experience of other service centers in slow-growth sectors in an earlier time, or located remote from the urbanizing area and the highways that serve it today.

The Regional Setting

The Twin Cities developed as a crossroads within the Upper Midwest, where pre-European-settlement trails linked the 19th-century cities to the state, the region, and nearby parts of Manitoba. As railroads developed they often followed these trails, reinforcing them as trade routes and promoting settlement along them. As the region's natural resources were further developed and settlement expanded, roads and highways were built, often alongside the rail routes, reinforcing intra-regional linkages and the transportation network as a whole. This expanded infrastructure in turn promoted further economic development, in a process of circular and cumulative causation.

By 1940, 14 major highway corridors radiated in all directions from the Twin Cities into the Upper Midwest region (**Figure 1.4**). In the post-war era, these major highways carried an increasing share of the freight and passenger load for the region with each passing decade, and the network of lesser routes expanded outward from them, linking the expanding Twin Cities metropolis with its region. After World War II, the rich market areas and migration fields to the west, northwest, southwest and south of the Twin Cities fed rapid population and economic growth in Minneapolis, while St. Paul's less populous and less prosperous hinterlands to the north, east, and southeast, along with competition from Chicago, provided that city with less fuel for growth.

Within the two cities, population in Minneapolis historically was concentrated mainly on the

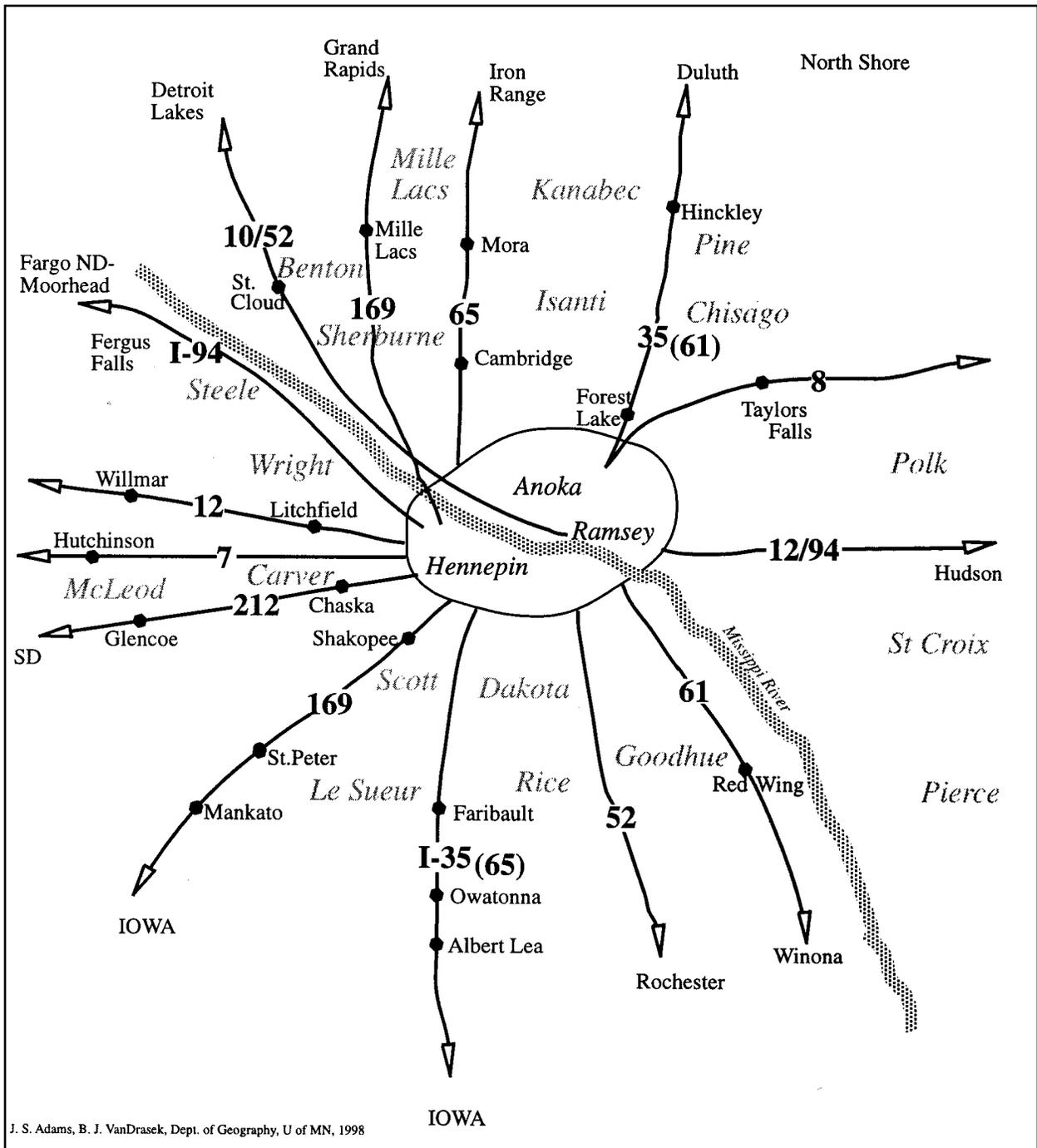


Figure 1.4. Main Historic Highway Corridors Serving the Twin Cities

south side, and to a lesser extent on the north side. St. Paul's original concentration of population around downtown grew less rapidly, as the tributary areas to the east and north contained forests or unproductive farmland and attracted little development.

Expansion beyond the cities' boundaries began in earnest in the 1950s, with spillover into streetcar suburbs (Richfield, Edina, St. Louis Park, Roseville, West St. Paul), a few commuter suburbs that were connected by streetcar and then bus routes (Wayzata, Excelsior, White Bear Lake), and a handful of suburbs that grew up around industrial sites (Hopkins, South St. Paul). Abundant, flat open land and good transport connections in all directions facilitated rapid, low-density development into 2nd- and 3rd-ring suburbs.

Low-density outward expansion of residential settlement and accompanying land development (office, industry, commerce) has continued at an increasing pace since the 1960s, both facilitated by and prompting constant upgrading of the metropolitan highway network (**Figure 1.5**). Infrastructure investment usually is followed by real estate investment, and real estate investment must provide a financial return to investors. Pressure is brought upon both state and local officials to upgrade infrastructure to serve economic development interests, and those officials wish to promote economic development in order to generate tax revenues, and so the cycle continues.

Municipal Finance, Property Taxes, and School Districts

Adding to the complexity of metropolitan development patterns is the involved overlay of taxing jurisdictions. From the perspective of local (MCD) leaders charged with balancing budgets, few things are more important than the local tax base. Most cities depend on the property tax for much of their operating revenue, and homeowners pay the share of property tax that commercial, industrial, and office properties do not. Politically, a favorable ratio of service levels to taxation levels makes for satisfied residents, so policy makers try to strike a reasonable balance. City taxes are only part of the total property tax bill, however, so if other local taxes (county, school district, special district) drive up total levies sufficiently, residents may demand relief via more non-residential development.

School district finances also play a role in local government taxation strategies. Most Twin Cities suburbs lie within multi-city K-12 public school districts, and taxes to support public schools comprise a large segment of a homeowner's property tax bill. Prior to a restructuring of

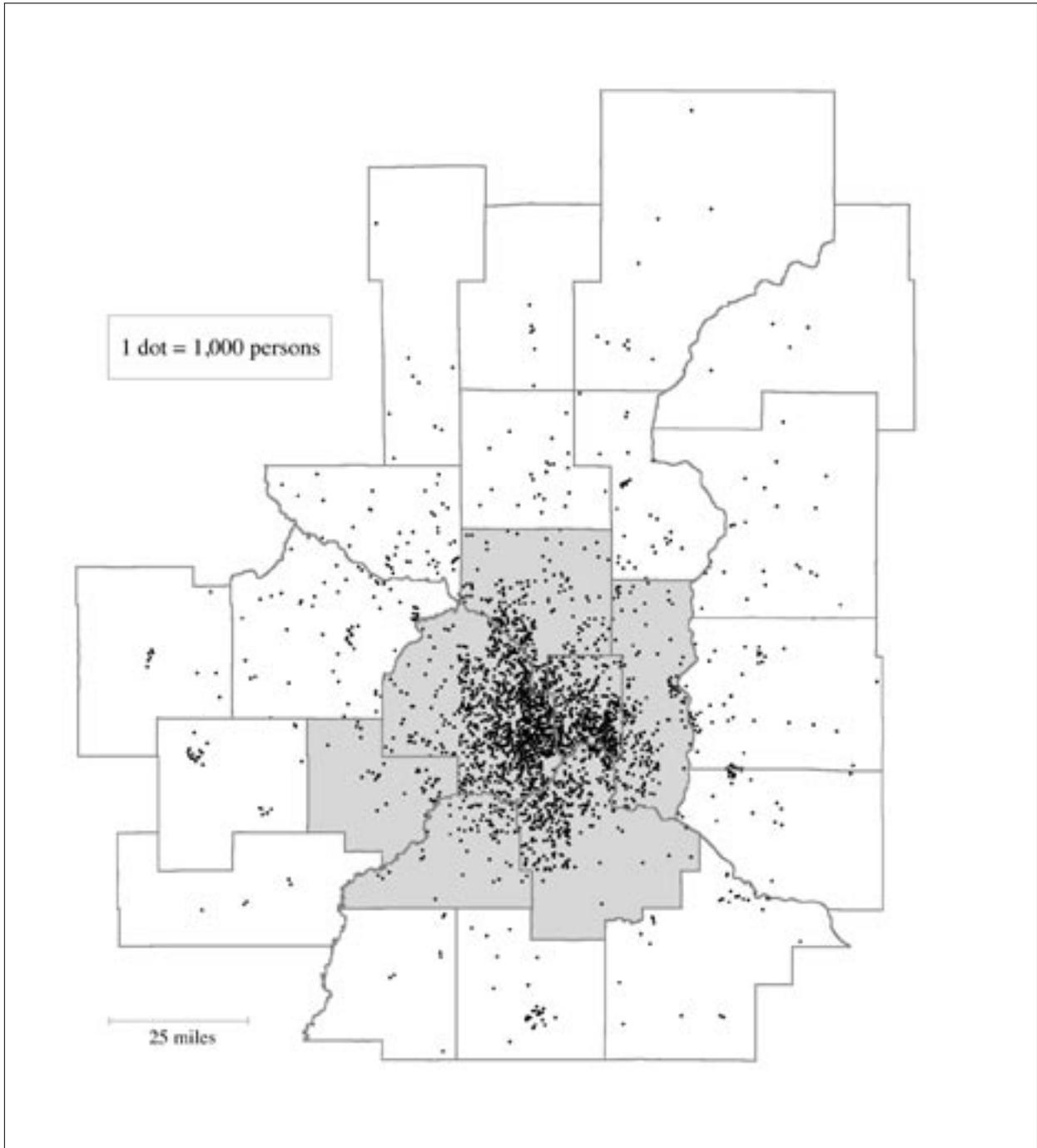


Figure 1.5. Population Distribution, 2000, 24-County Study area, with 7 Core Counties Highlighted

education finance in 2001, nearly half of local property taxes went to support K-12 schools.

A rising property tax bill means different things in different places. In a city or township with rising assessed valuation, tax *rates* can fall while still keeping pace with the MCD's tax burdens. In a city or township where values are not increasing, tax rates *and* total tax bills will continue to rise.

School districts cannot control the geography of property assessments and property taxes within their constituent cities, which tend to experience uneven growth and development rates. School districts must impose a uniform tax on all, regardless of differential ability to pay. For example, the South Washington County School District serves parts or all of five different MCDs, including prosperous Woodbury and not-so-prosperous Grey Cloud Island Township. When real property within a municipality or unincorporated township is reassessed periodically for tax purposes, it usually tends to increase in market value and therefore assessed value, and thus an increase in the local levy (i.e., the amount of property tax that will be collected by the taxing jurisdiction) can be captured with the same or reduced tax rates. But in a district composed of multiple municipalities and townships, property reassessments seldom occur simultaneously. If property values are assessed upward in Municipality A and not in neighboring Municipality B, elected officials in Municipality A will face pressure from their constituents to lower (or at least not raise) tax rates. Until 2002, the state legislature based the amount of state aid it provided for the school district on the district's property tax base, which was understood as representing its ability to fund school needs locally. As property values rose, state aid fell, and the difference had to be made up through local property taxes. Under the recent restructuring, municipal tax burdens still affect the willingness of voters to support supplementary school levies. Local levies and property tax rates, therefore, must be adjusted appropriately. If they are not, the school district will face a budget shortfall. Additionally, rising property values typically result from population growth, which normally places additional demands upon the school district for services.

Since the school district levy was collected from all taxable real estate located within its borders, the burden of any state aid reduction caused by rising property values anywhere within the district was borne by all constituent municipalities, and fell disproportionately upon the shoulders of owners with properties in those cities where assessed values have not risen. There was a certain time lag within this process, because foundation school aid formulas were based on assessed values from prior years, not the current year.

There were, and still are, ample sources for political pressure within this system from residents and others property owners. The important consequence for municipalities, however, is that sometimes their desire to plan and control development and growth rates within their borders is undercut by their need simply to pay the bills through some source other than residential property tax. If residents feel overburdened by taxes, or fail to see that they are getting good services for their tax dollars, one consequence can be a refusal to pass capital bonding referenda. Thus a school district that needs to raise substantial funds for capital projects (which must be put to a referendum) might find resistance from voters and elected officials in constituent cities with low growth rates and stagnant property values.

What We Know Thus Far

Every place has both a unique character as well as traits in common with its neighbors. There are few accidents of site and situation; places develop where they do and how they do for logical reasons. The advantages and drawbacks of a location can and usually do change over time, especially for places that sit amid a growing and expanding metropolitan region like the Twin Cities. Perhaps the great challenge facing local decision makers is that certain facets of the geography of their places are immutable, while the geography of people, economies, and society is constantly shifting, at a scale that is broader than the city or other local territory. Yet initial advantage can leave a critical legacy depending on how it is handled. For example, cities with leaders and citizens who felt an early need and desire to adopt thoughtful and forward-looking land use plans and development controls have been less likely to be overrun by haphazard later growth. Cities such as Maple Grove with a legacy of strong community cohesion—because they started as a village or town—probably had and reinforced a self-image or identity that has helped guide the character of further development. Places such as Woodbury that formed around a wealth of natural amenities may continue to draw new residents on that basis. And places such as Richfield that grew up at a transportation crossroads at the edge of South Minneapolis, one of the Twin Cities strongest middle-class residential submarkets, had a competitive edge that could work for or against them in later years, depending upon local ingenuity.

Chapter 1 Notes

1. Abler, R. F., Adams, J. S., and Borchert, J. R. 1976. The Twin Cities of St. Paul and Minneapolis. Cambridge, MA: Ballinger Publishing Company, pp. 53-4.

Chapter 2

Eight Case Studies

Why Examine Case Studies of Minor Civil Divisions and School Districts?

Across the United States there are significant differences in the ways that states organize territory for purposes of raising revenues and delivering local services. [1] In many parts of the South, for example, school districts are organized on a county basis, with the county boundary and the school district boundary coinciding. Texas law permits major cities like Dallas and Houston to annex nearby unincorporated areas without difficulty whereas most other states including Minnesota make such annexation difficult. In non-metropolitan parts of Wisconsin, the town is an important unit of local government, and many towns (equivalent in areal extent to townships in Minnesota) exercise all local government functions over areas typically 36 square miles, while nucleated places at the center of such towns carry names and distinct identities but have no municipal boundaries or legal existence.

In Minnesota, the township and incorporated municipality or municipalities within it have separate legal existence, separate governing boards, separate taxing and spending functions, and often behave as competitors for population, development, and resources. Minnesota evidently likes local governments. It has more governmental units than all but six states (CA, IL, KS, OH, PA, TX) and has more of them per capita than most other states in the U.S. In the 24-county study area covered by the Transportation and Regional Growth Study, there are well over 600 local governments of all kinds.

One result of this dense network of local jurisdictions is the way it creates direct and indirect competition for land development, real estate investment, and tax base. The 1971 “fiscal disparities act” (officially known as the Charles R. Weaver Revenue Distribution Act) was designed to lessen differences in tax bases among communities within the 7-county Twin Cities area of Metropolitan Council jurisdiction, but the reach of the law is limited. It applies only to commercial-industrial properties, and does not apply to the 17 counties of the greater Twin Cities region beyond the seven core counties (Ramsey, Hennepin, Washington, Dakota, Scott, Carver, Anoka).

During the era of explosive suburbanization and proliferation of suburban municipalities adjacent to U.S. cities during the 1950s, economist Charles M. Tiebout described a theoretical mechanism that he argued would aim toward achieving efficient public-goods provision at the local level and characterized specific conditions under which it would work. [2] The mechanism is easily summarized as follows. One factor that individual households consider when they decide which community to live in is the tax burden and services package provided in various communities. If there are many local communities from which to select, each with a different mix of taxes and services, households are likely to select the one that in their opinion best suits their resources and their preferences, presumably the one in which tax levels and services are closest to closest to their desired amounts.

In essence, according to Tiebout, households “shop around” among available localities and “buy” the one that seems to be best for them. [3] The greater Twin Cities area is a good place to invoke the Tiebout argument because of the large number of localities from which households can select a place to live and a school district for their kids. There are hundreds of small jurisdictions from which to choose, and it is relatively easy to observe differences from place to place in tax levels and service mix. Moreover, if the initial choice of an MCD turns out to be unsatisfactory, a household can usually move but a short distance and settle in an adjacent MCD. Sometimes one can stay within the same city while changing school districts; sometimes one can change school districts but remain in the same city; sometimes one changes school districts by changing city of residence; and sometimes a move to a different house involves no change in either city or school district. It was from this variety of situations that our case studies were selected for description and analysis.

Selection of Cases

We selected four cities and four school districts that would provide contrasting examples of geographic diversity (site and situation), administrative unit diversity (MCD types, SD types), interaction diversity (contiguous MCD/SD; multi-MCD SD; multi-SD MCD), and varying development status (fast-growth, slow-growth, stability).

The eight types of cases provide contrasting examples of:

- geographic diversity (i.e., different kinds of sites; different situation or relative locations within the metro area);

- administrative diversity (i.e., types of MCDs; types of school districts);
- interaction diversity (i.e., school district and MCD coincide; several MCDs in one school district; more than one school district serving residents of a single MCD); and
- varying stages in the development process (i.e., fast-growing, slow-growing; stable or declining) (**Figure 2.1**).

To illustrate the effects of geographic diversity, we selected from among several housing submarkets or housing sectors of the Twin Cities metropolitan region (**Figure 2.2**). We chose to examine local development dynamics within more than one type of administrative unit because within our metropolitan region several of these units overlie one another at each location, and their interplay is important in shaping the development landscape. From among these overlapping jurisdictions we selected a variety of configurations, to illustrate how differing administrative relationships can affect development. Finally, a variety of development levels or outcomes was important, as both cause and effect in this story of circular and cumulative causation.

Four Cities at Different Stages in the Development Process

Within each set of cases, we also selected individual examples that would illustrate several types of settings and development histories within the post-war suburbanization process. We were striving to select a set of cases that would allow us to point out similarities as well as differences. Four cities were selected, to illustrate municipal development processes at different times and locations and their associated fiscal issues.

- **Brooklyn Center** is an older inner-ring suburb adjacent to North Minneapolis; it filled in fast during the early post-World War II years and today faces growing social and economic problems.
- **Eagan** is a fast-growing second-ring suburb south of St. Paul beyond Mendota Heights and located in a geographic sector on the side of the metropolitan area opposite from Brooklyn Center;
- **Maple Grove** is a third-ring suburb northwest of Minneapolis beyond Brooklyn Center and Brooklyn Park and is fast-developing on the outer edge of the built-up area; and

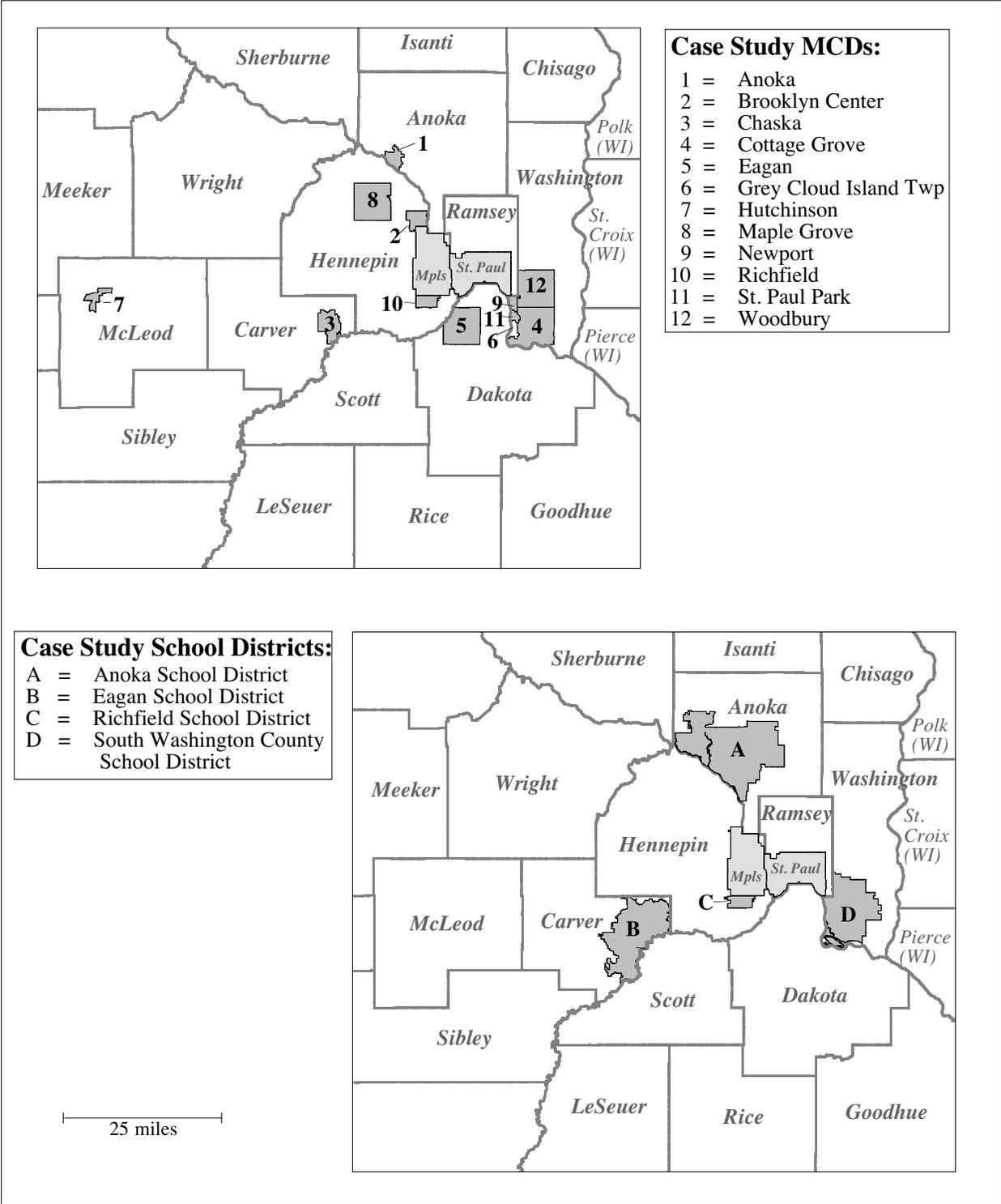


Figure 2.1. Four Case-Study MCDs, Four Case-Study School Districts

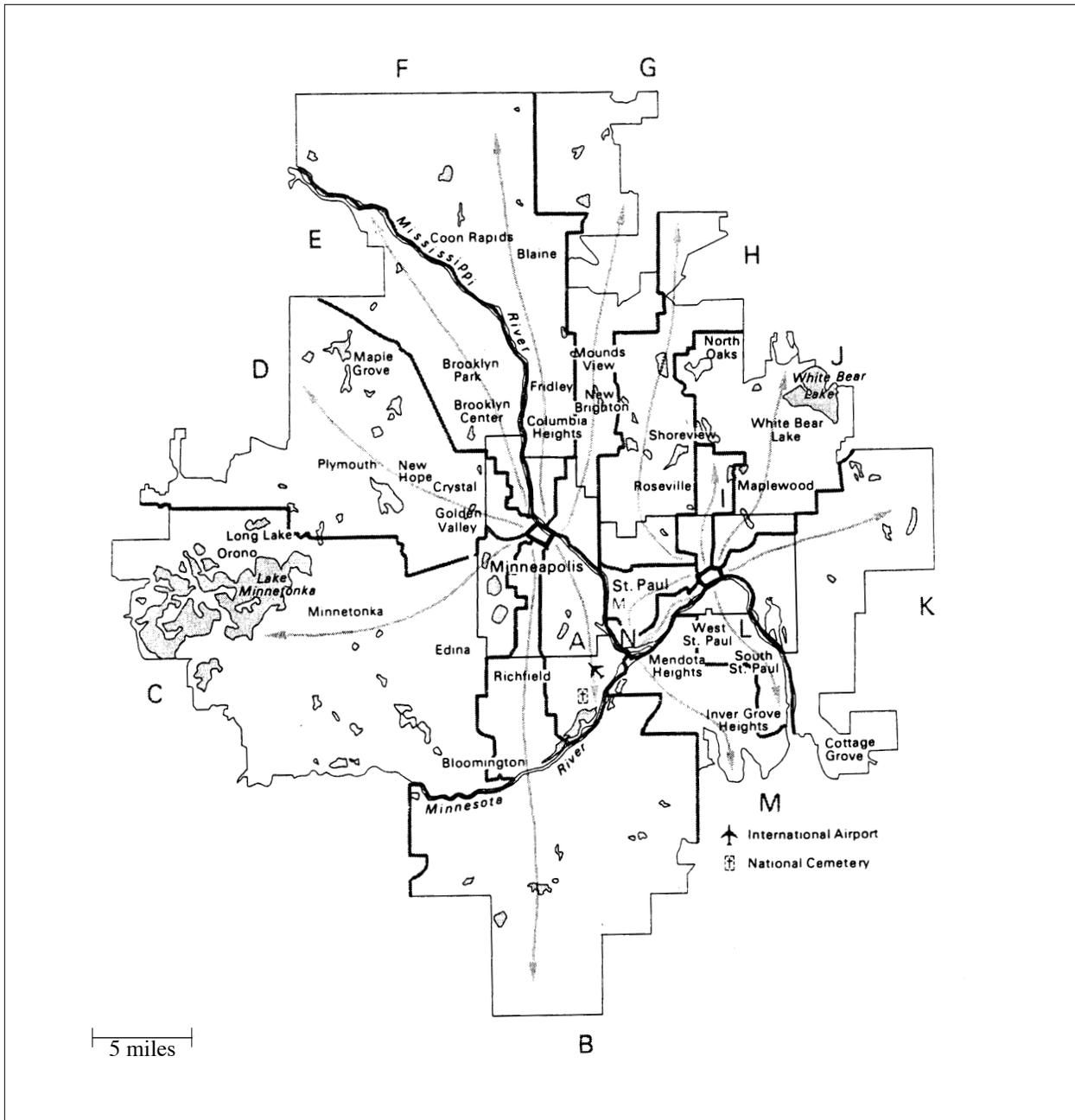


Figure 2.2. Twin Cities Housing Submarkets, 1920s to 1970s.

Source: John S. Adams and Barbara J. VanDrasek. 1993. Minneapolis-St. Paul: People, Place, and Public Life. Minneapolis, MN: University of Minnesota Press, p. 105.

- **Hutchinson** is a separate small city in McLeod County west of Carver County, beyond the built-up margins of the Twin Cities metropolitan area and recently affected by Twin Cities growth to the west.

With regard to fiscal matters (i.e., revenue raising and expenditures) MCDs in any state have a certain common legal status and incur statutory responsibilities that are codified in state law. For example in Minnesota, each MCDs must at the very least:

- raise revenues from taxes, fees, fines, sales, rents, and intergovernmental transfers;
- provide services, and build and maintain public infrastructure;
- decide through the budgeting process on a mix and a level of expenditures;
- manage the impacts of population, economic (and occasionally territorial) growth or decline;
- coordinate land development plans and related activity with neighbors and other governments; and
- satisfy voters.

Geographical differences of the following types are important:

- the physical setting and natural resource base, as well as the needs and preferences of the community, which vary from place to place, not only within MCDs but among them;
- the MCD's position or situation within the region's outward growth trajectory, which varies depending upon its location within a fast- or slow-growth sector, or within a prosperous or middle-class or working-class sector; and
- the MCD's economic base, which will vary, depending upon initial resource advantages, local leadership, entrepreneurship and development history, among other things.

Geographical differences will exert some influence on the distinctive ways in which each of the foregoing efforts will play out from place to place. The cases we chose bring together the various elements that influence growth and development at the local level, and illustrate how cities that appear similar on many dimensions end up with dramatically different growth profiles.

Two School Districts, Each Focusing on One Primary MCD

We selected the Anoka School District and the Chaska School District. The Anoka district northwest of Minneapolis focuses on the city of Anoka. The school district covers a large area, but outside of Anoka it is sparsely populated with several scattered nucleated settlements. The Chaska district focuses on the city of Chaska, and both lie within in a residential sector southwest of Minneapolis that has been growing fast. A distinctive feature of the school district is the unusually high level of cooperation among the various governmental units that overlap within it.

These two case studies cases will examine the interaction between school district finance, MCD growth and development, and local government finance, in two very different sectors of the metropolitan area. Both districts are large, extending over much low-density territory. Schools are clustered in and near the core cities of Anoka and Chaska. Each district is located in a different sector of the metropolitan area with different recent growth histories and prospects. In these cases we are interested in the geography of schools and pupils, school transportation issues, the financial implications of these factors, as well as the effects of these elements on the municipal finances of Anoka and Chaska, and other school district member cities.

One School District and All of Its Diverse Constituent MCDs

This South Washington County School District serves an area east and southeast of St. Paul and includes all or most of four municipalities plus a township: Cottage Grove, Grey Cloud Island (Township), Newport, St. Paul Park, and Woodbury. Each has had a different development and growth history, and each has different future prospects. In this case we focus on no particular MCD, but instead examine the dynamics among them. The four cities and the township have significantly different characters and resources, but they are all are served by the same K-12 school district. Residents and businesses in all MCDs help to support the school district through the local property taxes that they pay.

One School District and MCD with Boundaries Roughly Coincident

Richfield is a first-ring suburb immediately adjacent to south Minneapolis that built up almost completely between the late 1940s and 1960, and where K-12 population peaked in the 1970s. The city is aging in a manner similar to Brooklyn Center, St. Louis Park, Golden Valley,

Roseville, and West St. Paul, other first-ring suburbs that quickly became almost fully developed in the 1950s and since then has been aging. In Richfield's case, the aging has been accompanied by declining school populations. The issues of interest here are:

- How does a mature suburban city maintain and renew its property tax base?
- How does it maintain quality schools in the face of declining enrollments?

The Richfield case provides a contrast between the multi-city school district and a single-city district, and also highlights the specific challenges faced by an aging inner-ring suburb, both in its local government operations and in its maintenance of quality K-12 education within its boundaries.

Chapter 2 Notes

1. Fisher, R. C. 1996. State and Local Public Finance. Chicago: Richard D. Irwin, p. 308.
2. Tiebout, C. M. 1956. "The Pure Theory of Local Expenditures," Journal of Political Economy 64, pp. 416-424; Fisher op cit., pp. 104-118.
3. Fisher op. cit., p. 105.

Chapter 3

Four Cities: Geographical Settings and Development Histories

We selected four cities to illustrate how the suburban development process occurred at different times and places, and how those differences were linked with fiscal issues that new suburban cities confronted as the development process proceeded. Brooklyn Center is an older inner-ring suburb adjacent to North Minneapolis, which filled up fast during the early post-World War II years and recently faces growing social and economic problems. Eagan is a fast-growing second-ring suburb south of St. Paul beyond Mendota Heights, and located in the southeast quadrant of the metropolitan area. It expanded fast in the 1980s. Maple Grove is a third-ring suburb northwest of Minneapolis beyond Brooklyn Center and Brooklyn Park and during the 1990s was fast-developing on the outer edge of the built-up area. Hutchinson is a separate small city in McLeod County west of Carver County, well beyond the built-up margins of the Twin Cities metropolitan area but recently affected by Twin Cities growth to the west. As the Twin Cities region grew in population and economic activity after 1945, new suburban land development successively engulfed formerly agricultural areas that had lain beyond the earlier built-up area.

Brooklyn Center

Brooklyn Center is an aging first-ring suburb that shares the northwest border of Minneapolis (**Figure 3.1**). The city was mainly farmsteads until housing development began to spill into the city from North Minneapolis in the late 1940s and early 1950s. Early and rapid outward movement from Minneapolis of lower- and middle-income working-class households meant that suburbanization quickly began spreading beyond the first suburban ring. Development occurred so fast, in fact, that the second-ring suburb to the north, Brooklyn Park, imposed strict development restrictions in the early 1970s that confined land development to the southern half of the city in order to avoid a repeat of the Brooklyn Center experience, that is, filling up over a brief twenty year period and saddling the city with excessive homogeneity that promised later planning, development, and fiscal problems for the city. Brooklyn Center became fully developed, with peak growth of population and school-age cohorts, in the 1970s (**Figure 3.2**).

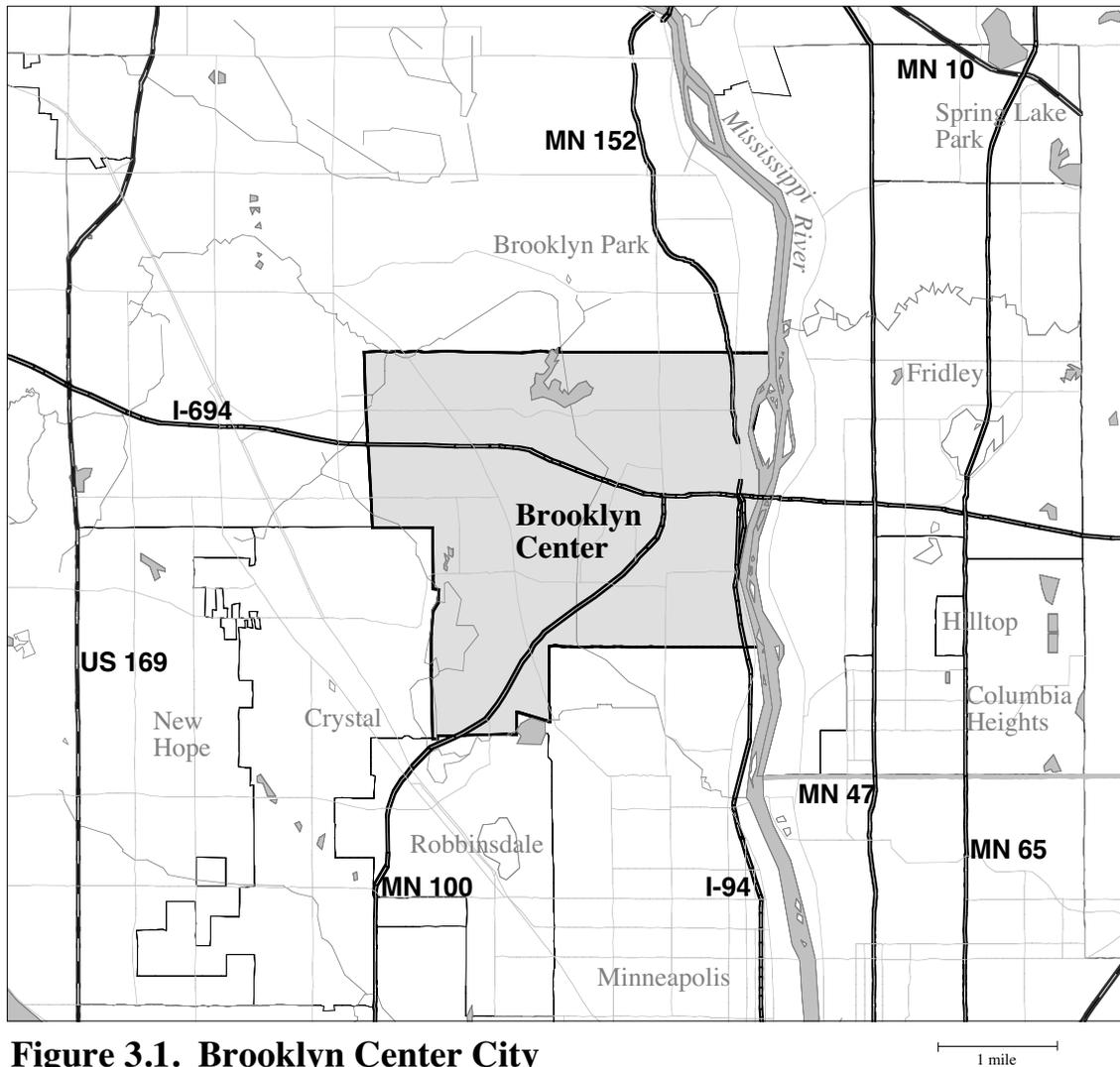


Figure 3.1. Brooklyn Center City

Since then, the city’s housing stock, composed mostly of bungalows and inexpensive rental units, has not been replenished.

Brooklyn Center is the site of one of the Twin Cities’ earliest regional shopping centers, Brookdale, which opened to great fanfare in 1962. For two decades Brookdale was the focus of suburban retailing for the north and northwest quadrants of the metropolitan area, while Southdale served the larger and more prosperous southwestern quadrant. In the 1980s, however, as strip malls and big-box retailing began to appear in great numbers in newer 2nd- and 3rd-ring northern suburbs, the centrality of aging Brookdale and the increasing volume of disposable

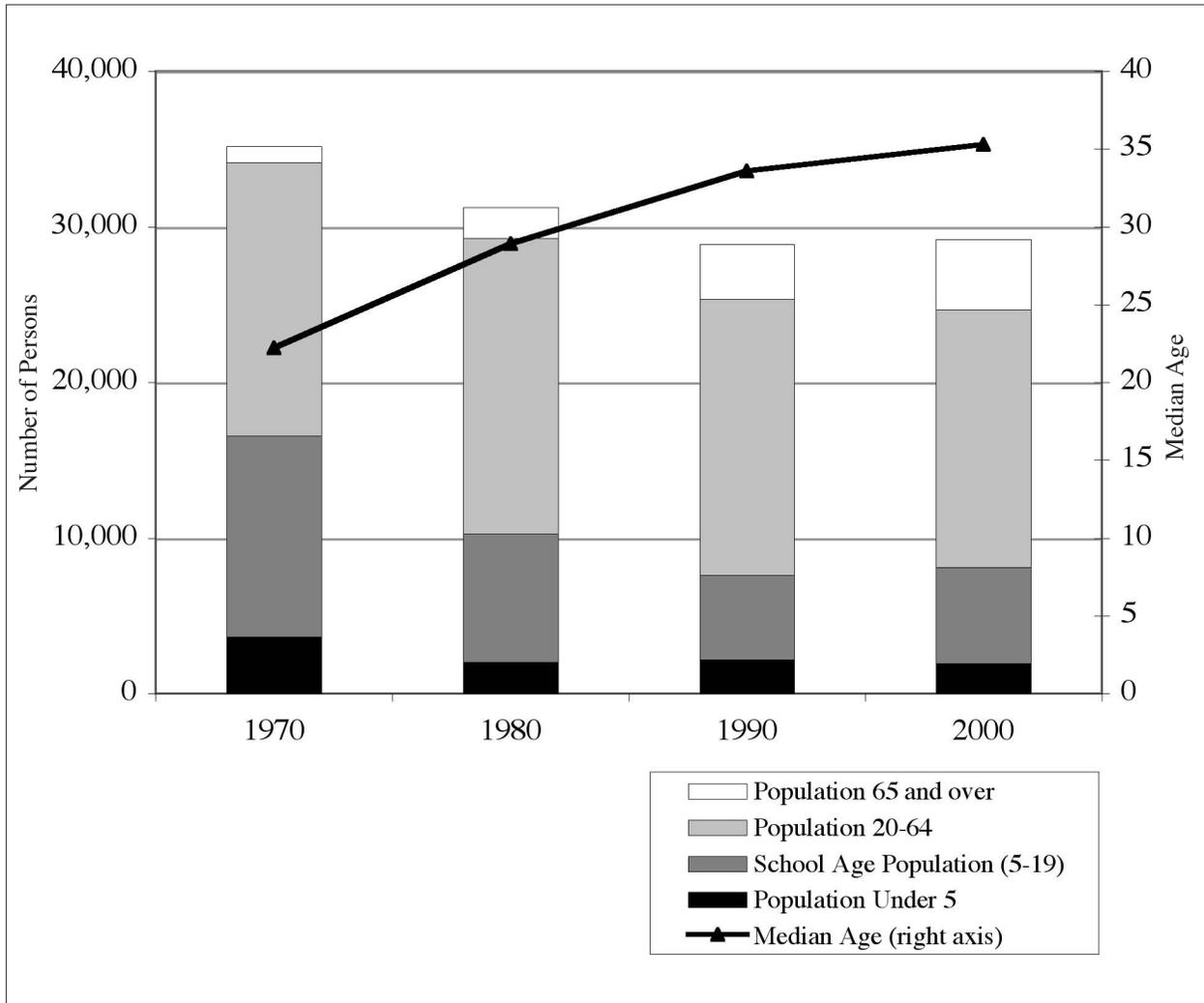


Figure 3.2. Brooklyn Center Demography, 1970-2000

Data Source: U.S. Bureau of the Census.

incomes in the portion of its market area to the east and south began to erode. Another regional shopping center, Ridgedale, was built in Minnetonka to the west while the suburban growth wave was peaking in Maple Grove, two rings beyond. By the 1990s, Brookdale had undergone financial restructuring and an attempt at renovation, but the purchasing power of the surrounding region could not sustain it. Upwardly mobile households from the lower-income minority populations of north Minneapolis also were migrating into Brooklyn Center, as housing prices declined and became more affordable.

Transportation

Brooklyn Center developed around the north and northwest edges of North Minneapolis during the first part of the 20th century and its early history was linked with railroads and industry. The Minneapolis & St. Louis Railroad (Soo Line) heading north from the St. Anthony Falls milling district hugged the west Mississippi River bank until it joined the Northern Pacific (now Soo Line) coming across the Mississippi River from Northeast Minneapolis. The two rail lines headed west from the mouth of Shingle Creek (an old mill stream), following the creek valley to the upland before continuing northwestward. For many decades these railroads carried steady streams of passenger traffic to and from the city, as well as grain from the west for Minneapolis mills, and manufactured goods from the Twin Cities to markets throughout the Upper Midwest.

As the era of railroad dominance waned following World War II, highways were improved around the Twin Cities, and Brooklyn Center was a major beneficiary as a radially oriented transportation system began to take on features of a region-serving network. Early railroads and highways that had served Minneapolis usually radiated outward from downtown and from the St. Anthony Falls Milling District. The layout of those rails and roads meant that it was easy to go in and out, but difficult to go from one line or road to another without entering the city. The resulting congestion in the city created delays and difficulties for business. So at the end of the 1930s, the highway department planned a highway “Belt Line” around Minneapolis and St. Paul. Highway 100, as it was called, was planned to run through the first-ring suburbs to facilitate easy circumferential movement. When the Belt Line was completed in the 1950s, it ran through Brooklyn Center. When the I-494/694 outer belt line was completed 20 years later, the old Belt Line and the new Belt Line intersected in Brooklyn Center. For many decades prior to the 1960s, US-169 was the northern extension of Lyndale Avenue through north Minneapolis and a popular route to Mille Lacs—running straight through Brooklyn Center. Eventually I-94 superseded the Lyndale Avenue route from downtown Minneapolis to the north, intersecting I-694 in Brooklyn Center.

The city’s location on the river, and its superior railroad and highway facilities and associated industrial land uses attracted numerous blue-collar homeowner households from early days, and post-war transportation developments reinforced the early working-class character in parts of the city. In addition, the city has had a diverse population much earlier than most Twin Cities first-ring suburbs. During the early decades of the 20th century a small enclave of African-American homeowners lived near the railroad lines in Brooklyn Center. The nucleus of this group was composed of families of unionized and well-paid Pullman porters who could afford to buy homes but lacked easy access to segregated housing markets in other parts of Minneapolis.

Like much of the area north of the Twin Cities, the terrain of Brooklyn Center is a flat to slightly rolling sandy plain overlying glacial moraine. The recent glaciation has left the area poorly drained with shallow lakes and slow moving creeks. Some lake frontage has been reserved for public parks and some supports private residential development. The eastern city limits of Brooklyn Center is the Mississippi River, but most of that riverfront supports a mix of transportation, commercial and industrial land uses, although there is some in public park land, and efforts are underway to reclaim additional riverfront for public open space and new development.

Development History

The township that became the city of Brooklyn Center grew explosively after World War II, undergoing the growth and land development experience of a classic first-ring suburb. Its population reached 18,000 by 1960, 24,000 by 1965, and 35,000 by 1970—doubling in a decade. But the fast growth of young Baby Boomer families was followed by decline after 1970 as the city filled and children moved away (**Figure 3.2**). School-age population dropped by half between 1970 and 2000, while the pre-school population stabilized at low levels. As the share of the young declined, median age of the Brooklyn Park population steadily increased from just over 20 years to 35 years of age.

As Brooklyn Center filled in, the annual rate of construction of new homes slowed quickly after 1970 (**Figure 3.3**). A certain amount of in-fill housing construction occurred in the 1980s, but by the 1990s almost none was recorded. Non-residential construction is another story, but activity levels remained modest during the past three decades. For the 1970s, the Bureau of the Census provided building permit data only for 1972 and 1979. From 1980 onward the data describe annual activity. By any standard, the record of only a few business permits of any kind is a modest one for a city of Brooklyn Center's size. On the other hand, a suburban city with a population that is stable or tending toward decline, and with a median household income that is slipping in rank compared with other cities in the metropolitan area, is a poor prospect for new capital investment or land redevelopment compared with opportunities available elsewhere in the area. Moreover, as a city ages and the costs of running the city rise, it is hard to balance municipal budgets when private and public resources available in the city fall short of needs.

Changing Population Composition

The peak years of the Baby Boom in America were 1959-60-61. After 1961 the number of births declined steadily into the early 1970s when an “echo boom” became apparent as increasing numbers of young adults born in the late 1940s and early 1950s began their families. The

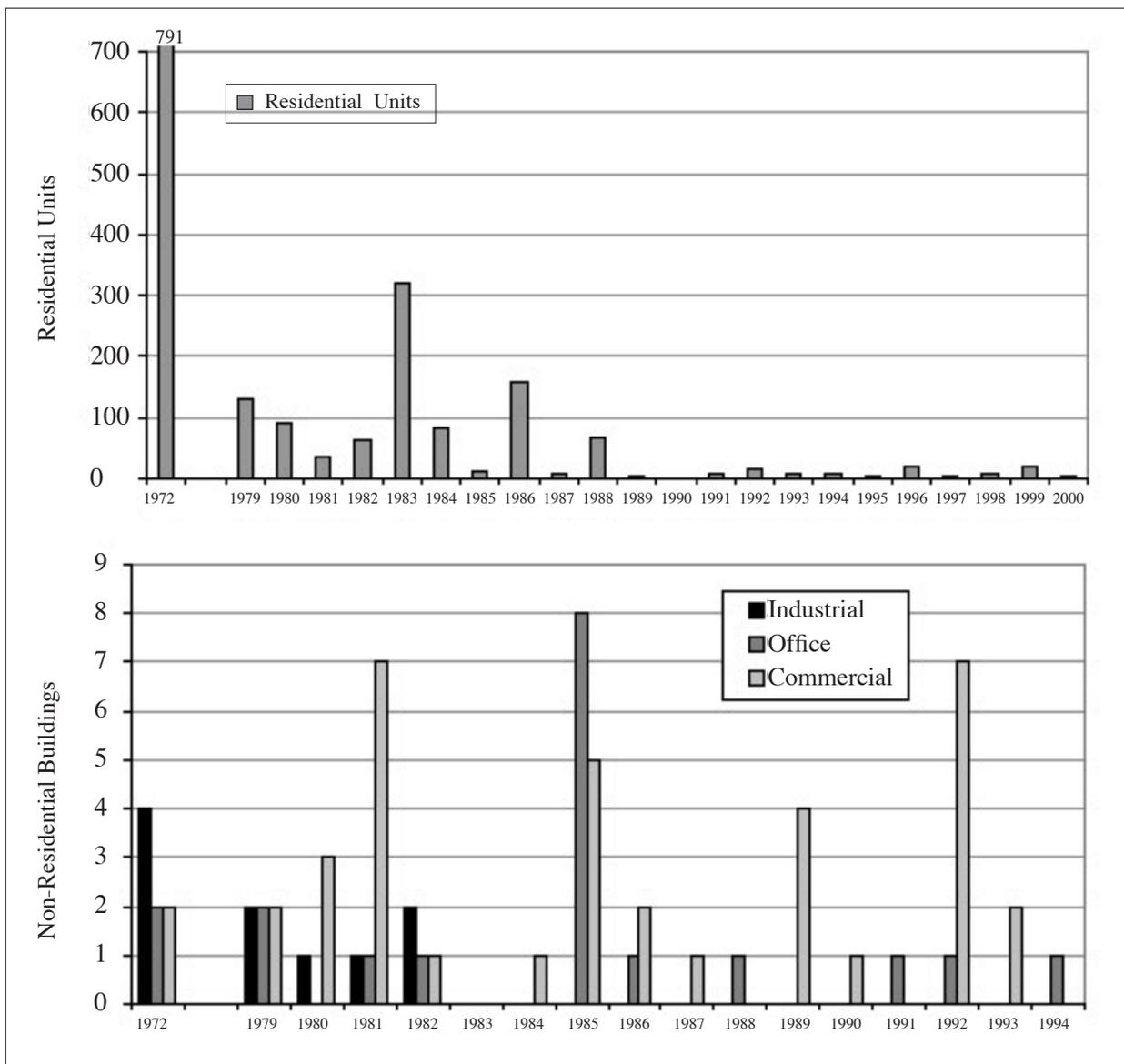


Figure 3.3. Brooklyn Center, Residential Construction Permits Granted, 1972, 1979-2000 (top), and Non-Residential Construction Permits Granted (bottom), 1972 and 1979-1994

Data Source: U.S. Bureau of the Census.

demographic history of Brooklyn Center forms part of the national picture. Total population of the city peaked around 1970, then the composition began to change due to (1) out-migration of many of the young people who had grown up there along with their now-retired parents, and (2) in-migration of African-American and Hispanic households from North Minneapolis, elsewhere in the U.S., and from abroad. One attractive feature of Brooklyn Center was its ample supply of low-cost and available owner-occupied and rental housing. Young households entering brought children with them and bore additional children after arriving, adding to the population and expanding the share of minority populations and the number of minority school-age children (Figure 3.4).

The difficulties faced by the Brookdale regional shopping center reflect the changing fortunes and changing demography of Brooklyn Center between 1970 and 2000 (Figure 3.5). As the

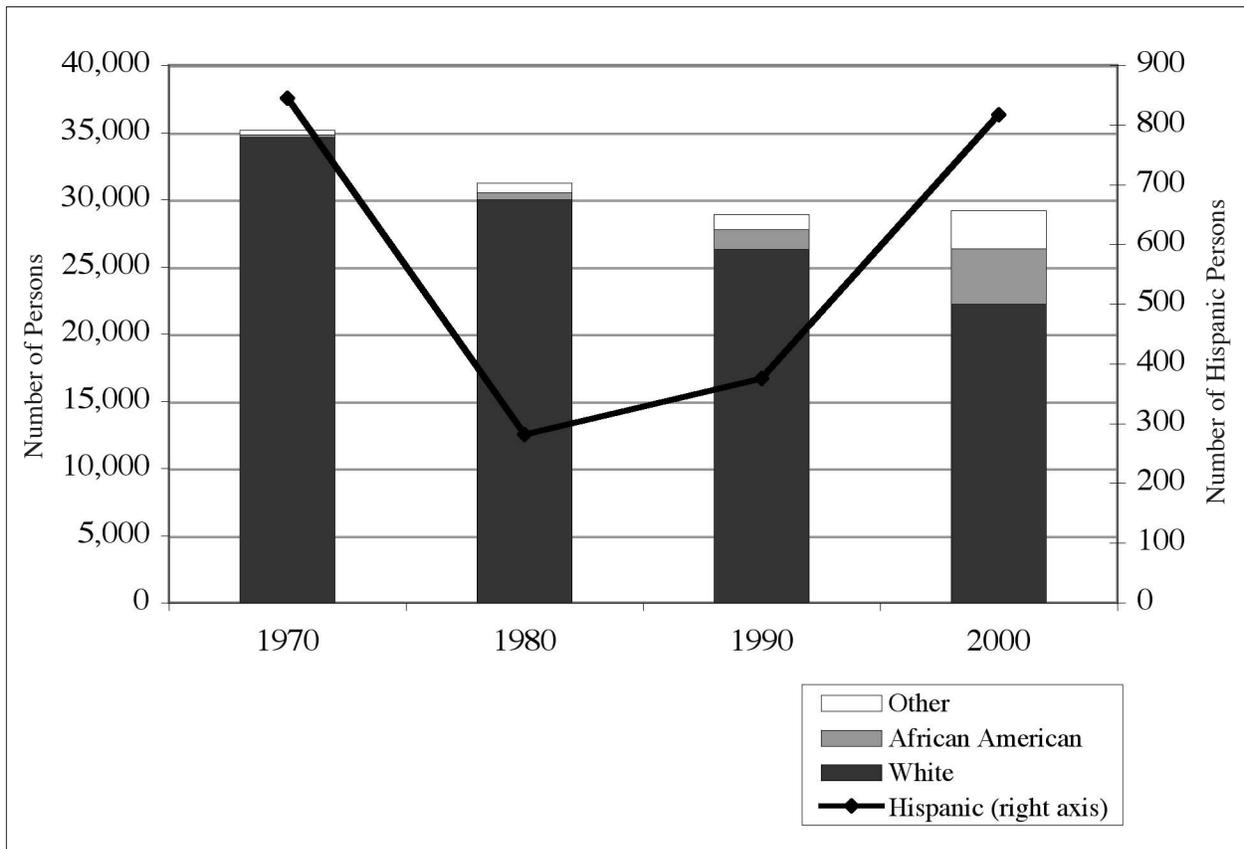


Figure 3.4. Brooklyn Center, Race and Ethnicity, 1970-2000

Data Source: U.S. Bureau of the Census.

population of Brooklyn Center declined between 1970 and 1990, the proportion of the population living below the poverty line rose by a factor of almost three, from 2.7 percent to 7.1 percent. The 2000 census revealed that, even as the population size began to rise, the poverty percentage continued to rise, reaching 7.4 percent. In the 1970s, median household income rose sharply as it did in the metropolitan area, but the influx of lower-income households that accompanied retirements and outmigration of others led to a sharp drop in median household income at the same time that population was dropping overall—a very bad economic situation for the fiscal health of the city and for the school district that served the children living in the city.

To summarize the case of Brooklyn Center over the past three decades, it is an aging first-ring suburb that recently has seen declining median household incomes, stable or declining

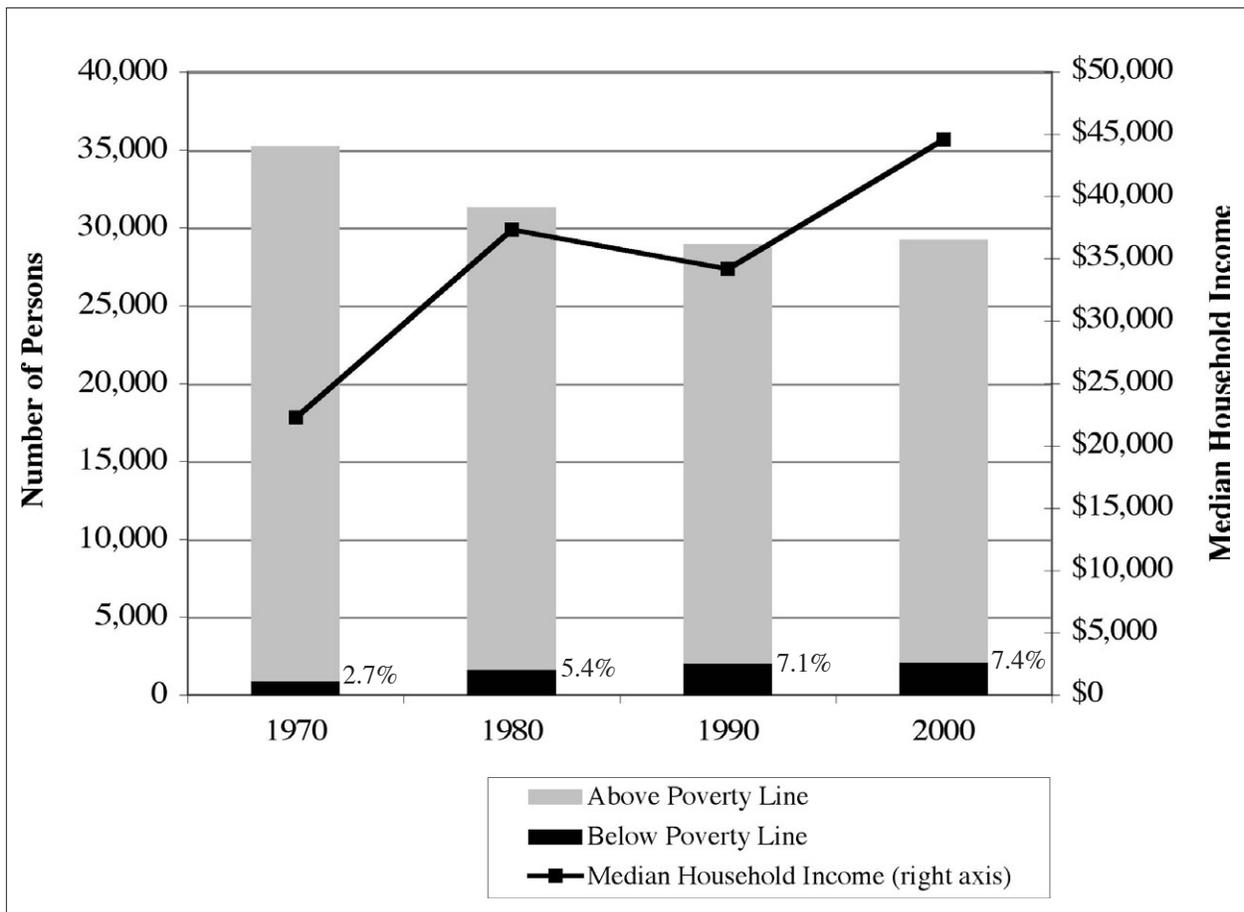


Figure 3.5. Brooklyn Center, Persons with Incomes Below Poverty Line, 1970-2000

Data Source: U.S. Bureau of the Census.

populations, an exodus of many businesses that cannot be sustained as their markets dry up, a weak real estate market, and a reluctance of outside investors to invest in the city that promises high risks and low returns. This combination of unfortunate trends makes life difficult for the city government as well as for the school district serving children living in the city.

Eagan

The city of Eagan is a second-ring suburb located south of first-ring Mendota Heights, separated from St. Paul by the Mississippi River and from Minneapolis and the international airport by the Minnesota River (**Figure 3.6**). It enjoys some of the same locational advantages as Minneapolis's second-ring suburb Bloomington, but Eagan's development was much delayed compared with Bloomington's due in part to slow growth of St. Paul and to its relative inaccessibility on the region's major highway network until the 1970s.

Transportation and Development

When Minnesota became a state in 1858, Eagan was included in Mendota Township, but a special act of the 1860 legislature created the Township of Eagan with the boundaries of today's city of 35 square miles. For a long time Eagan Township was rolling farmland, rural in character and agricultural in economic activity with a 1960 population of only 3,382. After 1970, improvements in the highway network serving the area coupled with continued growth of Twin Cities population and economic activity contributed to fast development and population growth in Eagan. Before the building of the Interstate highways and the construction of a new high-capacity Cedar Avenue bridge, there were only two ways to reach Eagan from South Minneapolis or from St. Paul's West Side—the Mendota Bridge, or the ancient two-lane Cedar Avenue Bridge—so Eagan remained relatively isolated compared with other suburbs open for suburban development.

Today, five major highway routes serve Eagan. I-494 runs east-west on Eagan's northern border, intersecting I-35E from downtown St. Paul. MN-55/US-52 from downtown Minneapolis crosses the Minnesota River at Mendota and runs southeast through Eagan's northeastern corner en route to Rochester. MN-77 (Cedar Avenue) crosses the Minnesota River and links Eagan's western parts with south Minneapolis, Richfield, the airport and Bloomington, while MN-13 parallels the Minnesota River to provide additional accessibility for Eagan. Eagan's superior highway network has facilitated development to the point that about 90 percent of the city's land was developed by 2000. Remaining vacant sites are likely to see only limited development or none

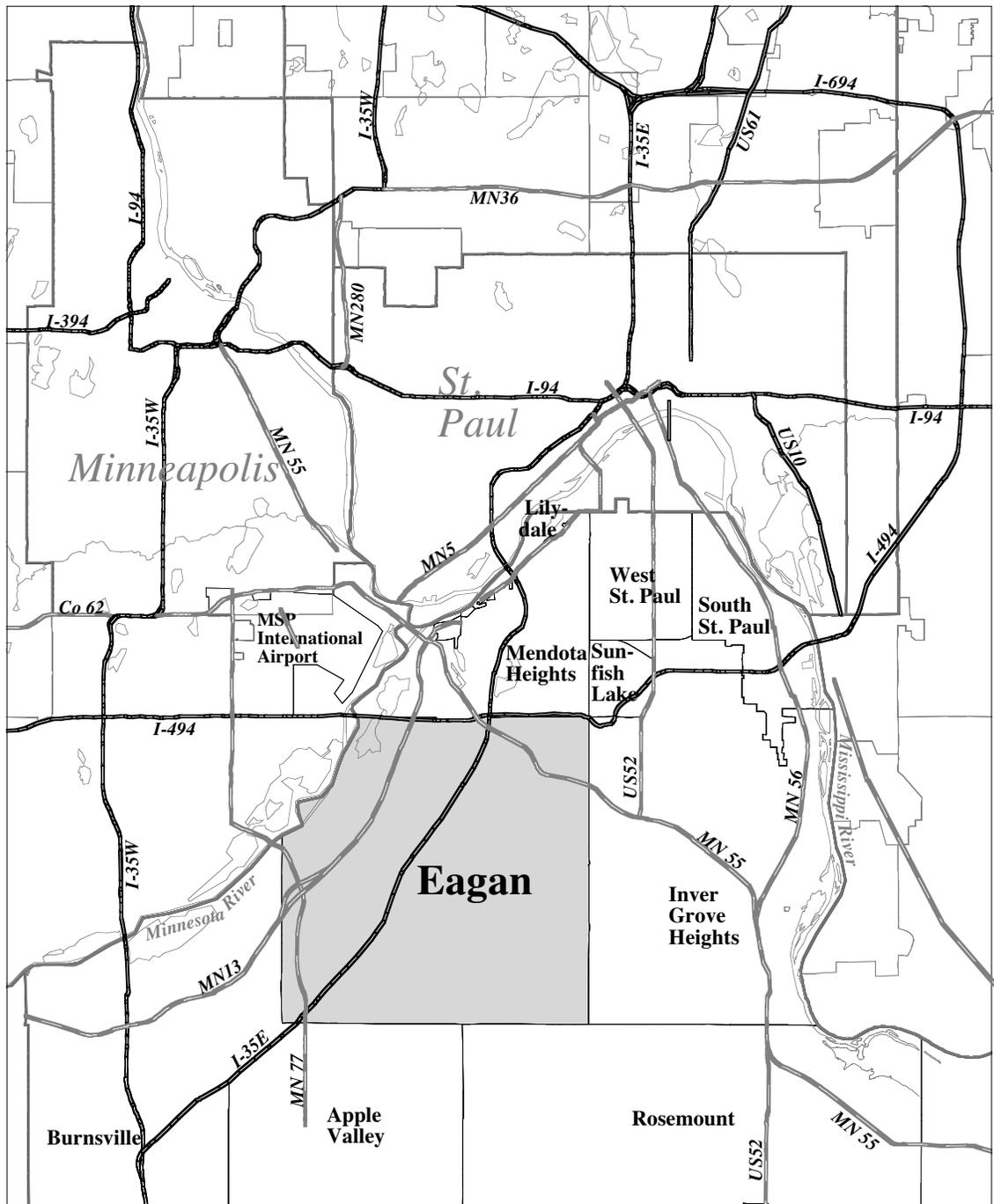


Figure 3.6. Eagan City and Surroundings

5 miles

of the Minnesota Valley Wildlife Refuge and 1,500 acres of Dakota County's Lebanon Hills Regional Park.

As development options have been steadily closed, Eagan has begun redeveloping certain sites, such as the "triangle area" bounded by I-494, MN-149, and MN-55 in north central Eagan. Sites in north-central Eagan are well served by trunk highways and lie close to the international airport, but increasing air traffic and airplane noise over the area plus heavy traffic loads on the highways present Eagan with complex land use planning problems.

Metropolitan Setting and Development

The pace and volume of post-war development in the Twin Cities suburbs of Minneapolis and St. Paul depended mainly on the number of households able and willing to move out from the various housing sectors within the central cities. In general, middle-class and upper-middle-class sectors provided the strongest market demand for new suburban housing. In contrast, working-class sectors such as those in East Minneapolis and St. Paul's North End and West Side and elite sectors such as the Minneapolis Lake district were slow to expand into nearby suburbs. These tendencies meant that South Minneapolis, Near North Minneapolis, and western St. Paul contained the largest base of effective demand for post-war suburban expansion. South Minneapolis provided the foundation for explosive growth into Richfield and central Bloomington. Near North Minneapolis provided demand for outmigration and development in St. Louis Park, Golden Valley, Robbinsdale, Crystal and New Hope. Western St. Paul provided two suburban thrusts, one northwest and north from Como Park into St. Anthony Park, Roseville and eventually to Shoreview; and the other southwest and south from Macalester Park-Groveland, and Highland Park into Mendota, Mendota Heights, and Sunfish Lake.

For much of the 20th century, each Twin Cities suburban municipality "belonged to" either Minneapolis or to St. Paul, never to both. But after 1970 as the freeway network was completed and new river bridges were built to serve Eagan, the city was able capture new growth spilling out from both Minneapolis and St. Paul, as well as households transferring to the Twin Cities from elsewhere in the country. In addition, it attracted households moving from suburb to suburb as a greater share of Twin Cities population and economic activity accumulated in metropolitan area cities outside of Minneapolis and St. Paul.

Eagan grew fast in the 1960s as its population expanded from 3,382 to 10,398, but after 1970 its growth was truly explosive, with young families and school-age children predominating (**Figure 3.7**). Population more than doubled in the 1980s, then jumped again in the 1990s as immigration

at all because of terrain, wetlands, or significant forested areas. The city contains about 1,000 acres of households and businesses filled the city. The two data points for residential building permits in the 1970s suggest between 500 and 1,000 permits per year (**Figure 3.8**). A crescendo of housing construction in the early 1980s culminated in a peak of over 2,000 in 1985 and 1986, followed by levels of over 500 per year during the following decade as the city filled up and land available for continued housing development was exhausted.

As a general rule, industrial development precedes housing construction as workers follow jobs, and housing precedes commercial development because retail activity follows purchasing power. In Eagan, levels of commercial, industrial and office development correspond roughly with the

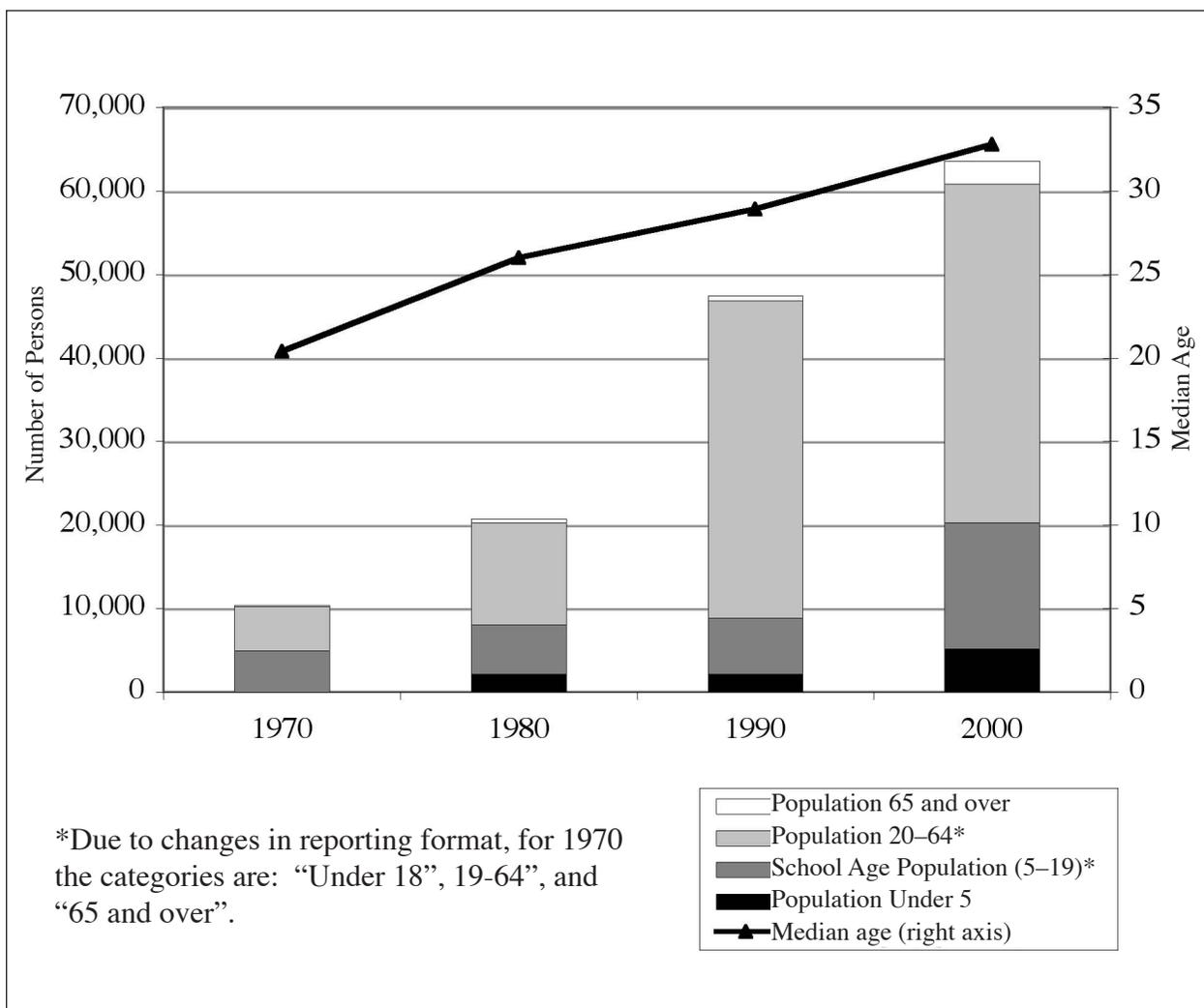


Figure 3.7. Eagan Demography, 1970-2000

Data Source: U.S. Bureau of the Census.

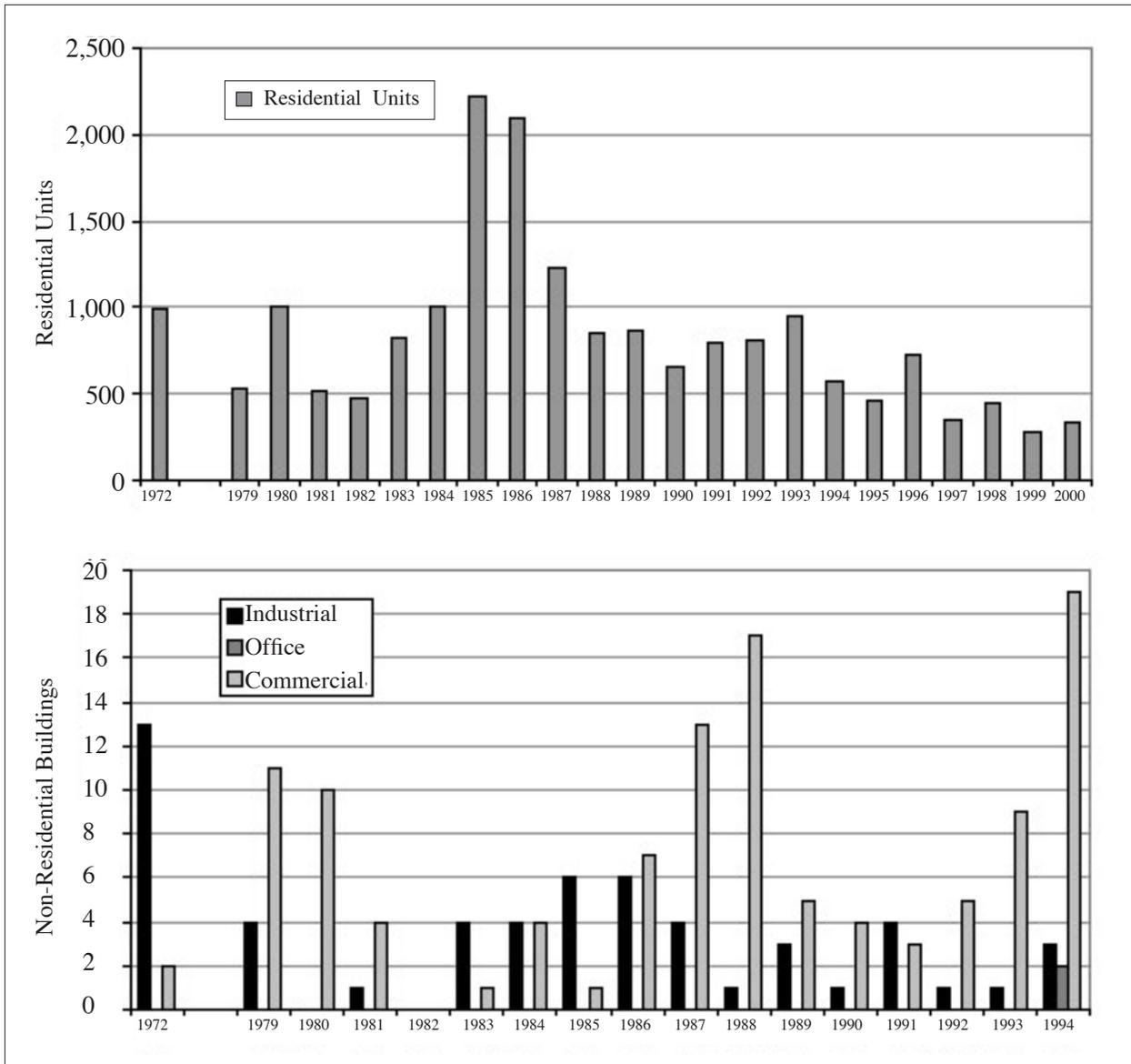


Figure 3.8. Eagan, Residential Construction Permits Granted, 1972, 1979-2000 (top), and Non-Residential Construction Permits Granted (bottom), 1972 and 1979-1994

Data Source: U.S. Bureau of the Census.

cycles of residential development from the 1970s onward. In 1972 the city issued a spate of industrial permits, and as jobs were added in Eagan, population increase followed. Then in the 1980 a big increase in building permits for commercial development occurred following the mid-decade peak in housing construction.

Fast growth in Eagan after 1970 attracted middle-class households buying mainly new single-family houses. Relatively expensive housing stock meant that lower-income households who might have preferred to live in Eagan close to new jobs locating there were priced out of the housing market. Because a disproportionate share of lower-income households in the Twin Cities are also members of various minority groups, it is no surprise that only a small fraction of Eagan’s population has been other than European-American (**Figure 3.9**).

The price of the housing stock regulates who lives in a city, and because Eagan has a new and relatively high-priced housing stock the population of the city inevitably reflects the ability to

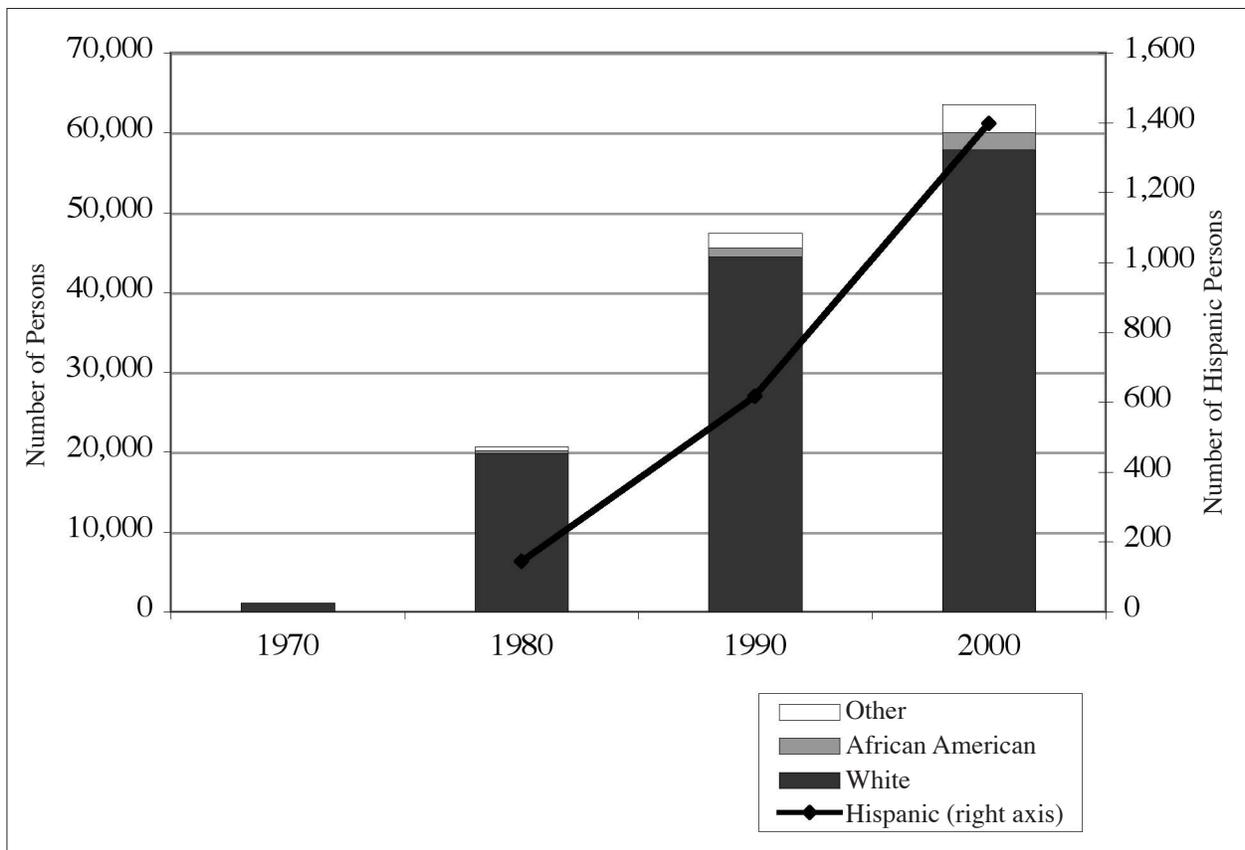


Figure 3.9. Eagan, Race and Ethnicity, 1970-2000

Data Source: U.S. Bureau of the Census.

pay those higher prices for housing. As a result, only a small fraction of Eagan population was recorded by the census as living below the poverty line during the three decades of this study, and incomes in the city are relatively high (Figure 3.10).

Present Situation

The city of Eagan enjoys advantages of relative location within a prosperous and growing metropolitan area, plus internal strengths coming from a young and prosperous population and a rich mix of commercial, industrial and office activity that provides jobs and tax base to help build city infrastructure and maintain municipal services. Corporate headquarters that have relocated from the central cities to greenfield sites close to the airport and their employees are but one mainstay of the employment base.

But as the city has filled and begun to age, new planning challenges confront the city such as noise impacts on sites under airplane flight paths heading to MSP’s main runways. The nearby

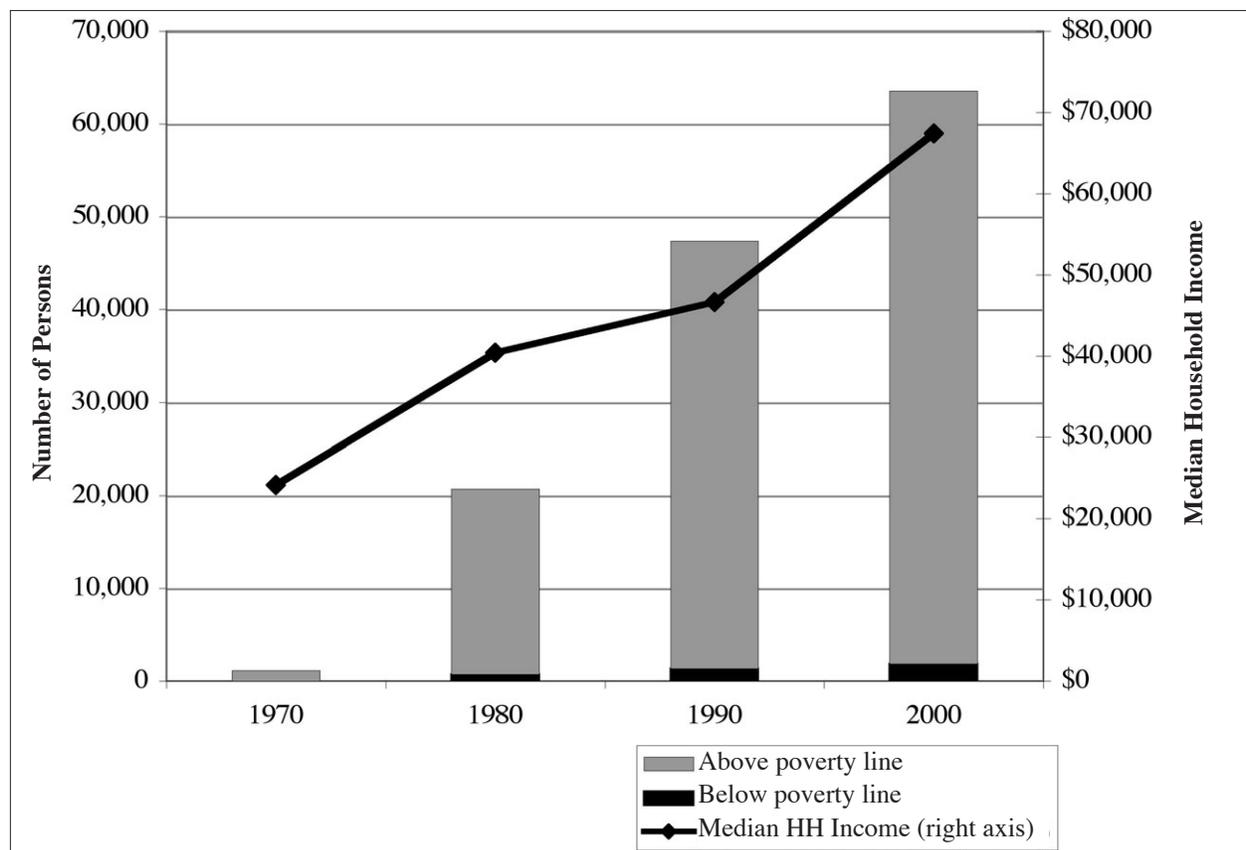


Figure 3.10. Eagan, Persons with Incomes Below Poverty Line, 1970-2000

Data Source: U.S. Bureau of the Census.

international airport is an advantage, but it brings planning problems. The Eagan Airport Relations Committee (ARC) appointed by the Eagan city council works with the Metropolitan Airports Commission (MAC) in an effort to mitigate aircraft noise. At an earlier time, Eagan and its northern neighbor Mendota Heights in cooperation with the Metropolitan Council and MAC took steps to zone land under the flight paths of aircraft into an industrial corridor for land uses that would be little affected by noise. But as flights increased in the 1980s, planes began to fan out of the corridor to get out of one another's way and to increase the capacity of the airport. Increased traffic was a consequence of Northwest Airlines conversion to a "hub and spoke" operation, replacing its earlier "network" organization. Wider flight patterns took planes over areas of Eagan where the city had permitted expensive sound-insulated houses to be built in areas where the airport had not offered to buy land for sound buffers. The result was unhappy homeowners, and escalating tensions between the city and the MAC.

A longer-term planning issue is Eagan's relatively homogeneous housing stock and commercial infrastructure, which is in good shape today but eventually will become old all at once, as did Richfield's and several other first-ring suburbs. Well planned and sustained redevelopment and infill housing can mitigate some of the long-term effects of excessive homogeneity and uniform age of a city's infrastructure. Time will tell how well Eagan will handle this set of planning issues. Today's advantages seldom last forever.

Maple Grove

Site and Situation

Maple Grove is a quickly developing outer-ring suburb of Minneapolis. The city occupies nearly an entire township (34.8 square miles) located at the northwest corner of the built-up center of the Twin Cities metropolitan area, about fifteen miles northwest of downtown Minneapolis, cross-cut by Interstate highways 94 and 494/694 (**Figure 3.11**). These freeways provide excellent access to the central cities and the rest of the metropolitan area.

The extension of the interstate highways (I-94/494/694) led the northwestern part of the Twin Cities metropolitan area to grow in population more than any other area in the state during the 1980s and 1990s. The plentiful stock of greenfield building sites available for industrial and commercial development was initially 20-40 percent cheaper than elsewhere in the metropolitan region. Abundant available land, along with good highway access and an available skilled and unskilled labor force, make the northwest suburbs attractive to both business and households.

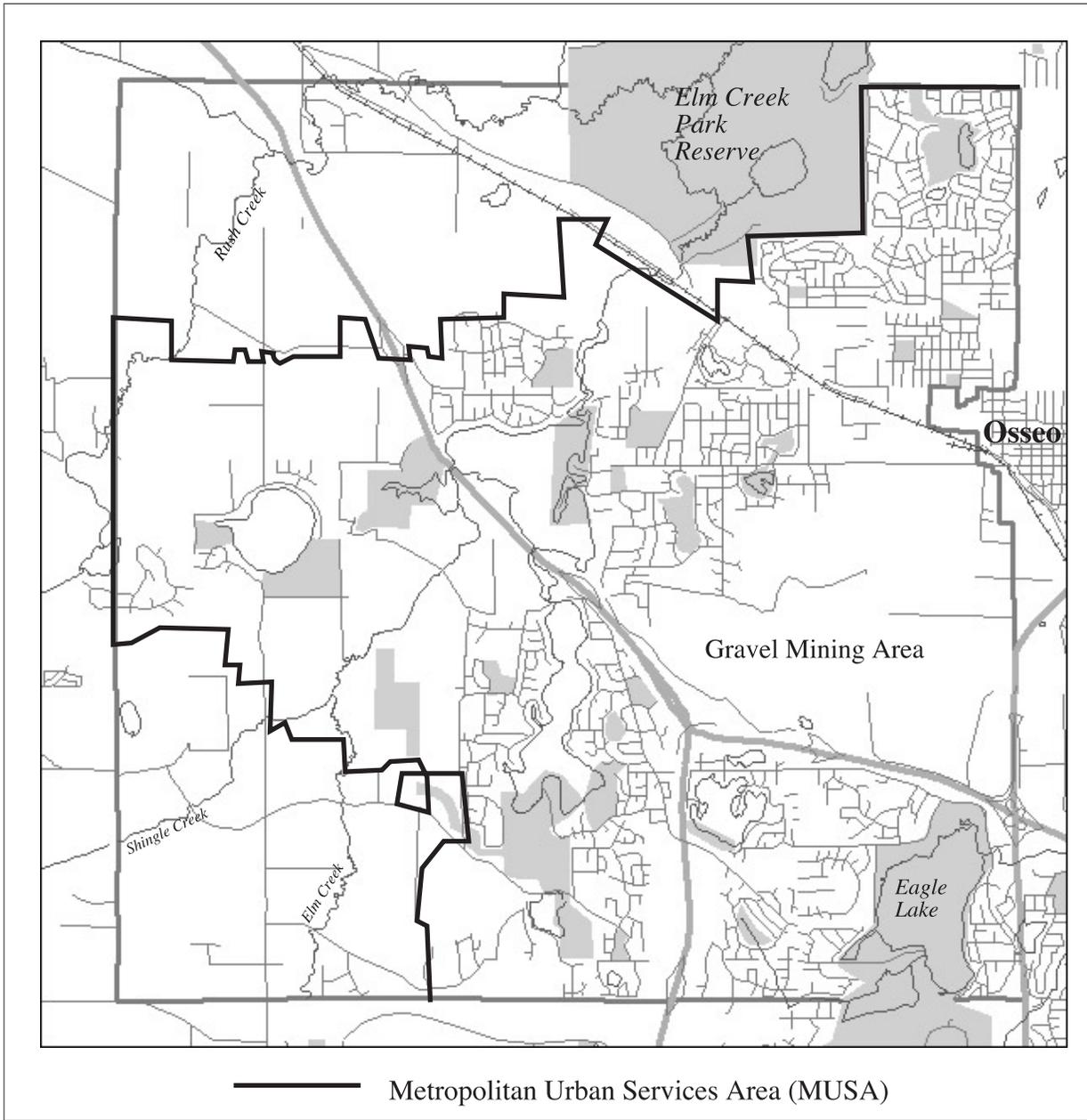


Figure 3.11. Maple Grove City and Surroundings

The landscape of Maple Grove is one of rolling lakes, natural wetlands, hills, and forests in the east, which give way to slightly flatter agricultural land in the western third of the city. The city sits upon the 40-foot loam depths of the Grantsburg Loamy Till Plain, which covers northern and western Hennepin County. Most of the undeveloped land in the western section of the city is part of the smaller Corcoran and Rogers Till Plains, which are relatively flat, stretching over plateaus and broad lowlands, providing some of the best agricultural soils in Hennepin County. [1] The Fish Lake Highlands offer more picturesque relief, and better drainage. Soil moisture is a problem across all of the Grantsburg Plain, with lakes and wetlands providing not only a pleasant amenity, but also making for wet basements and construction problems for roads and septic tanks. This natural setting has precluded small-lot development in areas of the city without sewer service because lots must be large enough so that there can be a suitable home site with sufficient soil permeability somewhere on the lot.

There are more than fifty parks (two of them Hennepin County regional parks), 27 miles of recreational trails, and several good-sized lakes. A distinguishing feature of the city's land use map is the 2,000-acre gravel mining site situated on its eastern border. Designated Tree Preservation Zones are scattered across the built-up area, and 180 acres of forested land have been designated a reserve where no development may take place.

Maple Grove's land development is characterized by a predominance of single-family homes, land-extensive industry, campus-style office development, and auto-oriented commercial nodes. [1] The Metropolitan Council's Metropolitan Urban Service Area (MUSA) line encloses about three-fourths of the city's area (**Figure 3.11**). Land inside the MUSA line is designated by the Metropolitan Council as "Urban Area," and available for development because it is served by central sewer systems. Land outside the MUSA is designated as "Urban Reserve" and is maintained in agricultural uses and very-low-density residential development until central sewer service is extended and the MUSA line is moved outward to accommodate further development. By 2020, all of Maple Grove will lie within the MUSA line.

Transportation Access

Just as most major transportation routes have ancestors in earlier modes of travel, so Maple Grove was situated on the Burlington Northern rail line that ran across the state carrying goods to and from the west. The city is crossed on the SE-NW diagonal by I-94, which continues to St. Cloud 55 miles to the northwest. The I-694/494 loop encloses the southeast corner of the city as it joins I-94, and along with the nearby four-lane US-169 which forms Maple Grove's eastern border creates one of the more congested rush hour interchanges in the metro area, as the major

routes connecting the city with downtown Minneapolis converge. County 101 and 81 (an early wagon route to Wright County) connect the city with its near neighbors, and County Roads 10 and 130 serve local traffic. Maple Grove both benefits and suffers from its location on a major intersection connecting the Twin Cities metropolitan area to the rest of the state. Transportation access is good from all points, but brings with it increasing congestion and a continuing stream of in-migrants.

There is one truck terminal and one intermodal rail facility within the city's borders, with the Burlington Northern providing daily freight haulage in and out of the city. Maple Grove is 32 miles from Minneapolis-St. Paul International Airport, and ten miles from Crystal Regional Airport, serving the state and region. Maple Grove Transit provides both intra- and inter-city bus service, linking workers to downtown Minneapolis.

Position within Metropolitan Housing Markets

Maple Grove sits squarely in the path of the northwesterly outward growth trajectory of North Minneapolis, Brooklyn Center, and Brooklyn Park. The northwestern corner of Minneapolis filled in with postwar housing development by the early 1950s, and adjacent suburbs then began to receive the overflow as the Baby Boom population grew and suburban housing construction expanded. The Village of Maple Grove was incorporated in 1954, and issued its first building permit in 1957; 16 new homes were built that year. By 1960 Maple Grove's population had reached 2,000.

As densities increased and the housing stock aged, families began seeking building sites and housing developments farther out, on newly converted farmland. Small, scattered developments by commercial builders, and individual semi-rural home sites, began to appear in the Osseo/Maple Grove area in the mid- to late-1960s. The first suburban-style development, on lots of up to 5 units per acre, appeared in the corner of Maple Grove closest to the path of outward urban growth, in the southeast corner of the city; additionally, outgrowth around Osseo began to encroach on the city's northern edge. Subsequent building filled in the northeast corner around Maple Grove's several large lakes, to be close to transportation and natural amenities.

The character of growth in these early years reflected the source areas of population expansion from the closer-in segments of the housing submarket. North Minneapolis and its adjacent suburbs were home mainly to young, working-class families who had purchased their first homes in the cheap and abundant postwar construction developments that typify the edges of many Midwestern cities. The population consisted of mostly white, moderate-income families with

young children, who wanted large lots for their children and larger houses as the children grew but were not in a position to pay premium rates for land or housing. Thus, when they outgrew their bungalows they looked outward toward undeveloped areas where land was plentiful and houses were being built bigger but remained affordable.

Coping with Growth

Maple Grove was a prosperous agricultural settlement for the century preceding WWII. In the postwar years, slow growth began from a 1950 population of 1,778. Up until the boom period of the 1980s and 1990s, Maple Grove existed as a quiet village; after 1974, a small city (**Figure 3.12**). Outward growth from closer-in cities began to have a notable impact on Maple Grove’s character by the early 1970s when families with young children produced a median age of

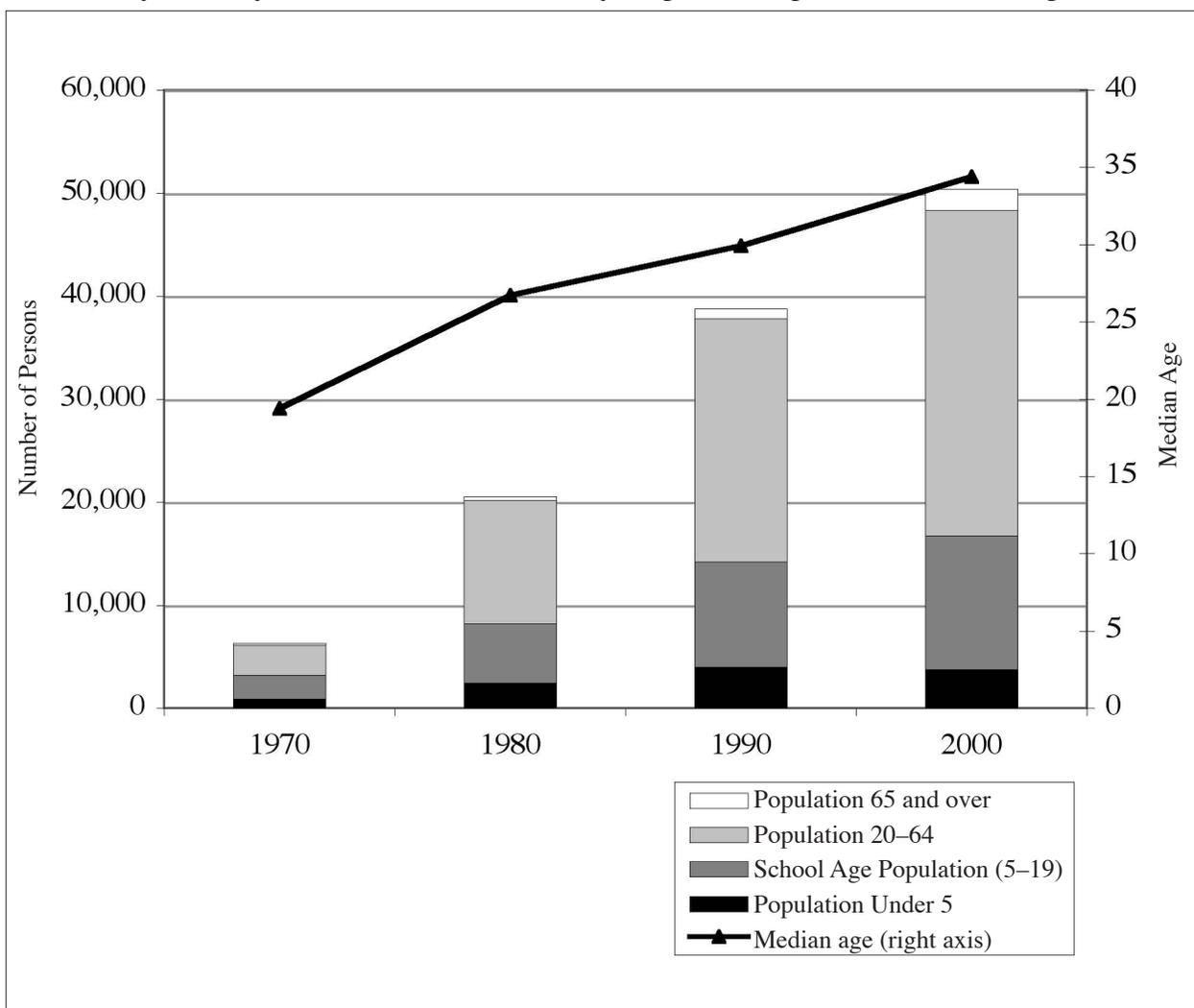


Figure 3.12. Maple Grove Demography, 1970-2000

Data Source: U.S. Bureau of the Census.

population under 20 years. School-age populations grew fastest in the 1980s, but in the 1990s most growth was in the 20-64 age range as the city matured.

While rapid growth was underway after 1970, local leaders could see that their city was in the path of housing expansion, and that the natural amenities within its borders would present a great attraction to households seeking a suburban setting. The city leadership decided early on that although growth and increased densities within Maple Grove's boundaries were inevitable, they could take measures to control the character of that growth, and to protect and preserve the features that gave the city its special character. Preservation of lakes, parks, and forests has been a high priority throughout its history.

Maple Grove's administration took a series of steps in the 1970s to attempt to control and direct its own growth. By 1970 the need for a sanitary sewer system was obvious, as the poor drainage on much of the developing land was intensifying septic system problems. The village sold \$4.3 million in permanent sewer bonds and began phased construction. They passed a zoning ordinance in the same year, and approved the city's first comprehensive plan. The village incorporated as a city in 1974, and established its own municipal fire department in 1975.

A special problem that Maple Grove faced in planning for its future was the ultimate use of its gravel mining area, which occupied 2,000 acres of the village's land area. Population growth continued through the early 1990s as residential development completely encircled the gravel mining area. Pressure increased to make plans for converting some of those 2,000 acres for higher and better uses.

Coordination of local and adjoining school districts to serve the rapidly growing school-age population also required attention. In addition, control of growth in the non-sewered western edges of the city remained vital due to soil problems. In 1980 the city changed its minimum lot size for unsewered land from 5 to 20 acres.

Through the 1980s, land development proceeded in and around the already established clusters. Office development expanded along the I-494 corridor, and industrial sites filled in along County Road 81 and west of U.S. 169. Commercial development remained scattered and neighborhood-oriented.

Patterns of Land Development in Maple Grove

While it is too much to say that "geography is destiny," it is certainly the case that Maple Grove's geographical position with respect to both the location of Minneapolis, as well as the major paths

of post-World War II suburbanization, have had a major impact on the timing and character of its development as a third-ring suburb. The first-ring of suburbs northwest of Minneapolis includes Golden Valley, Robbinsdale, and Brooklyn Center. Robbinsdale was a streetcar suburb that had its first spurt of growth around the time of World War I. The other two suburbs developed mainly after World War II as vacant land at the edges of North Minneapolis was filled in.

The second-ring suburbs northwest of Minneapolis include Crystal, New Hope and Brooklyn Park, each of which experienced its major spurts of development after the first-ring suburbs were on their way to becoming fully developed. The third-ring of suburban development spilled into Plymouth, Maple Grove and Champlin, with rapid rates of development mainly in the 1980s. During the 1990s and up to the present, vigorous rates of development are common beyond the third tier of suburbs in the outer reaches of Hennepin County and increasingly in Wright County.

In the early years of the 1970s, Maple Grove issued building permits for fewer than 500 units of new housing (**Figure 3.13**). Following the recession of 1973, housing construction boomed with annual counts of around 1,000 units toward the end of the decade. Rates of housing construction declined during the recession of the early 1980s, then reached another peak in 1986, only to decline again in the aftermath of the early 1990s recession. As the end of the 1990s approached, a third wave of housing construction was underway.

Commercial, industrial and office development in Maple Grove followed the housing boom. There is a direct link between the construction of new houses, the occupation of those houses by middle- and upper-middle-class households, and the development of nearby commercial enterprises to meet the everyday goods and service needs of the expanding local population. That is why commercial development follows residential development, with only a short lag in time. The value of 15 commercial building permits issued for the entire decade of the 1970s totaled only \$2.6 million (in current dollars). In the 1980s, as large volumes of new housing were put in place, the city issued 34 permits for commercial construction valued at \$24.1 million. The pace of commercial development continued in the 1990s as the city issued 17 more permits for \$11.6 million of additional construction through 1997.

Industrial and office development usually come later than commercial development. High-quality highway access to origins and destinations throughout the metropolitan area can invite new industrial and commercial development provided that local zoning ordinances are permissive, and provided that other nearby cities have fewer advantages to offer. In Maple Grove, the I-494/694 circumferential highway loops through the southeastern quadrant of the

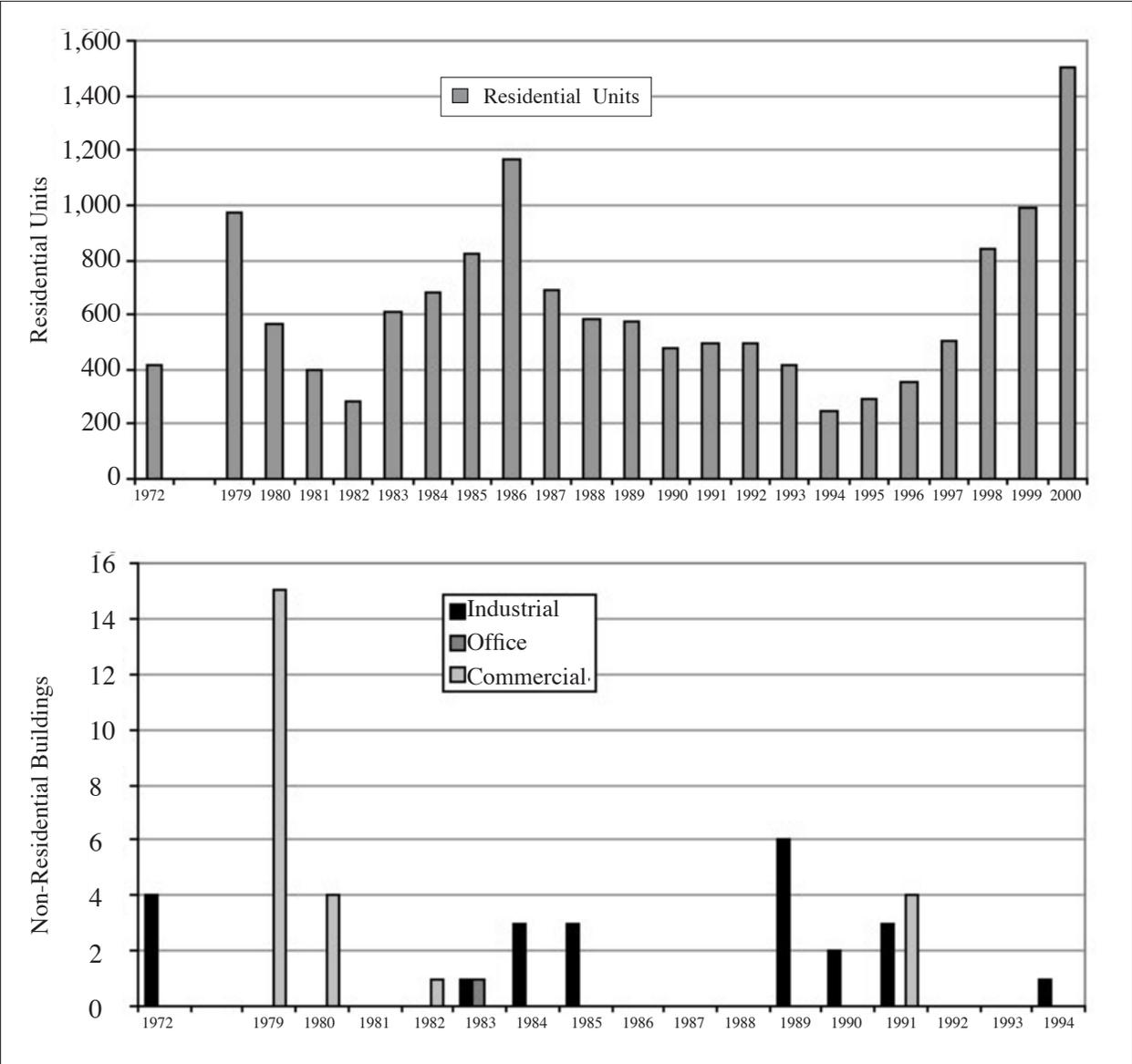


Figure 3.13. Maple Grove, Residential Construction Permits Granted, 1972, 1979-2000 (top), and Non-Residential Construction Permits Granted (bottom), 1972 and 1979-1994

Data Source: U.S. Bureau of the Census.

city, the part closest to Minneapolis and second-ring suburbs and the first part of the city to undergo rapid development in the 1970s as the interstate highways were being completed and opened for use. In addition, I-94 branches off from I494/694 and runs northwest through the city providing the major highway corridor for traffic running from the Twin Cities northwest to the St. Cloud area and beyond. As a result of the presence of these major highways inside Maple Grove, the city enjoys superior highway infrastructure to complement its advantageous location within a high-growth residential expansion sector on the favored western side of the fast-growth Twin Cities metropolitan area.

Industrial development proceeded at extremely modest rates through the early 1980s, but from 1985 until the late 1990s, the city issued 42 permits for \$47 million of industrial development (**Figure 3.13**). Office development came even later, with only 14 permits for \$10.0 million issued between 1970 and 1989. But the pace quickened between 1990 and 1997 when the city issued 10 more for \$8.4 million of office construction.

Present Situation

Maple Grove is, then, a long-booming 3rd-ring suburb where the main challenges are planning for and managing pressures for development and redevelopment, carefully managing the remaining agricultural land as it is scheduled for development, and cooperating with the Metropolitan Council in staging the expansion of the MUSA within the city. The city continued along its path of vigorous growth through the 1990s, and by 2000 had a population of almost 50,000 (**Figure 3.14**). Although the minority population accounts for only about 4 percent of the total, the African-American, Hispanic and “other” (mainly Asian-American) groups are increasing in size at rates that far exceed Maple Grove’s overall rate of population growth.

The city has been prosperous in recent decades, with median household incomes that rise steadily, while the percentage of persons with incomes below the poverty line remains close to zero (**Figure 3.15**). The housing stock is the primary regulator of who lives in Maple Grove. Most of the housing stock in the city is of recent vintage, of good quality, sited on large lots, and carrying prices well above the metropolitan area median. As a result, households of only modest means generally are priced out of the Maple Grove market. During the 1990s, the city made provision for accommodating an influx of housing units of more modest price, and over time this measure should diversify the city’s mix of households in terms of income and wealth position.

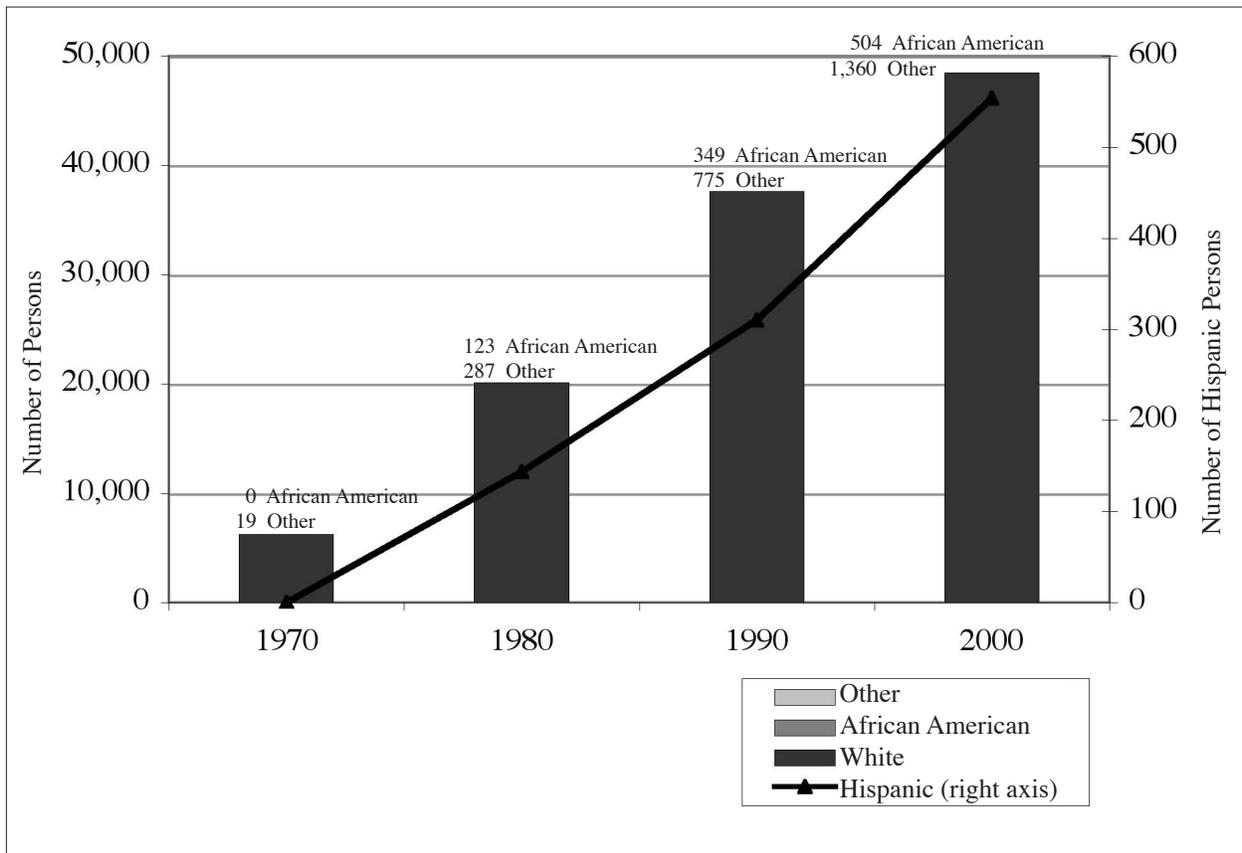


Figure 3.14. Maple Grove, Race and Ethnicity, 1970-2000

Data Source: U.S. Bureau of the Census.

Hutchinson

Site and Situation

Hutchinson is a small city of over 13,000 population 50 miles west of the Twin Cities on MN-7. It is sited on a bluff overlooking the Crow River, surrounded by farm lands and scattered lakes in McLeod County, immediately west of Carver County and beyond the jurisdiction of the Metropolitan Council (**Figure 3.16**). It was founded in 1855 and incorporated as a village in 1881, adopting a progressive charter that allowed women to vote on all local questions and gaining an early reputation as a center with a sophisticated appreciation for education and the arts. In the early 20th century the city supported itself mainly as an agricultural service center, and was well served by three railroad lines: the Chicago Northwestern, the Milwaukee Road, and the Great Northern. Recently the city has two large employers, Hutchinson Technology (computers) with about 3,000 employees and 3M (light manufacturing) employing about 2,000. In addition, Hutchinson Area Health Care (hospital) employs over 500.

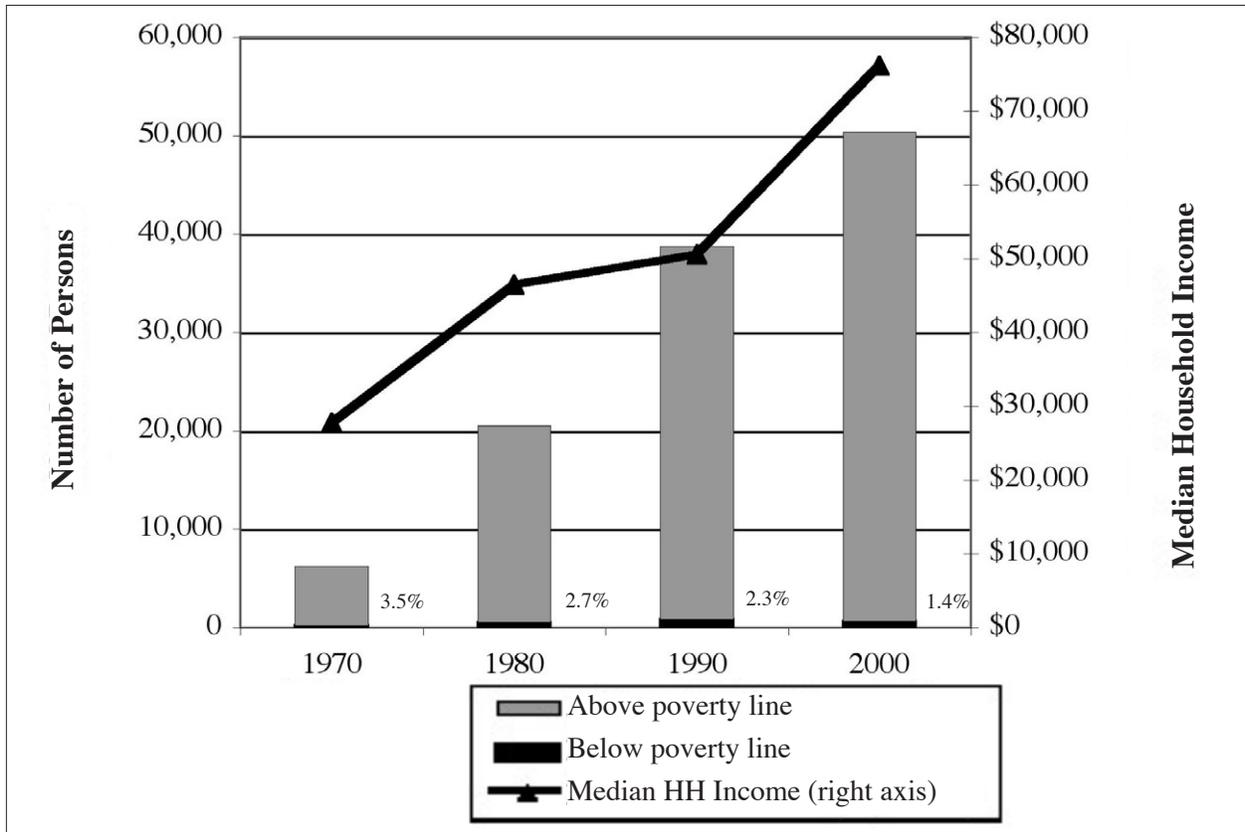


Figure 3.15. Maple Grove, Persons with Incomes Below Poverty Line, 1970-2000

Data Source: U.S. Bureau of the Census.

As the greater Twin Cities economy and population have grown, development has spilled well beyond the 7-county metropolitan core, and although Hutchinson lies well beyond the continuously built-up area, it lies well within the commuting range of the core. Residents of Hutchinson and McLeod County commute daily to the metropolitan core, and workers living inside the seven counties commute to Hutchinson. Seven different highways radiate out from Hutchinson in all directions. In addition, US-12 runs east-west 15 miles north of Hutchinson while US-212 runs east-west 14 miles south of the city. By any measure, Hutchinson is exceptionally well served by highways to support commuting from a wide area, and to support business transportation needs of all sorts.

Thus, Hutchinson is a fourth type of city affected by metropolitan area growth—that is, a city distinctly separate physically from the developed metropolitan core, but increasingly integrated into the metropolitan system. Hutchinson’s counterparts throughout our 24-county study area include the cities of Litchfield, Northfield, Red Wing, Stillwater, River Falls (WI), and

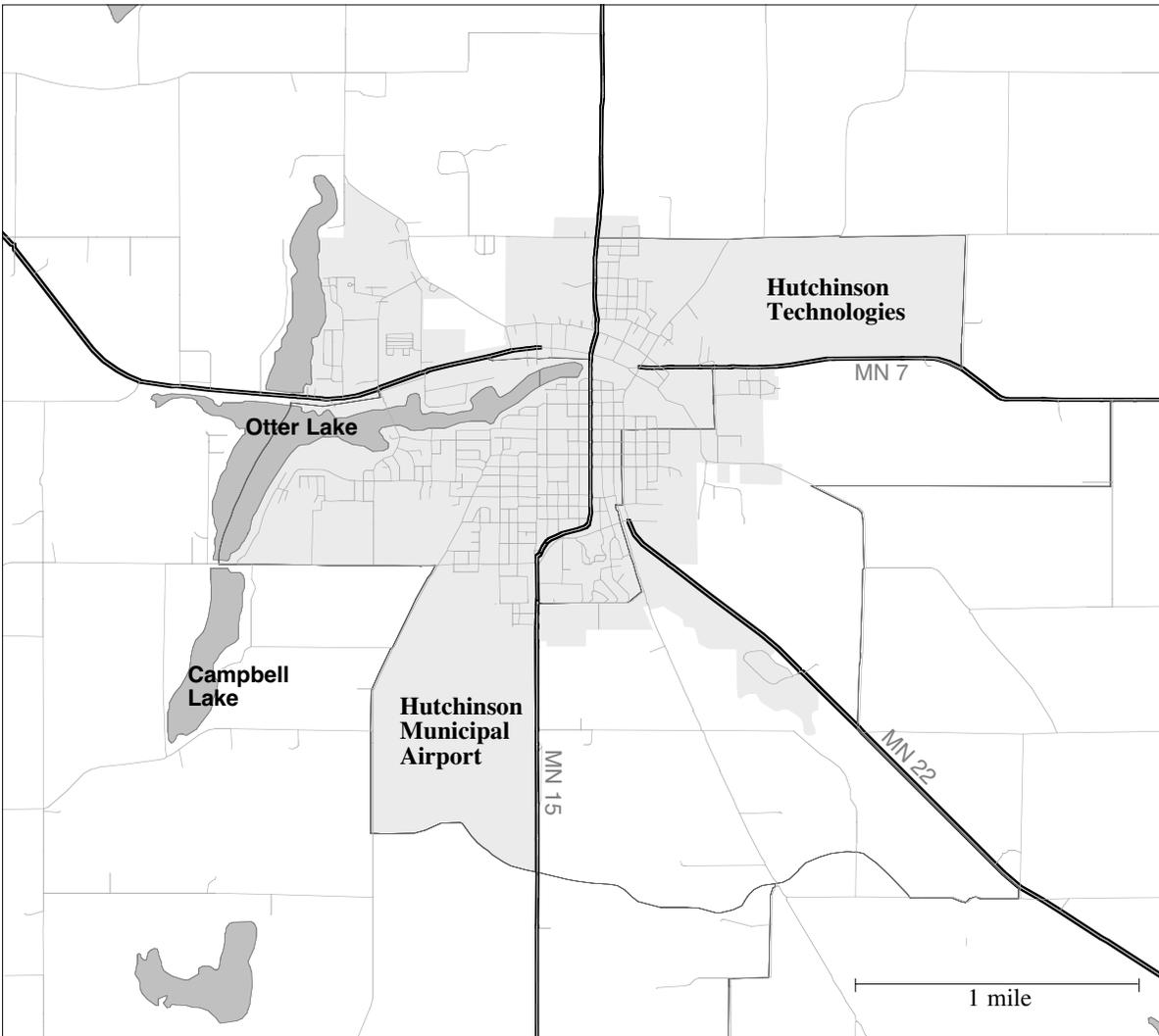


Figure 3.16. Hutchinson City and Surroundings

Cambridge—places physically separated from the core, but closely linked economically and in other ways.

Growth and Change

Hutchinson’s population stood at about 8,000 in 1970 and in the following three decades it grew steadily to just over 13,000 in 2000. As it grew, the balance of age groups remained relatively constant, each expanding at about the same rate (**Figure 3.17**). The growth of population in Hutchinson and its relationship to the growth of jobs in the city is different from the trends observed in the cities closer to the core that were previously described. In those cases—Brooklyn Center, Eagan and Maple Grove—housing developments occurred first and attracted new residents, which were followed by commercial and office developments as business pursued new purchasing power.

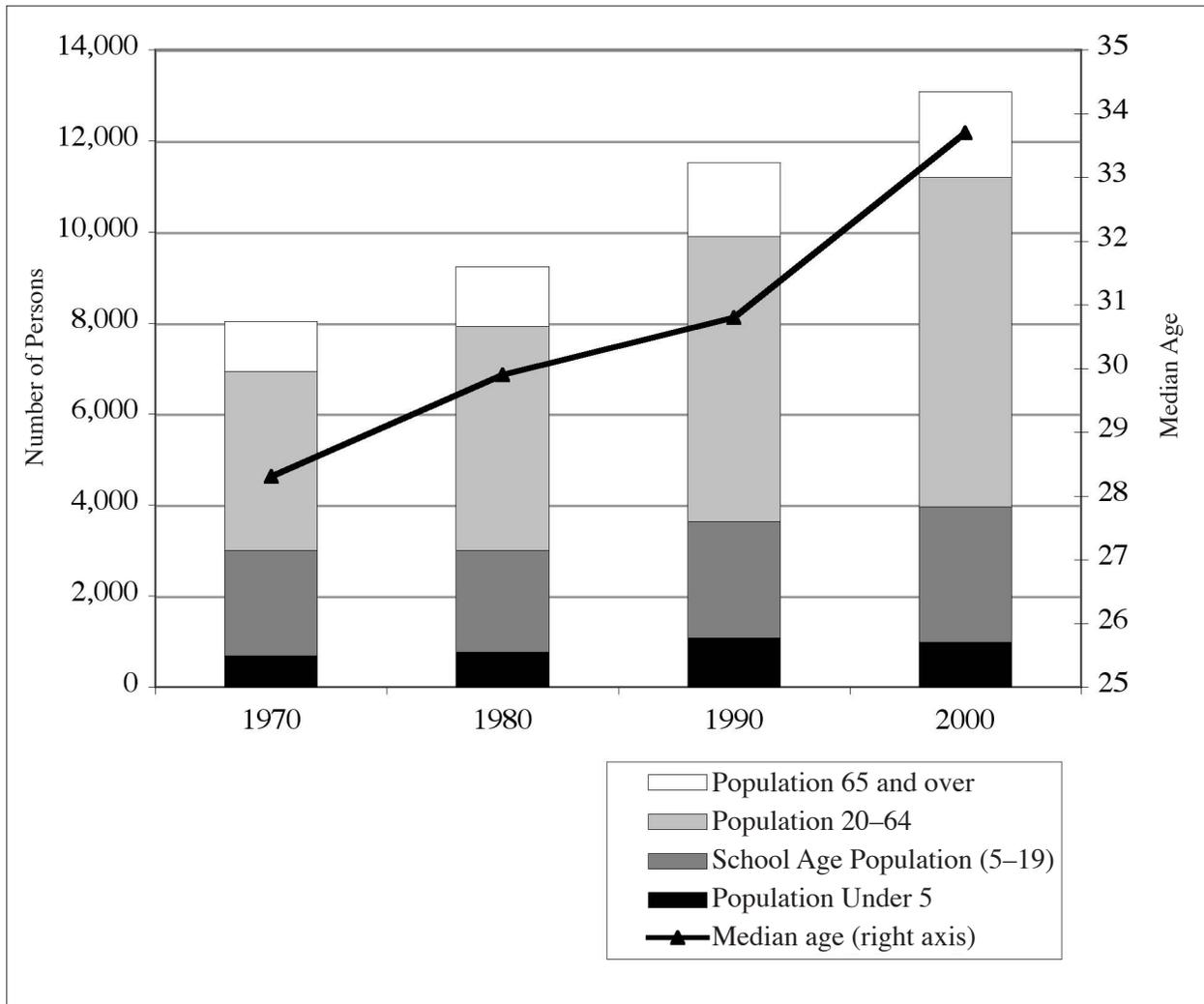


Figure 3.17. Hutchinson Demography, 1970-2000

Data Source: U.S. Bureau of the Census.

In the Hutchinson case, the industrial expansions in the city in the early 1970s preceded the population increases and housing construction (**Figure 3.18**). Major expansion in commercial, industrial and office activity occurred in the period 1972-82. As new jobs were added to Hutchinson, there was a steady flow of residential building permits issued. This sequence suggests that at first the expansion of Hutchinson jobs attracted long distance commuters from the Twin Cities area or from surrounding McLeod County. Over time, local populations expanded with local workers preferring to live closer to their jobs, and others who enjoyed living in Hutchinson but who worked elsewhere. In either case, Hutchinson population grew and new housing was built. Commercial permits were few throughout the period covered by the record. Perhaps commuters from the Twin Cities to Hutchinson have plenty of shopping opportunities

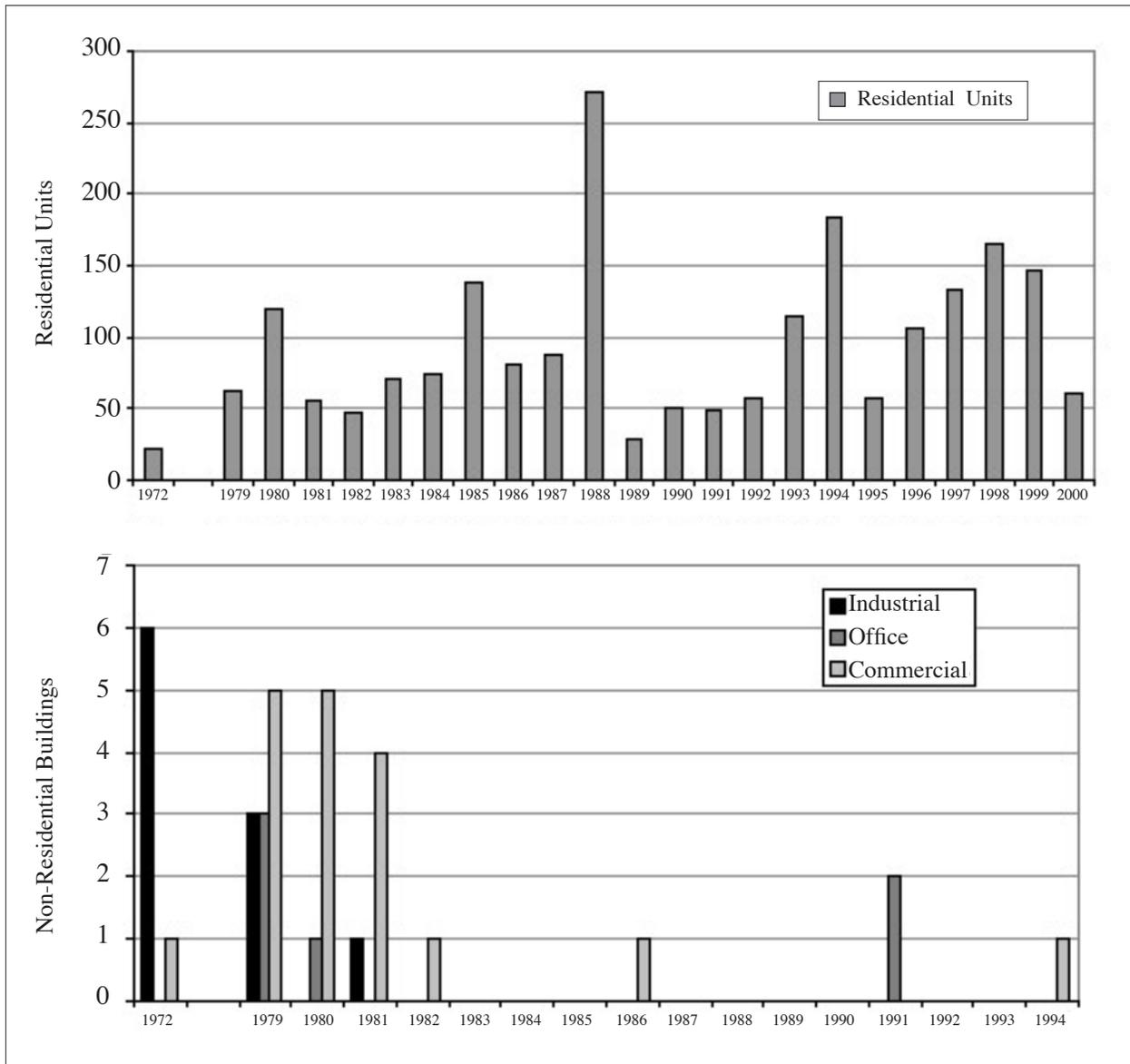


Figure 3.18. Hutchinson, Residential Construction Permits Granted, 1972, 1979-2000 (top), and Non-Residential Construction Permits Granted (bottom), 1972 and 1979-1994

Data Source: U.S. Bureau of the Census.

near where they live, while Hutchinson residents commuting to Twin Cities suburbs or to Minneapolis can take advantage of the overbuilt Twin Cities shopping landscape before returning home.

The resident population of Hutchinson is almost entirely European-American (**Figure 3.19**). Although the Hispanic population rose at a rapid rate in the 1990s, the total numbers remain small, as they do for African-American and “Other” (mainly Asian-American) residents. Meanwhile, Hutchinson has been a consistently prosperous place since 1970, with median incomes that differ little from those in Eagan and Maple Grove (**Figure 3.20**). The percentage of persons below the poverty line rose sharply in the 1990s, but that rise is probably due to the attractiveness of the Hutchinson economy, which like other prosperous and growing communities attracts domestic migrants and immigrants looking for economic betterment and usually coming from the lower rungs of the income distribution.

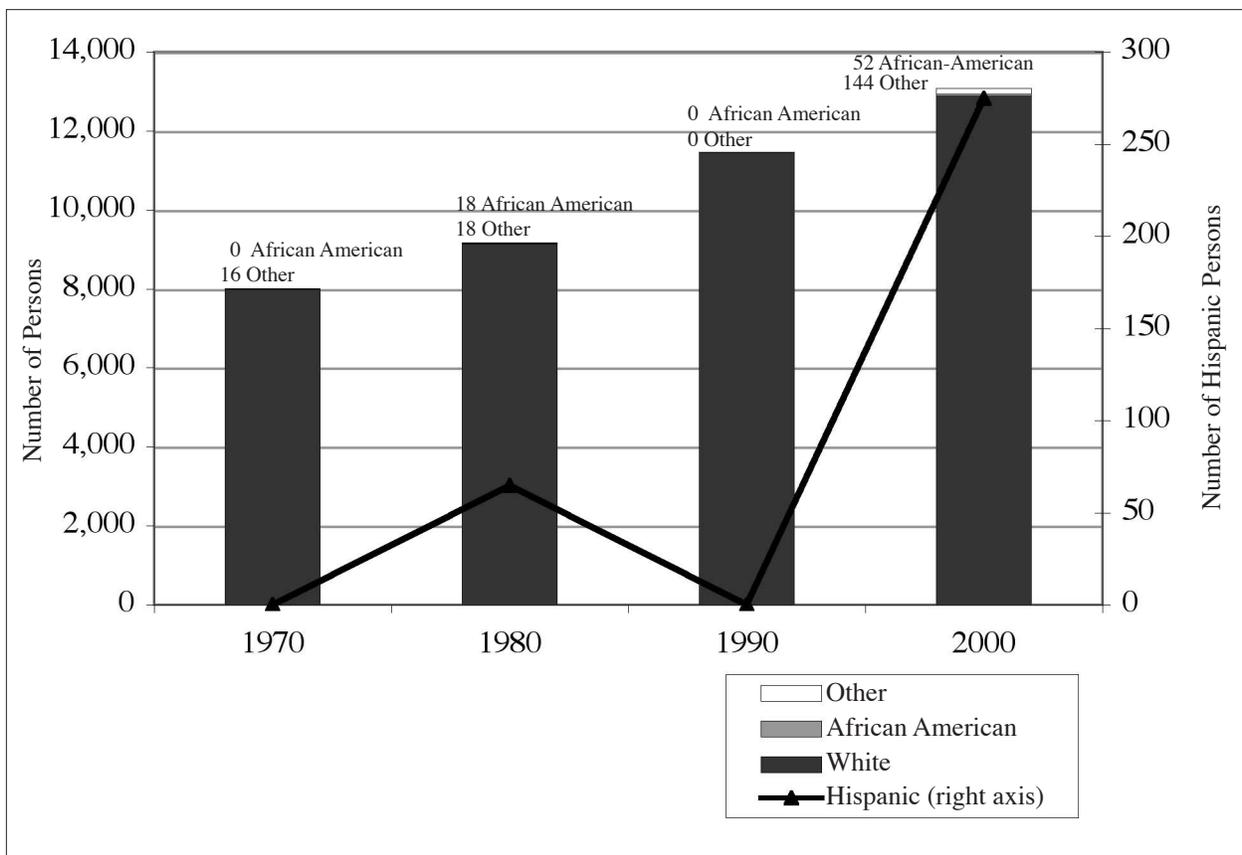


Figure 3.19. Hutchinson, Race and Ethnicity, 1970-2000

Data Source: U.S. Bureau of the Census.

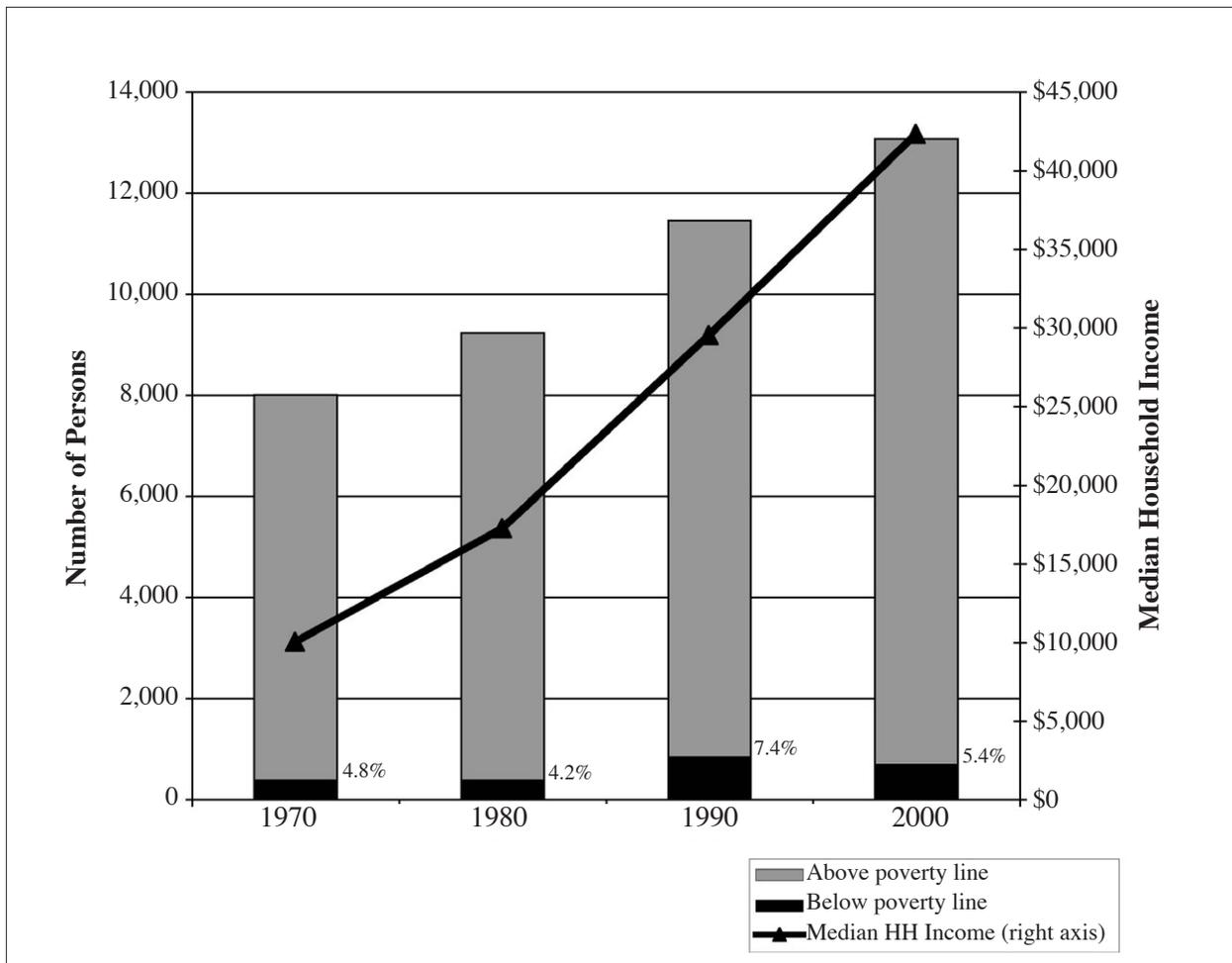


Figure 3.20. Hutchinson, Persons with Incomes Below Poverty Line, 1970-2000

Data Source: U.S. Bureau of the Census.

Chapter 3 Notes

1. City of Maple Grove Transportation Plan, March 1999. SRF Consulting.

Chapter 4

Factors Influencing City Finances

With regard to local government fiscal matters (i.e., revenue raising and expenditures) MCDs in any state have a certain common legal status and incur statutory responsibilities that are codified in state law. For example in Minnesota, each MCDs must at the very least:

- raise revenues from taxes, fees, fines, sales, rents, and intergovernmental transfers;
- provide public services;
- build and maintain public infrastructure;
- decide through the budgeting process on a mix and a level of capital and operating expenditures;
- manage the impacts of population, economic (and occasionally territorial) growth or decline;
- coordinate land development plans and related activity with neighbors and other governments; and
- satisfy voters.

Geographical differences of the following types are important to a MCD's development history:

- the physical setting and natural resource base within the jurisdiction of the local government, as well as the needs and preferences of community members, which vary from place to place, not only within MCDs but among them;
- the MCD's location and situation within the region's outward growth trajectory, which varies depending upon its location within a fast- or slow-growth sector, or within a prosperous or middle-class or working-class sector; and
- the MCD's economic base, which will vary, depending upon initial resource advantages, local leadership, and local history of successful public and private entrepreneurship.

Geographical differences will exert some influence on the distinctive ways in which each of the foregoing efforts will play out from place to place. The cases we chose bring together the various elements that influence growth and development at the local level, and illustrate how

cities that appear similar on many dimensions end up with dramatically different growth profiles.

As a city grows in population and economic activity, the need and demands for government services rises along with the potential means to provide them. Each newly developed property and the household or business or non-profit organization using it brings a new revenue stream into the community. Each newly developed property and its owner or tenant generates demand for city services.

City finances are affected by many different factors. Some of the variation results from decisions made by city officials. Some is due to factors outside the control of the elected officials, such as a city's size, the economic status of its residents or the proximity of similar services provided elsewhere. [1] The amount of revenue available to a city government may be influenced by rising or falling property values in the city, the extent of use of fee-based services, aggressiveness of the city in seeking intergovernmental grants for projects, access to taconite aid by cities on Minnesota's Iron Range, and other interrelated factors.

Expenditures may be affected by the demographic, geographic, historical or political circumstances facing the city. Large swings in expenditures may reflect demands caused by extraordinary weather events such as floods and tornadoes, unusually high levels of snowfall, public safety events such as forest or brush fires, or large-scale and costly investigations of high-profile crimes. Some factors wield an ongoing effect on city finances, while others might be one-time events.

Age of Housing

For cities inside the metropolitan area, the average age of housing reflects not only the likely condition of the city's infrastructure, but other conditions as well. The League of Minnesota Cities (LMC) found that the average age of housing indicates a variety of characteristics, including a higher relative rate of poverty, more tax exempt property, more subsidized housing, and a declining population base. Each of these factors tends to contribute an above-average demand for public services.

Population Size

Cities with large populations face certain challenges not encountered by small cities. Simply dealing with heavy traffic is a challenge that can be costly depending upon the burden carried by an area's streets and highways. Large populations sometimes accompany high population densities that in turn are associated with higher poverty and crime rates.

Population Decline

A loss of population can have a significant effect upon a city's spending. Costs of a city's infrastructure and provision of many services do not drop immediately when a number of city residents move away. The city must decide to go without certain services or to raise the taxes and fees on the remaining citizens to pay for the services.

Income

Household and business incomes are indirectly related to a city's ability to raise revenues. Where incomes are lower, property values may also be depressed, reducing a city's tax capacity. Poverty rates, in turn, will be higher creating greater demand for public services.

Crime Rate

High crime rates require a correspondingly high level of public safety services. Cities that host sporting and other entertainment events can draw large crowds of nonresidents and create unusual public safety service demands. Moreover, high levels of poverty are also associated with a city's crime rate and contribute to an overall greater demand for police protection.

In addition to these demands, variations from city to city in expenditure levels can be affected by the number, type and use of personnel, the scope of services the city decides to deliver, and types and amounts of services shared by or purchased from neighboring cities or the county.

Geographic Location

Different areas of the state often operate within quite different economic environments. The presence of one large business or industry can affect an entire region as in the case of the prosperous Mayo Clinic in Rochester, or the depressed iron and taconite operations on the Iron Range. Declines in industries or companies that dominate local economies may lead to a higher demand for public assistance while at the same time reducing the tax capacity of the area. A depressed market for agricultural products may result in lower property values and a decline in revenues for cities in regions whose economies are primarily based on agriculture. Cities located in these areas may experience difficulty raising revenues at the same time that they face higher demands for public services.

Tax Capacity

The amount of money a city spends is directly related to the amount that is available to spend. Likewise, the costs of doing business are directly related to the amounts of revenue that can be generated to meet the costs. The greater the amount and types of revenue available to a city, the more it will tend to spend.

Taconite Aid

Many cities located on Minnesota's "Iron Range" are eligible to receive special funding in the form of taconite aid. For a number of years, revenues in these cities were greater than they might have been without the distribution of taconite aid, especially for cities without taconite processing plants. In addition, the availability of taconite aid enabled these cities to spend without raising property taxes.

Enterprise Funds

Services provided through enterprise funds allow cities to pass the costs of services directly onto the users of the services. By using this type of accounting mechanism, cities may be able to keep down the level of general property taxes needed to provide services.

Joint Powers Agreements

A significant practice among cities is the sharing of services and the use of joint powers agreements to provide necessary services. Such arrangements allow cities to provide services jointly with other cities and thus pool their resources. For example, the metropolitan cities of Circle Pines, Lexington, and Centerville have a joint powers agreement to provide police protection services. A number of cities share services through the use of contracts. For example, the City of St. Paul contracts with several other cities in Ramsey County for the provision of water. The City of St. Anthony contracts with Falcon Heights and Lauderdale to provide police protection. In Greater Minnesota, the City of Thief River Falls provides fire services to five townships on a contractual basis. Shared service arrangements are not necessarily formal; some cities provide services to other jurisdictions on an informal basis. By sharing the costs of services, cities can achieve greater economies of scale and avoid duplicating services and capital investments. Cities that provide a service to a number of entities may show higher expenditures for that service, but will have these costs defrayed by revenues provided by the other participating entities.

Proximity to County, Regional, or State-Run Programs/Facilities

Cities located near county, regional or state-run facilities may decide to have their citizens take advantage of those facilities and services rather than provide them themselves. For example, a city that houses the county library probably will not build its own. Similarly, cities located close to a regional or state park may opt not to develop or expand their own park program. Smaller cities located near larger cities may do the same. Some cities in the Twin Cities metropolitan area schedule land development in a way that makes maximum use of county roads in order to minimize a city expenditure to build and maintain additional city streets. The degree of isolation

experienced by a community, whether geographic or technological (e.g., lack of advanced telecommunications capability), can also affect service demands and costs. Cities remote from other communities may lack the opportunity to participate in joint powers arrangements or to provide urban amenities, and thus may need to provide a wider range of services out of their own budgets.

Types of Industry Present and Service Demands

One city feature that can have a significant effect on a city's revenue and expenditure profile is the type of industry it contains. For example, industries such as paper mills may place particularly heavy burdens on the city's water supply, sewers, fire department, or streets. At the same time, the presence of these industries contributes to the property tax base of the city. Expenditures for these services may be higher than for other cities, but the cost is not necessarily borne by the residents of the city.

Source of Labor

The extent to which a city government depends upon other than full-time, salaried employees will affect the levels of expenditures. Staffing arrangements that can reduce the full-time complement of city employees include extensive use of part-timers, significant reliance on volunteers, and use of contracts for specific projects or for general services. Besides lower wages to part-time employees, a second important reduction may be in fringe benefits. On the other hand, some employee arrangements may increase, rather than reduce costs. Some cities' expenditures are affected by the unionization of their work force. With a unionized workforce, salary and wage levels costs may be more difficult for a city to control.

Trends in Municipal Finance in Minnesota

The demand for new or additional publicly provided services typically lags growth, unless there are appropriate growth controls in place, which is the unusual case. Typically new municipal services are developed and provided under pressure, and months or years after their need is apparent. Examples include local road improvements; fire and police protection; storm and sanitary sewers and sewage treatment; solid waste removal and disposal; parks and recreation facilities. As they are provided, the fiscal burdens assumed by the local government expands as the profiles for the four cities illustrate.

The shares of local government revenue coming from different sources usually varies little from year to year, but over time there are definite shifts in the shares. The two largest sources

of revenue for cities have been taxes and intergovernmental revenues, but in the last half of the 1990s, state intergovernmental revenues as a share of total revenues has steadily declined from 27.3 percent in 1995 to 24.7 in 1999. Meanwhile, charges for services as a share of total revenues have grown from 6.9 percent in 1995 to 8.2 percent in 1999 with charges for services in park and recreation services showing the greatest gains. [2]

The shares of local government expenditures also change little from years to year, but as a city's priorities change over time, spending shifts reflect changing priorities. In 1995 for the cities in Minnesota, the top three expenditure categories were debt service (21.4 percent), streets and highways (20.1 percent), and public safety (19.3 percent). By 1999, the order of these three categories had reversed, while the share of expenditures for culture and recreation rose from 9.9 percent in 1995 to 13.8 percent in 1999. [2]

Capital outlays and the revenues to pay for them are more likely than current expenditures and current revenues to vary significantly from year to year. The reason for this unevenness is that capital projects tend to be large in size but infrequent in their occurrence. Factors that influence the level of capital investments include the need for infrastructure improvements to serve newly developing or redeveloping areas, public safety investments, demands for meeting places and facilities, replacement of aging infrastructure, and repair of damage caused by fire, flood and storms. Cities raise capital improvement funds and incur debt by selling bonds and notes, certificates of indebtedness, and tax anticipation certificates. Long-term lease arrangements are also classified as long-term debt. Cities may borrow only for capital improvements and capital purchases; they are prohibited by state law from borrowing for current expenses. Debt affects current expenditures because a city must make principal and interest payments from current revenues. [2]

Our summary of the development history of four suburban and exurban cities in the greater Twin Cities area illustrates various ways that geographical context—including transportation linkages— helps to explain the distinctive development experiences in each place. We selected examples that would illustrate different types of sites and different relative locations within the post-war Twin Cities suburbanization process. In addition, the four cities were selected to illustrate similarities and differences in the fiscal issues that accompanied development. Each of the four cities is discussed below in turn.

To recapitulate, Brooklyn Center is an older first-ring suburb adjacent to North Minneapolis. It is positioned within a lower-middle-class and working class residential sector radiating outward from Minneapolis that filled in fast during the 1940s and 1950s, and today faces growing social

and economic problems. Eagan is a newer and more prosperous fast-growing second-ring suburb located south of south of St. Paul and Mendota Heights. It lies within in a residential sector on the side of the metropolitan area opposite from Brooklyn Center and received many households who migrated from southwestern St. Paul. Maple Grove is an upper-middle-class third-ring suburb northwest of Minneapolis beyond Brooklyn Center and Brooklyn Park, and was fast-developing on the outer edge of the built-up area in the 1980s and 1990s. Hutchinson is a small city 50 miles west of Minneapolis in McLeod County, just west of the boundary of the 7-county metropolitan area, beyond the built-up edges of the Twin Cities area yet affected by steady growth and development of the Twin Cities to the west. These four cities provide the framework for examining fiscal trends experienced by each of them during their respective growth histories.

Every city's development experience occurs within a distinctive time frame and a unique geographical setting. The following fiscal analysis focuses on the period 1970 to the present, and is aimed at illustrating how each sample city's growth process accompanies changing patterns of revenues and expenditures that differ from the other cities depending on the time and place of the development within the expanding Twin Cities metropolitan area. The following chapter examines a selection of cases involving (1) city growth and associated fiscal issues as they intersect with (2) school district growth and the fiscal issues confronting the school districts serving the cities.

Components of Municipal Finance

For purposes of describing the ways that revenues and expenditures change over the years as a city grows and develops, we divided the portrayal into two parts—revenues and expenditures. [3] On the revenue side, we grouped types of receipts into five major classes as follows:

Taxes

The types of taxes that state law allows a city to collect are limited, and an individual city's charter may impose additional limits. The typical taxes available to a Minnesota city include: property tax, tax-increment proceeds, gravel extraction taxes, franchise tax, local sales taxes and hotel-motel taxes, and special assessments to properties that benefit from some improvement like a sidewalk or newly planted boulevard trees.

Licenses and Fines

A second class of revenues includes licenses and permits such as those issued to grocery stores, restaurants and bars, fines such as those for parking and traffic violations, and bonds that are forfeited when someone fails to make a court appearance.

Intergovernmental Revenues

A large proportion of revenues available by city governments comes from federal and state governments in the following forms: federal revenue sharing, federal Community Development Block Grants, other federal transfers to the city, state government aid to local governments, state Homestead and Agricultural Credit Aid (HACA), state highway monies to local governments, and other state transfers to local governments.

Charges and Fees

Every city charges user fees for performing certain functions when the cost of the service or use of a facility can easily be assigned to the beneficiary, such as building inspections, certain public safety functions as when off-duty police are hired to supervise a special private event, garbage collection, solid waste disposal, use of municipal swimming pools, admission to municipal parks and museums, landing fees at a municipal airport, and so forth.

Other Revenues

Finally, there is a large class of revenues that are outside those listed above, including interest earnings such as on bank deposits, miscellaneous city revenues, transfers of revenues from city enterprises (e.g., city-owned utilities, community development agencies, city-owned liquor stores, etc.), transfers from other governments for services rendered (e.g., one city hires another to plow its streets or perform other municipal functions when it is cheaper to hire the work done than to add equipment and personnel), and borrowing.

In the graphs and discussions that follow, we ignore revenues from selling bonds, other long-term debt, and short-term debt because the capital expenditures associated with such borrowing produce an immediate impact, whereas the paying of interest and redeeming of debt occurs annually over time. The goal in the graphs and discussion is to highlight capital improvements that accompany growth and development, and then to assess the interplay of higher annual revenue requirements of the city at the same time that the school districts require more money for their current expenditures and capital outlays.

On the expenditure side of local government finance we have grouped individual classes of outlays into five main groups as follows.

General Government

This group includes the mayor's office and city council expenditure, city clerk and city treasurer offices, general government expenditures, and general government capital improvement outlays.

Public Safety

This large category includes current expenditures and capital improvement outlays of the following sort: police department current expenditures, police department capital outlays, fire department current expenditures, fire department capital outlays, other public safety current expenditures, and other public safety capital outlays.

Streets and Highways

Maintaining public rights of way in cities has a number of components: street maintenance, snow removal, the city engineer's office, street lighting, street construction, and capital outlays for streets, signals, bridges and related capital outlays.

Culture and Recreation

All cities provide public recreation facilities, the expenditures for which are classed as parks and recreation current expenditures, and parks and recreation capital outlays.

Other Expenditures

This category has components that are present in some cities and not in others, and that may be present or absent depending on a city's age and stage of development: housing and redevelopment authority and economic development agency current expenditures, housing and redevelopment authority and economic development agency capital outlays, airport current expenditures, airport capital outlays, miscellaneous pension expenses, miscellaneous insurance and judgments, city enterprise current expenditures, city enterprise capital outlays, miscellaneous current expenditures, miscellaneous capital outlays, interest and fiscal charges, bonds paid, other long-term debt paid, short-term debt paid, transfers to enterprise funds, and transfers to government funds.

Brooklyn Center

Property taxes are a favored source of city revenue because often in the early years of development they can increase faster than population, especially when development includes increasing volumes of non-residential construction and associated activity. The situation is not

so rosy when growth ceases and decline sets in. In such situations, revenues are harder to come by while there is unrelenting pressure for expenditures to rise. But property taxes generally are easily collectable, and they represent an exceptionally stable revenue source for a city. Intergovernmental revenues, which are usually tied to specific categories of spending, fluctuate widely depending on the program to which they are attached and a city's needs at a particular point in time. Charges and fees may also fluctuate, as when a large housing development is underway and the developer is obligated to pay for on-site improvements such as streets, water, and storm sewer. The developer pays fees to the city, and then the city builds the necessary infrastructure.

Patterns of municipal expenditure fluctuate for some of the same reasons that revenues fluctuate in a growing community. Costs of general government rise steadily in a city's early years of population growth and land development, and they also rise on a per-capita basis, although not necessarily at the same rate as inflation. One big expenditure for local government is for streets and highways. On a per-capita basis it usually exceeds any other category of expenditure, and jumps periodically when new subdivisions are constructed and must be served.

City revenues closely match city expenditures in a given year because local governments may not borrow for current operations, and seldom collect revenues that are not quickly spent. The sharp peaks in the trend lines for our case studies can be traced to occasional lumpy purchases and construction projects completed in a specific year and perhaps paid for in part from a state or federal grant, while in the following year activity drops back to the normal trend.

Between 1970 and the end of the 1990s, the annual revenues and expenditures of Brooklyn Center city government continued an upward trend (current dollars), with occasional peaks and troughs stimulated by unusual events (**Figure 4.1**). The population of Brooklyn Center peaked in the mid-1970s, then slowly dropped, helping to raise per-capita revenues and expenditures faster than they would have risen had the population remained constant or had risen. One result of higher total and per-capita outlays in an aging community when population is declining is that per-capita figures rise fast, and the political consequences of such increases can lead to a negative spiral for the community whereby costs go up yet the ability of the community to pay for improvements fails to increase along with the demand. If property values and rents fail to keep pace with demands for increased services, then homeowners and owners of rental housing sense a capital loss and their willingness to support public improvements or to invest in their own properties may wane—the opposite of political sentiments present in growing communities where property values are rising robustly due either to construction of above-average housing or to demand exceeding supply for those existing houses in such places.

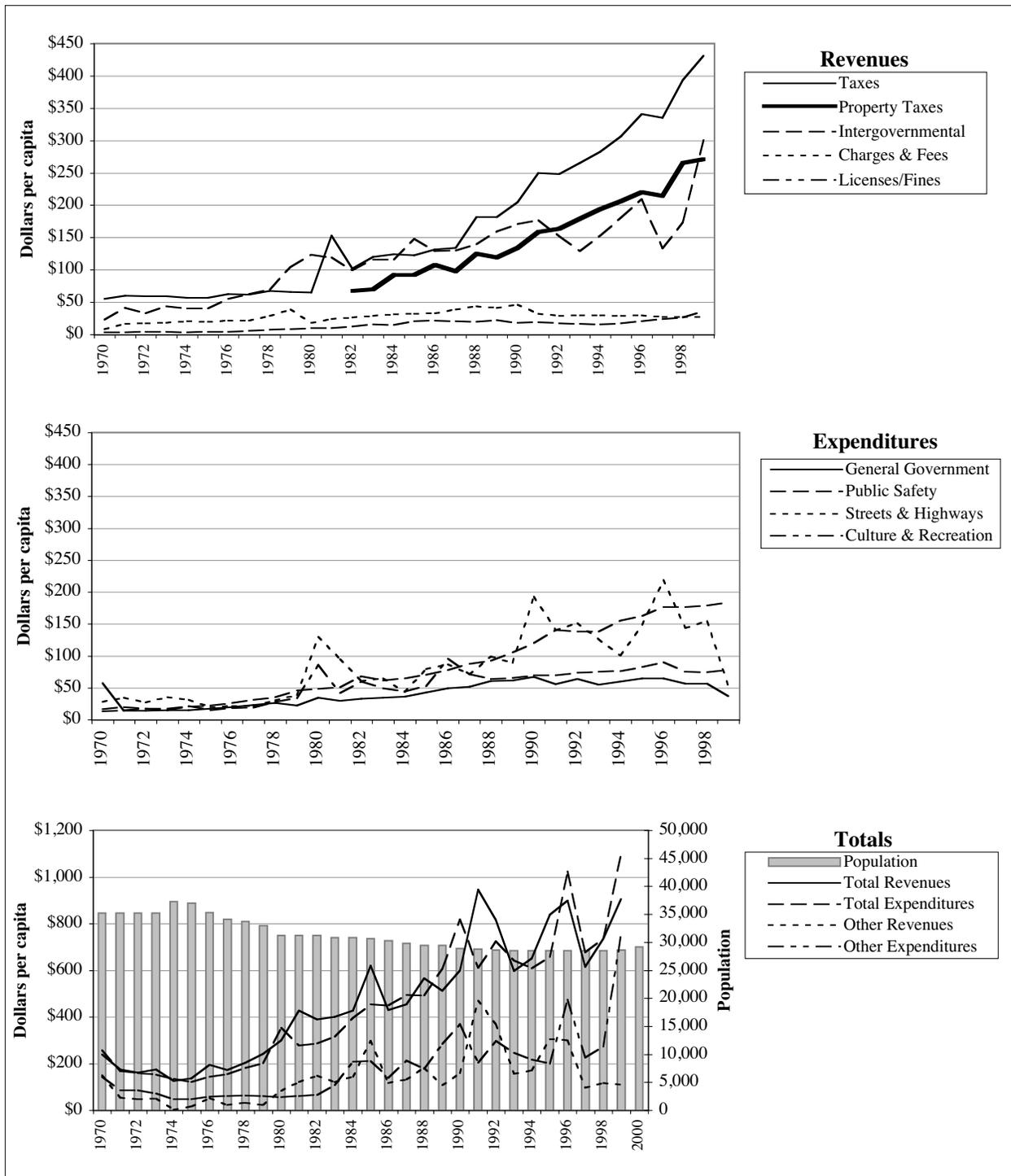


Figure 4.1. Brooklyn Center City Local Government Revenues and Expenditures, 1970-1999, and Population 1970-2000

*Property Taxes plotted separately (as a subset of Taxes) beginning in the first year when data were available. For prior years Property Taxes are included in the Taxes category.

Data Sources: Department of the Public Examiner and Office of the State Auditor, State of Minnesota. Calculations by the authors.

Licenses and fines, along with charges and fees remained at modest levels over the study period, but the mix of revenues from various sources varied as the city aged. For example, property taxes as a share of all taxes started to drop in the later years (**Figure 4.1**) while intergovernmental revenues rose sharply. As middle-class or working-class suburbs like Brooklyn Center age, the cost of government rises faster than its property tax base, and it is politically difficult for the city to raise property taxes beyond the ability of residents to pay or they will be encouraged to leave, which makes matters worse because it is usually the better-off households that have the greatest number of relocation options. The apparent response of Brooklyn Center to its fiscal situation was to seek “other revenues” (**Figure 4.1**) which began rising in fits and starts after 1980. Money that is borrowed for urban renewal projects, community development initiatives, and infrastructure replacement falls into the category of “other revenue.”

Eagan

Eagan Township incorporated as the City of Eagan in 1974 while it was growing fast. In terms of its vintage, Eagan is between one and two generations older than Brooklyn Center, which experienced its big development boom in the 1940s and 1950s. Eagan’s steady growth in population and development continued throughout the 1970s; then in the late 1980s it began increasing even faster (**Figure 4.2, bottom graph**). The development boom followed improved access to Eagan from South Minneapolis and its south suburbs after the MN-77 (Cedar Avenue) and I-494 bridges across the Minnesota River were completed, and after I-35E across the Mississippi River opened up to link Eagan with western and downtown St. Paul.

Prior to 1974 the reporting of Eagan Township’s revenues and expenditures (current dollars) was less detailed than for later years when Eagan was a city and was obligated to report its finances under different formats. Per-capita taxes jumped to high levels in the late 1970s, reaching a peak in 1980 when the city was spending relatively heavily in the face of rapid growth yet the population was still small (**Figure 4.2-top graph**). As population growth and land development proceeded, the share of all taxes accounted for by property taxes rose steadily (top graph). Other specific revenues remained low on a per-capita basis, except for occasional blips in intergovernmental revenues.

On the expenditure side of the ledger (middle graph) it is easy to see the fiscal consequences of a 35 square-mile city building streets and highways to, accommodate explosive growth. General government costs also rose on a per-capita basis with the scale shifts that were needed as the city

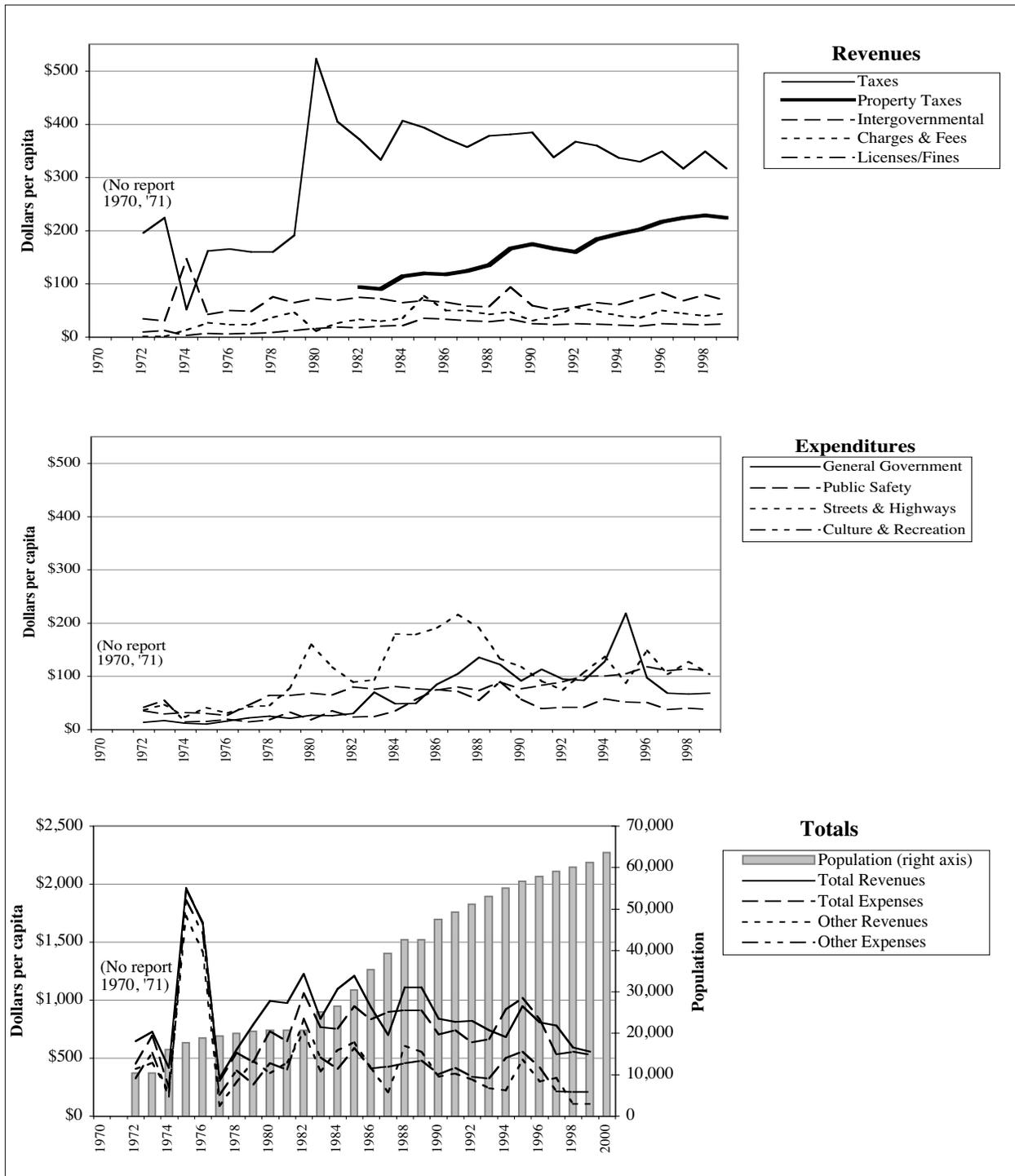


Figure 4.2. Eagan City Local Government Revenues and Expenditures, 1970-1999, and Population 1970-2000

*Property Taxes plotted separately (as a subset of Taxes) beginning in the first year when data were available. For prior years Property Taxes are included in the Taxes category.

Data Sources: Department of the Public Examiner and Office of the State Auditor, State of Minnesota. Calculations by the authors.

grew from under 10,000 to almost 60,000 in 20 years. The trend lines tell us that the city made decisions to expand functions and services, which abruptly increased per-capita expenditures, but then as population continued to grow the per-capita costs declined. Other revenues and other expenditures (bottom graph) are undoubtedly traceable to various capital improvements which occur in lumpy fashion, high in some years and low in others. In contrast to the Brooklyn Center case, total revenues and total expenditures per capita generally declined in Eagan in the 1990s as population continued its upward trend.

Maple Grove

Maple Grove's is somewhat newer and located farther from the central city than Eagan, but their growth and development trajectories are similar, and both have had their development fortunes heavily influenced by major transportation developments. Maple Grove's population increased steadily from 1970 to the present as Interstate highway accessibility improved and residential development flourished within the northwest suburbanization sector along the I-494/694/94 corridor linking the Twin Cities with St. Cloud and points farther to the northwest.

Along with land development and population growth has come rapidly expanding local government activity. Total local government revenues per capita (current dollars) have trended upward over the past three decades, but at an irregular rate (**Figure 4.3**). Tax revenues on a per-capita basis rose steadily, and faster than property taxes while the other sources remained relatively low (top graph). Like other fast-growing cities, infrastructure improvements are lumpy and Maple Grove underwent two sharp peaks in city street and highway construction (middle graph). Like Eagan, total revenues and total expenditures on a per-capita basis were roughly \$1,000 per capita per year in the 1980s, but unlike Eagan Maple Grove's total revenues and expenditures again on a per-capita basis leapt upward toward the end of the 1990s, approaching \$1,600 as the rate of population growth started to level off.

Hutchinson

The Hutchinson is a freestanding city with only 20 to 25 percent of the population of Eagan or Maple Grove, but it has been experiencing some of the consequences of recent growth and development, not only by people coming to the city to live and work there, but also by people who like the small-city setting and are willing to commute to jobs elsewhere in the region—a decision made easier by the excellent highway system serving the city. Property taxes (current

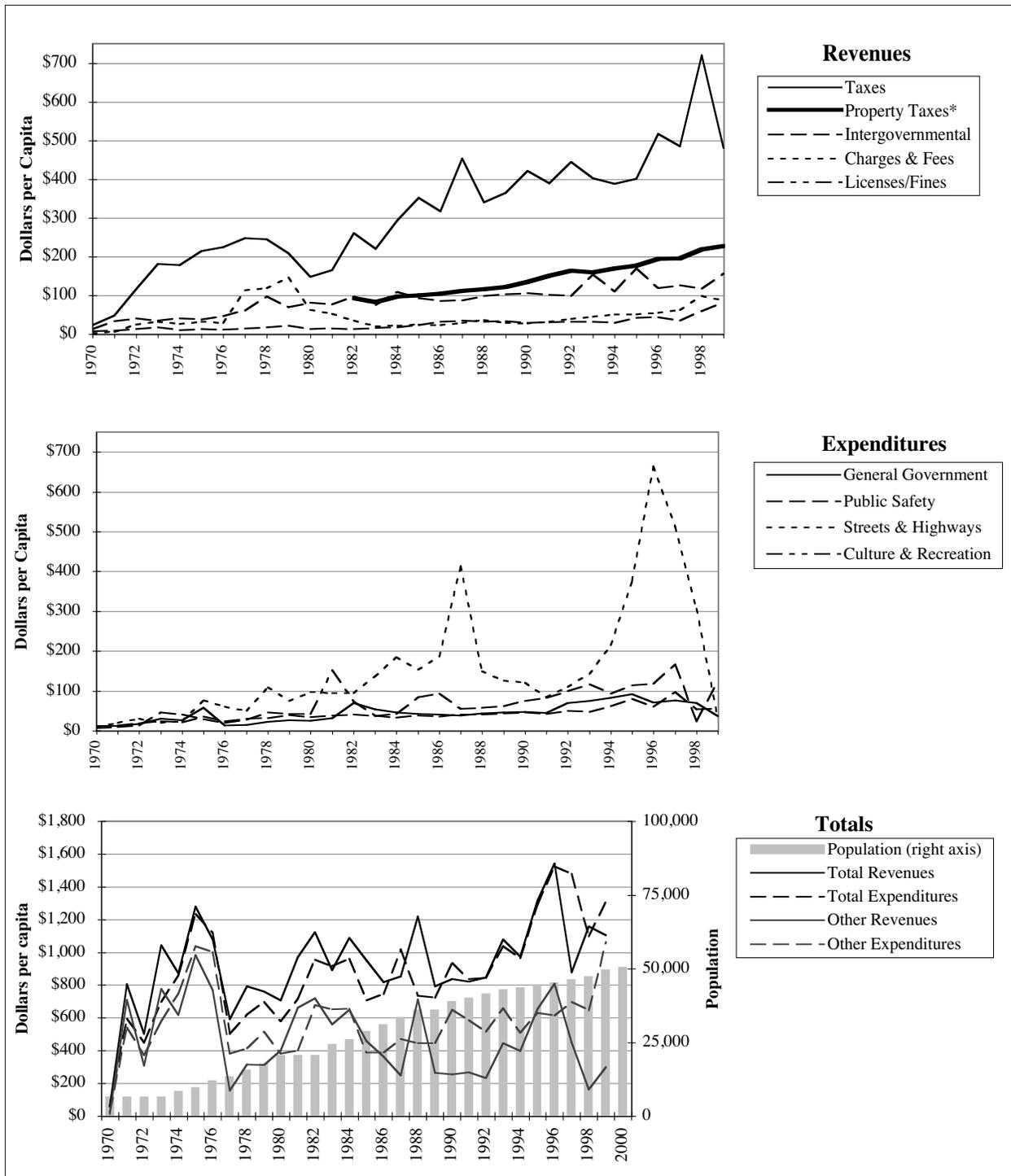


Figure 4.3. Maple Grove City Local Government Revenues and Expenditures, 1970-1999, and Population 1970-2000

*Property Taxes plotted separately (as a subset of Taxes) beginning in the first year when data were available. For prior years Property Taxes are included in the Taxes category.

Data Sources: Department of the Public Examiner and Office of the State Auditor, State of Minnesota. Calculations by the authors.

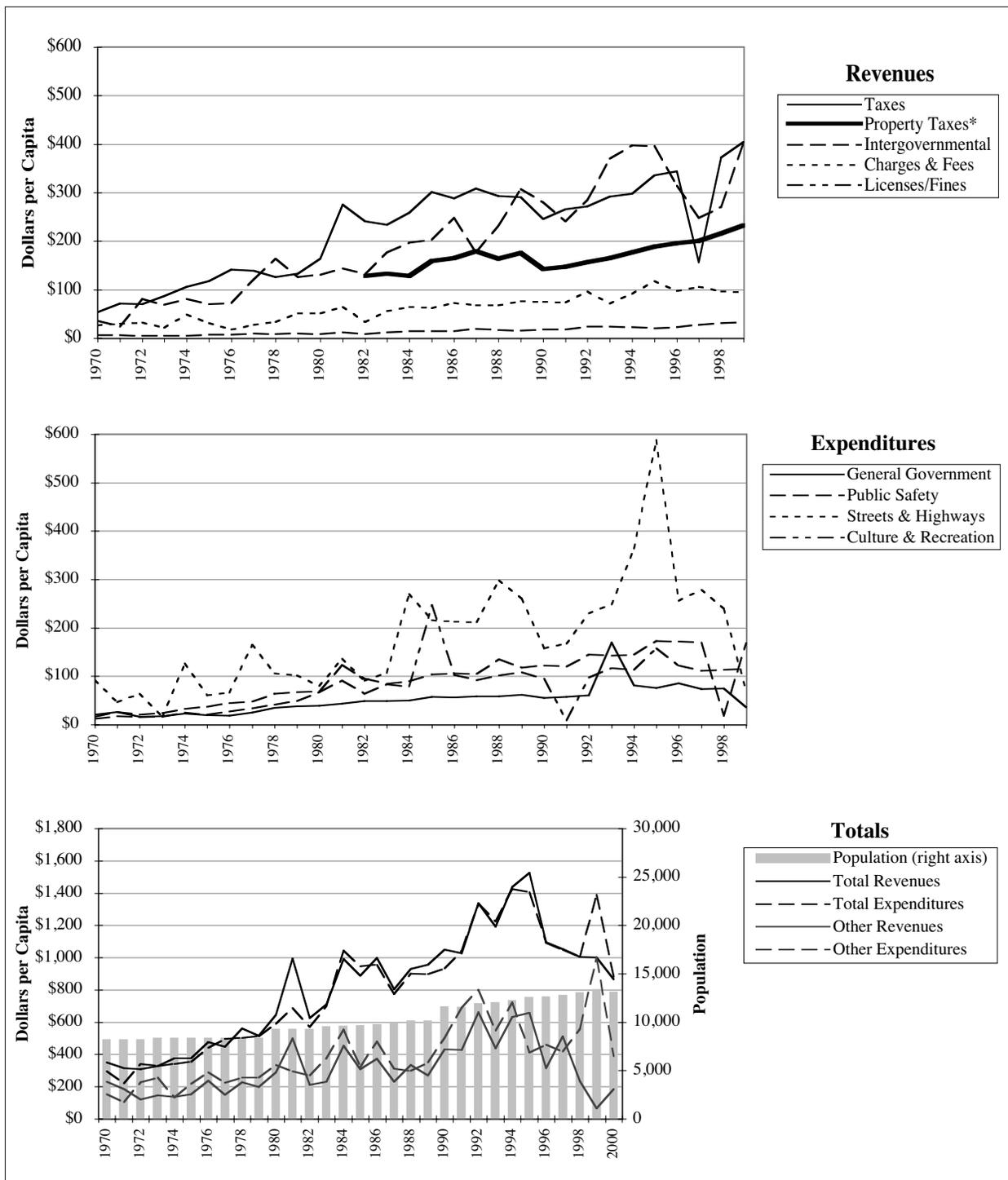


Figure 4.4. Hutchinson City Local Government Revenues and Expenditures, 1970-1999, and Population 1970-2000

*Property Taxes plotted separately (as a subset of Taxes) beginning in the first year when data were available. For prior years Property Taxes are included in the Taxes category.

Data Sources: Department of the Public Examiner and Office of the State Auditor, State of Minnesota. Calculations by the authors.

dollars) are a significant fraction of all taxes, but the share has been declining slightly (**Figure 4.4**). At the same time, intergovernmental revenues on a per-capita basis (top graph) are three times what they are in Eagan or Maple Grove, and notably higher than in Brooklyn Center, a reflection of the opportunities that small cities with certain obligations have to tap state and other sources when local resources are insufficient. Charges and fees are also much higher per capita in Hutchinson than in the other cities, another instance in which a city must provide services yet may be unable for political reasons to tax residences or businesses to raise the revenues it needs.

Small cities like Hutchinson often cannot achieve the internal economies of scale that a large city of 50,000 can exploit. Furthermore, residents and businesses in small freestanding cities cannot share the resources of immediately adjacent cities because there are none. Residents of Hutchinson or workers in the city who live elsewhere may carry their income away and spend it elsewhere, leaving the city with less tax capacity than it needs to supply the urban infrastructure to support residents and businesses. The differences must be made up somehow, so charges, fees, and intergovernmental revenues are some of the options that Hutchinson evidently taps.

Streets and highways are typically one of the biggest expenses for a city, and Hutchinson is no exception (middle graph). Since 1970, the city has experienced several episodes of heightened street and highway expense, accommodating the expanding industries of the city as well as steady population growth. At the end of the decade, total revenues and total expenditures on a per capita basis were \$1,200 to \$1,500 per capita—about the same as in Maple Grove which also was growing steadily, but significantly higher than in Eagan where fast population growth was pulling the per-capita level down, and higher than in Brooklyn Center, a city with declining population that cannot afford to spend much more.

Summary: MCD Growth and Development

We selected Brooklyn Center, Eagan, Maple Grove and Hutchinson to illustrate how the suburban development process around the Twin Cities occurred at different times in different places, and how those differences are reflected in profiles of how the cities raised revenues and spent money from 1970 to the present. As the region grew in population and economic activity after 1945, new suburban land development successively engulfed formerly agricultural areas located beyond earlier built-up areas. To interpret the experience of each city's development experience within this larger region-wide process we selected cases from four different sectors of Twin Cities suburban expansion—north, northwest, west, and south, and identified cities that

experienced their first major spurt of suburban development at different times.

Brooklyn Center is an older inner-ring suburb adjacent to North Minneapolis, which filled up fast in the 1940s and 1950s and today is losing population while it faces expensive growing social and economic problems. Eagan is a fast-growing second-ring suburb south of St. Paul and Mendota Heights, in the southeast quadrant of the metropolitan area that expanded rapidly in the 1980s. With its fast population growth and prosperous households and businesses Eagan has been able to accommodate growth while keeping per-capita costs under control. Maple Grove, the third-ring suburb to the northwest of Minneapolis, was fast-developing in the 1990s on the outer edge of the built-up area. Hutchinson, the freestanding city beyond the built-up margins west of the Twin Cities metropolitan area, is nevertheless experiencing the impact of exurban development and striving to accommodate it.

If we were to look within each of these cities we would unearth local differences in how they addressed population growth and land development pressures. Maple Grove seems prone to “hyper-planning” with sophisticated political leadership and highly professional city staffing. On the other hand, Brooklyn Center has had a hard time on both fronts.

Chapter 4 Notes

- 1 Summarized from the report: Office of the State Auditor, State of Minnesota. “Factors Influencing City Finances” (in Minnesota). <http://www.osa.state.mn.us/reports/gid/1999/lcRED/appendA.pdf>.
2. Office of the State Auditor, State of Minnesota. “State Auditor Judi Dutcher Releases Two Reports on City Finances: Finds Overall Increase in Fund Balances for Large Cities.” St. Paul: Office of the State Auditor. 11 June 2001. <http://www.osa.state.mn.us/mainTmp.lasso?page==rptgid99lcRED&-nothing>.
3. The categories listed on the following pages are those used by the Minnesota State Auditor’s office, which receives and publishes detailed reports each year for every municipality in Minnesota. The reports describe in great detail amounts of revenue by source and amounts of expenditure by each use. City governments must operate with annually balanced budgets, and are prohibited by law from borrowing to cover current expenditures.

Appendix to Chapter 4

City Revenues and Expenditures: Definitions

CITY REVENUES

Licenses and permits

Fines and forfeits

(A) TOTAL LICENSES AND FINES

Property Taxes

Tax increment proceeds

Gravel extraction taxes

Franchise taxes

Local sales taxes and hotel-motel taxes

Special assessments

(B) TOTAL TAXES

Federal revenue sharing

Federal Community Development Block Grants

Other federal transfers to city

State local government aid

State HACA: Homestead & Agricultural Credit Aid

State highway monies to local governments

Other state transfers to local governments

(C) TOTAL INTERGOVERNMENTAL REVENUES

Fees collected by local government for services and use of facilities: general government, public safety, sanitation, airports, other

Fees from recreation and park facilities

(D) TOTAL CHARGES AND FEES

Interest earnings

Miscellaneous city revenues

Transfers of revenues from city enterprises (utilities, CDAs, liquor stores, etc.)

Transfers from other governments for services rendered

Borrowing (note: revenues from selling bonds, other long-term debt, and short-term debt are not included in graphs because the capital expenditures associated with the borrowing produce an immediate impact, whereas the paying of interest and redeeming of debt occurs annually over time. The goal here is to highlight capital improvements that accompany growth and development, and then to assess the interplay of higher revenue requirements of the city at the same time that the school districts require more money for current expenditures and capital outlays.)

(E) TOTAL OTHER

TOTAL REVENUES AND OTHER SOURCES (A-E)

CITY EXPENDITURES

Mayor's office and city council expenditures
City clerk and city treasurer offices
General government expenditures
General government capital outlays

(F) TOTAL GENERAL GOVERNMENT

Police department, current expenditures
Police department, capital outlays
Fire department current expenditures
Fire department capital outlays
Other public safety current expenditures
Other public safety capital outlays

(G) TOTAL PUBLIC SAFETY

Street maintenance
Snow removal
City engineer
Street lighting
Street construction
Streets—capital outlays and other

(H) TOTAL STREETS AND HIGHWAYS

Parks and recreation current expenditures
Parks and recreation capital outlays

(I) TOTAL CULTURE AND RECREATION

Housing and redevelopment authority and economic development current expenditures	
Housing and redevelopment authority and economic development capital outlays	
Airport current expenditures	Miscellaneous capital outlays
Airport capital outlays	Interest and fiscal charges
Miscellaneous pension expenses	Bonds paid
Miscellaneous insurance and judgments	Other long-term debt paid
City enterprise current expenditures	Short-term debt paid
City enterprise capital outlays	Transfers to enterprise funds
Miscellaneous current expenditures	Transfers to government funds

(J) OTHER EXPENDITURES AND USES

TOTAL EXPENDITURES AND OTHER USES (G-J)

Chapter 5

Four School Districts and Their Associated MCDs

Preface

Recent changes in Minnesota legislation regulating K-12 school finance have not altered the fact that K-12 general spending remains the largest portion of the state's budget, and so looms large within the overall taxing and spending system. Under the new financing structure enacted in the 2001 legislative session, the state will bear an even larger share of the cost, and a far smaller share of K-12 general education will be funded by local property tax. The connections between school finance and municipal finance by means of the local property tax have changed in law, but it will take some time before these legislative changes result in visible changes in the development landscape with which this series of reports is concerned. We might conveniently refer to the recent tax restructuring as differentiating "20th-century" and "21st-century" K-12 school financing systems in Minnesota.

The history of Minnesota's school district formation and school finance system was presented in a previous report in this TRG Study series. [1] We summarize that history briefly here, and then examine the ways in which Minnesota's school finance system is related to MCD finance and development in our chosen case locations, and how geography matters to these interactions. As we stated in our earlier report, "The circumstances within which school districts operate depend in part upon land development patterns, state and local public finance, and the transportation system that both *leads* and *responds to* the patterns of development that evolve." [1]

Finally, we review the important changes in K-12 school finance that have taken place recently, and the likely impacts those changes will have on municipal taxing and development strategies and on local development patterns and service delivery in the 21st century.

Minnesota's School Districts: Formation and Governance

Beginning in 1849, Minnesota's school districts were first based on township areas, with five or more families the minimum population required to support a school. From that original basis,

as population grew, these township districts were subdivided. Eventually, efficiency dictated consolidation of many of these small districts. As townships became cities, the larger cities chartered their own districts, coincident with municipal boundaries. Many towns and villages followed suit as their populations grew. Over the state's first century, as uneven property development proceeded along with urbanization and agricultural improvements, mismatches developed between the demands of growing populations for school services, and the availability of school facilities and the tax base to support their maintenance and expansion. New legislation facilitated easier consolidation of districts, by subsidizing the costs of the transition and of the increased need for pupil transportation that came with increasing size. With the post-World War II Baby Boom and the rapid rise in demand for school services, consolidation of districts and enabling legislation proceeded apace. Legislation enabling district consolidation has helped reduce the number of K-12 school districts in Minnesota dramatically, from a peak of over 8,000 in 1918-19 to 347 in 2000-01. The average number of pupils in districts, in turn, has risen from 60 to nearly 2,500 in the same period.

Each school district in Minnesota is governed by a school board elected by voters within the district, and managed by a superintendent who is hired by the school board.

Minnesota's State and Local K-12 Education Funding System, Then and Now

Since 1863, the State of Minnesota has provided aid of one kind or another to public school districts, while local government and some federal aid provided the remainder. The proportion of school funding provided by state government has increased over the years, in order to assure that minimum school services are provided by all districts, and to increase equity in per-pupil spending across districts. The portion of K-12 funding supplied from the state budget has increased from about 20 percent in 1930, to 60 percent in 1960, to 70 percent in 1971 with the "Minnesota Miracle," aimed at further equalizing aid among districts and at relieving local property tax burdens. Various exceptions and adjustments following the 1971 reform legislation brought the level of state support back down to about 62 percent, where it remained until enactment of the tax reform legislation of 2001. Under that new structure, in 2002 the state began to fund 100% of mandated general education spending, and individual districts may augment that budget if they choose through local property tax levy referenda, if district voters approve.

The state legislature sets minimum per-pupil expenditure levels that are required of all districts.

Until 2002, districts were required to raise a portion of that—about 35 percent—based on the funding formula. Most districts historically have not been able to raise the minimum required per-pupil revenue on the basis of the state-mandated tax rate on the local taxable property base. State aid then has made up the difference between local revenues and state-mandated spending. Districts are permitted to raise additional revenue from local property taxes, to supplement general operating funds and for building construction, via voter-approved referenda. The state partially equalizes these levies, giving more bang for the buck to less property-rich districts. Some districts have been able to raise more than the mandated minimum, taxing at the state-set levy rate. Those districts have received no state aid. Recent growth in school expenditures has come mostly from increasing staff costs, with the need to staff the increasing expansion of special programs, from growth in administration, and the need to upgrade instructional technology.

Problems of School Finance

Over the last several decades there have been repeated attempts to reduce the portion of the local property tax burden that funds K-12 education. There have been several arguments in favor of this change:

Equity

As long as a district's budget is a multiplier of its property tax base, and as long as the property tax base of districts varies, education funding will be uneven, and thus inequitable, across districts.

Fair Share Among Property Types

Residential, commercial, and industrial properties historically have been taxed at different rates within the state. This means that the burden of education funding would fall differentially on households in different districts, depending upon the mix of taxable property types in each district. If there are non-residential properties present that can help foot the bill, the burden on homeowners is lessened. In districts with little or no non-residential property or a large amount of tax-exempt property, the potential to raise excess education revenues is limited.

Property Tax May Be Regressive

Property tax may be regressive as to household income, and thus ability to pay. Residential properties typically appreciate in value over time, but a household's income may not rise as fast,

if at all. In the case of homeowners who retire, for example, they continue to face increasing tax bills even as their income falls.

Property Tax Rates Affect Property Values

As part of the housing or non-residential property package, property tax rates affect property values. When residential property taxes are relatively low compared with the municipal services provided, property values will be enhanced, just as the opposite—high taxes and limited services—can depress residential property values.

Reliability as a Funding Source

The level of revenue that can be raised from local property taxes will change along with the appreciation or depreciation of the tax base, which is affected by changing demographics and development patterns. In municipalities with overall declining property values, a downward spiral of falling revenues and thus decreasing service levels can be put into motion, including education services.

The solution most often suggested to these ills has been a shift of education funding to sales and/or income taxes. Neither of these taxes is reliably stable, however, since both incomes and sales activities rise and fall with external fortunes. While certain types of sales taxes can be imposed by municipalities in Minnesota, income taxes cannot; more likely both of these would be state-level taxes. This would mean decreased transparency of school funding for local homeowners and parents, and likely less attention, vigilance, and concern paid to the quality and operation of local schools. There is evidence to suggest that educational quality suffers when funding shifts away from the local level to the state. [2] Most importantly, shifting most K-12 funding to the state budget means that decisions about school funding—and thus school quality, to the extent that money makes a difference—reside much farther from the direct control of local school communities.

School District Issues: Overview

Geographic Extent

The details of the delineation of a school district's boundaries are important, because those boundaries determine which segment of the residential population will enroll their school-age children in that district, the property tax base from which the local share of school funds will be raised, the municipal governments that will be involved in that funding system, and the travel

patterns that pupils, teachers, and parents will take to and from their schools. [3] Not unlike legislative redistricting, school boundary definition typically is a politicized process, subject to gerrymandering to serve the wishes of various constituencies. The location of schools within districts is important to parents of pupils. Most prefer schools to be as close to their homes as possible, both for convenience and safety in travel and to facilitate involvement of parents in school activities. Households may, then, prefer to be included in one district rather than another, depending on the proximity of the nearest existing or anticipated school site. School district boundaries change more frequently, and are easier to change, than are municipal boundaries. Thus, they are subjects for continual local debate.

Over the course of the 20th century the trend for Minnesota districts, as well as schools, has been toward enlargement and consolidation—toward fewer, larger schools serving more pupils. As curricula, special education and support, and extra-curricular programs have expanded far beyond The Three Rs, the minimum enrollment and financial support needed to provide the expected broad range of offerings has grown as well. Since plant operation costs are fixed (the school building has to have heat and lights regardless of how many pupils attend there), there are economies of scale to be achieved by large, consolidated schools. Similarly, school district consolidation increases efficiencies by providing a larger pupil population for the district's schools, and a larger region to provide tax base to help support the schools.

Conversely, inefficiencies also are introduced by larger district size, particularly in funding transportation to and from schools. Some of this additional cost is underwritten by the state (as discussed below), but often much of the higher cost of transportation in large districts is shifted to pupil households, as parents drive their children to and from one or more schools, once or more per day. As long as there is high demand for a broad array of special programs and services at every school, the arguments supporting larger schools and districts probably will continue to prevail.

Some of the special costs introduced by large district size are offset by state funds. In some districts in Minnesota, the population is so sparse and scattered that districts must enlarge and consolidate even to support basic school services. Even so, if enrollments are sufficiently small the cost-per-pupil for delivering school services will be higher than average. For these districts, Sparsity Revenue is available. For districts that incur higher-than-average transportation costs due to their size (in excess of the basic transportation costs funded for all districts), Transportation Sparsity Revenue is provided.

Sparsity Revenue. In cases where expanding the number of pupils enrolled in a small and isolated school, in order to achieve greater cost-efficiency, would require those pupils to travel an unacceptable length of time to reach the school, additional revenue is provided by the state. For secondary schools, the aid formula takes into account the school's enrollment, distance to the next-nearest secondary school, and the geographic extent of the school's attendance area. Elementary schools with 20 or fewer pupils per grade, and that are 19 miles or more from the next-nearest elementary school, are eligible for Sparsity Revenue aid.

Transportation Sparsity Revenue. Additional aid for transportation of pupils is provided based on the density of pupils within a district. The rationale for this aid is that the per-pupil expense per mile is higher when fewer pupils are served, given that funding is provided on a per-pupil basis.

Number of Pupils

Since state aid to K-12 districts is distributed on a per-pupil basis, a district's enrollment is closely tied to its budget. All districts face some fixed costs for the operation of school plants and supporting a minimum staff, and so declining enrollments can mean cuts in educational services in favor of maintenance of buildings and retention of staff.

Population Growth Within Districts

As the number of pupils grows along with population increase within the district, pressure mounts on facilities and on budgets to keep up with increasing demand for school services. Overcrowding and increased classroom size often are temporary difficulties in districts with rapid growth, but in some cases these difficulties persist over the longer term, as schools rent empty storefronts and other facilities for overflow classes and other activities. In order to meet demand and maintain services for an expanding pupil base, additional revenues must be raised. This requires the approval of district voters, who often do not all share the same views regard education spending.

Taxpayer Support for School Finance

Depending upon the willingness of local taxpayers to fund new school facilities and enhanced programs, a district may find itself barely maintaining minimum standards. In districts with boundaries that encompass multiple MCDs, voters may consider the financial condition of their own municipality, its demographics, service levels, and rate of property value appreciation as they vote for or against excess school levies. Thus, one MCD in a district may be growing rapidly and badly need a new school, but may be stymied by voters elsewhere in the district who

are unaffected by this growth and have no desire to pay for it.

How Were These School Districts Chosen?

In examining the significant variables that can affect the funding levels and thus the performance of school districts, and that intersect with MCD local finance issues, we identified three different types of district (**Figure 2.1**):

- (1) districts that encompass two or more entire MCDs (South Washington County);
- (2) districts with boundaries coincident with a single MCD (Richfield).
- (3) districts with a primary city, plus areas of sparse population in smaller clusters (Anoka, Chaska).

As with MCDs, geographical position within the metropolitan area also creates variation among districts, even districts of the same general type. We chose both Anoka and Chaska, as type (3) districts in different sectors of the region, which face different challenges because of their different locations. Since all districts overlie MCDs in some way, the same variations in site, situation, and demography lead to variations in the ability of districts to provide services to their populations.

South Washington County School District: A Multiple-City District

A Brief History of the District

Washington County forms the easternmost section of Minnesota's portion of the Twin Cities metropolitan area, sharing a border with Wisconsin that is delineated by the St. Croix River. In its broadest definition (based on commuting patterns), the metropolitan area stretches into the four Wisconsin counties in our study area. Interstate 94 bisects Washington County as it carries commuters in and out of the core cities each day.

For planning purposes the southernmost two-thirds of the county is designated "South Washington County." School District 833, by the same name, encompasses a smaller area that serves most or all of five suburban cities at the edge of the Twin Cities metropolitan area—Woodbury, Cottage Grove, Newport, St. Paul Park, and Grey Cloud Island Township—plus small

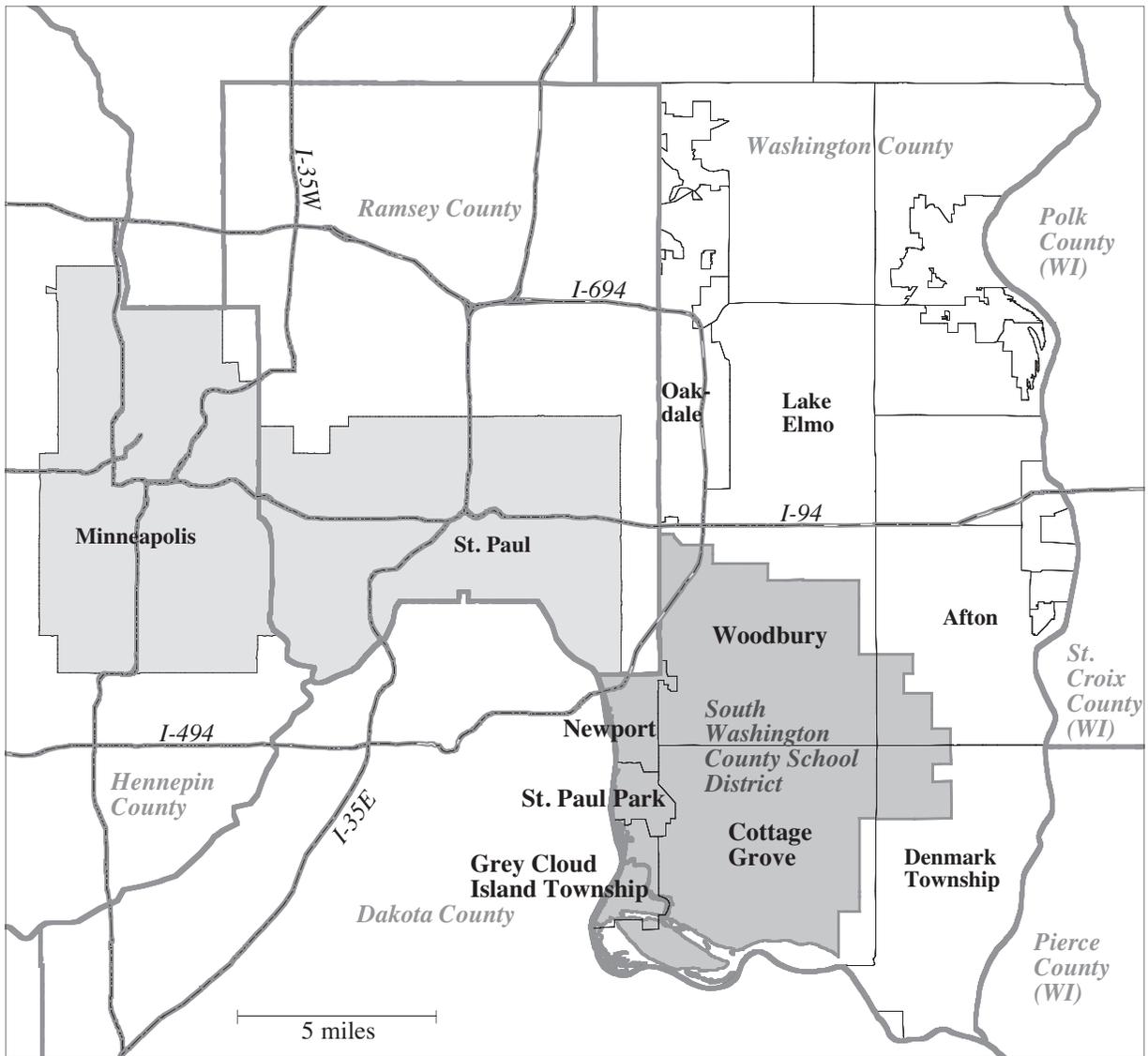


Figure 5.1. South Washington County School District and Minor Civil Divisions

areas within neighboring city of Afton and Denmark Township (**Figure 5.1**). The remainders of these MCDs and the other cities within South Washington County region are part of either the Stillwater School District (834) to the northeast, or the Hastings School District (200) to the southeast. The total population living within the South Washington County School District’s boundaries in the 2000 census was 77,263. Fall 1999 enrollment was 15,113, making it the largest of the eight school districts within Washington County, nearly twice the size of the next largest (Stillwater). In 1998, the South Washington County school district was the lowest-funded

district in the metropolitan area.

Challenges Facing a Multiple-City School District in Minnesota

There are many school districts of this type within our 24-county study area. We chose South Washington County because the MCDs within it vary greatly in their population growth rates and development levels.

The inevitable variations in size of pupil population and tax capacity of the MCDs within this type of district mean that support for school bond referenda probably will be mixed. Woodbury has had the highest population growth in the district by far in recent years, and its non-residential tax base has been developing apace. The relatively higher median income, and the higher-value homes that contribute to Woodbury's property tax base, make it easier for residents to foot the bill for increased K-12 expenditures. In contrast, St. Paul Park's school population declined markedly from 1970-1990, and has risen only slightly in the past decade. Cottage Grove has seen steady population increases, but most growth has been in the 20-64 age group, while the school population remains relatively stable. Newport's school population is in decline. These MCDs, then, are not likely to support increases in their property tax in order to fund new schools for Woodbury.

Differential Growth and Development. Homeowners in different MCDs in the same school district might be burdened differentially by their school tax bill, depending upon the mix and proportion of property types in their MCD, the total tax base of their MCD, and whether or not property values are appreciating there.

Property Values and Appreciation. Property values and their appreciation are reassessed periodically within each MCD. A reassessment upward of the total property tax base (tax capacity) will mean that the city can collect the same amount of revenue with a lower tax *rate* per house. Revenues can even rise without raising tax rates and without new development, if appreciation of the value of existing property continues. A reassessment in which the total tax base loses value, so the city's tax capacity falls, means that in order to continue to collect the same total revenue the tax rate will have to increase. If the city cannot or will not raise the tax rate, services will have to be cut. Since the local school levy is independent of the MCD's control and must be paid in any case, the only services that can be cut back in the face of falling revenues are municipal services, unless a way is found to produce and deliver the services more cheaply. Likewise, if school levies increase while the tax capacity of a city remains stable,

school district tax rates will have to be increased even without any improvement in city services. This is the fundamental equity issue that stirs political interest in school board decision making.

The quality of local schools helps to support property values, even for households with no school-age children. They can count on continuing demand for their houses, and thus continuing appreciation until they decide to sell. As a counterpoint, tax rates form part of the total cost of the housing bundle, and so higher property taxes may dampen demand and deflate property values.

Other Tax Burdens. Minnesota seems to excel in the creation of special governments. On a typical property tax statement for Minneapolis, for example, taxes are itemized for several levels of government in addition to cities and school districts that must be added into the mix: counties, mosquito control, and others. They also are beyond the control of the MCD, but taxpayers living in the MCD must pay their share (**Figure 5.2**).

The chart reflects a dramatic rise in per-pupil K-12 operating expenses during the study period, from below \$1,000 in the early 1970s to nearly \$6,000 today. Enrollment has increased by only about 3,000 over the three decades. Neither the rise in regular instructional costs nor capital outlays for new schools account for all of this increase. Special programs, expanding administration, and higher technology are unavoidable costs, and all demand additional revenues.

Issues for MCDs in This Type of School District

In MCDs with stable or declining populations, demand for housing follows suit and so do property values. This frequently is the case in the central cities of metropolitan areas, particularly in recent decades since industrial and commercial activity and higher-income households have increasingly relocated to the suburbs. Those left behind to cope with a rising property tax bill often are middle- and lower-income households—those least able to pay—and often are the households in need of additional services for special educational programs, housing assistance, community programs, senior citizen services, law enforcement, and the like. In a city with its own school district, this downward spiral can mean an overall decline in both municipal and school services. In a city that shares its district schools with other MCDs, it can mean an uneven tax burden, far less control over the school tax bill, and thus a need to adjust its municipal tax collections in order to be able to pay the school tax. Within MCDs, particularly larger cities, this same dynamic unfolds across neighborhoods. If the predominant political will calls for increasing taxes in order to provide more services, households in pockets of decline—likely to be

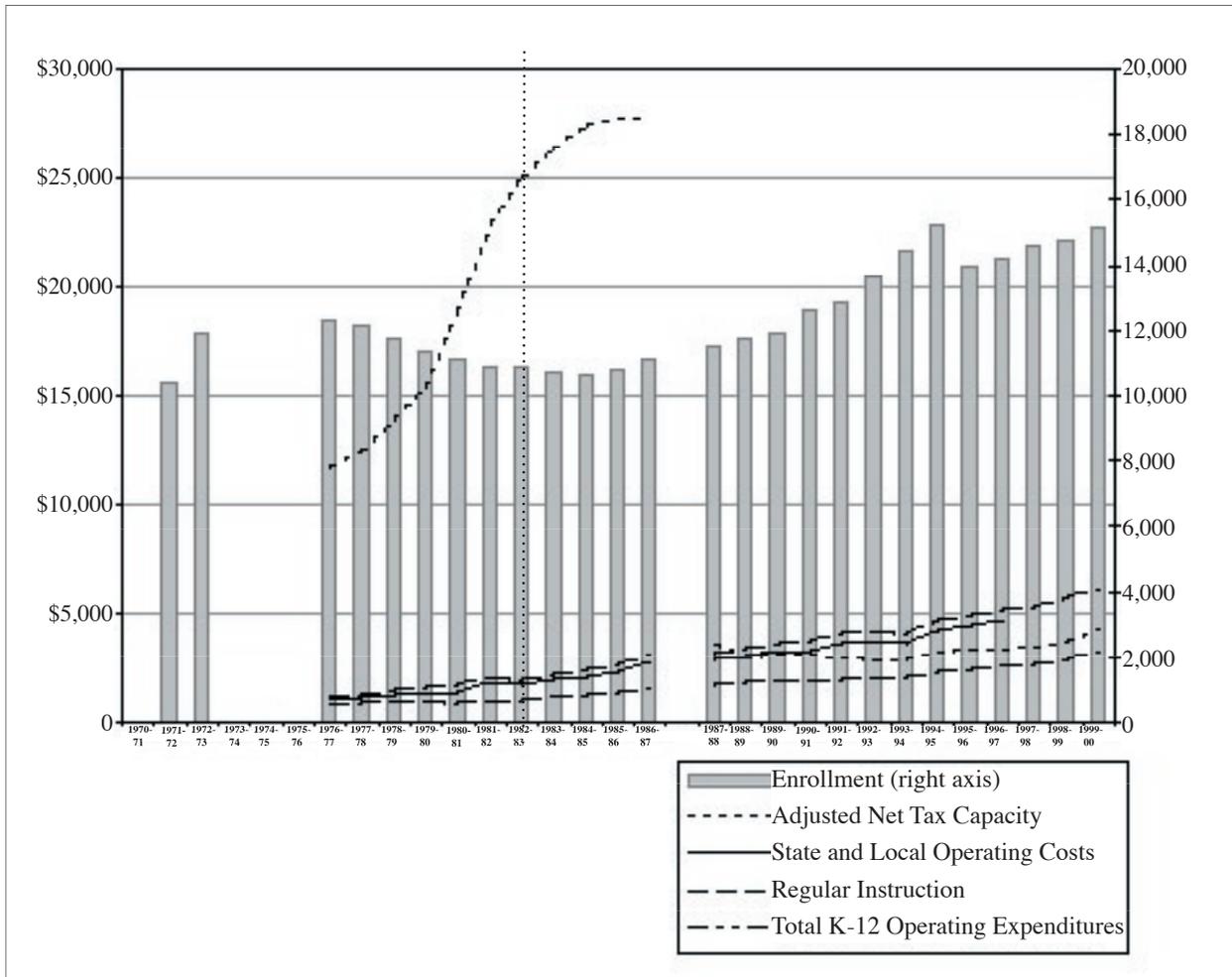


Figure 5.2. South Washington County School District, Enrollment and Per-Pupil Finances, 1970-71 to 1999-2000

Note: Adjusted Net Tax Capacity (ANTC) is the property value for assessing most school taxes. Prior to 1988-89 adjusted gross tax capacity and other measures were employed to reflect district wealth.¹

Data Source: Minnesota Department of Children, Families and Learning; Office of the State Auditor of Minnesota.

lower-income households whose housing investment is providing a diminishing return—will be hardest pressed to pay their property tax. It is essentially a progressive tax relative to the real property asset of a household, but since it is insensitive to household income, a household whose housing investment is eroding beneath their feet will be on the losing end of the bargain.

Cottage Grove

Cottage Grove is a small city along Highway 10/61, located near the confluence of the Mississippi and St. Croix Rivers, 15 miles southeast of downtown St. Paul. Its origins in 1843 were as an agricultural service center, and one of the earliest commercial agriculture centers in the county. The city's location along the Mississippi River made it an ideal point of transfer for people, agricultural goods, and for the local aggregate found nearby.

Urbanization of Cottage Grove began in earnest in the late 1950s, when suburban-style residential developments appeared and generally expanded from west to east. Most of the city's commercial development has occurred along Highway 61, in the southern portion of the city. Today about one-third of Cottage Grove's area is urbanized, including a 700-acre industrial park.

Only about 16 percent of current residents work within the city. Most commute to work elsewhere—about 30 percent to St. Paul, just over 10 percent to Minneapolis, and the rest to jobs scattered throughout the metropolitan area. Cottage Grove's largest employer by far is the 3M Cottage Grove Center, with 1,000 jobs. 3M has been an important presence in the city since establishing its Chemolite plant there in 1948. Since then the plant has diversified its operations and expanded its land holdings to 1,500 acres. The city's economy is based mainly on light manufacturing, retailing, and services.

Cottage Grove has grown from 13,419 in 1970 to a current size of about 31,000. About 5,500 new residents were added during the 1970s, about 4,000 in the 1980s, and the largest growth occurred during the 1990s. About 25-30 percent of new housing units built during the 1980s and 1990s were multi-unit structures. More recently residential growth has slowed, as the city has filled much of its developable land within the MUSA, which encompasses only about 28 percent of the city's total land area. The remainder is not served by public water and sanitary sewers.

The city's housing stock is a combination of pre-WWII homes and newer developments that were built for middle-income households. As the housing stock has aged and not much new residential construction has been under way, the 1999 median value of housing in Cottage Grove fell somewhat below the that of Washington County as a whole (\$137,300 vs. \$156,200 respectively). Median household income in 1999, however, was slightly higher than the county-wide median (\$65,825 vs. \$66,305, respectively). Only 2.2 percent of residents had incomes below the poverty line in 1999, down from 2.6 percent in 1989.

Most of the city's recent commercial development has appeared along Highway 61 in the southern part of the city, with big-box retailing arriving in the early 1990s. Cottage Grove

straddles the MUSA line, with about 28 percent of its land area inside the line and the rest in the rural service area.

Rail transport plays an important role in Cottage Grove's economy since a rail route reached the city in 1870, linking local farmers to agricultural markets. Today, Burlington Northern and Canadian Pacific lines bisect the city. New land development may depend upon upgrading Highway 61/10, currently a 4-lane divided trunk highway, to full freeway status. The city is situated five miles from the nearest Interstate freeway (I-494), with County Road 19 providing the main access route to the freeway. The lack of a southern bridge across the Mississippi River has hampered access somewhat, and no doubt growth as well.

The city's boundary includes most of the 1,380-acre Lower Grey Cloud Island, a true island connected to the eastern riverbank and the Cottage Grove mainland by bridge, and separated from the west riverbank by Grey Cloud Channel. In the mid-1800s the west side of the island was the site of one of the several lime kilns built along the Mississippi, to replace high-priced lime imported from Iowa and Illinois. The kiln was built to take advantage of the river for transportation and the nearby abundant forests for fuel. The lime was in great demand by farmers for fertilizer, and for other consumer uses. On the Lower Island are a number of historic sites, including the Lime Kiln, and a cluster of over 30 prehistoric burial mounds of Native American tribes that occupied the island circa 100BC-600AD. Remains of the Grey Cloud Town site also have been unearthed—a short-lived boom town which was developed to take advantage of the island's position as a steamboat landing, but which declined and was abandoned after the Panic of 1857. [4]

The riverbank and Lower Grey Cloud are included within the Mississippi River Corridor Critical Area (MRCCA) overlay zoning district, created by the governor in 1976, which provides protection for and promotes public use of the area. The Nelson Sand and Gravel operation, located on the south end of Lower Grey Cloud Island, provides additional revenue to the city in the form of the Gravel Tax. In 2001 Aggregate Industries, Inc. and PAS Associates—the island's major landowner—signed a lease to work the island's aggregate mining operation for another 20 years, so planning activities around a regional park and/or mixed-use development on the riverfront were suspended.

Cottage Grove's share of K-12 enrollment has grown only modestly, from 5,800 to 8,200 over 30 years, with the largest increase in the 1990s, while total population has slightly more than

doubled, from just under 15,000 in 1970 to just over 30,000 in the 2000 census (**Figure 5.3**). The fastest-growing cohort is ages 20-64—the working-age population—which has more than tripled during the study period. This pattern suggests that not many new young families are moving into the area, although there is some greenfield residential development under way as growth spills into Cottage Grove from St. Paul and the suburbs along Highway 61.

Per-capita tax revenues in Cottage Grove remained fairly stable through the 1970s and 1980s, during the city’s peak growth years, but took off in a precipitous rise during the 1990s, with total

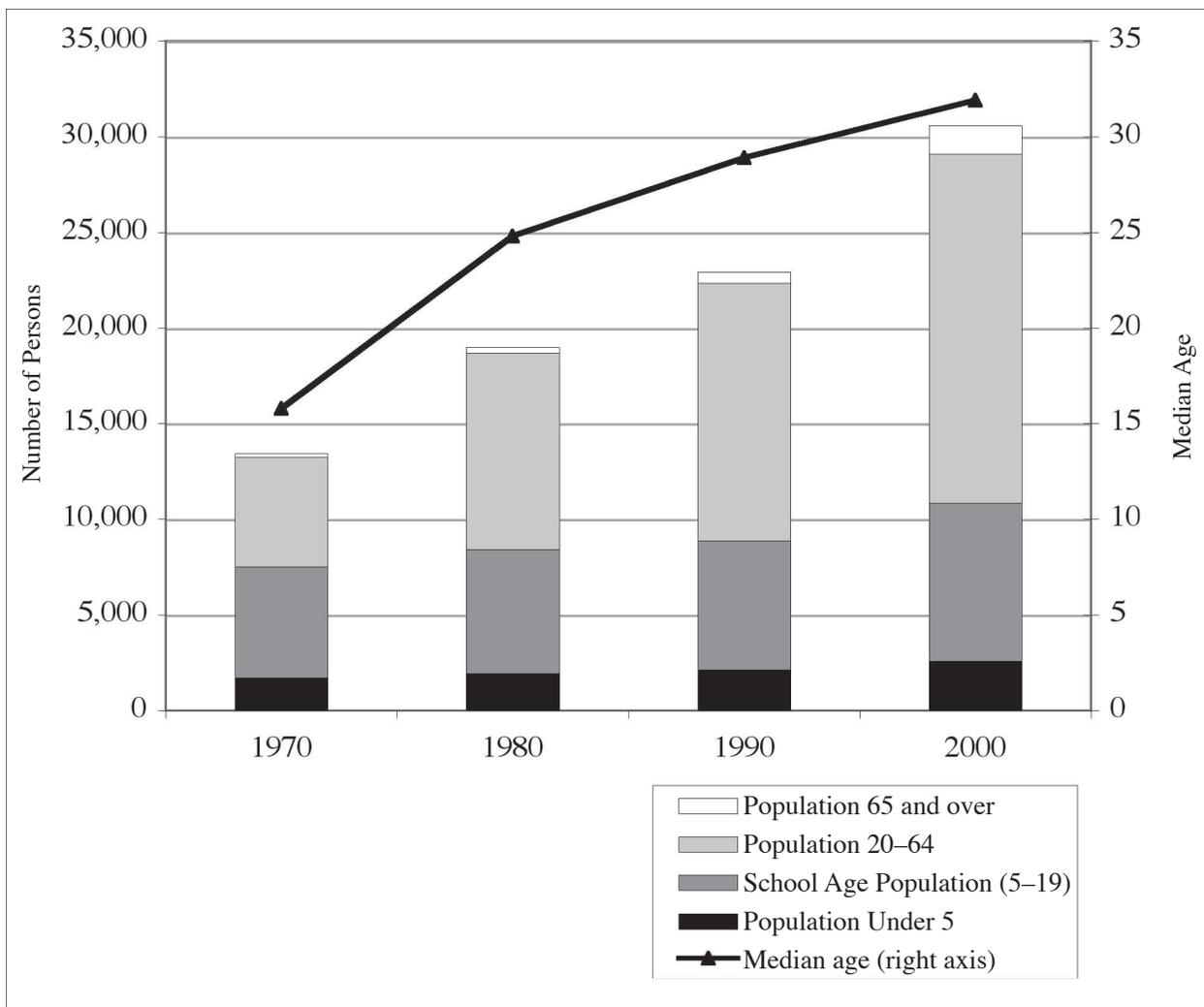


Figure 5.3. Cottage Grove Demography, 1970-2000

Data Source: U.S. Bureau of the Census.

taxes rising faster than the property tax share, as slowed growth required higher tax rates (**Figure 5.4**). Basic expenditure categories followed the trend of slow increases over the entire thirty-year period. The chart of total expenditures and revenues embodies both trends, as current revenues and expenditures rose greatly in the 1990s, while other (bonded indebtedness, etc) remained flat. Overall, Cottage Grove's budget increased five-fold during the study period, reflecting the expansion of government services and administration costs that accompanied population growth.

Woodbury

The City of Woodbury is located about five miles directly east of downtown St. Paul, with Interstate 94 forming its northern boundary and Interstate 494 crossing in the northwest corner. Beginning life as an agricultural settlement of about 1,000 residents, Woodbury was a quiet village through the mid-1950s, when the first housing development appeared in the northwest corner of the city. Woodbury incorporated in 1967.

Suburban housing development began in the mid-1950s, and by the mid-1960s was experiencing residential development pressure. Woodbury's housing stock more than doubled in both the 1980s and 1990s, while commercial and industrial development boomed only during the 1990s, much of it locating along the several major transportation arteries that border or bisect the city. The housing stock is mainly single-family (80 percent). Median family income is above average within the metropolitan area. During the 1980s Woodbury's population nearly doubled (Figure 5.5). The city has grown to approximately 46,500 residents, and during the 1990s was the fastest-growing city in the seven core counties of the metropolitan area and more than doubled, gaining over 26,000 people. Woodbury has grown by more than tenfold since 1960, accounting for about one-fourth of the total population increase in Washington County during that period.

Development has expanded from the northwest quadrant (bordering I-94) eastward, with housing appearing on the low rolling hills while the low-lying marshes and tamarack forests have been largely preserved as open space. With its location just 5 miles east of downtown St. Paul, and with five regional parks at its borders and much of its urbanized acreage in parks, woods, lakes and preserved tamarack swamp, the city is attractive to middle- and upper-middle income families. The southern third of the city's area—about 35 percent of the total—is flat and largely in agricultural use. Much of it is owned by developers who await the expansion of the MUSA line. Recently the city has resolved to limit new residential construction permits to just 600 per year, far below the recent demand of around 1,600. If they are able to enforce that limit, some of demand for new residential development will disperse to other areas.

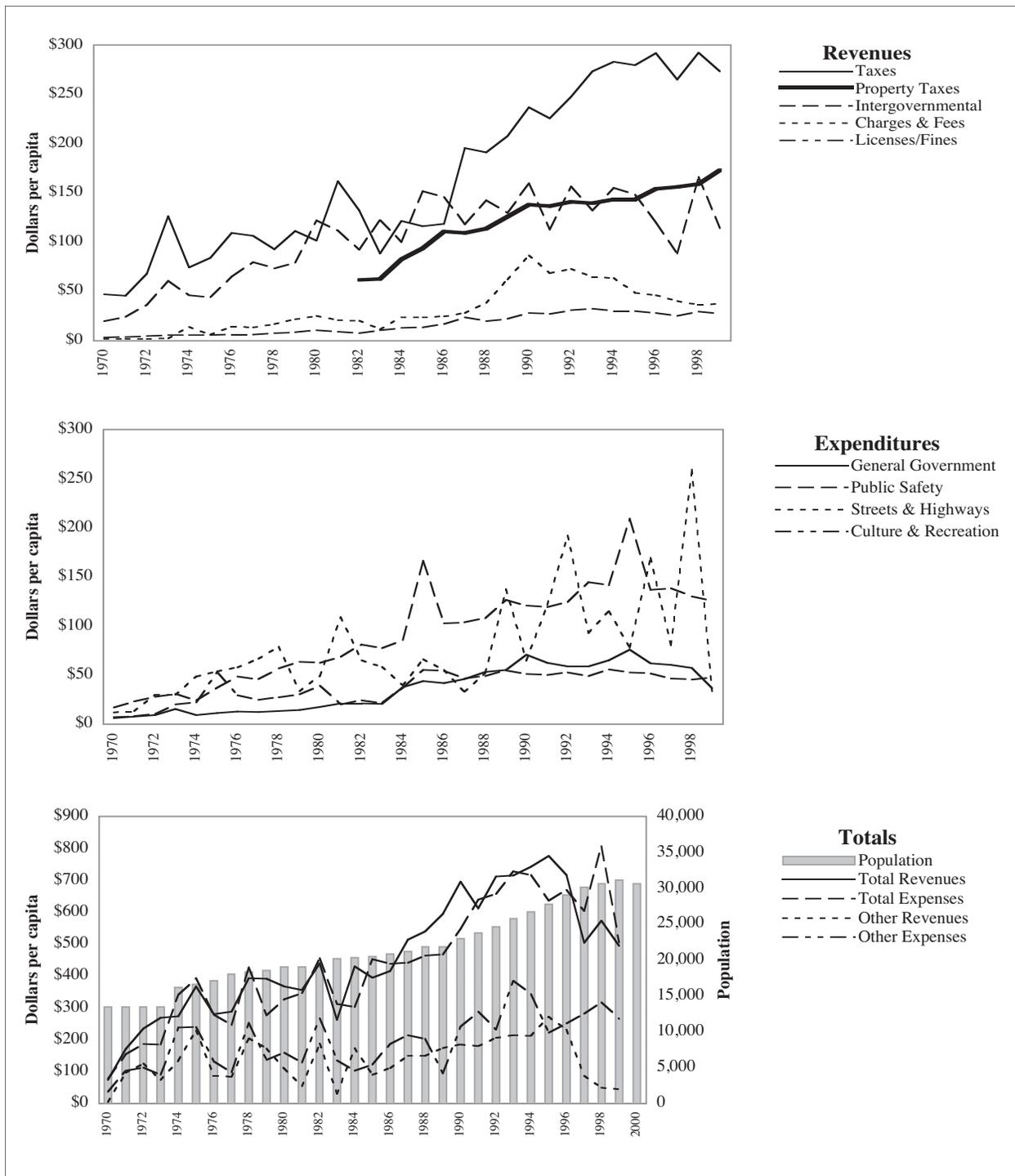


Figure 5.4. Cottage Grove City Local Government Revenues and Expenditures, 1970-1999, and Population 1970-2000

*Property Taxes plotted separately (as a subset of Taxes) beginning in the first year when data were available. For prior years Property Taxes are included in the Taxes category.

Data Sources: Department of the Public Examiner and Office of the State Auditor, State of Minnesota. Calculations by the authors.

Most of the city is served by Independent School District #833, South Washington County. Small portions of the city fall within the boundaries of the North St. Paul/Maplewood/Oakdale School District (#622) and the Stillwater School District (#834).

Woodbury's largest employers are State Farm Insurance (1,350 employees), Fortis Benefits Insurance Company (1,200), and 3M Company (900). Although the city is the largest employment center in Washington County, providing over 10,000 jobs, nearly half of the employed residents in Woodbury travel to jobs outside of the city. Median household income was higher in 1999 than the 7-county metropolitan region median (\$76,109 vs. \$54,332, respectively). The majority of Woodbury's housing units have been built since 1990. Median housing value in 2000 was \$174,300.

Both site and situation help account for Woodbury's phenomenal growth in the post-WWII era. The area's rich agricultural soil and the village's close proximity to the St. Croix and Mississippi rivers contributed to its early beginnings as an agricultural service center. Its rolling hills and natural amenities along with its proximity to employment centers makes it an attractive destination for both newly formed family households, and those migrating toward the core cities from the western part of the state or looking to escape from them by heading east.

Woodbury's school-age population has grown from 2,400 to 10,500 since 1970 (**Figure 5.5**). Its explosive population growth during the 1990s expanded all age categories, but particularly adults age 35-65, and more than doubled its share of enrollments in the South Washington County school district. The median age of the population stabilized during the 1990s, to the low 30s.

The chart of Woodbury's revenues during the study period reflects the high rate of bond issuance that accompanied the beginnings of rapid urbanization in the mid-1970s (**Figure 5.6**). Property taxes account for less than half of total revenues throughout the study period. The chart of expenditures illustrates several road improvement projects to accommodate the rapid growth, along with general growth in other city services demanded by the expanding population. The chart of total expenditures captures the enormous expansion of the city's per-capita budget, even in the face of explosive population growth, from a scale of about \$200 per resident in 1970 to \$1,600 per person in 2000. Both the population and the municipal budget increased eight-fold during the study period.

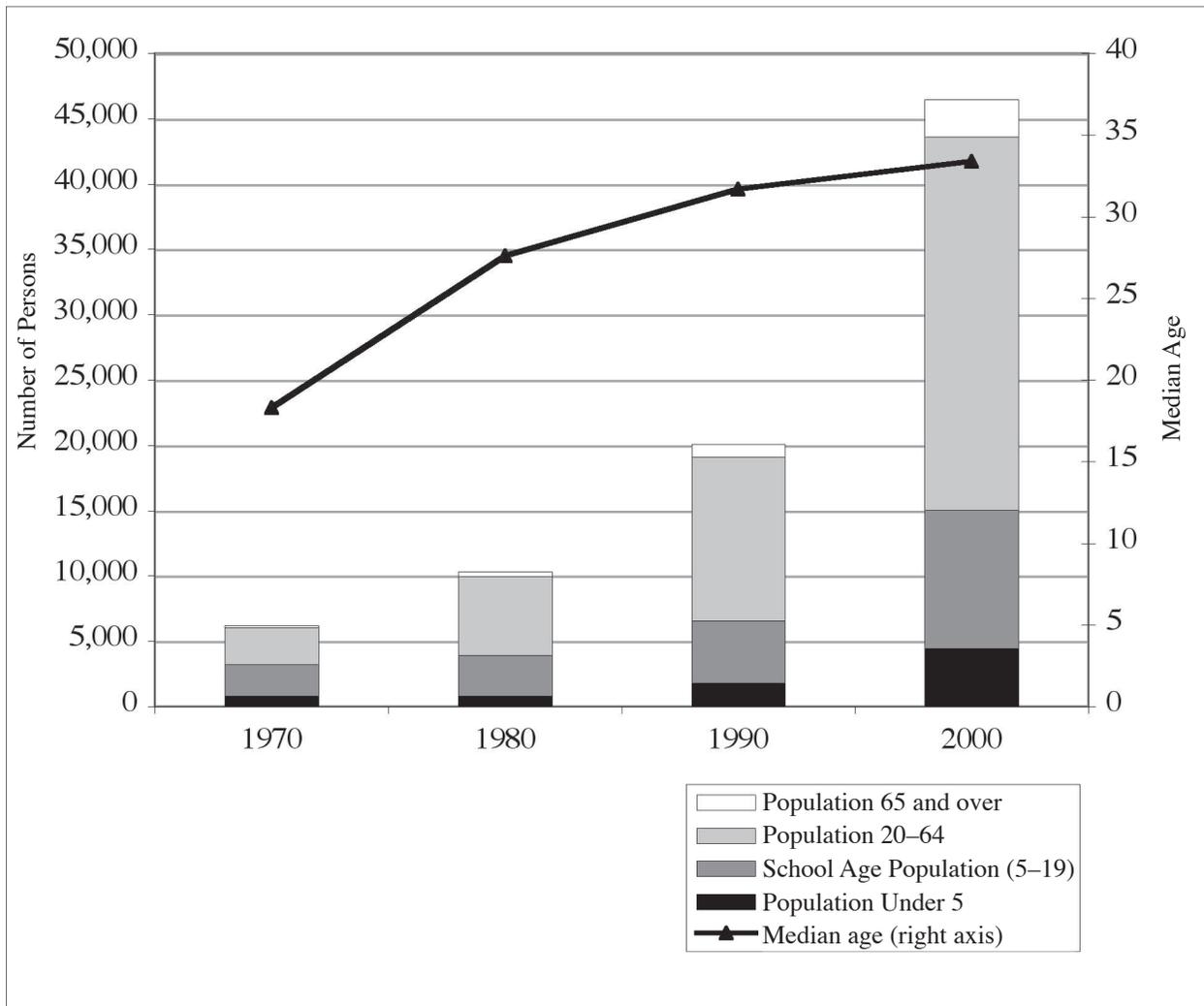


Figure 5.5. Woodbury Demography, 1970-2000

Data Source: U.S. Bureau of the Census.

St. Paul Park

St. Paul Park was founded in 1887 as an unincorporated section of Newport, on the east bank of the Mississippi River, with a strategically located steamboat landing at the foot of Broadway Avenue. Several railroads served the area with lines to Chicago, Milwaukee, and St. Paul, and a railroad bridge connected the landing with South St. Paul. [5]

The early city presented an attractive picture to entrepreneurs and developers. They induced a real estate boom in 1887 with incentives of free land and cash payments, and the new enterprises

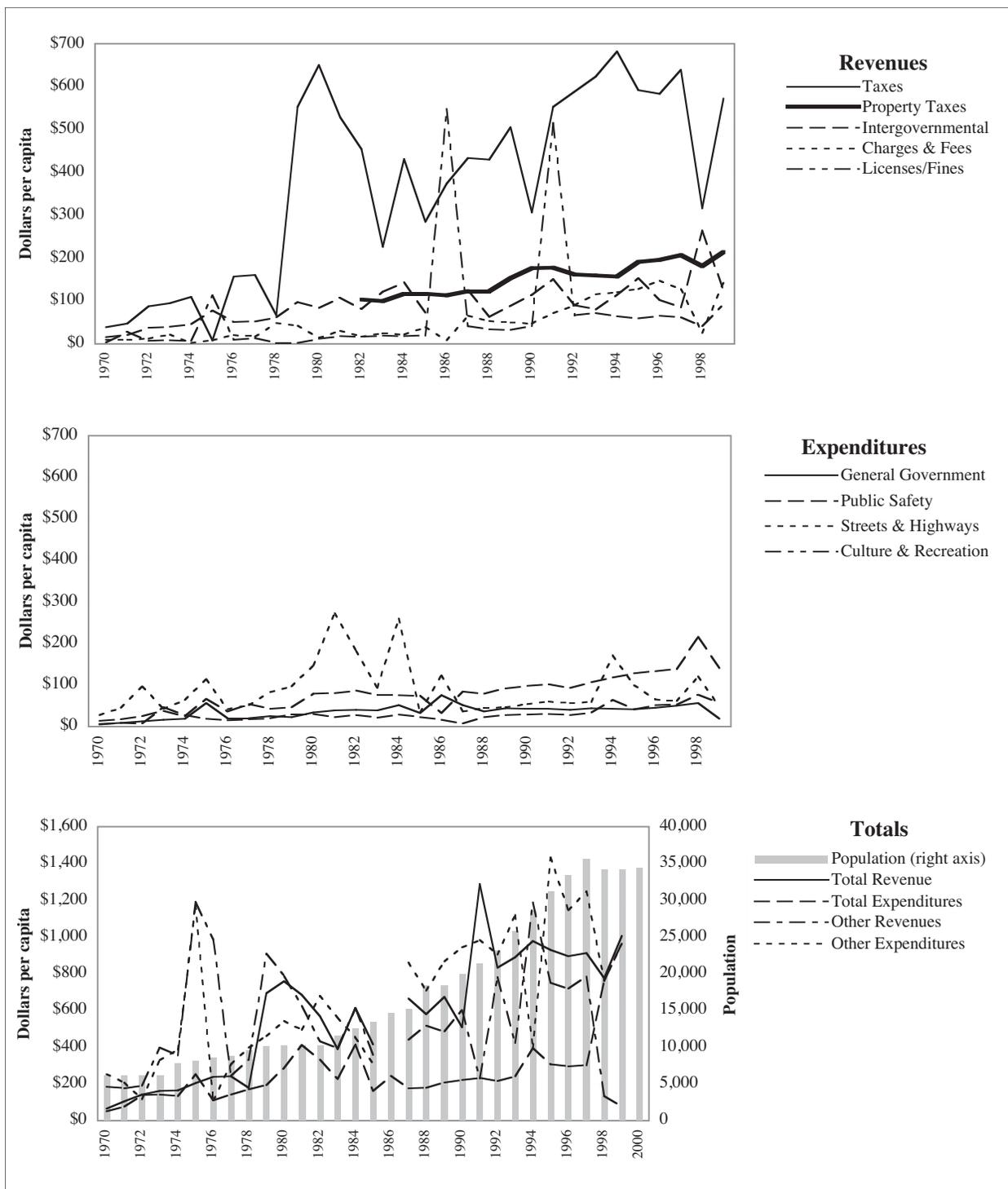


Figure 5.6. Woodbury City Local Government Revenues and Expenditures, 1970-1999, and Population 1970-2000

*Property Taxes plotted separately (as a subset of Taxes) beginning in the first year when data were available. For prior years Property Taxes are included in the Taxes category.

Data Sources: Department of the Public Examiner and Office of the State Auditor, State of Minnesota. Calculations by the authors.

drew workers from St. Paul, who commuted daily by rail. The boom was short lived, however, as subsidies dried up and businesses moved elsewhere. St. Paul Park became a village in its own right in 1909, and incorporated as a city in 1974. Ashland Oil is the city’s largest employer, but the city has largely kept its role as a bedroom community for the majority of its residents who commute to jobs in St. Paul.

Following a population decline of over 10 percent in the 1970s, with an accompanying decline of over 30 percent in the school-age cohort, the city’s size has remained relatively stable at about 5,000 residents (**Figure 5.7**). The median age has risen from 20 in 1970 to 35 in 2000. This profile describes a community that reached full development in the 1960s, with low household mobility and not many new families moving in.

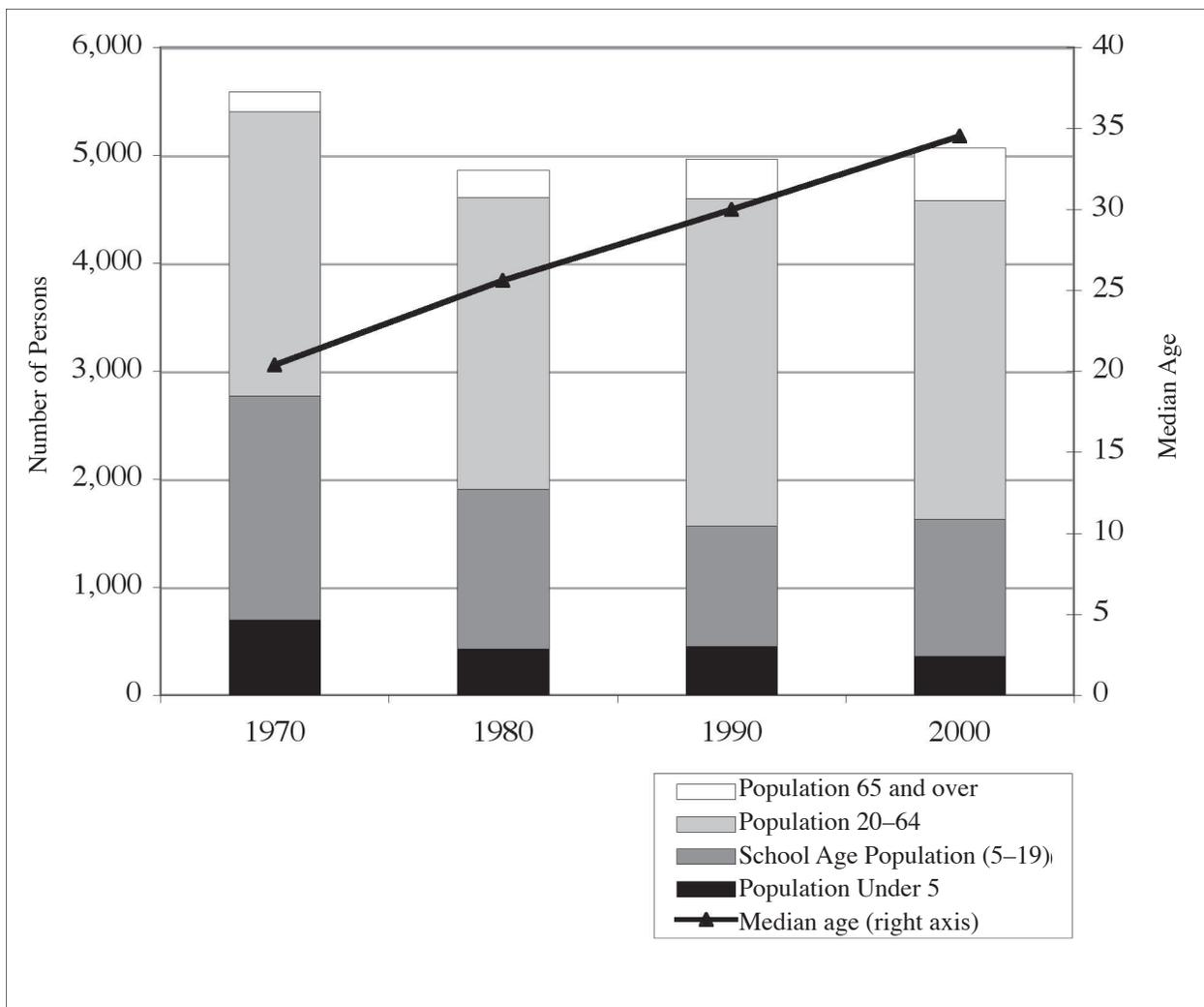


Figure 5.7. St. Paul Park Demography, 1970-2000

Data Source: U.S. Bureau of the Census.

St. Paul Park presents an unusual profile among our cases, as a small city that has received a large portion of its revenues from intergovernmental transfers, compared with property taxes (**Figure 5.8**). This feature is especially striking through the 1990s. Much of the city's riverfront is industrialized, including a large gas and oil refinery and pipeline.

Newport

Newport was originally settled in 1837 by Methodist missionaries working among the Dakota Sioux peoples in the area. The settlement became a township in 1857 and was incorporated as a village in 1889. The city's area is under ten square miles, much of it used for industrialized riverfront functions.

Newport's population has grown from 2,922 in 1970 to 3,323 in 1980, and reached 3,270 by 1990 (**Figure 5.9**). During the 1990s a slight acceleration in the growth of the working-age population (20-64) pushed the total to 3,715. The school-age population has declined slowly, hovering just under 900. The number of children under five declined by one-fourth during the 1990s, signalling a continued aging of the population in the coming decade. The median age has climbed upward from 23 to 34 over the thirty years.

Newport's property tax revenues rose sharply in the 1990s, following two decades of gradual growth along with inflation. The city has received a steady flow of intergovernmental revenue, which has increased only slightly since the mid-1970s (**Figure 5.10**). Per-capita general government expenditures more than doubled between 1978 and 1979, and continued to rise through the 1990s, to well over \$100 annually. Spending on public safety has risen steadily, increasing nearly six-fold during the study period.

Grey Cloud Island Township

Grey Cloud Island Township is the administrative identity of a small area of about 2,300 acres, on the mainland just north of Lower Grey Cloud Island in the Mississippi River, and including a small area of Lower Grey Cloud Island as well. (Most of Lower Grey Cloud Island—the landform actually separate from the mainland—is within the boundary of Cottage Grove City). The remaining area is rural in nature, not served by city water or sewer, although urbanization is encroaching near the boundaries shared with St. Paul Park and Cottage Grove. The township's autonomy allows it to maintain a 2.5-acre minimum lot requirement, an attempt to maintain its rural character. The township contracts with neighboring St. Paul Park for police and fire protection, and with Cottage Grove for ambulance service.

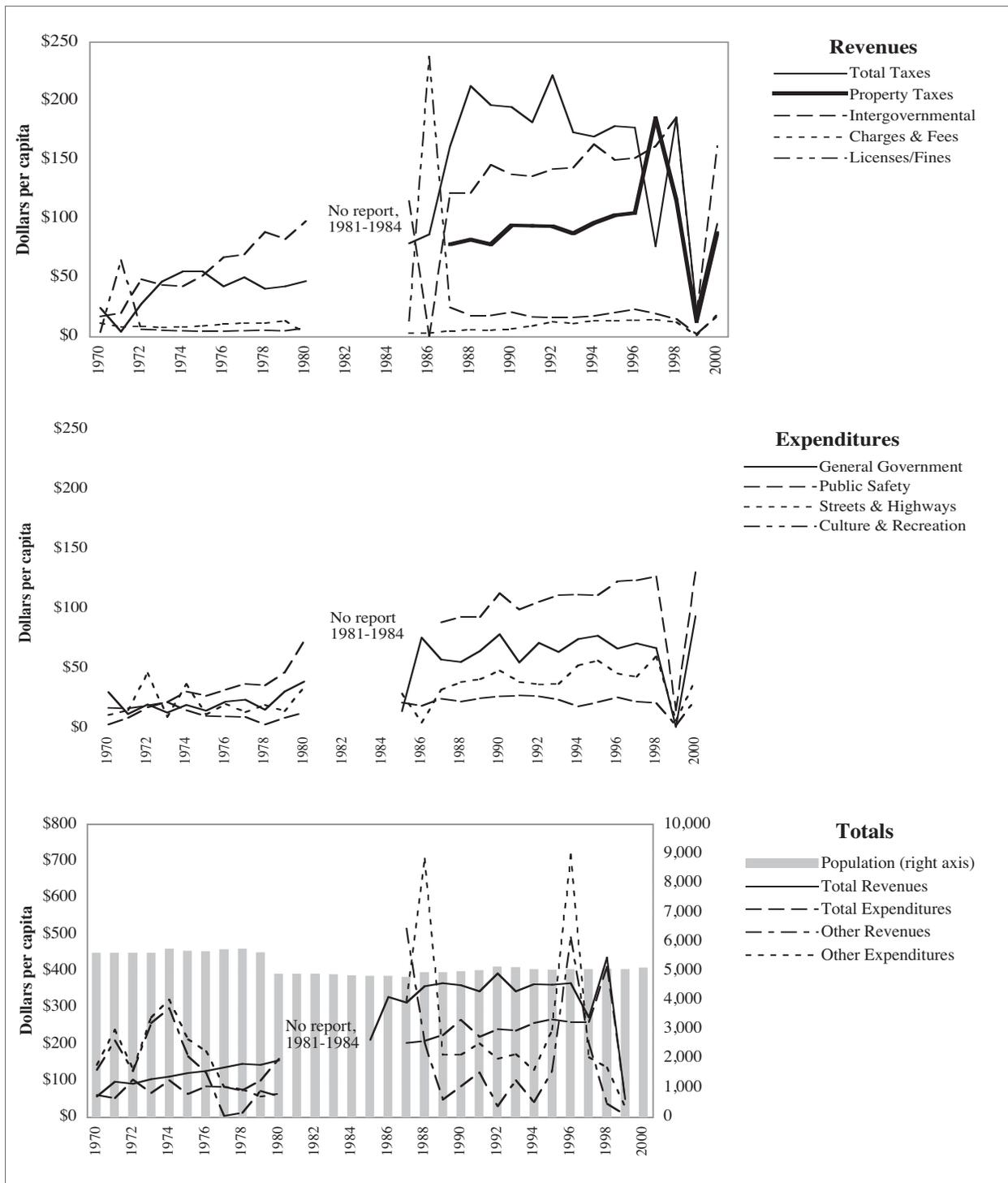


Figure 5.8. St. Paul Park City Local Government Revenues and Expenditures, 1970-1999, and Population 1970-2000

*Property Taxes plotted separately (as a subset of Taxes) beginning in the first year when data were available. For prior years Property Taxes are included in the Taxes category.

Data Sources: Department of the Public Examiner and Office of the State Auditor, State of Minnesota. Calculations by the authors.

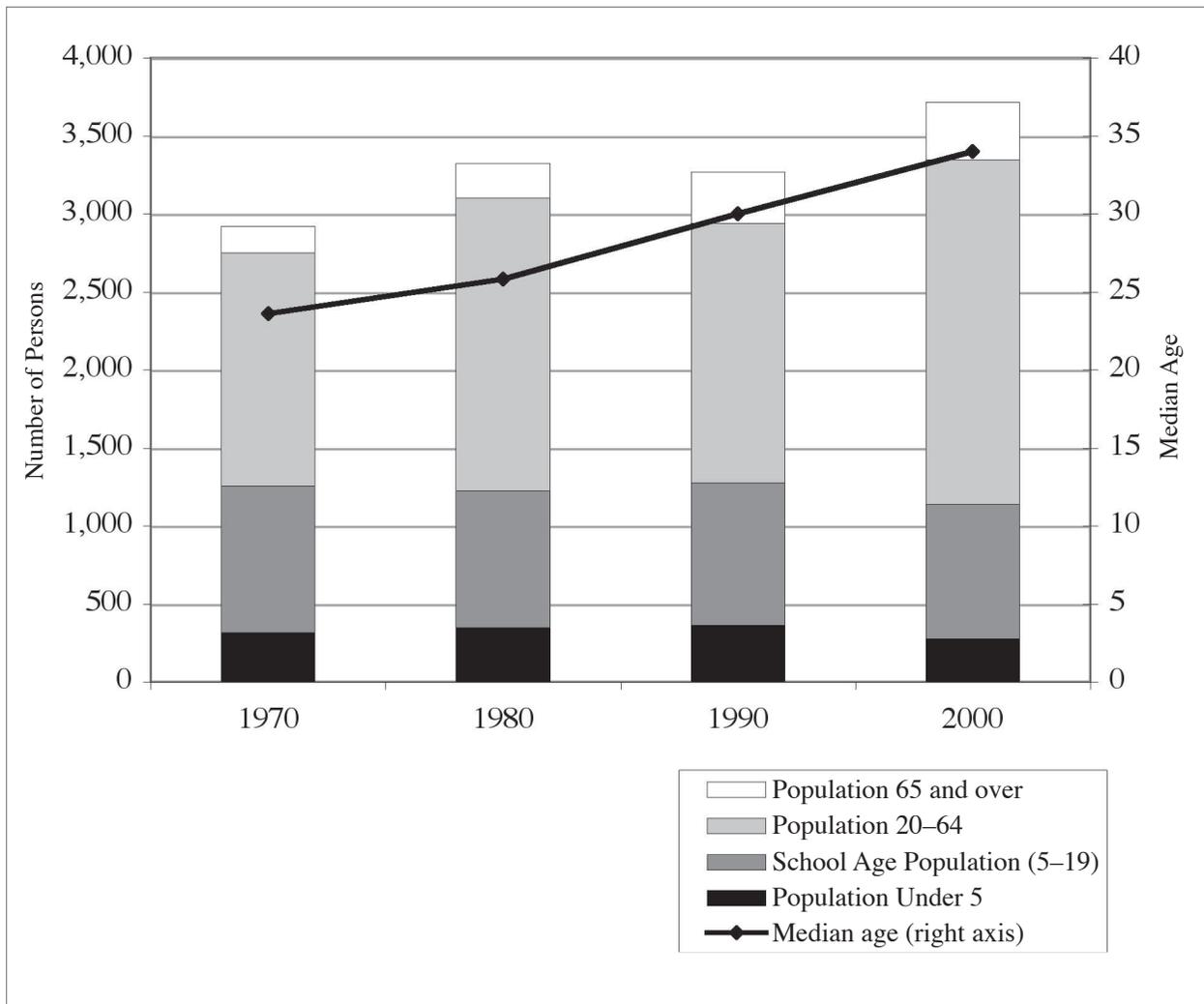


Figure 5.9. Newport Demography, 1970-2000

Data Source: U.S. Bureau of the Census.

Aggregate Industries, Inc. operates a major regional aggregate dredge-mining and processing facility on Upper Grey Cloud Island, providing 30 percent of the 10 million tons of aggregate materials produced by the company annually. Aggregate materials mined at Grey Cloud are transported upriver by Aggregate’s 30-barge fleet, and unloaded at the river’s Upper Harbor in Minneapolis. Roads, airport runways, large construction projects (with parking lots) are a source of enormous demand for the materials. Aggregate is expensive to transport due to its weight. The county collects an Aggregate Materials Tax on the removal of aggregate material. Thirty percent of this tax is returned to the municipality’s road and bridge fund.

Grey Cloud Island Township had a small but relatively stable population of around 400 during

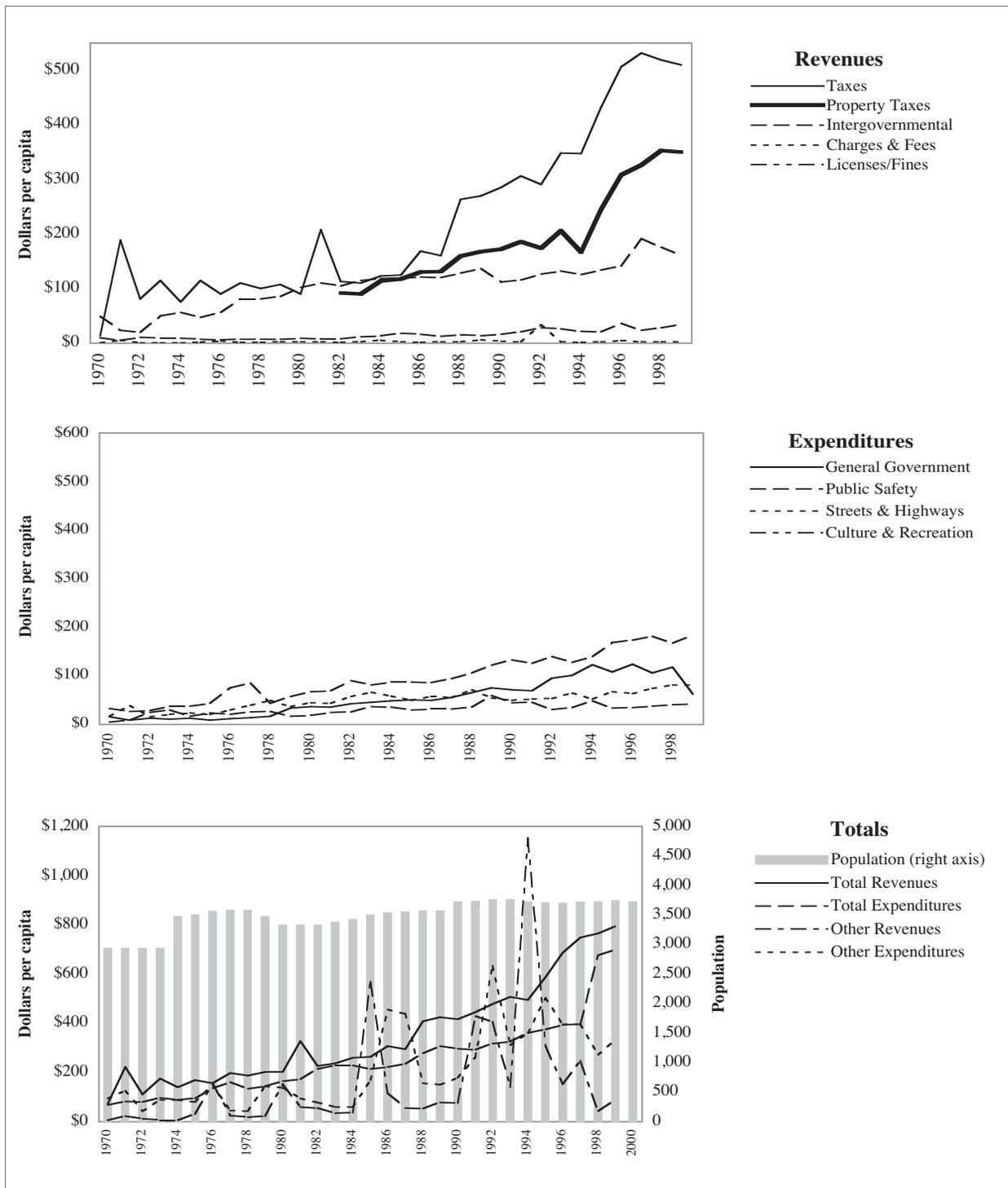


Figure 5.10. Newport City Local Government Revenues and Expenditures, 1970-1999, and Population 1970-2000

*Property Taxes plotted separately (as a subset of Taxes) beginning in the first year when data were available. For prior years Property Taxes are included in the Taxes category.

Data Sources: Department of the Public Examiner and Office of the State Auditor, State of Minnesota. Calculations by the authors.

the study period, which peaked at 411 in 1990, but then experienced a 25 percent decline during the 1990s (**Figure 5.11**). Population under age 18 peaked at 101 in 1980, and has declined by about 10 percent in each subsequent decade.

As the finance charts reveal, virtually all of Grey Cloud Island Township’s tax revenue comes from property tax, but the township receives a sizable amount of intergovernmental transfer revenue from its mineral extraction activity (**Figure 5.12**). The expenditures chart reflects a meager budget to run the township board and its functions, and for road maintenance. Periodic spikes in the Streets & Highways expenditure category reflect road improvements. The township’s total budget expanded significantly after 1980, driven by street maintenance and township administration expenses.

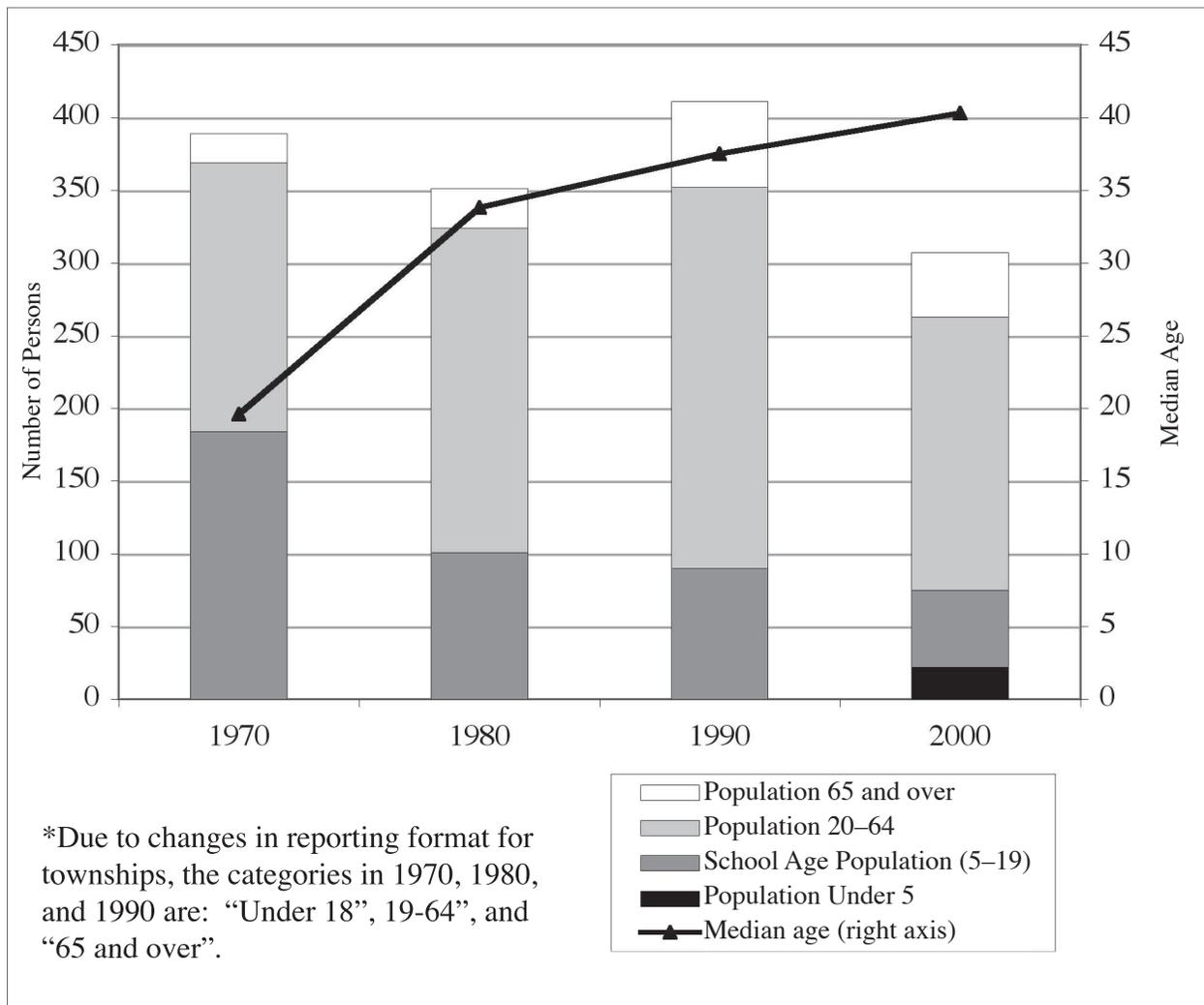


Figure 5.11. Grey Cloud Island Township Demography, 1970-2000

Data Source: U.S. Bureau of the Census.

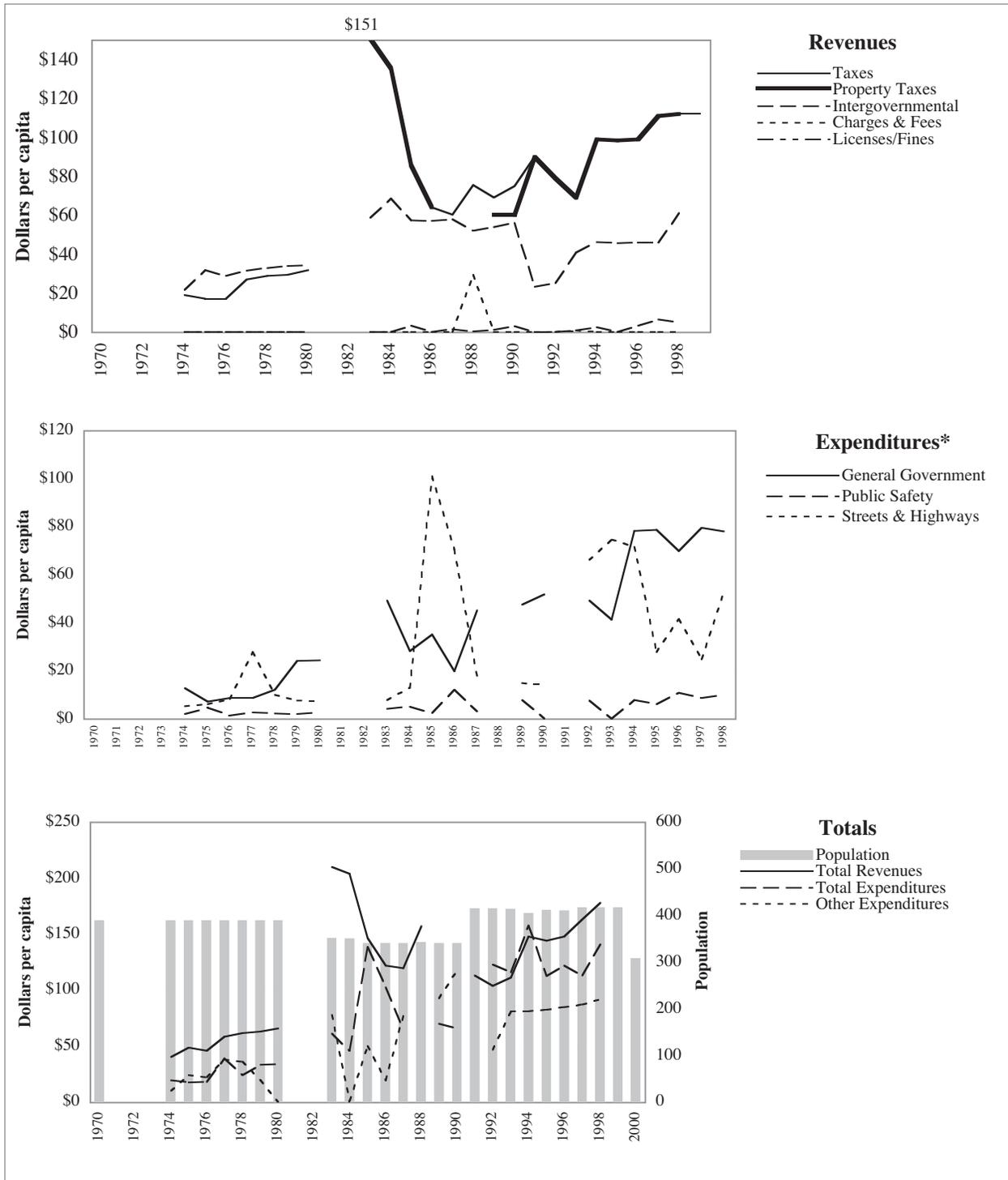


Figure 5.12. Grey Cloud Island Township Local Government Revenues and Expenditures, 1970-1998, and Population 1970-2000

*No expenditures were reported in the “Culture and Recreation” category during the study period.

Data Sources: Department of the Public Examiner and Office of the State Auditor, State of Minnesota. Calculations by the authors.

Summary: South Washington County School District

The five MCDs that are completely or largely encompassed by the South Washington County School District are diverse in their histories, populations, number of school-age children, property values, development levels, and initial advantages that continue to fuel their growth differentially. They vary widely in access to major highways, particularly those south of Woodbury along Highway 10/61, which have no direct freeway access and no river crossing westward. Woodbury's economic base is largely non-industrial, while its neighbors to the south, with river frontage and rail connections, have a far higher proportion of their budgets and land connected with extractive industries.

Of the five MCD cases in the South Washington County school district, Woodbury leads by far in its cohort of school-age children served by district schools, and that proportion is growing (**Figure 5.13**). Cottage Grove, initially the largest contributor, has an aging population and not much new residential development, largely because of its restricted transportation access. There is much undeveloped land in the city outside of the MUSA, but expansion of housing will be slow, steady, and according to plan. St. Paul Park and Newport have no undeveloped land and little potential for new infusions of capital, again, until highway access improves and/or a southern bridge crossing is constructed. Overall, then, Woodbury is likely to be the driver of demand for new school buildings and accompanying staff and services, while the needs of the other MCDs will more likely involve maintenance of existing physical plant, and rising staff costs as seniority increases.

At the beginning of the study period, Cottage Grove was the largest of our MCDs, but Woodbury has since surpassed it in both population size and property tax base, while Cottage Grove's tax base growth has been slow and steady (**Table 5.1**). The smaller Newport and St. Paul Park have benefited from the growing value of riverfront industrial activity.

When a school district is large and serves all or parts of multiple municipalities, the diversity among the MCDs may lead to problems in district finances, such as hardships for those MCDs on the losing side of property appreciation and growth trends. Taxes are assessed through municipalities, but control over schools and property taxes to support them resides at the district level. So, some voters in multiple-city districts may not have much influence over the school taxes imposed upon them. All voters in a district elect the school board and vote on levy referenda, but they do so from the perspective of conditions in their own municipality.

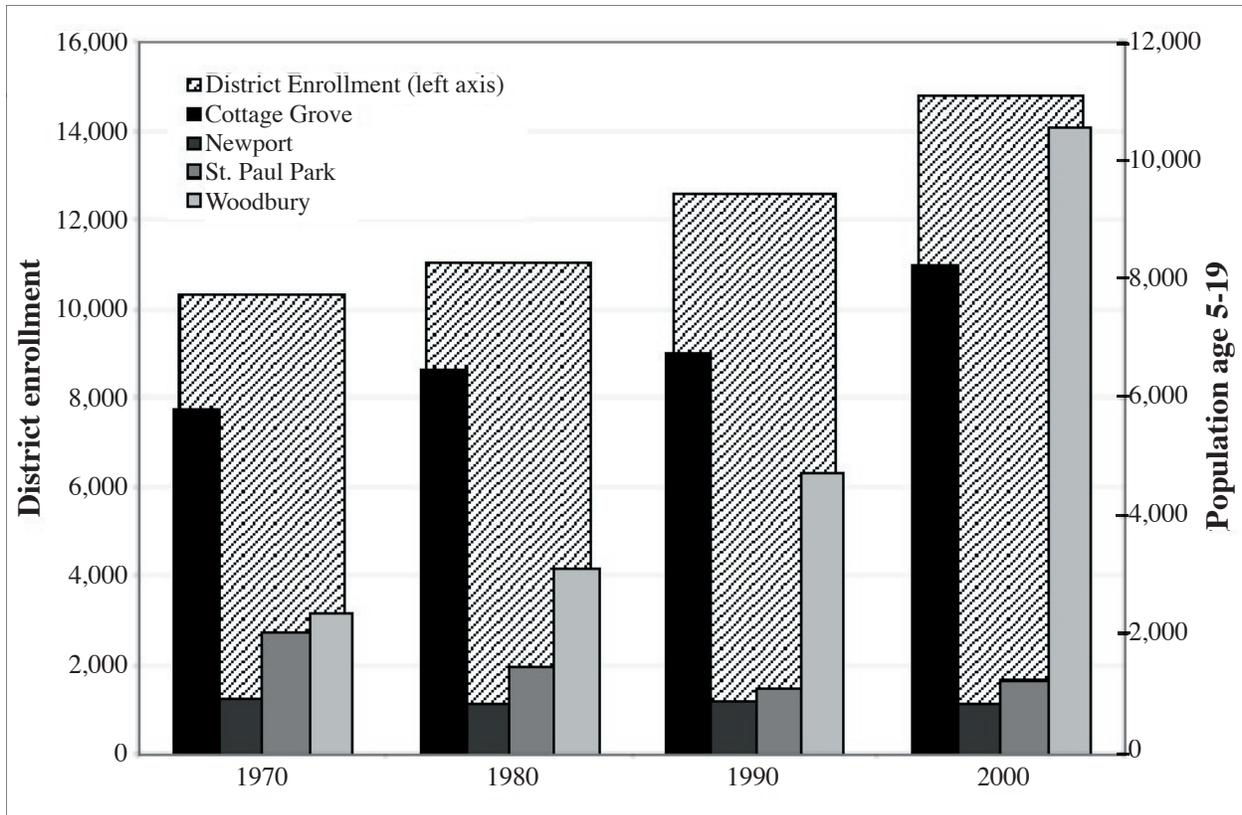


Figure 5.13. School-Age Population (age 5-19) in South Washington County School District MCDs, and Total K-12 District Enrollment, 1970-2000

Data Source: Minnesota Department of Children, Families, and Learning; U.S. Bureau of the Census.

Table 5.1. Regional Population Growth Comparisons

	1970	1980	1990	2000
Cottage Grove	13,419	18,994	22,935	29,031
Grey Cloud Isl Twp	389	351	409	307
Newport	2,922	3,323	3,720	3,689
St. Paul Park	5,587	4,864	4,965	5,070
Woodbury	6,184	10,297	20,075	33,426
Washington County	83,003	113,571	145,880	201,130
Total, 7 core counties	1,874,651	1,985,873	2,288,729	2,642,056

Source: Metropolitan Council of the Twin Cities; U.S. Bureau of the Census.

Anoka-Hennepin and Chaska School Districts

The next two school district cases also have multiple MCDs, but one city was the primary population cluster in the district when the boundary was established. Schools are clustered, because population is clustered. The districts are large because the outlying population density is so sparse that it cannot support schools near all residents. Each of these districts has one core city and large and relatively undeveloped, unpopulated territory around it.

Anoka-Hennepin School District

The Anoka-Hennepin school district covers a large territory to the north of Minneapolis, encompassing several second- and third-ring suburbs and stretching into exurban areas beyond (**Figure 5.14**). The dates of school construction vividly reflect the chronology of development that infilled between the small village of Anoka and the growing first-ring suburbs, particularly in the post-World War II era. Anoka had its own elementary school and then a middle school around the turn of the 20th century. Elementary schools served far-flung settlements in the closer-in townships between World Wars. As pupils reached the upper grades, those who continued had to commute to larger schools in the core cities. Then, as the post-war growth in new households and expansions both outward from Anoka and northward from Minneapolis drove residential development in the region, new schools were built as each added cohort exhausted the capacity of existing schools. The school district still bears its name because the current boundary, stable since 1959, is the result of consolidations of the older Anoka district with neighboring districts within Hennepin County, mainly serving townships. Today Anoka-Hennepin is the third-largest school district in the state, behind only those of Minneapolis and St. Paul. Total population residing within the district's current boundaries has grown from 120,204 in 1980 to 163,920 in 1990, and weighed in at 207,225 in the 2000 census (**Figure 5.15**).

Residents of the Anoka-Hennepin district have the lowest college graduation rates, median household incomes, per-capita incomes, and median housing values of any school district within the seven core counties under the Metropolitan Council. Within the seven counties, these MCDs also have the lowest median age, and a growing minority population.

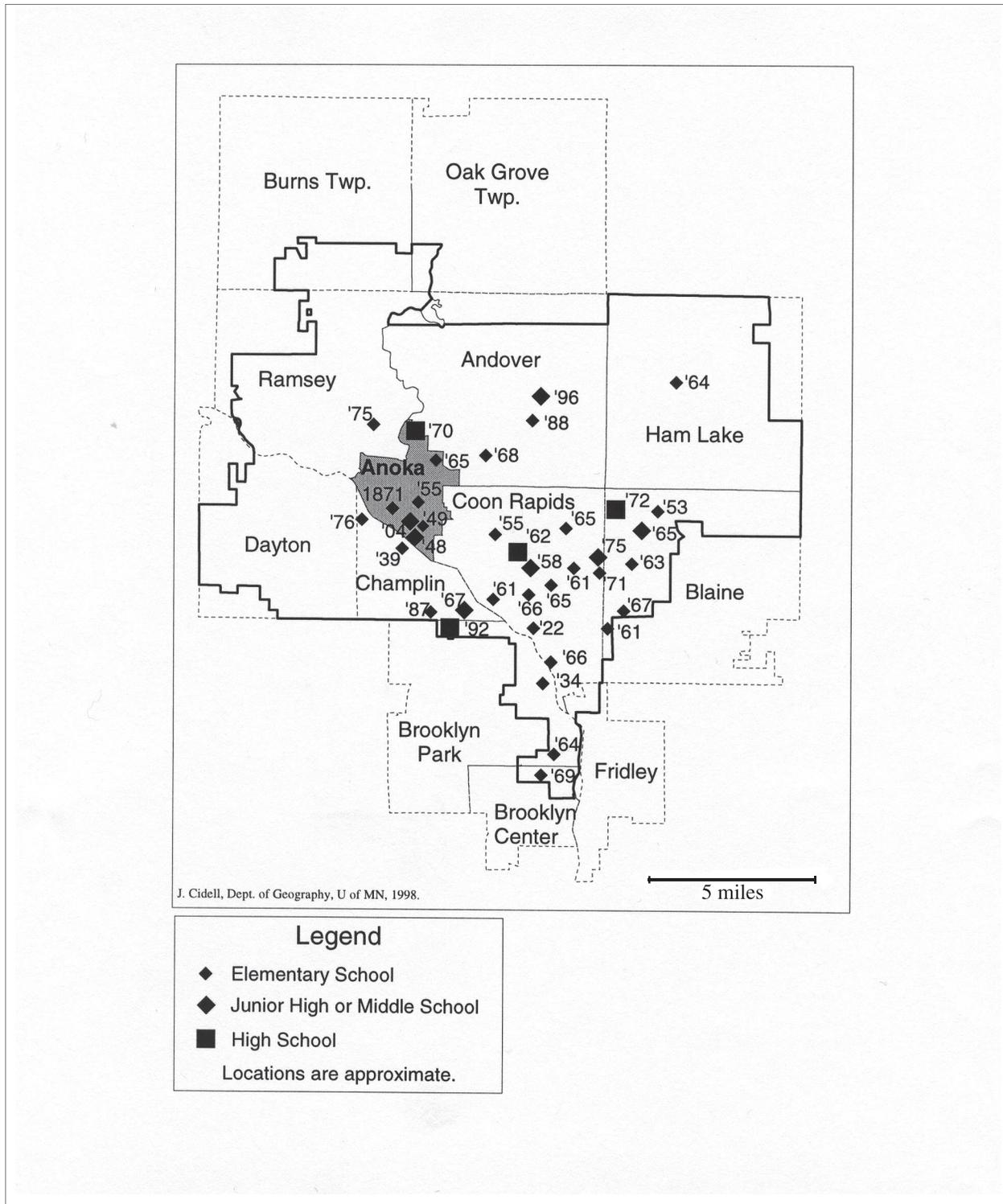


Figure 5.14. City of Anoka within Anoka-Hennepin School District (#11)

Source: Adams, John S., Julie L. Cidell, Laura J. Hansen, and Barbara J. VanDrasek. 2000. Synthesizing Highway Transportation, Land Development, Municipal and School Finance in the Greater Twin Cities Area, 1970-1997. Report #4 in the Series: Transportation and Regional Growth Study. Minneapolis, MN: Center for Transportation Studies, University of Minnesota, p. 181.

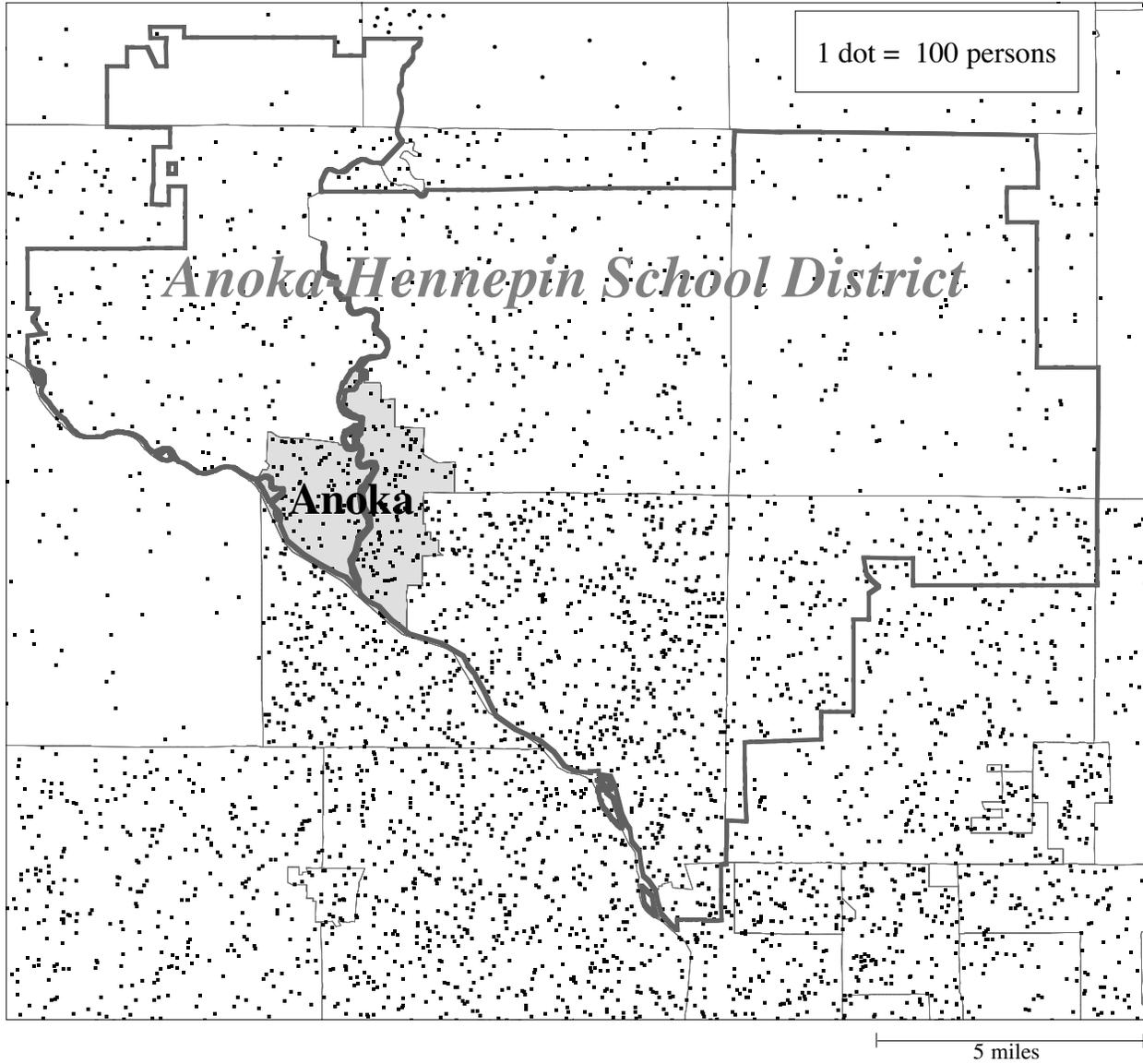


Figure 5.15. Anoka-Hennepin School District and Surroundings, Population Distribution, 2000 (Anoka City highlighted)

Data Source: U.S. Bureau of the Census.

Because the district is so large, the per-capita expenditures for new schools (capital outlays) has remained rather low, despite the number of schools that have been constructed throughout the district since 1970 (**Figure 5.16**). Total operating costs have risen at an increasing rate since the mid-1980s, reflecting the substantial growth in the school-age cohort—about 25 percent over the study period. Regular instruction has accounted for only about half of those costs,

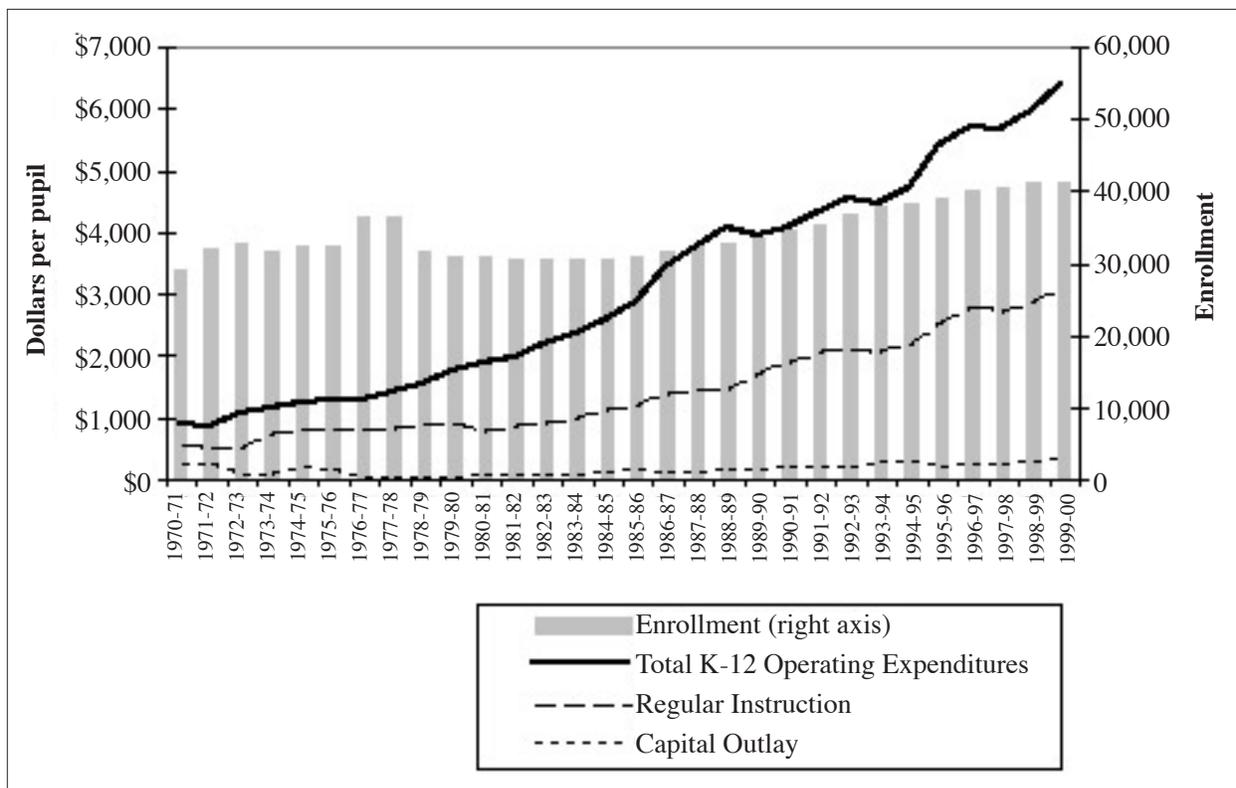


Figure 5.16. Anoka-Hennepin School District Expenditures and Enrollment Growth, 1970-71 to 1999-2000

Data Source: Minnesota Department of Children, Families, and Learning.

however, while there has been a proportional increase in extra costs generated by lower-income pupils—free breakfasts and subsidized lunches, for example. Basic transportation costs also have increased, and have a substantial impact on this large district’s budget.

Anoka City

Anoka is situated about 15 miles north-northwest of downtown Minneapolis astride the Mississippi River at its confluence with the Rum River, along Highway 10. Despite its location three suburban rings out from the core, the city exhibits characteristics that are more similar to the first-ring suburbs of Brooklyn Center and Richfield than what should be those of a small town positioned in the middle of a corridor of rapid growth and development (between the Twin Cities and the lakes areas of Sherburne County). Anoka is a recipient of fiscal disparities revenues, a sign of its lower-than-average non-residential tax base.

The area that is now Anoka was first settled in the 1850s as a trading post and lumber town, and grew into a small agricultural trade and service center, incorporating as a village in 1878. The riverside location allowed lumber and then flour milling through the 1930s.

Due in part to its early development, its location in a slower-growing sector of the metropolitan area, and its lack of easy freeway access, the city has retained its basic character throughout the 20th century, largely bypassed by new investment that has migrated to its neighbors to the southeast (Coon Rapids, Blaine). Anoka was largely dependent upon one large employer, Federal Cartridge Corporation, for many decades. The city's history left a large proportion (1/3) its land base in tax-exempt status, including a 1,200-acre state hospital (now a rehab facility) and the state's second-largest high school, a technical college, city facilities, and parkland. Except for a few more expensive homes along the riverfront, the city has an aging and modest-value housing stock, built as starter homes for new households in the post-World War II expansion, and a high proportion of modest- to low-income households. [6] Newer retail development closer to the growth areas to the east siphoned customer base from the city's main street commerce. In an attempt to revitalize its tax base, the city reclaimed a brownfield site and established a 300-acre industrial park in the mid-1990s, which has generated about 2,000 new jobs.

Anoka's population growth was slow but steady through the 1970s and 1980s, but leveled off during the 1990s (**Figure 5.17**). Since 1970 the city's population has expanded from 13,489 to 18,076. The population is gradually aging, with the median age creeping upward from 24.8 to 33.9 during the study period. The school-age cohort has declined steadily, while the population over age 65 has nearly doubled.

Anoka's city budget has exhibited steady but unremarkable growth throughout the study period, until a marked upward spike in the mid-1990s, generated by the opening of its industrial park (**Figure 5.18**). Most of the budget is drawn from property tax revenues. The relatively high proportion of intergovernmental transfer revenue comes from the several non-municipal public facilities within the city's borders.

Chaska School District

Chaska School District (#112) is situated 30 miles southwest of Minneapolis, on the eastern border of Carver County, which is delineated over much of its length by the Minnesota River (**Figure 5.19**). The district encompasses a variety of MCD types, including the city of Chaska, Victoria, and about half of Chanhassen, and much of the largely undeveloped Chaska, Laketown, Dahlgren, and San Francisco Townships. Most schools are clustered in and around Chaska,

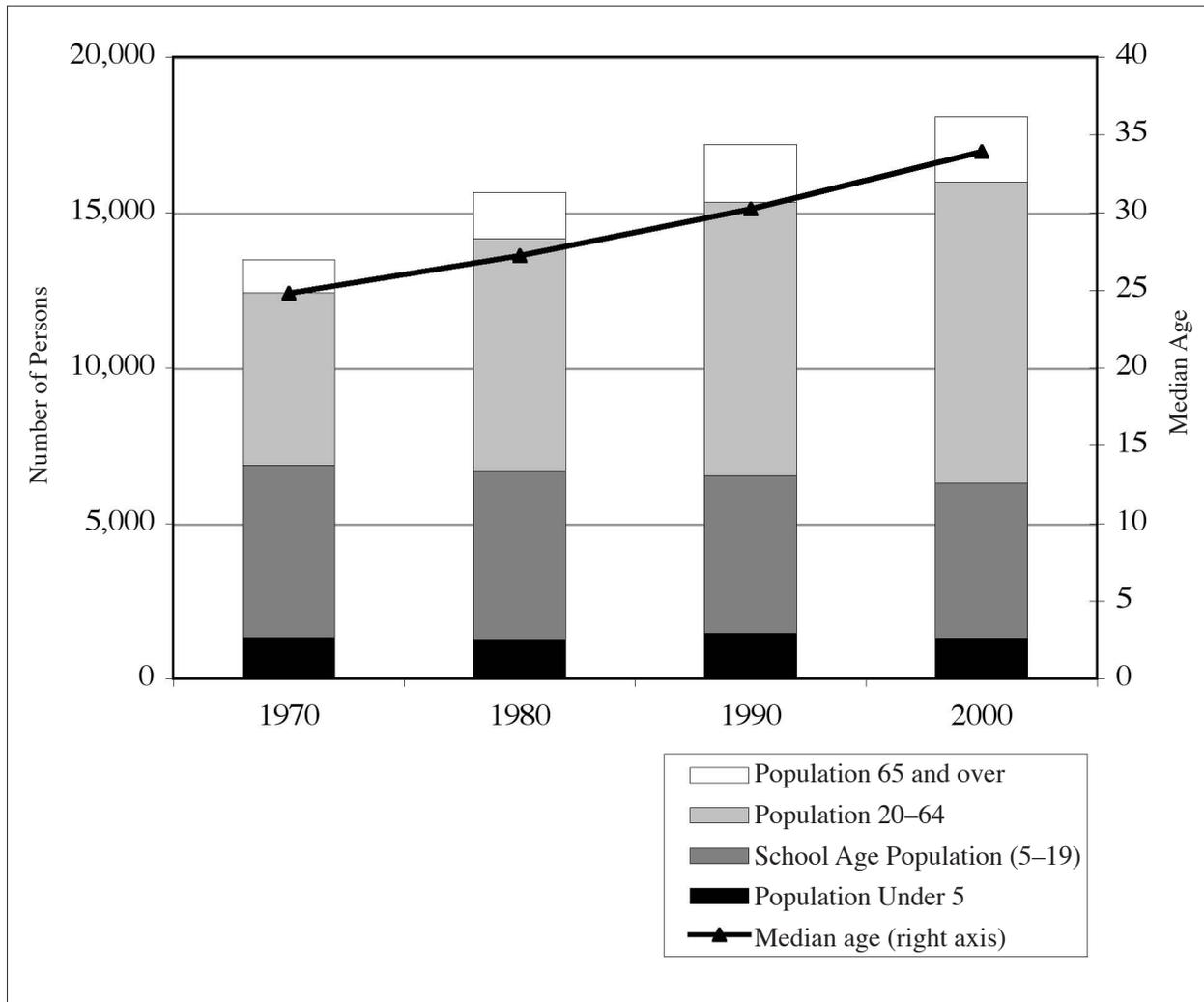


Figure 5.17. Anoka Demography, 1970-2000

Data Source: U.S. Bureau of the Census.

where the greatest population concentration resides. Outside of Chaska, Chanhasen, and Victoria, population is scattered and low-density, on farms and villages (**Figure 5.20**). The most serious challenge facing the Chaska School District currently is that its existing school facilities are filled to capacity, and continuing rapid population growth is expected into the foreseeable future, as the large areas of undeveloped land within the district fill in. The explosive residential growth within Carver County during the 1990s has driven up property values. Assessed valuations in eastern Carver County rose by over 50 percent during the decade, and have been driven upward mainly by development around Chaska.

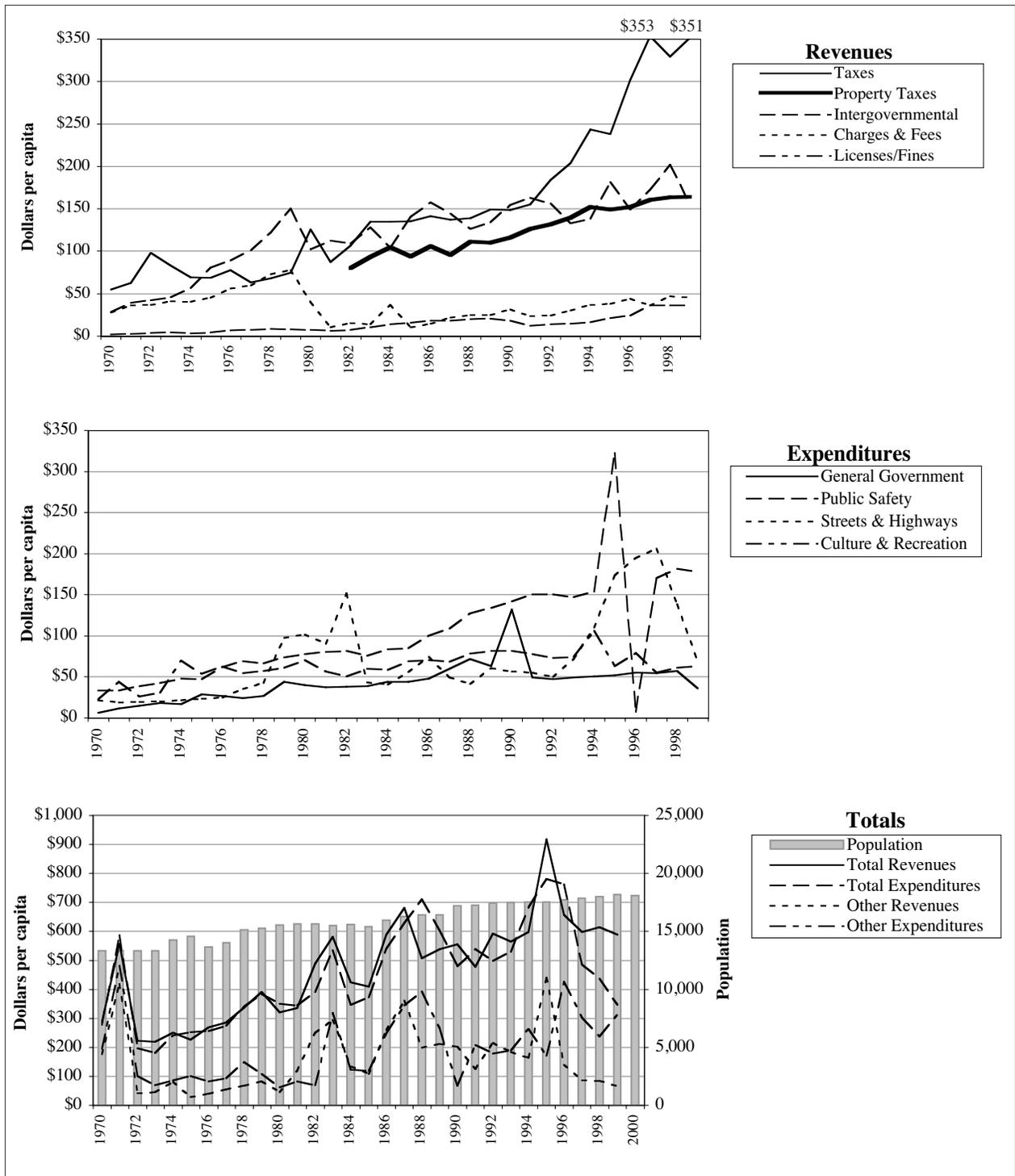


Figure 5.18. Anoka City Local Government Revenues and Expenditures, 1970-1999, and Population 1970-2000

*Property Taxes plotted separately (as a subset of Taxes) beginning in the first year when data were available. For prior years Property Taxes are included in the Taxes category.

Data Sources: Department of the Public Examiner and Office of the State Auditor, State of Minnesota. Calculations by the authors.

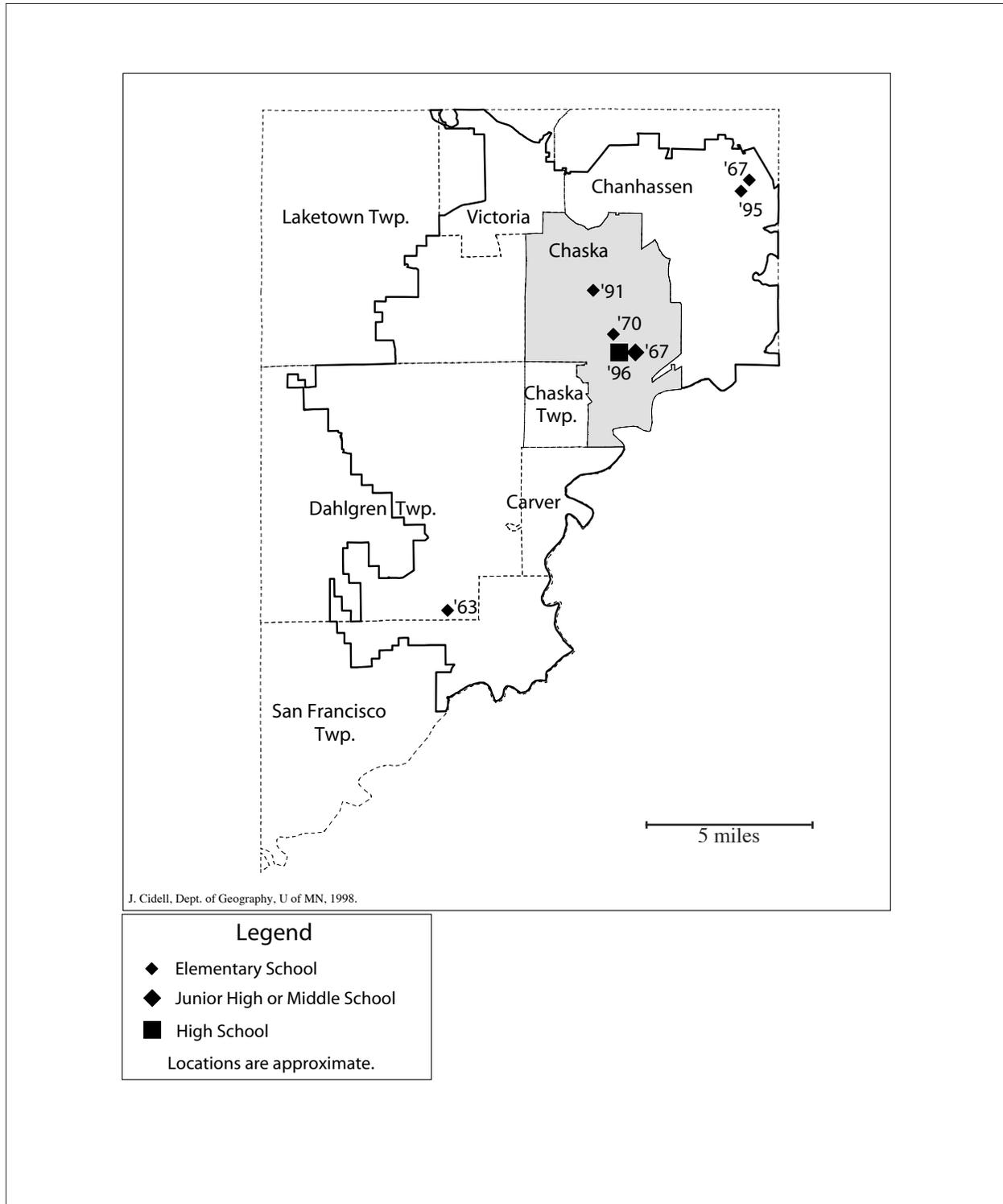


Figure 5.19. City of Chaska within Chaska School District (#112)

Source: Adams, John S., Julie L. Cidell, Laura J. Hansen, and Barbara J. VanDrasek. 2000. Synthesizing Highway Transportation, Land Development, Municipal and School Finance in the Greater Twin Cities Area, 1970-1997. Report #4 in the Series: Transportation and Regional Growth Study. Minneapolis, MN: Center for Transportation Studies, University of Minnesota, p. 189.

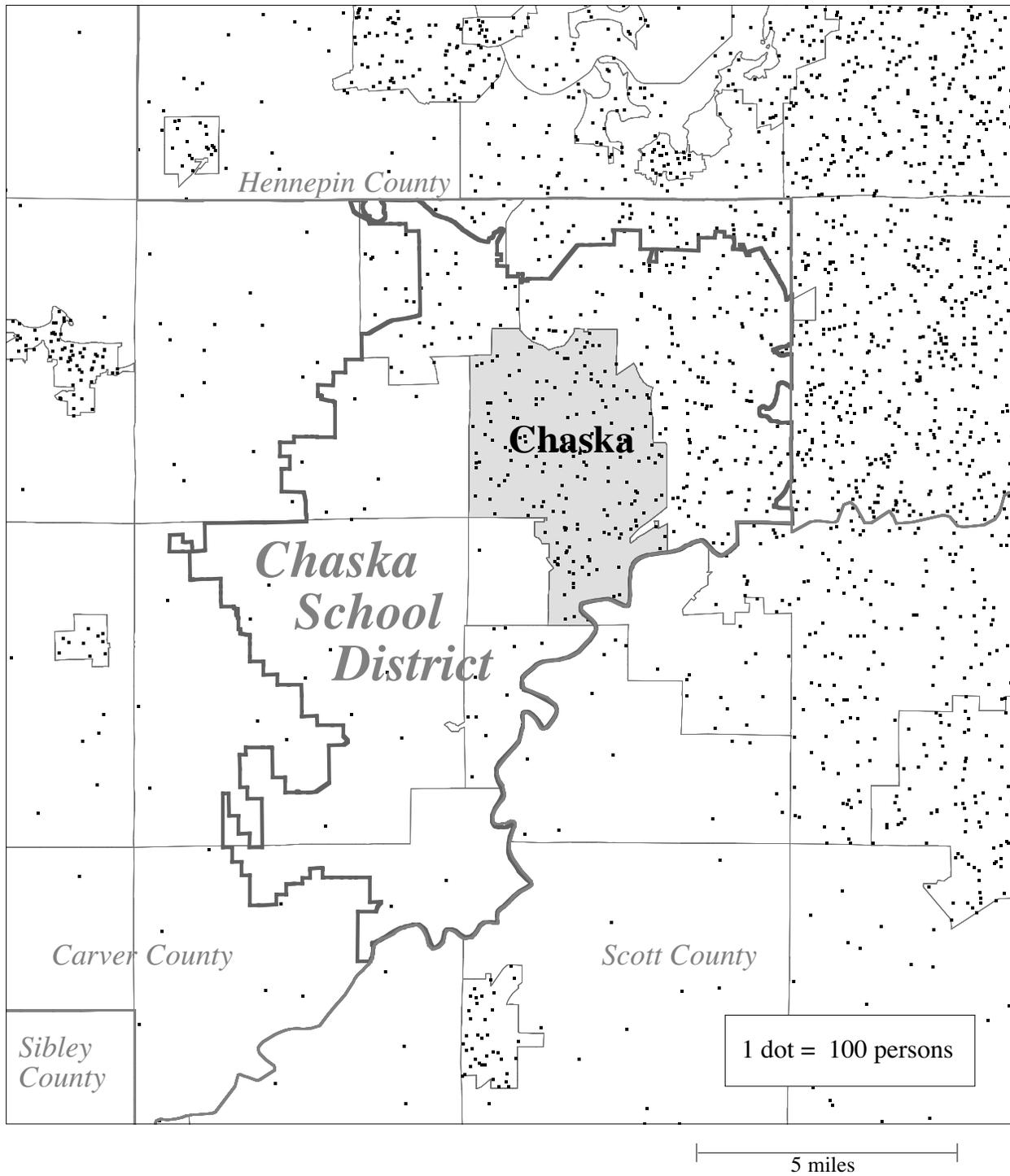


Figure 5.20. Chaska School District and Surroundings, Population Distribution, 2000 (Chaska City highlighted)

Data source: U.S. Bureau of the Census.

Growth of Chaska’s school-age population has been much more dramatic than that of the Anoka-Hennepin district, particularly during the 1990s (**Figure 5.21**). Chaska School District is situated in the path of the rapidly expanding southwest corridor of the metropolitan region, and suburban expansion accelerated into eastern Carver County in the 1990s. Per-pupil total expenditures have increased over five-fold during the study period, with the portion of that going to regular instruction not quite matching that pace. The district provides a full array of services for a dispersed population. Expansion in special programs and transportation costs account for part of that difference. The district has provided a larger-than-average proportion of its financing out of local resources through the study period. Of the district’s eleven school facilities, eight are located in the city of Chaska.

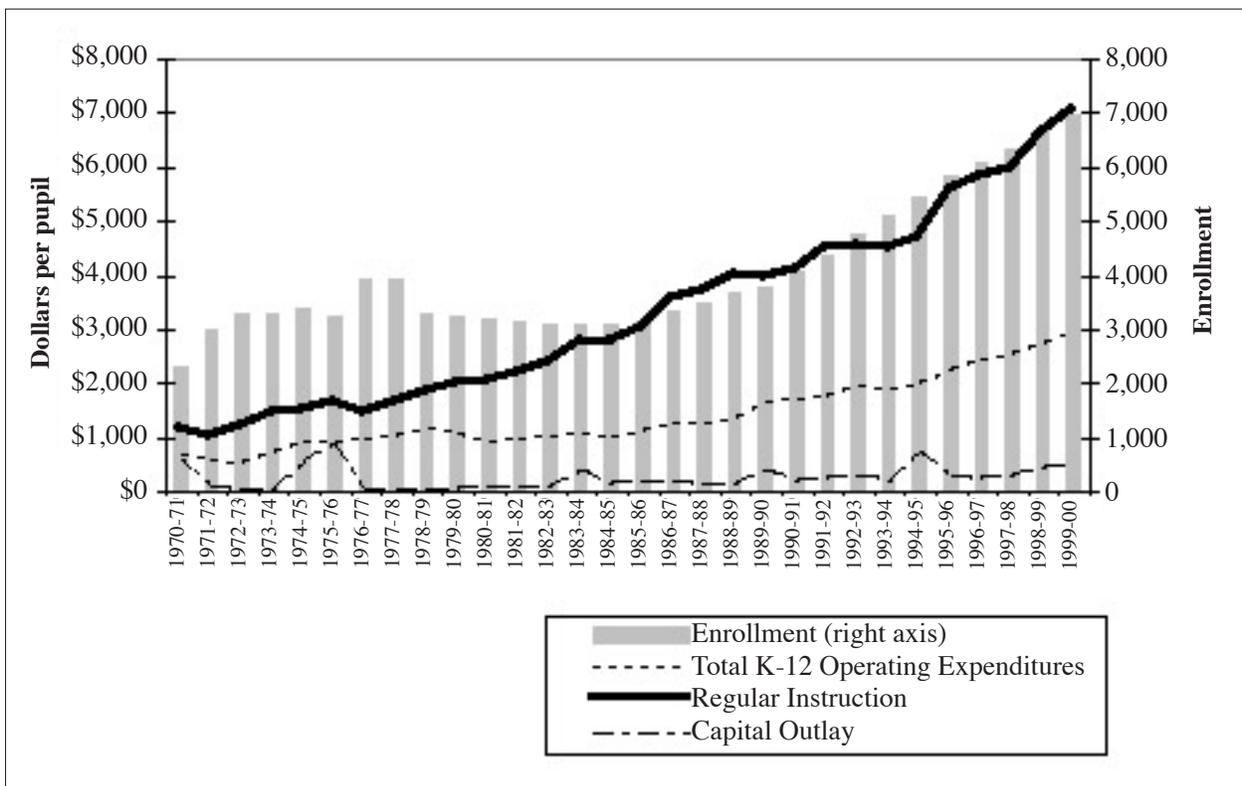


Figure 5.21. Chaska School District Expenditures and Enrollment, 1970-71 to 1999-2000

Data Source: Minnesota Department of Children, Families, and Learning.

Chaska City

The city of Chaska began its life as a small agricultural settlement in Carver County, occupied mainly by German immigrants. It became the county seat of Carver County in 1856. Although farming was the primary economic activity in the area, the clay deposits in the local soils lent themselves well to brick-making, which was the other occupation for immigrant workers. The last brickyard in the county operated into the 1950s, and now is under redevelopment to other uses.

The city is unusual in that its boundaries encompass the 1970s planned community of Jonathan, covering about three square miles, with 6,000 residents living in about 2,200 housing units. The development receives city utilities and street maintenance and pays city taxes, but is governed by a nine member elected Board of Directors of the Jonathan Association, which regulates the architecture of new development and external property improvements, provides maintenance of common areas, enforces covenants, and coordinates community administration and interaction with the Chaska city government. The Association's budget comes from a fee charged to each resident. Recently, the Chaska City Council approved the development of a pre-planned "smart growth" community of 990 housing units on the western border of Jonathan, which will become part of the Jonathan Association and will include a new elementary school, a neighborhood community center, a commercial center, and housing in a new urbanism style.

Chaska's population grew rapidly during the study period, from 4,352 in 1970 to 17,449 in 2000 (**Figure 5.22**). The fastest growth has been in the working-age cohort (20-64) which has increased by over five-fold, and in the under 5 group which has grown by nearly four-fold. The median age has increased only moderately during the period, from 25.5 to 32.2. This profile suggests continuing pressure on the city to provide services to family households and commuters, and continuing growth in its contribution to the enrollments in District #112. The population over age 65 has only slightly more than doubled in 30 years, but the large population segment that is approaching retirement years will mean that the city likely will face increasing demand for multiple-unit senior housing with associated services, and for a good array of recreational and leisure opportunities as well as local retailing, for a growing population of seniors with increasing time and money on their hands, and increasing need for services.

Except for some unusual expenditures in the Culture and Recreation category in the 1970s, Chaska's budget profile is unremarkable until the dramatic increases in tax revenues and intergovernmental transfers to fund streets and highways, starting in the late 1980s, as population

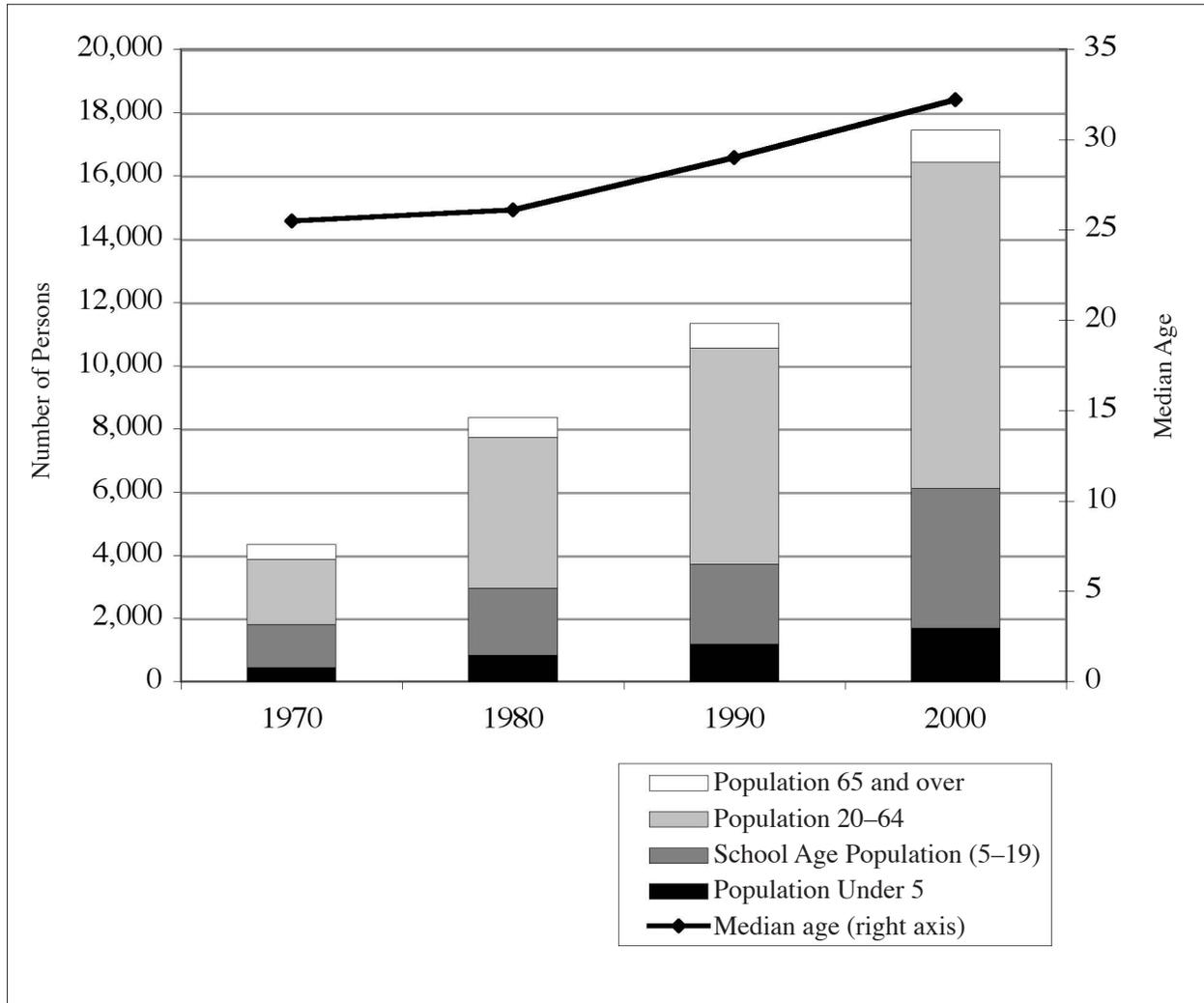


Figure 5.22. Chaska Demography, 1970-2000

Data Source: U.S. Bureau of the Census.

growth accelerated (**Figure 5.23**). There is a good deal of growth in Other Revenues and Expenditures during that period as well, reflecting bonded indebtedness for capital improvement projects accompanying new development.

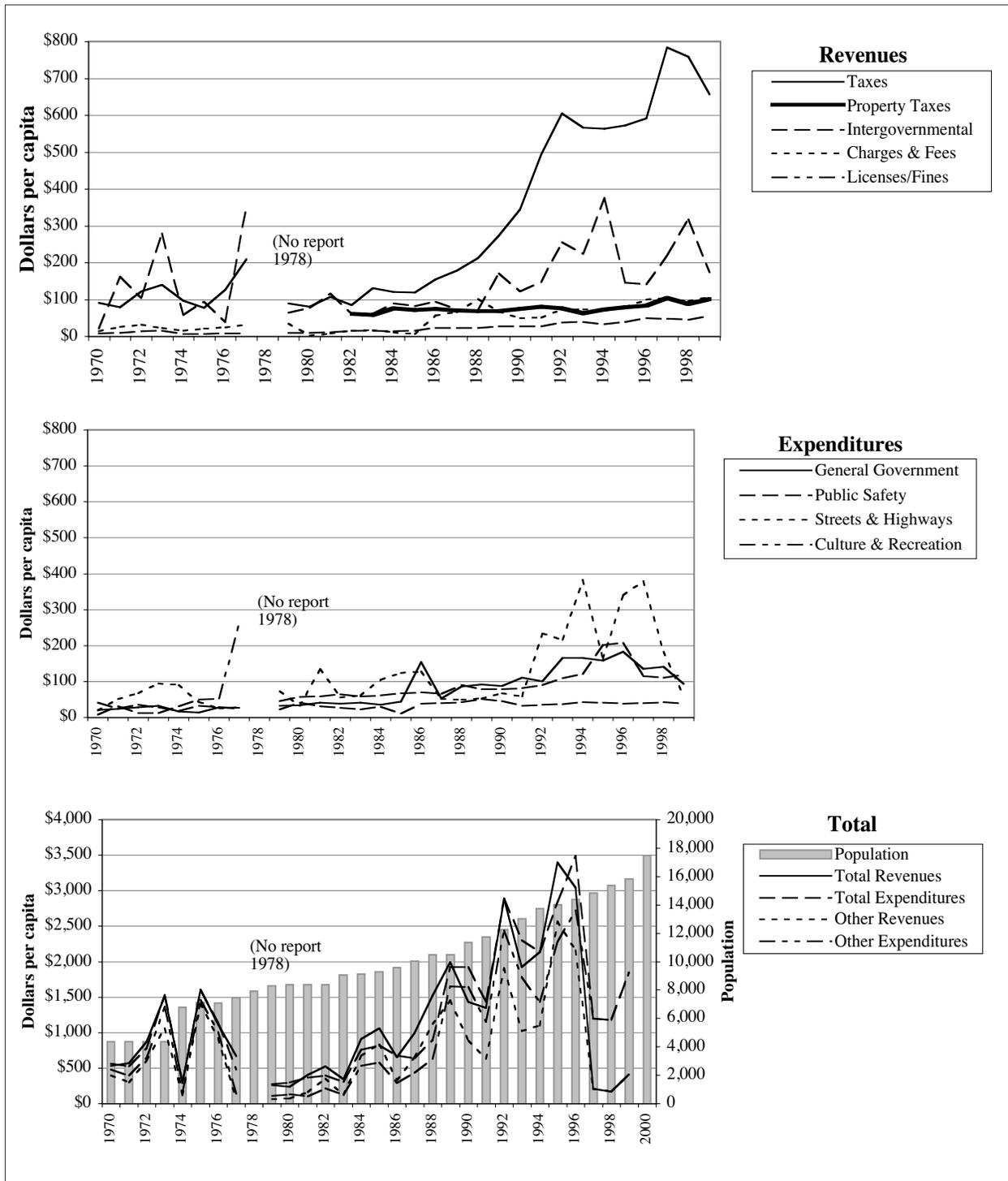


Figure 5.23. Chaska City Local Government Revenues and Expenditures, 1970-1999, and Population 1970-2000

*Property Taxes plotted separately (as a subset of Taxes) beginning in the first year when data were available. For prior years Property Taxes are included in the Taxes category.

Data Sources: Department of the Public Examiner and Office of the State Auditor, State of Minnesota. Calculations by the authors.

Issues for This Type of School District

The Anoka-Hennepin and Chaska School Districts share similar geographies, with an original core city and population center and a territory enlarged over time through consolidation with more sparsely populated neighboring districts. Yet the different locations of these two districts within the metropolitan region have left them with very different challenges. Both have large catchment areas that encompass a number of cities and townships in order to capture a sufficient number of pupils to make schools economically viable, given today's programming demands. Serving many households dispersed over a large territory, and yet clustered in some regions, means that (1) there will be large transportation costs, differentially distributed across the district; (2) households living at greater distances from district schools may be inclined toward less involvement in school activities, simply because of distance and transportation costs in time, money, and safety risk; (3) contributions to the property tax base within these districts will be low in large areas of undeveloped territory, and the assessed valuation of the district will be unevenly distributed, as development clusters around the core city.

As new development first enters greenfield sites in the district, pupils in those new households will attend existing schools, placing more pressure on services and enlarging class sizes to over capacity, without contributing much to the tax base from which funds for new school buildings will have to be extracted. This means that the tax rates imposed upon longer-term residents will go up in order to fund school services for this new development, while those new revenues will contribute little or nothing to improvement of existing schools within the core city. It may also make it more difficult to raise local funds for those improvements, if new residents feel they already are being charged enough for *their* new schools.

Issues for MCDs in This Type of School District

The core city will face an additional burden if most of the large district's school sites are located within its boundaries, since schools do not pay property taxes. This means that several large parcels of land within the city will contribute nothing to the municipal budget, but will consume municipal services such as street maintenance and public safety nonetheless. [7] In this sense, core MCDs that share districts with less developed hinterlands, as Anoka-Hennepin and Chaska do, bear a disproportionate burden of the support of district school services. If the city has an aging population and a shrinking school-age cohort, then the benefit that city residents receive diminishes over time compared with a younger, fast-growing territory outside the MCD's boundaries. Those other MCDs, in turn, may feel less compelled to fund continuing maintenance and upkeep of older city schools if the school-age cohort in that part of the district is declining,

and may vote instead to fund local levies on behalf of shifting investment to the newer facilities elsewhere. In such cases, the city school locations may eventually be recycled to other uses, and the budgets for their maintenance shifted to whichever unit of government receives the revenues generated by the new use.

A positive aspect of a large district with a more-or-less identifiable central city is that planning and coordination among all local units of government may be simpler, and thus more likely to happen. The core MCD, school district, and county without question share common interests and budgetary overlap (through taxation) in providing various services to the resident population, and many of their planning challenges center on the same variables: population growth, land development, infrastructure provision and maintenance. The tax burdens of district and MCD residents to support these services can be better planned, shared, and coordinated if there is close cooperation and collaboration among all of the local units of government operating in an area.

What Differentiates Chaska and Anoka-Hennepin School Districts?

The most dramatic differences between conditions and challenges facing Anoka-Hennepin and Chaska districts arise from their different locations on the underlying social geography of the metropolitan region. They are situated in different growth corridors. Anoka-Hennepin is in the slower-growth pathway between the Twin Cities and northern Minnesota lakes and recreational areas. Migration outward from the core cities is largely comprised of blue-collar, moderate-income households. On the Anoka Sand Plain, an area where soils were less useful for agriculture, there was much less extensive settlement in the early part of the century as there was on richer land to the south. With little development pressure housing prices historically have been lower in the district, enabling the growth in modest-income households to fuel post-war development in greenfield areas such as Blaine and Coon Rapids. In recent years, migration to the recreational areas around the lakes in Sherburne County, to the north, has increased dramatically, making the route through the Anoka-Hennepin district a rapid-growth corridor.

For the core cities of Anoka and Chaska, the same general locational differences, along with the particularities of each of their sites and more localized situations, have led them to have quite different circumstances today. Anoka was fully developed very early in the 20th century, while Chaska remained just a small village until much later. Consequently, when new development spread from the core cities to the surrounding area, Chaska was in a position to benefit from it more than Anoka was. Anoka by that time was saddled with an aging and low-value tax base and infrastructure that needed to be upgraded and revitalized, while Chaska was able to undertake some greenfield development at the time of peak growth, in the 1980s and 1990s.

Conversely, the development pressures on Chaska required raising property taxes during that growth period, in order to meet new demands for services, and thus residents were hit with both a rise in municipal taxes and a rise in school taxes. In Anoka, municipal tax rates rose to *fuel* new growth in the 1990s through the establishment of an industrial/office park using Tax Increment Financing, but the city faced far less of an increase in expenditures to serve new residential development, which contributes less to tax base, since most of that was taking place elsewhere in the school district.

Chaska historically has had a higher per-pupil transportation bill compared with Anoka-Hennepin, both because of its less developed system of schools, which require longer bus routes, and because it was transporting fewer children, and transportation has fixed costs associated with its equipment and staff. The two school districts also differ in population, enrollment size, and budget by several orders of magnitude, with Anoka-Hennepin nearly eight times larger than Chaska. This means that the increments in per-pupil revenue needed to meet increasing general costs or specific needs in certain parts of the districts have been lower in Anoka-Hennepin.

Richfield and Richfield School District

In our final case, the fiscal health of the city and school district are directly linked, and dependent upon their neighbors only within the context of metropolitan regional development.

Richfield is an aging 1st-ring suburb located directly south of Minneapolis, with nearly 35,000 residents (**Figure 5.24**). The city is well served by major transportation routes—perhaps as well as any MCD within the study area—with Highway 62 forming its shared boundary with Minneapolis on the north, I-35W bisecting the city from north to south, and I-494 forming the southern boundary that it shares with Bloomington. Immediately adjacent to the eastern boundary formed by MN-77/Cedar Avenue is the Minneapolis-St. Paul International Airport, putting part of the city directly under the flight path. West of Richfield, two small areas of east Edina are included with the Richfield school district boundary, an artifact of earlier growth patterns. The segment of I-35W that jogs east-west and is coincident with Crosstown Highway 62 for about 1/2 mile is one of the most congested stretches of roadway in the metropolitan area. Just to the east of the highway, Wood Lake and its adjacent Nature Center provide the only major natural amenity in a city whose grid-based streets are packed with small starter houses on small lots, and whose major arterials are lined mainly with a seamless succession of small-scale, single-story retail and service shops dating from the 1950s, which provide a less-than-optimal

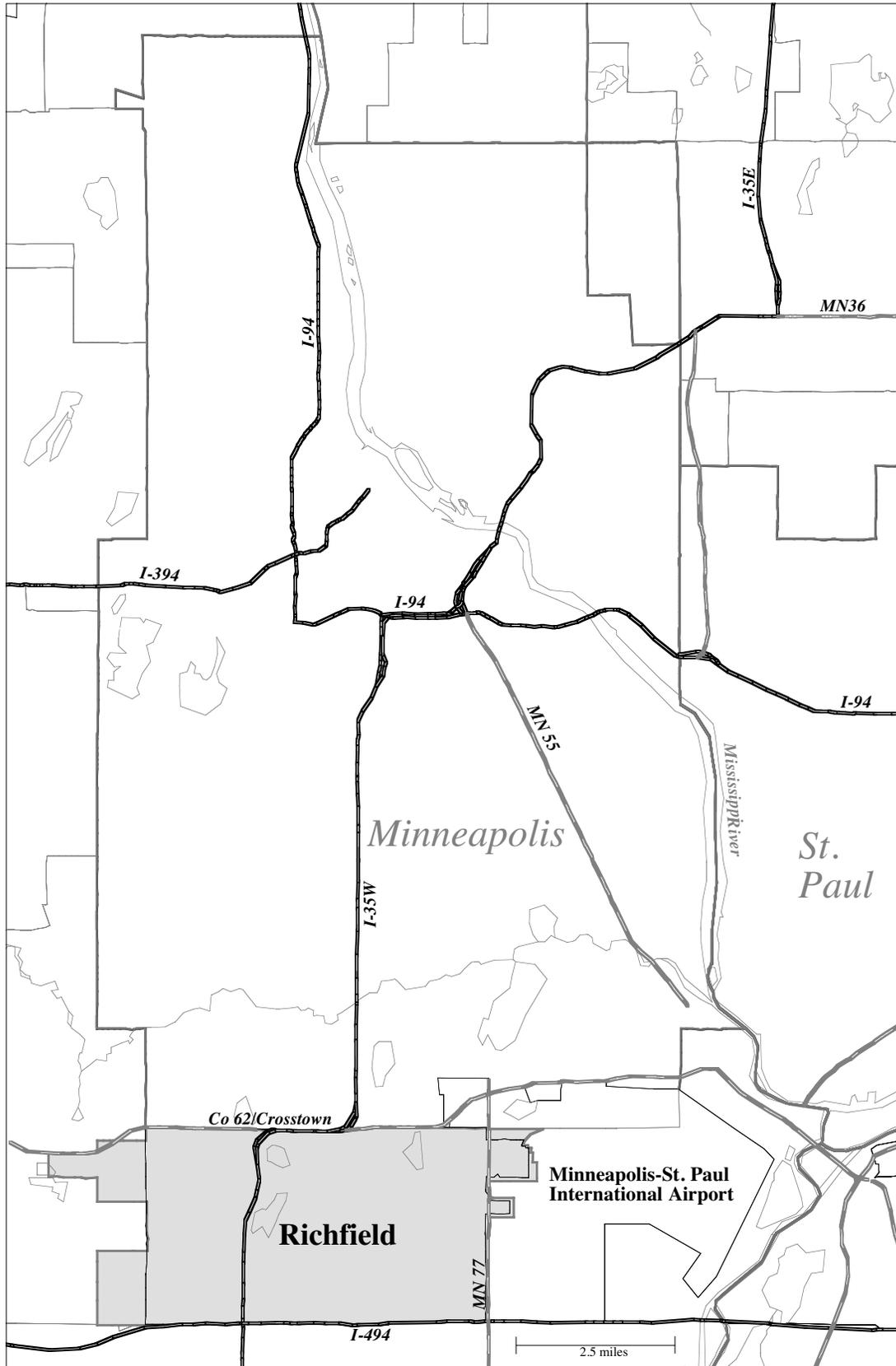


Figure 5.24. Richfield School District and the City of Richfield, and Surroundings

contribution to the city's non-residential tax base.

Richfield developed as a first-ring post-WWII suburb, directly in the path of Minneapolis's fastest outward growth in the post-World War II population boom, which consisted mainly of middle- and working-class households. Most of Richfield's original housing stock was built as small, inexpensive single-family bungalows. The thoroughfares of Nicollet, Lyndale, and Penn Avenues provided easy access and facilitated residential growth, and the expanding use of automobiles made commuting to jobs in Minneapolis even more convenient. The completion of Interstate 35W, running through the middle of the city, fueled further non-residential growth along I-494. The land was relatively flat, so there were few barriers to development. Most new building sites were converted farmland.

Richfield was fully developed and at peak population by the early 1970s. By the mid-1990s, then, the city found itself with an aging, inadequate housing stock, and most its commercial, industrial, and office property was dated, did not provide sufficient tax base to maintain needed municipal services, and was ripe for redevelopment.

In an effort to revitalize the city and improve the property tax base, the Richfield Housing and Redevelopment Authority (HRA) has been aggressive in recent years in its efforts to attract new real estate development, and have used tools such as Tax Increment Financing (TIF) districts to do it. Taking advantage of the excellent transportation nodes within or at its boundaries, the city has managed to attract a number of existing large firms from neighboring suburbs, with attractive financing incentives. The housing stock is being slowly redeveloped as well, with the tiny postwar bungalows giving way to larger homes on double lots, and most recently to large rental developments for senior citizens. Several new-car showrooms and lots facing I-494 on the north side are soon to be replaced by major corporate headquarters complex—Best Buy, Inc.—thanks to heavy subsidies from the city to improve the site and upgrade surrounding roads to accommodate the increased traffic generated by commuting employees.

Richfield's population declined by about 13,000 during the study period, from 47,231 in 1970 to 34,439 in 2000 (**Figure 5.25**). Moreover, there has been high population turnover because of Richfield's position directly in the path of outward migration of lower-income households from south central Minneapolis, with increasing proportions of lower-income residents replacing the white, middle-class households that initially occupied the small, inexpensive housing, as the latter group has moved on. Between 1970 and 1990 the percentage of residents with incomes below the poverty line increased from 1.8 to 5.5. Median household income rose by 59 percent

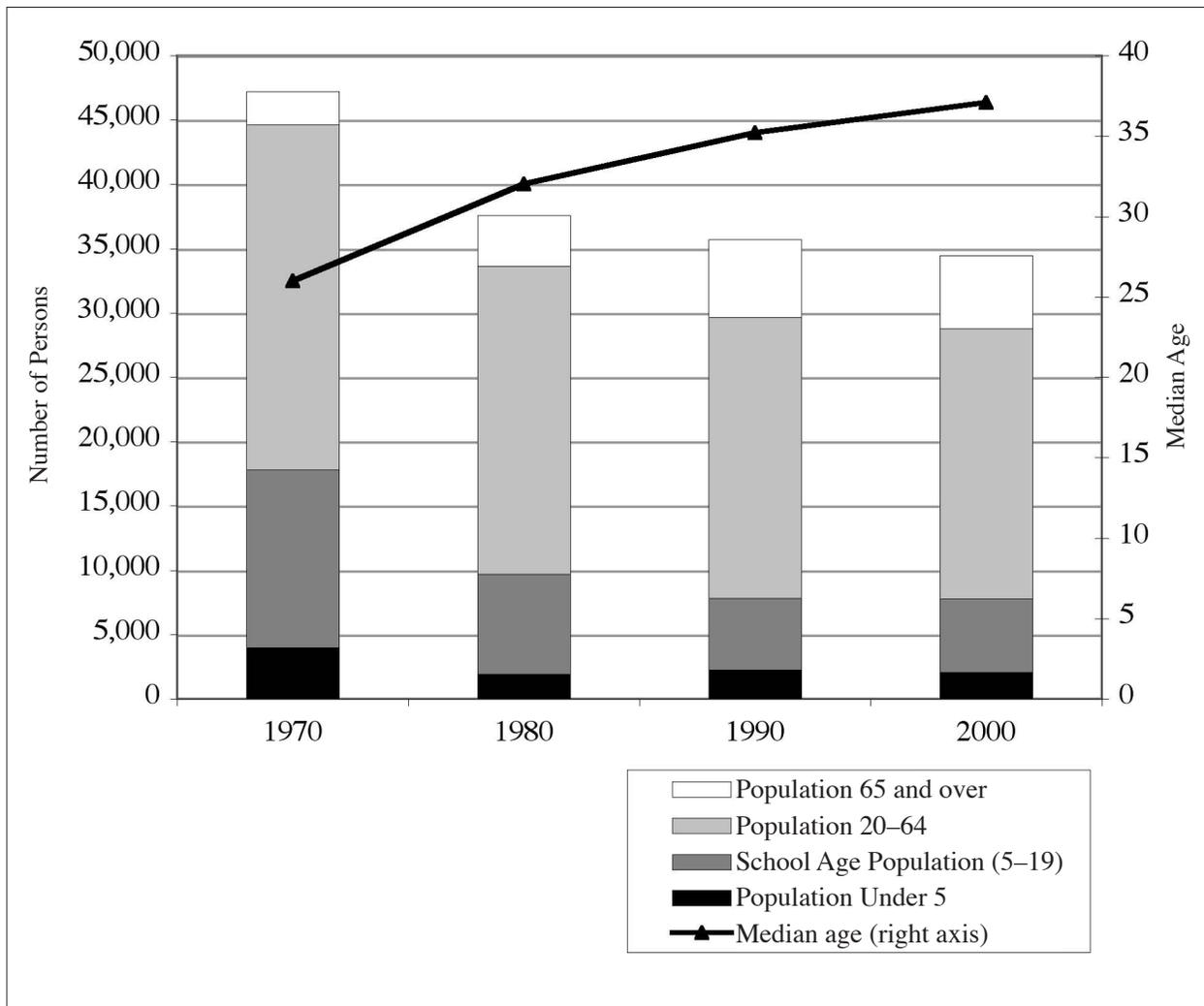


Figure 5.25. Richfield Demography, 1970-2000

Data Source: U.S. Bureau of the Census.

during the 1970s, far behind the rate of increase of neighboring suburbs to the south, and actually declined by seven percent during the 1980s, from \$34,224 to \$32,405. This trend is comparable to that of Brooklyn Center, Minneapolis’s first-ring suburb to the north that sits in the path of outward expansion of the lower-income sector in north Minneapolis. Richfield’s minority population increased from 1.1 percent in 1970 to 12.6 percent in 2000.

Enrollment in the school district declined steadily throughout the study period from its peak in the early 1970s, dropping from 11,544 in 1970 to 4,351 in 2000, although the rate of decline slowed after the mid-1980s as younger families increasingly replaced older childless households (Figure 5.26). Over the three decades, total school district population dropped by about

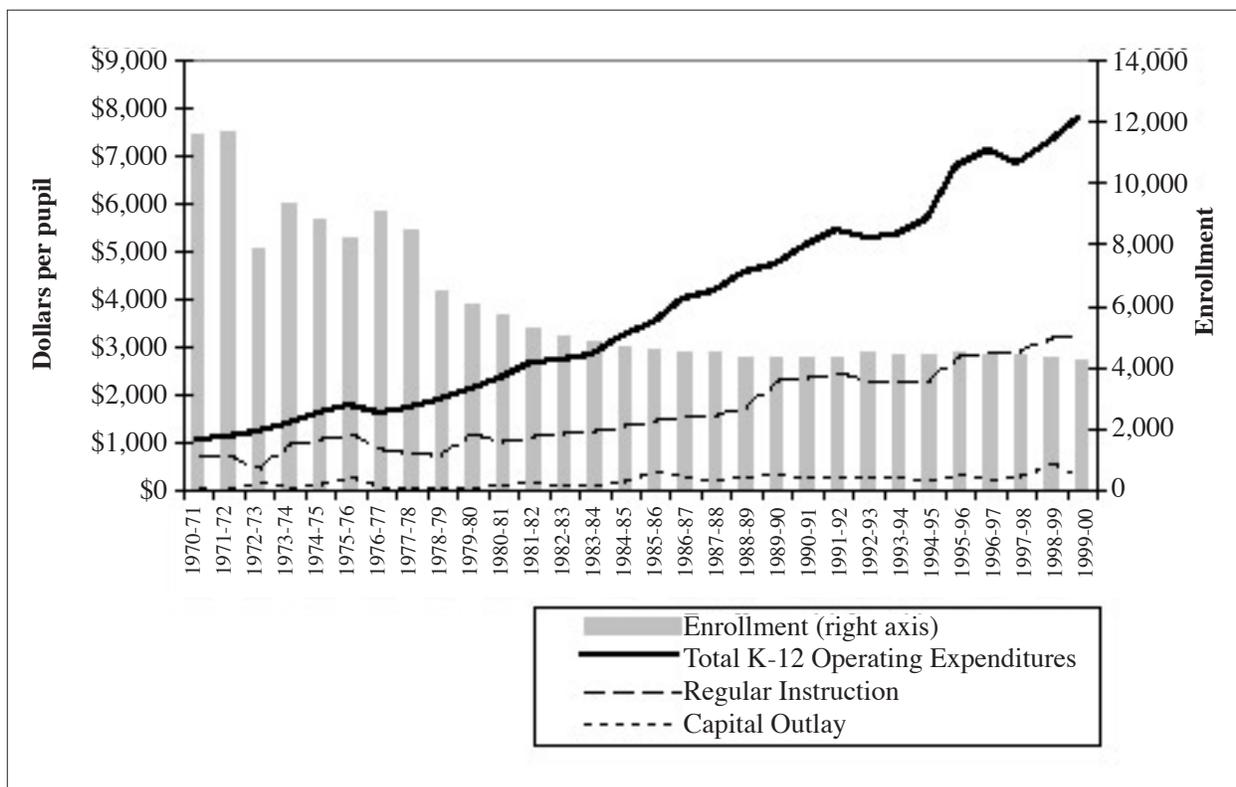


Figure 5.26. Richfield School District Expenditures and Enrollment, 1970-71 to 1999-2000

Data Source: Minnesota Department of Children, Families, and Learning.

15,000, to 38,535. (Richfield School District’s population is slightly higher than Richfield’s total municipal population due to the two small areas of Edina that are included in the district.) The map of Richfield schools reveals that all of them date from the late 1950s and early 1960s, which means that they have aging and outdated physical plant, which is expensive to maintain and upgrade. Declining enrollments have meant that per-pupil expenditures to support these schools have risen, and have raised staffing costs, as teachers are retained according to seniority. Richfield School District provided an unusually high proportion of local (district) and other revenues to fund city schools throughout the study period, augmenting state and federal aids—as much as 70 and even 80 percent of the total in some years.

Richfield’s particular challenge in recent decades has been to maintain and upgrade its housing stock, both to keep it viable and to make it attractive to newcomers; to augment its non-residential tax base in order to relieve homeowners of tax burdens; and to accomplish this within

a land area that was fully developed by 1960 (**Figure 5.27**). Redevelopment prospects have been limited, as the suburbs to the south and west (Bloomington, Edina and beyond) have been able to offer greenfield sites and a stronger growth profile with which to lure business and industry. The low-value and aging businesses that line Richfield's major streets do little to help the city expand its tax base. During the 1990s the city took steps to redevelop both housing and retailing, beginning with major mixed-use projects catering to retirees. There are several major projects of this type already completed and others under way, which have the multiple benefits of freeing up single-family homes either for new residents or for redevelopment; of stabilizing declining populations as retirees are able to leave their homes but stay within the city's boundaries; and add to the non-residential tax base as restaurants, shops, and offices are included along with the senior housing.

Richfield's proximity to Minneapolis-St. Paul International Airport has presented yet another serious challenge to the city's land management. Beginning in the early 1990s, the Metropolitan Airports Commission developed a program to provide relief from airport noise for residents in some areas of Richfield most affected. This, along with airport expansion, has ultimately meant razing a sizable number of homes in the southeast corner of the city.

The sum of these various efforts has left Richfield with an odd profile in the growth of housing units within the city. The number peaked in 1990 at 16,094, but by 2000 had fallen again to, 15,357, which is below the 1980 number. Replacing the tiny post-war homes on tiny lots with larger, higher-value homes with larger lots, raising densities at major crossroads by building multiple-use developments, and attracting new, larger businesses such as the Best Buy corporate headquarters may allow Richfield to remain vital and capture some of the new growth in the metropolitan region, despite the disadvantages of its history and geography.

Issues for This Type of City and District

For a city like Richfield, with its own school district, the balance between municipal taxes and service delivery changes as the population ages and declines, and physical plant and infrastructure (streets, sewers, schools) degenerates, needing maintenance. There are fewer households to pay for services; and a smaller pupil base on which to draw state aid to pay for schools. Yet both school and municipal infrastructures have minimum fixed costs that must be met. School buildings must be heated and lighted regardless of how few pupils attend, until a school is closed. The city must maintain its streets, no matter how few residents travel on them. The city's only recourse, if it wishes to stave off further decline, is to increase tax base through redevelopment. Richfield has been doing that.

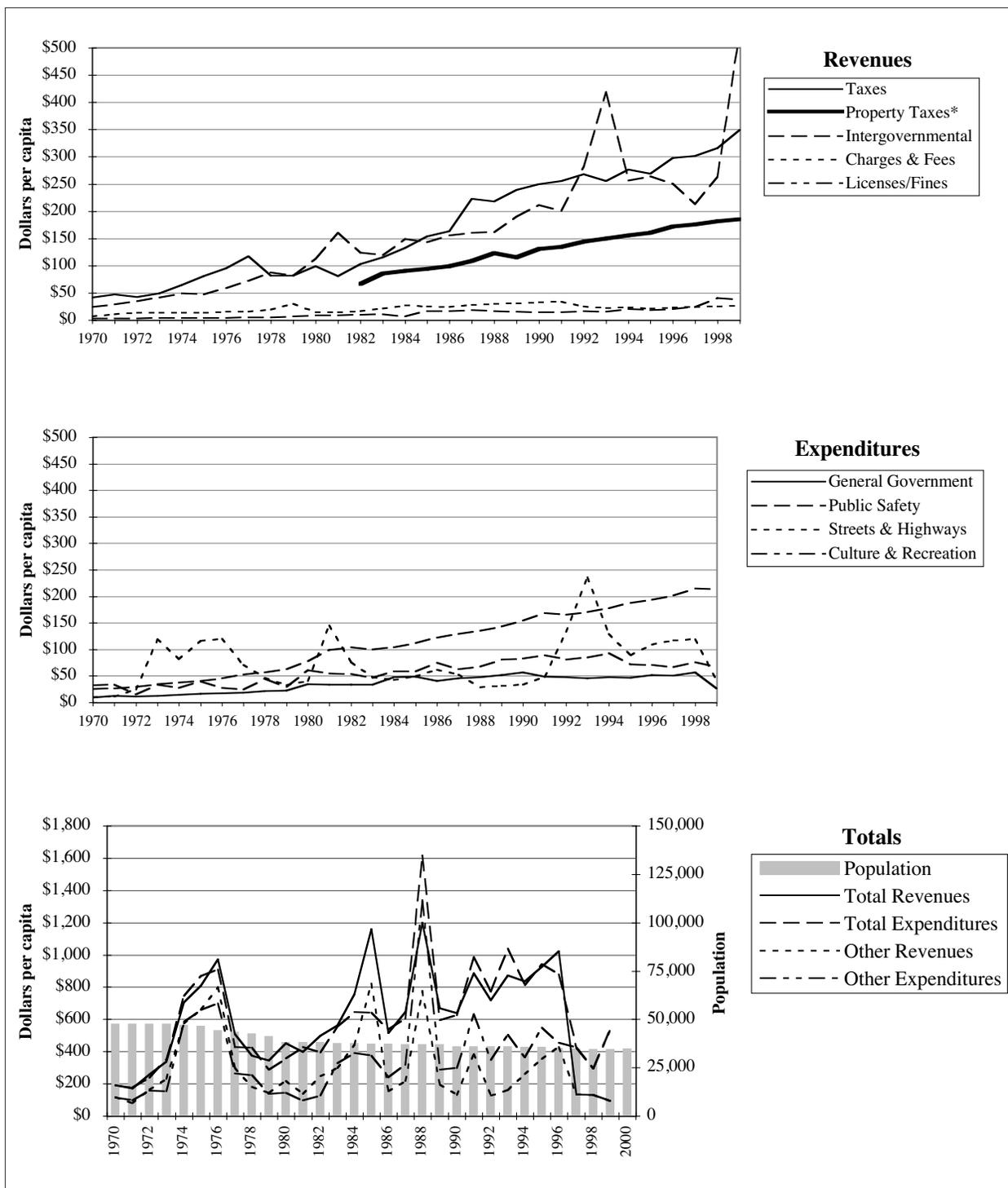


Figure 5.27. Richfield City Local Government Revenues and Expenditures, 1970-1999, and Population 1970-2000

*Property Taxes plotted separately (as a subset of Taxes) beginning in the first year when data were available. For prior years Property Taxes are included in the Taxes category.

Data Sources: Department of the Public Examiner and Office of the State Auditor, State of Minnesota. Calculations by the authors.

Summary: School Districts and Their MCDs

What processes and problems are common to all of our school district and MCD cases?

- All rely on local property tax to fund most municipal services and a good proportion of school district costs. This will continue to be the case, even as the state government takes on the burden of general education costs. Most of these districts will continue to augment K-12 education expenditures locally.
- Growth and decline place additional burdens on, and provide additional resources to, both cities and school districts.
- Municipal and school property taxes are *additive*, and thus in competition for property tax dollars. This will continue to be the case, even under the new school finance scheme.

Chapter 5 Notes

1. Adams, J. S., Cidell, J. L., Hansen, L. J., and VanDrasek, B. J. 2000. Synthesizing Highway Transportation, Land Development, Municipal and School Finance in the Greater Twin Cities Area, 1970-1997. Report #4 in the Series: Transportation and Regional Growth Study. CTS 00-04. Minneapolis, MN: Center for Transportation Studies, University of Minnesota.
2. William Fischel argues that “fiscal feedback” is lost when schools are funded by statewide tax revenues. The fact that housing values rise when school quality rises gives all homeowners—not just those with school-age children—an interest in seeing schools run efficiently and well, and an incentive to support them through local tax levies. See: Fischel, W. A. 1998. School Finance Litigation and Property Tax Revolts: How Undermining Local Control Turns Voters Away from Public Education. Lincoln Institute of Land Policy, Working Paper WP98WF1.
3. Some pupils attend school outside of their district of residence, to receive specialized services or to achieve racial or ethnic balance.
4. Cottage Grove Historical Preservation office.
5. The bridge remains today as the most significant historic structure remaining in the city. The double deck Rock Island Railroad Swing Bridge, built in the 1880s, is located next to the Ashland Oil Refinery. Privately owned and called the J.A.R. Toll Bridge, it still serves surrounding communities.
6. LeRoy, G., Hinkley, S., and Tallman, K. 2000. Another Way Sprawl Happens: Economic Development Subsidies in a Twin Cities Suburb. Washington, DC: Institute on Taxation and Economic Policy, p. 13.
7. For a discussion of development impact fees, which are a method of making growth pay for itself, see: Adams, J. S., Cidell, J. L., Hansen, L. J., Jung, H.-j., Ryu, Y.-t., and VanDrasek, B. J. 1999. Development Impact Fees for Minnesota? A Review of Principles and National Practices. CTS 99-04. Report No. 3 in the series, Transportation and Regional Growth. Minneapolis, MN: Center for Transportation Studies, University of Minnesota.

Chapter 6

Summary and Synthesis

The Twin Cities region grew steadily in size and territorial extent after World War II, and according to commuting data from the 1990 census it extended over 24 counties in Minnesota and Wisconsin at census time. A decade later, the 2000 commuting data reveal an even wider dispersal of the metropolitan region centered on Minneapolis and St. Paul. The preceding chapters illustrated some of the consequences for cities, townships, and school districts of Twin Cities population growth and the increasingly dispersed land development that accompanied it. All components of the metropolitan area are functionally linked, and change in one of them directly or indirectly, sooner or later, affects others.

As the built-up area sprawled outward in all directions, it encountered a network of cities, towns, townships and school districts of more-or-less stable boundaries. The encroachment of new land development, households and businesses into these minor civil divisions (MCDs) produced profound changes in each MCD so affected, and changed the relationships among the MCDs themselves. New housing attracts new households and additional wealth and purchasing power into an area. The city, town or township containing the new houses and households is obligated to supply them with municipal services. But a development of new houses and new households also lies within one or more school districts, and state law requires that school services be provided to children living within a district's boundaries.

This study has described the problems and issues that arise from the ways that development imposes simultaneous burdens on local governments—specifically the school districts, the cities and the townships. Local governments must finance the services that are needed. But through the 1990s a major share of both schools and municipal services have been supported by local property taxes. Even now that the tax burden for public schools has been shifted largely to the state's budget, local taxes still pay for about one-fourth of the costs of public K12 schools. The fact that diverse local governments draw tax revenues from a common property taxes resource puts them in competition with one another for acquiring and using that tax resource. Decisions made by a city to permit or encourage housing developments impose burdens on the school district or districts that must provide services to children drawn into their jurisdiction by the

new development. The city controls development, but the school districts play no direct role in decisions about how or when development occurs yet is responsible for accommodating the demands on it that accompany development.

Our goal in this study has been to present these issues and then to illustrate with a series of case studies the fiscal challenges faced by a sample of MCDs and school districts as they coped with the consequences of population growth and dispersed development between 1970 and 2000. Our study addressed a public policy situation at the intersection of (1) the metropolitan growth and land development process, (2) local political geography in Minnesota and Wisconsin, and (3) state and local fiscal relations.

Inner-City Foundations of Post-War Suburban Expansion

Up until about 1940, the built-up Minneapolis-St. Paul area consisted of the two central cities and a few small streetcar suburbs like Robbinsdale, St. Louis Park, Edina, West St. Paul, Roseville, Columbia Heights, and a few others. Territory beyond the cities and streetcar suburbs was a checkerboard pattern of agricultural townships, typically 36 square miles in area and governed by an elected township board with extremely limited statutory responsibilities. There were undeveloped areas inside the city limits of Minneapolis in 1940—the southwest corner, the southeast corner near the airport, and in the northern reaches of East Minneapolis and North Minneapolis. St. Paul had even more extensive tracts of undeveloped land inside its city limits on the East Side, the North End, and in Highland Park. The major job concentrations remained in the two downtowns, which were connected with residential neighborhoods by streetcar lines that radiated out from the two CBDs. Hopkins and South St. Paul were industrial suburbs beyond the central city boundaries with their own resident labor forces, but they were also connected to their respective central cities by streetcar.

The built-up “edge of town” was sharply defined, and just blocks beyond the ends of the streetcar lines truck farms and other forms of agriculture dominated the landscape. Inside Minneapolis and St. Paul, the streetcar lines formed the backbone of the urban transportation system as they had since 1890. Typical movement of daily workers and shoppers was in-out—from home neighborhood to downtown and back home again. The radial orientation of the streetcar lines and the habits of movement that they fostered meant that not only was it difficult to move across town, but also there was little incentive on the part of most residents to do so. The east-west Lake Street streetcar line and the 38th Street bus line were exceptions in South Minneapolis, as

was the north-south Lexington line in St. Paul.

After the war, suburban development thrust outward into the agricultural townships and streetcar suburbs. The five “historic spokes of growth” that had been based on interregional river and railroad flows of an earlier time were superseded by residential sectors organized around downtown-focused streetcar movement. Each of these sectors or residential submarkets was focused on one of the two downtowns, but led outward toward new lands on the edge of the built-up area. [1] The residential sectors differed from one another in three important respects: (1) the income-wealth position of typical households in the sector which regulated their ability to purchase a new house in the suburbs and their desire to do so; (2) the number of households in the sector, and (3) the size of the rural populations lying beyond the sector and inclined to migrate to the Twin Cities as post-war agricultural fortunes waned compared with urban opportunities. The biggest development pushes into the suburbs occurred south of Minneapolis (Richfield, central Bloomington), west and northwest of Minneapolis (Robbinsdale, Crystal, New Hope, Brooklyn Center), and northwest of St. Paul (Roseville).

Only modest suburban expansion occurred into elite sectors such as the one southwest of Minneapolis’s Lake District (Edina) because although typical households in that sector had sufficient income and wealth, there were relatively few of them compared with the large middle-class markets that merchant builders focused on for several decades after 1945. Suburbs at the edges of blue-collar working-class sectors were also slow to support suburban development because of their modest purchasing power and access to credit, less inclination to move, smaller numbers, and small, rural populations beyond the city. For example, rural population densities north and east of St. Paul were lower on average than those south and west of Minneapolis, so Minneapolis had a big growth advantage over St. Paul in the post-war years. Consequently suburban expansion around Minneapolis exceeded that around St. Paul by a ratio of two-to-one for many years—partly due to a smaller base population inside the city to begin with, and subsequently due to its smaller migration field during the post-war decades.

The fast-expanding residential sectors, north, northwest and west of Minneapolis, south of Minneapolis, northwest of St. Paul spilled outward into agricultural townships and quickly overwhelmed the abilities of township governments to cope effectively with rapid change. Some of the townships incorporated as cities and assumed the taxing, spending, borrowing, and service-provision powers of a city to respond to the demands placed upon it. In other cases existing cities annexed adjacent unincorporated areas as development proceeded. But on average Minnesota law made it easier for a township or a nucleated place within a township to

incorporate as a municipality than for an adjacent city to annex unincorporated territory. The result around the Twin Cities region was a rapid proliferation of suburban municipalities as new development sprawled over the landscape. Today the 24-county Twin Cities region contains well over 600 units of local government.

Four Suburban Cities

From a list of several hundred Twin Cities-area cities we selected four that have undergone the development process at different times and at different locations, in order to illustrate how the development process affected certain features of each.

Brooklyn Center is an older inner-ring suburb on the southern edge of the Anoka Sand Plain adjacent to North Minneapolis where wind action during the time of retreating glaciers superimposed sand dunes on top of the glacial moraines. This terrain extends from Minneapolis to Elk River, then north to Princeton and east to the St. Croix River valley and includes today's Brooklyn Center. The soil was not of good quality, but for decades it was devoted to truck farming serving the Twin Cities market. It filled up fast during the early post-World War II years so the city's housing and stock of commercial facilities have tended to grow old together. The city received a major influx of lower-middle-class and working-class households from the older and more industrialized Minneapolis neighborhoods close to the Mississippi River, while suburb-bound white-collar and middle-class households from the Near North and western parts of North Minneapolis tended to relocate to the northwest toward Golden Valley, Robbinsdale, Crystal and New Hope. Between 1980 and 2000 Brooklyn Center's population dropped from 31,000 to 29,000 while newer Brooklyn Park, its northern neighbor, saw its population rise from 43,000 to 67,000 during the same period.

Over the past three decades, Brooklyn Center has become an aging first-ring suburb that recently has experienced declining median household incomes, stable to declining population, growing social and economic problems, an exodus of businesses that could not be sustained as their markets disappeared, a weakened real estate market that discouraged new housing investment, and a reluctance of outside investors to invest in business development in a city that seemed to promise high risks without a corresponding chance of high returns. This combination of difficult trends made life difficult for the city government as well as for the school district serving children living in the city. Even though the city is well served by Interstate and other high-quality highways, its social geography brings difficulties that highways alone cannot

resolve.

Eagan is a fast-growing second-ring suburb south of St. Paul and Mendota Heights, located in the southeast quadrant of the metropolitan area. Its population grew from 21,000 in 1980, to 47,000 in 1990, to 64,000 in 2000, and it still growing. Undeveloped land is disappearing fast, but some older areas are already undergoing redevelopment. Eagan benefits from a young and prosperous population, plus corporate headquarters, commercial, industrial and office activity providing jobs and tax base to pay for city infrastructure and modern municipal services.

But as the city has filled and begun to age, new planning challenges confront the city such as noise impacts on sites under airplane flight paths heading to MSP's main runways. A longer-term planning issue is Eagan's relatively homogeneous housing stock and commercial infrastructure, which is new and in good shape today but eventually will become old all at once, as did Richfield's, Brooklyn Center's and some other first-ring Twin Cities suburbs. But Eagan's location near the airport and at the outer margins of middle-class and upper-middle-class housing sectors emanating outward from western St. Paul (Highland Park and Mendota Heights) and from South Minneapolis (Richfield, Bloomington) have been an advantage to Eagan's continued growth and prosperity. Like Brooklyn Center, Eagan is served by a network of Interstate and other excellent highways, but unlike Brooklyn Center its business and employment base and the prosperity of its households support the city's current economic vigor.

Maple Grove is a third-ring suburb northwest of Minneapolis beyond Brooklyn Center, Brooklyn Park, Crystal and New Hope, and during the 1990s was fast-developing on the outer edge of the built-up area. Its abundant natural site amenities magnified its locational attractiveness for the development wave that engulfed the city just as the Interstate highways through the city were completed. A certain segment of middle- and upper-middle households at the leading edge of the residential submarket with origins in western North Minneapolis, augmented by newcomers to the Twin Cities, wanted that lifestyle and flocked into Maple Grove. The city government's main challenges include managing pressures for development, and managing its remaining agricultural land as it is scheduled for development.

The city continued along its path of vigorous growth from a population of 21,000 in 1980, to 39,000 in 1990, to almost 50,000 in 2000. It has been prosperous in recent decades, with steadily rising median household incomes and a percentage of persons with incomes below the poverty line that is close to zero. The housing stock is the primary regulator of who lives in Maple Grove, and most of its housing stock is of recent vintage and priced well above the

metropolitan area median. The system of Interstates and other major highways serving Maple Grove is excellent today, and like Eagan, the prosperity of its households and businesses sustains its economic and demographic vitality. One difference between the two is that Maple Grove is much farther from the central city because of the early and vigorous development of the easily accessible northern suburbs of Minneapolis. Eagan, on the other hand, although close to Minneapolis and St. Paul as the crow flies, was poorly linked with either city until relatively recently. Thus comparing the three cities—Brooklyn Center, Eagan, and Maple Grove—we see how an absence of excellent highway connectivity can retard the development of a suburban city, but the presence of excellent highways in no way assures growth and development.

Hutchinson is a separate small city in McLeod County west of Carver County, about 50 miles west of Minneapolis, and surrounded by farmland. It lies well beyond the built-up margins of the Twin Cities metropolitan area but its population and economic expansion have been affected by the westward growth of the Twin Cities area. Hutchinson's population stood at about 8,000 in 1970 and in the following three decades it reached over 13,000 by 2000. The growth of population in Hutchinson and its relationship to highway infrastructure and to growth of jobs in the city is different from the trends observed in the three cities closer to the core. In those cases the housing developments occurred first and attracted new residents, which were followed by commercial and office developments as businesses pursued new purchasing power. In the Hutchinson case, the addition of jobs in the city in the early 1970s preceded the population increases and housing construction. Major expansion in commercial, industrial and office activity occurred in the period 1972-82. As the new jobs multiplied, there was an accompanying flow of new residential construction. The expansion of Hutchinson jobs initially attracted commuters from the Twin Cities area from surrounding McLeod County. Over time, local populations expanded with local workers preferring to live closer to their jobs, and others who enjoyed living in Hutchinson but who commuted to jobs elsewhere. A series of excellent highway connections supports Hutchinson businesses as well as its residents and commuters.

Changing Revenue and Expenditure Profiles of Suburbs through Time

We selected Brooklyn Center, Eagan, Maple Grove and Hutchinson to illustrate how the suburban-exurban development process around the Twin Cities occurred at different times in different places, and how those differences are reflected in profiles of how the cities raised revenues and made expenditures between 1970 and 2000. As the region grew in population and economic activity after 1945, new suburban land development successively engulfed former

agricultural areas located beyond earlier built-up urbanized areas. Brooklyn Center today is losing population while facing expensive growing social and economic problems. Investment capital and purchasing power are relocating to more promising places, so it is hard to be optimistic about the city's prospects unless it is able to tap a substantial amount of redevelopment assistance from external public and private sources.

Eagan is a fast-growing second-ring suburb, and with rapid population growth and prosperous households and businesses has been able to accommodate growth while keeping per-capita costs under control. For the time being it should be able to finance its city services from its array of revenue sources, but in the long run of several decades, the city that grew fast will age abruptly, a prospect that city leadership seems to understand and is addressing with current planning and redevelopment initiatives.

Maple Grove, the third-ring suburb to the northwest of Minneapolis, also was fast-developing in the 1990s on the outer edge of the built-up area, with revenues thus far keeping pace with its expanding municipal outlays. The city's local fiscal situation resembles that of Eagan in several respects, and should remain stable for several decades into the future.

Hutchinson, the freestanding city beyond the built-up margins west of the Twin Cities metropolitan area, is nevertheless experiencing the impact of exurban development and is striving to accommodate it. If its growth and development remains steady, its ability to accommodate change and to create a city with a diversified internal structure will help assure long-term stability and satisfactory fiscal health like several of Minnesota's regional centers outside the greater Twin Cities region.

Over the past 50 years, Twin Cities metropolitan growth has led to an extraordinary dispersal of population, land development and economic activity over more than 6,000 square miles of suburban (i.e., continuously built up) and exurban (i.e., beyond the continuously built-up margins) countryside. As the metropolitan system sprawls outward, it engulfs and eventually overwhelms local areas governed by agricultural townships (in Minnesota), rural towns (in Wisconsin), and free-standing municipalities of various sizes (Minnesota and Wisconsin). Occasionally the invasion of the suburban frontier marches slowly, as in the case of Hutchinson. Sometimes it began abruptly and continues today as in Eagan and Maple Grove. Other times it occurred quickly and ended in two decades or so as the city filled up, as in the case of Brooklyn Center following World War II.

Because suburban and exurban cities vary considerably in their growth rates and the mix of households and businesses that they end up with, their ability to raise municipal revenues, pay their bills, provide essential services, and maintain their relative attractiveness compared with other cities varies as well. The differences among suburban and exurban places are many, with all contributing in some way to the eventual fiscal challenges and opportunities that confront residents and their leadership. Some places have a long and distinctive history, local culture and traditions that local leadership can build on in shaping a vision that can sustain a continual renewal of the place. Some places believe in comprehensive land use and development planning, while others resemble a free-for-all. Some places are endowed with attractive amenities like hills, lakes and streams that invite creative development and encourage construction of attractive homes, while others are merely rolling cornfields and pastureland. Some suburban greenfield sites lie on the outer edges of elite sectors of previously developed areas and invite more development of the same, as when Edina developed on the southwest edge of Minneapolis's Lake District, and Eden Prairie developed on the southwest edge of Edina. In contrast, a series of working-class and lower-middle-class suburbs grew up on the edge of Northeast Minneapolis, extending the character of its distinctive neighborhoods into Columbia Heights, Fridley, Coon Rapids, and Blaine.

City Revenues

Each of these features of a suburban or exurban city contributes to the shaping of its character and patterns of development, which in turn affect its municipal finances over the years. The major classes of revenue available to a city include taxes, licenses and fees, intergovernmental revenues, charges and fees, and a broad category of "other revenues" that includes among other things money from city-owned businesses, from sales of services to other nearby governments, and from the sale of debt instruments. In the early stages of a city's development, property taxes might be overshadowed by revenues from borrowing for infrastructure improvements or by fees paid by developers and builders. In a later stage of development, property taxes may comprise a major share of local revenues, and a city may be selling services to adjacent cities that are still too small to supply themselves at a reasonable cost.

If the city has a large number of large and expensive houses per capita, the property taxes per capita from those houses will be high. Expensive houses in a mature suburb usually contain households with above-average incomes and wealth positions, which in turn attract and retain prosperous businesses which pay above-average amounts of taxes per resident. Each of these features and others converge on a city at a time and together they influence a city's revenue profile at that time. As time passes and conditions change, the revenue profile changes as well.

City Expenditures

Similar observations can be made about the expenditure side of local government finance where we individual classes of outlays form five groups: general government, public safety, streets and highways, culture and recreation, and “other expenditures.” When a newly incorporated suburban city experiences its initial burst of growth along with a change in its legal status from an agricultural township, its general government is small and typically frantically overburdened by responsibilities that it confronts for the first time—dealing with developers and builders, new residents demanding services not yet available, businesses trying to get permission to plant their operations before an appropriate land use plan is available, roads and bridges needing to be built or improved, water and sewer service that is slow to catch up with demand, a need to hire more city staff and get them to work as a team at a time when the team leader may be in over his or her head, and a score of other issues that must be handled well or else they will create problems that persist and return to haunt the city at a later time.

The fiscal stresses imposed on a city differ during successive stages of its development—from a quiet agricultural township, to a new suburb with population doubling every ten years, to a maturing city with growth rates leveling off and development mainly of a fill-in type, to a fully-developed city, to a mature place starting to show its age and perhaps beginning to lose population, or households, or both as efforts to redevelop get underway. At each of these periods or stages, expenditure levels per capita and the mix of expenditures differ. In the early years, city infrastructure often leads the way as roads and bridges, and water and sewer supply service to new developments. General government expands along with complexity of its responsibilities. As a city’s housing and population matures with its commercial-industrial activity, public safety requirements rise along with corresponding capital and operating outlays.

A city that is prosperous can and often does finance many of its needs from internal sources using taxes and fees. It may decide through its elected officials that it wants services that it is quite willing to pay for with extra taxes—libraries, swimming pools, well-equipped parks and sports facilities, an elaborate community center with professional staffs. In contrast, a city that has capital or other needs it cannot easily pay for from internal sources might seek external funds in the form of intergovernmental grants. Our suburban cities at any given time vary in their expenditure patterns much as households do. Some earn and spend more than others. Some are more willing to use borrowed money than others. Some have a higher level of wants and needs than others. Some are better led and managed than others. Over time, a city that once was well able to handle its responsibilities may find itself in financial difficulties.

In the dynamic Twin Cities metropolitan setting with more than 600 local units of government, nothing stays the same. In its great complexity, the region provides a competitive context where households and businesses are free to come and go. Under these conditions of administrative fragmentation and high household and firm mobility, it is difficult for a city to maintain its rank on the various measures of attractiveness, fiscal soundness, efficiency, or civic vitality. The foregoing chapters have described some of these spatial-temporal dynamics and illustrated some of their features for a sample of suburban cities—dynamics that become even more complex and subtle when the interplay of cities and school districts is considered.

Cities and School Districts

The fundamental dynamics of the interaction of MCDs and school districts is somewhat circular:

- Cities need and want good schools.
- Good schools attract family households to cities.
- Good schools keep housing values up and appreciation rates up for all in a city.
- Local taxes will be levied to support some portion of the school budget.
- Taxes will therefore rise for all property types.
- Local leaders may seek relief for residential property taxpayers by attempting to attract non-residential development.
- Depending upon the particular forms of non-residential development that invest in the city, residential property values may be enhanced or undermined.
- Households will “vote with their feet,” choosing their preferred mix of taxes and services.

The relationship between school district dynamics and transportation is mainly through their mutual relationship with land development. The case of Eagan illustrated that the potential for growth can be suppressed until the highways are completed. The Hutchinson case also illustrated that if the roads were not there, Hutchinson probably would not be growing as it is today. Regardless of local preferences or incomes or political will, the fact remains that highways and airports do have some effect on land development, and that some MCDs have advantages in this regard, especially if they are favorably located in terms of other site and situation conditions.

What Next?

Beginning in 2002, 78 percent of K-12 education financing was shifted to the general education fund of the state (increased from 66 percent), relieving homeowners, landlords, and businesses of a large item on their property tax bills. The local general education local tax levy no longer exists, and school districts may raise excess capital or operating funds (over and above the state-mandated minimum) through levy referenda. One goal of this legislation is to move the state's tax system closer to a model in which only property owners within the jurisdiction providing and receiving a service pay for the service—more like a direct fee-for-service arrangement. The hope is for more transparency of local government finance, and thus more accountability for local officials. The expectation, however, is that many if not most school districts will continue to seek voter support for additional local levies to support school services, particularly in the face of the slim appropriations for state K-12 education funding that accompanied the tax reform package.

What are the expected effects of this change in education financing? We have asserted that the heavy tax burdens imposed upon homeowners, landlords, and businesses by overlapping local governments lead local officials to maximize tax base value, by attempting to attract high-value property development into their jurisdictions. These efforts, duplicated across the over 600 MCDs of the Twin Cities region, create a patchwork of not-always-coherent land development which, from a regional viewpoint, may not make the most efficient possible use of public resources.

Is this dynamic likely to change dramatically now, and thus change the Twin Cities development landscape? Over time, we might expect the following trends to emerge:

With no legal requirement to raise additional education funds locally, some districts will choose not to do so, and others will be unable to generate political support for doing so—particularly those districts with multiple MCDs, in which the minority of voter households have school-age children. This is the current scenario, but may be exacerbated by the lifting of mandates for local school funding.

Greater diversity is likely to emerge among the region's school districts, therefore, in the financial support for their schools. Since there is an assumption that school funding and school quality are positively associated, those MCDs in districts that provide extra funding for schools will enjoy greater and sustained demand for their housing, and thus enhanced property values (provided local taxation does not rise excessively). At the same time, the causal connection

between local spending and good schools may be more obvious, since excess school levies will be easier for residents to see.

In theory, as districts are relieved from having to provide basic education funding, they will find it easier to raise funds for school service enhancements. MCDs in districts that manage to strike a happy balance between local school taxing and spending may prosper, while those that have difficulty maintaining school quality, in the face of increasing competition by middle- and upper-class households for excellent schools, may find themselves bypassed by homebuyers and developers, in a further spiral of decline.

Conversely, it is possible that removing most of the burden of school funding from the local level also will lessen the attention that local residents pay to school quality issues, particularly for households without school-age children, and in MCDs with aging populations.

One way to solve the dilemma of the demographic challenges to school finance is to move increasingly to fees for service, for everything but general education costs. Extracurricular activities, special programs, and other features not provided for by state or federal funds may have to be paid for increasingly by only those who actually use them, and this already is happening in some districts. To the extent that this method of funding becomes more widespread, the have- and have-not character of school districts will become more evident.

With their enhanced ability to see exactly what their MCD is spending and providing to them, residents may choose to direct MCD spending toward enhanced municipal services (recreational and community facilities, public transit, cultural activities, public safety) rather than toward schools.

Along with the change in the method of K-12 financing, the tax *rate* for homes and businesses, previously higher for non-residential property, has been leveled in hopes of stimulating more business development, and to offset the new state business tax that now helps to provide state K-12 funds. Additionally, the *limited market value* protection will be phased out over the next few years, ending the cap on the annual increase in residential property tax that accompanies appreciation of housing values. This means that homeowners will absorb property tax increases that reflect the full rate of appreciation of their home values, so in fast-growing, high-demand areas the annual increase might be quite dramatic. Local officials will continue to face pressures to provide relief from these large increases. In any case, property tax levies from other layers of government (counties, parks, etc.) will remain. Officials might be even more inclined to try to attract business and industrial development into their jurisdictions since, at the new, more

equal taxation rates, it will take more non-residential tax base to provide relief to homeowners than before. New business development may provide more jobs, investment, and spending that benefit the local jurisdiction, if that development is planned and managed wisely. The current political trend is toward greater local control of local development, which may exacerbate these problems. Geography is a powerful birthright. There is only so much a place can do to overcome it. Planning and directing growth both locally and cooperatively at the regional level is one approach to avoid inefficiencies, but is politically complicated.

A quieter feature of the new tax plan reduced state aid to local governments, in order to help the state's coffers as its K-12 bill increases. A new formula is used to calculate aid to local governments, looking less at the varying needs of resident populations (for social services, for example). Cities are grouped into three classes: Outstate, Metropolitan-Area Suburban, and Minneapolis-St. Paul-Duluth. Under the new scheme, older inner-ring suburbs face the largest decreases—the very areas that are least able to raise revenues locally. Fast-growing suburbs also have seen a decline in state aid, but they are much more able to raise property taxes under circumstances of rapid population growth. Of our case study cities, St. Paul Park, Cottage Grove, Brooklyn Center, and Richfield are likely to see the largest negative impacts of this change over time. For example, St. Paul Park, with its \$600,000 property tax base, will lose over a half million dollars annually in state aid. The city would have to nearly double its tax rate to replace those funds. Woodbury also will face decreased state revenues, but will find it easier to raise property taxes if its extraordinary growth rates continue. The need to raise additional local revenues may interfere with plans to control growth rates in cities like Woodbury, however.

Another little-discussed feature of a school system funded largely by state government is that policy-making typically follows the money. It is possible that, all things considered, district school boards and local voters will lose some of their autonomy in setting policies for their own schools, as the purse strings for K-12 funding are held by the state.

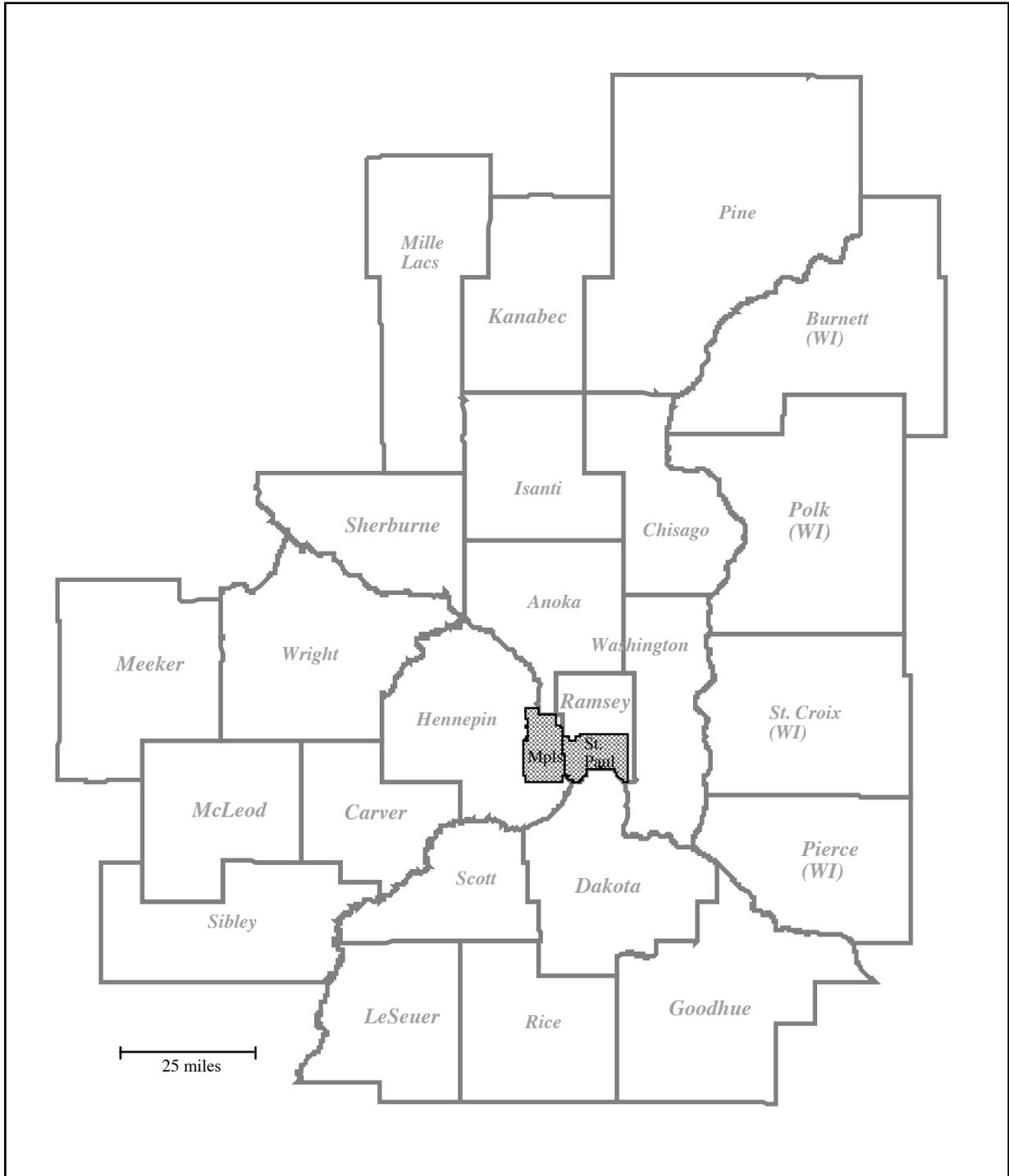
The shift from property tax to sales and other tax revenue sources for K-12 funding means that Minnesota's public schools now will have a less stable funding base than before. Property value fluctuations occur at a glacial pace compared with swings in incomes and consumer spending, which vascillate along with the national and regional economy. As general education spending by the state declines under the new financing scheme, districts will be even harder pressed to make up the difference between state funding and local need, and thus we should expect to see further inequalities emerge.

Chapter 6 Notes

1. The most sophisticated, understandable and useful explication of the internal dynamics of sectorally structured housing submarkets in American cities—and the Twin Cities—is found in:
Hoyt, H. W. 1939. The Structure and Growth of Residential Neighborhoods in American Cities.
Washington, DC: Federal Housing Administration.

Appendix

Reference Map



24-County Study Area, with Minneapolis and St. Paul Highlighted