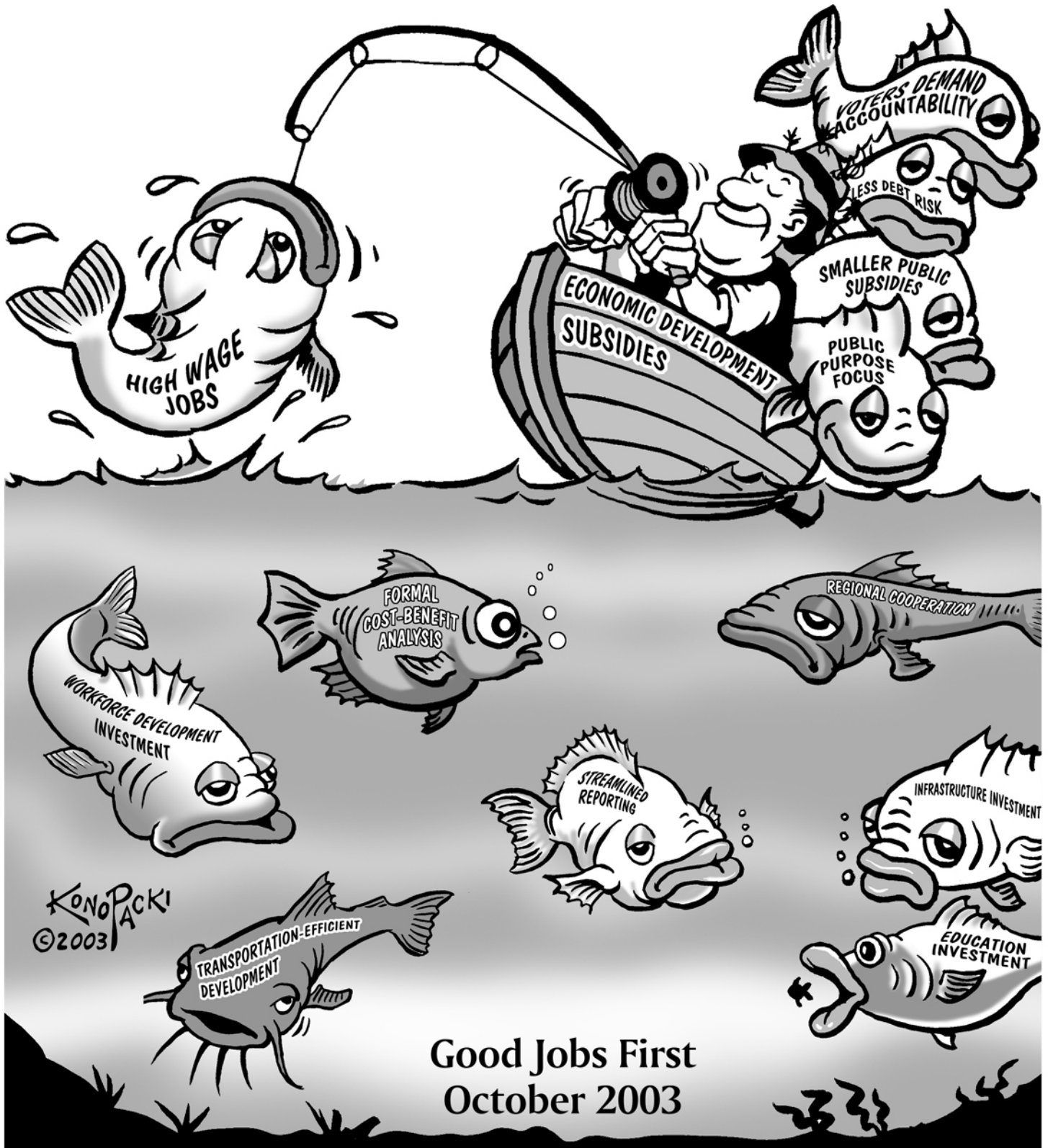


# Get Something Back!

How Civic Engagement is Raising  
Economic Development Expectations  
in Minnesota



Good Jobs First  
October 2003

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## How Civic Engagement is Raising Economic Development Expectations in Minnesota

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“When we give money to companies, we forget to ask them to demonstrate what they’re giving back – and the objective is to get something back. So why not put the requirement on that they have to be from out of state, then we know that the jobs are new, or if they’re from in-state, that they demonstrate some expansion of their business – a doubling of jobs, an increase in productivity – whatever the case may be... But let’s at least ask those we give money to, to demonstrate that they’re giving something back.”

*Mike in Apple Valley, a Minnesota Public Radio listener who called in to a program discussing the governor’s latest economic development plan*

“I think that government should be perceived as ‘a room with bright lights.’ I think that people should feel that they can come to hearings and they will be heard and they can ask questions until they understand. Government should be conducted openly, without deals to which the people are not privy, and these rules help us do that.”

*Dennis Coryell, City Administrator and EDA Director for Wyoming, Minnesota*

“I think Minnesota has set itself up to expect a little more. I think this issue has gotten a lot of coverage in recent years. I think people are pretty educated about it, even the ‘9 to 5 guy.’”

*Mark Nevinski, legislative committee chair for EDAM, the Economic Development Association of Minnesota*

“I think society deserves to have some economic improvement that’s substantiated for its investment in private business. Otherwise let them do it themselves. ...We get right down to checking the payrolls and the pay periods – we don’t let them just call us up and say ‘we hired those ten folks – bye.’ We work with DTED, make sure that things happen the way we’ve agreed for them to happen.”

*Patrick McGarvey, City Administrator for Austin, Minnesota*

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## Executive Summary

A review of events since Minnesota enacted its first-in-the-nation economic development accountability law in 1995 finds that the law is a major factor contributing to an increase in civic engagement in economic development issues. Other factors include high-profile disputes between 1999 and 2002 (especially the Walser / Best Buy case in Richfield), and changes to property tax law that are expected to greatly affect tax increment financing (TIF).

The accountability law's requirements – public disclosure of deals' costs and benefits, job creation requirements and job quality standards, clawbacks (money-back guarantees), and a public hearing requirement added in 1999 – have enabled Minnesotans to learn more about deals both before and after they occur. They have also attracted increased media attention to economic development deals.

This increased knowledge and attention, combined with the other factors, is raising public expectations. Minnesotans expect their development officials' efforts to be not just proactive, but cost-effective and responsive to public scrutiny as well. As one local official put it, "Government should be conducted openly, without deals to which the people are not privy, and these rules help us do that."

Good Jobs First interviewed economic development professionals from each of Minnesota's 25 largest cities (Minneapolis to Moorhead) and from a sample of 25 smaller cities around the state. This survey asked about measures of civic engagement such as public hearing attendance and media coverage, and also asked whether the nature of deals and cities' approach to economic development have changed in the wake of the law.

These public officials reported modest increases in direct civic engagement. Between a fourth and a third of cities reported citizens are more engaged in economic development matters generally, while most cities reported no change; no larger cities and only 8 percent of smaller cities reported less. A small number of cities report greater use of formal processes such as attendance at public hearings; just 12 percent said attendance at hearings was up, while most reported no change. In addition to direct engagement, several reported that informal means of civic engagement are increasing, such as phone inquiries, use of the internet, and citizens watching hearings and meetings on local access cable television. Some officials said that less-formal processes such as open houses and neighborhood meetings at early stages of projects have been helpful in surfacing concerns and improving projects. When asked to describe specific controversial projects, nearly half of the officials from larger cities and a third

from the smaller ones reported that changes had resulted after controversy about a deal.

Fully 44 percent of officials in both large and small cities report more media coverage of economic development since the original 1995 law.

Some of the officials who reported no change remarked that coverage has always been extensive.

Searches of electronic databases of newspaper coverage show that coverage was extensive during the years when controversial deals were prominent in the late 1980s, dropped to its lowest level in the early 1990s, then began to rise again in the years when the first business subsidy accountability law was debated and passed, and continued to rise until it reached and then exceeded the level of the late 1980s.

Availability of information about deals is helping citizens make informed judgments and encouraging them to get involved, even if they don't attend hearings. As one official put it, "I think the major benefit of the business subsidy law is that the media pick up the hearing announcements, and that's how most people get their information." Another said: "Public involvement has gone up, but not necessarily at hearings. It depends on the project – we have a lot of meetings with the stakeholders, neighbors, to address concerns and talk about issues early on, so the hearings may be lightly attended."

Because public officials are aware the public is watching, and because the business subsidy accountability law's processes encourage communities to define their criteria up front, Minnesota cities' policies have changed substantially. Nearly a third of the larger-city officials we surveyed and half of those in smaller cities report that the nature of their economic development deals has changed. Similar numbers report that their agency's approach to development has changed. Many have switched from pursuing deals one by one to a more strategic approach, examining which kinds of deals bring the greatest aggregate benefits to their communities. Specifically:

- Communities now seek more high-wage deals;
- Communities now seek more high-wage industries;
- Some deals' subsidy requests are now deliberately kept smaller to fall below the law's dollar threshold and thereby avoid coverage under the law, allowing communities to benefit from projects with a smaller public investment;

- More deals now involve pay-as-you-go financing, instead of using financing mechanisms that expose communities to the financial risk of incurring debt; and
- Changes in Minnesota’s property tax system have made tax increment financing (TIF) deals less attractive.

Some officials also report more amendments and challenges to deals or increased interest in recapturing subsidies if a deal fails.

Events in Minnesota since the business subsidy law was passed in 1995 have created a climate in which:

- The legal and development communities, prompted by decisions from Minnesota courts, are more focused on the public purpose of deals;
- Local economic development officials are finding creative ways to inform and involve the public at earlier stages of projects;
- Economic development professionals are moving from competition to cooperation; and
- Voters hold public officials accountable on economic development; in Minneapolis, they have shown that they will defeat those who pursue high-cost deals without weighing community benefits.

Cumulatively, our findings suggest that Minnesotans are no longer willing (if they ever were) to accept costly deal-by-deal “smokestack chasing.” They increasingly expect their public officials to be clear about the public purpose behind development strategies and to focus on what works.

## Policy Options

The following strategies could further enhance accountability and effectiveness:

***Simplify the Minnesota Business Assistance Form (MBAF) reporting to focus on results*** – Minnesota’s Department of Employment and Economic Development can reduce costs and encourage compliance by developing one unified reporting form to replace the multiple-form scheme now in use. Data collection and analysis would be better focused not on when a deal was initiated but rather on which tools and strategies work best.



***Evaluate all strategies by weighing costs against public benefits*** – As old strategies such as tax increment financing decline in importance, Minnesota’s legislators have introduced new tools such as property tax abatement and Job Opportunity Building Zones (JOBZ), but have not analyzed whether the public benefits of these strategies will exceed their costs. Communities risk legal challenges if they fail to weigh public purpose against private benefit. Recent advances in information technology provide tools to perform cost-benefit analysis. Economic developers could use such tools to evaluate whether a proposed deal would hold up in court – or whether it might fail to yield the bang for the buck the public increasingly demands. Also, as was done with the JOBZ program, legislators could ensure that the safeguards of the business subsidy accountability law apply to new programs as well as existing ones.

***Make subsidies location-efficient*** –Minnesota policymakers could better integrate economic development expenditures with land-use planning and public transportation. One specific strategy would be to amend incentive rules to require that when an economic development project is proposed within a metro area, the project site must be transit-accessible. This would make economic development and transit spending more efficient by encouraging their integration, increase commuter choice, create more job opportunities for low-wage workers, improve air quality, and help reduce the traffic congestion that vexes Twin Cities-area commuters.

***Redirect funding from large single-company deals to skills and infrastructure that benefit all employers*** – Across-the-board eliminations of or caps upon big single-company deals would preserve revenue that could be redirected to public goods that benefit all employers, such as investments in transportation, infrastructure, education and workforce development.

***Encourage early and informal citizen participation in development projects*** – Processes that engage people at early stages of a project can identify problems and improve projects. We hope that as communities engage in more cooperative development arrangements, they will also borrow from neighboring communities their successful models cited here for encouraging early, informal citizen involvement, particularly those that make innovative use of local access cable television, the internet, and informal open houses to get the word out about projects.

Building on the many positive developments since 1995 and adding these best practices, Minnesota can meet rising public expectations that the state devote its economic development resources to strategies that really work for communities, taxpayers, and workers.

## Minnesota's Business Subsidy Accountability Law

Minnesota's first-in-the-nation economic development accountability reforms were born of civic engagement. Controversial deals in the late 1980s and 1990s attracted public attention that laid the groundwork for citizen activism. For example, in 1987 the U.S. Department of Justice found that a major Minnesota employer, Amhoist, had violated the terms of its \$4 million grant through the U.S. Department of Housing and Urban Development's Urban Development Action Grant (UDAG) program. Amhoist had used the subsidy in connection with relocating crane production from St. Paul to Wilmington, North Carolina, dislocating hundreds of Minnesota workers. After a lengthy series of protests by U.S. Representative Bruce Vento, the company was required to repay the \$2.8 million it had already received.<sup>1</sup> In 1988, the City of Duluth became the subject of national media coverage when it won a precedential lawsuit against the Triangle Corporation. The lawsuit, based on an Industrial Development Bond (IDB) contract, prevented Triangle from further dismantling the city's largest factory, Diamond Tool & Horseshoe Company. The city's victory preserved approximately 275 jobs for six years (until the bonds expired).<sup>2</sup>

At the national level, there were high-profile episodes of states competing for deals, especially auto-assembly plants. The 1993 Mercedes deal, in which Alabama gave more than a quarter of a billion dollars to the largest industrial corporation in Europe to make luxury sports utility vehicles, marked a distinct peak of interest in the issue, including a contentious debate within the National Governors Association. Three years later, Minnesota Public Radio's civic journalism initiative sponsored a national conference in 1996 on the "economic war among the states" in Washington, D.C.<sup>3</sup>

Minnesota activists involved in the living wage and welfare reform debates of 1994 argued that corporations receiving subsidies ought to be subject to at least the same accountability being demanded of social welfare recipients. Alexa Bradley of the Minnesota Alliance for Progressive Action (MAPA) published an opinion piece in the (Minneapolis) *Star Tribune*, "Minnesota Would Do Well to Consider Corporate Welfare Reform." MAPA drafted a bill that mimicked federal family-welfare reform proposals by requiring, for example, that recipients set goals and meet them in two years or else repay the subsidy. Enacted in 1995, the law had four key components:

- It required that any "business that receives state or local government assistance for economic development or job growth purposes must create a net increase in jobs in Minnesota within two years of receiving the assistance." It set no specific requirements for the numbers of jobs or wage levels; instead, it placed

responsibility for setting “wage levels and job creation goals” upon the “government agency providing the assistance.”<sup>4</sup>

- It defined “assistance” as a grant or loan exceeding \$25,000 or any amount of tax increment financing.
- It required that recipients that failed to meet their wage and job creation goals within two years “must repay the assistance to the government agency.” However, it did not clearly define when the two-year timeline began or whether the repayment should be prorated to reflect the share of the job shortfall.
- It required that each granting government agency report “the wage and job goals and the results for each project in achieving those goals” to the agency then known as the Minnesota Department of Trade and Economic Development. DTED was then required to “compile and publish” the results by June 1 of the following year. (In 2003, DTED was reorganized into the Minnesota Department of Employment and Economic Development, or DEED.<sup>5</sup>)

The data collected under the 1995 law fueled debate and revealed conflicting interpretations of the law. After DTED issued its first disclosure report, the “1997 Business Assistance Report,” MAPA issued its own report<sup>6</sup> analyzing the DTED data and highlighting five kinds of problems with the law:

- Compliance with reporting and goal-setting requirements was spotty;
- Communities were often uninformed of the new law’s requirements;
- Job and wage goals were frequently not being met;
- Inadequate reporting forms required too little information; and
- Vagueness in the law permitted conflicting interpretations of how job and wage goals should be set and met, which subsidies were covered by the law, and how the law should be enforced.

That same year, the Minnesota Legislature created a bipartisan Corporate Subsidy Reform Commission, which held hearings in the summer and fall of 1997. Its 19 members included 10 legislators, commissioners from DTED and the Department of Revenue, the research director of the Federal Reserve Bank of Minneapolis,<sup>7</sup> and 6 members from business, labor, and community groups. To seek urban, suburban, and rural perspectives, the commission held hearings in five locations around the state: at the state capitol in St. Paul, and in Austin, Minneapolis, Spring Lake Park, and Duluth.

In Duluth the audience filled the city council chambers and 80 people signed up to testify.<sup>8</sup> The commission's February 1998 report noted that the hearing testimony "added to the richness of the discussion by covering a variety of topics including tax increment financing (TIF), brownfield clean-up, job and wage goals reporting for the business subsidy, livable wages and evaluation techniques in economic development."<sup>9</sup>

The commission's report included several pages of detailed recommendations for refinements in the existing accountability law.<sup>10</sup> Among these were recommendations that the legislature:

- require that business subsidies meet a stated public purpose;
- clarify which subsidies were covered under the law;
- clarify the date for reporting requirements and the time period that a business has to satisfy job and wage goals;
- require communities and agencies to develop criteria for subsidies that would apply to all future deals;
- require more detailed reporting from local governments, including the type, purpose, and amount of subsidies, the number of full and part-time jobs created by hourly wage categories, a description of benefits provided, the date goals would be reached, and contact information for the person filling out the form;
- require communities and agencies to provide public notice and hold public hearings before awarding business subsidies; and
- impose a financial penalty (also known as a "clawback") for non-compliance with a business' subsidy agreement, plus a prohibition of future business subsidies to any business failing to comply with its agreement.

Troubled deals continued to attract media coverage during this time period. In 1997, catalog retailer Fingerhut agreed to repay \$1 million in state loan funds that it had received through the St. Cloud Housing and Redevelopment Authority in 1994 for a warehouse expansion project. The company conceded that it had not created as many full-time jobs as it had agreed to.<sup>11</sup>

A packing plant in Albert Lea drew recurring attention as well. A November 1998 *Time* magazine series on "corporate welfare" featured Albert Lea's failed subsidies to pork processor Seaboard Corporation. The city gave Seaboard \$2.9 million in low-cost financing and \$1 million for construction aid; the city also invested \$34 million from local, state, and federal sources in a waste-water treatment facility made necessary by

the plant. Nevertheless, *Time* reported, Seaboard paid its employees an average of \$4,500 a year less in 1990 than a previous owner had paid in 1983. In 1992, Seaboard duplicated the Minnesota hog-kill capacity, which accounted for most of the jobs, in Guymon, Oklahoma, where Seaboard received \$21 million in incentives and again paid lower wages. The company closed the Albert Lea hog-kill facility in 1994, dislocating more than 600 workers. Seaboard then leased the Albert Lea plant to Farmland Foods from 1995 until 2001, when a fire ignited by a remodeler's welding torch destroyed half the plant, ending Farmland's expansion plans and the remaining 500 jobs. Farmland, now in bankruptcy, is demolishing the plant, after which Seaboard will sell the site to Farmland, which will convey it to the City for environmental cleanup and future redevelopment. In exchange, the City is receiving proceeds from Farmland's insurers and will release Farmland from any future environmental liabilities. Except for repayment of the low-cost loans, the City of Albert Lea never recaptured the subsidies it gave to Seaboard.<sup>12</sup>

Further problems were highlighted in February 1999 when Good Jobs First released *Economic Development in Minnesota: High Subsidies, Low Wages, Absent Standards*. GJF analyzed the data from the 1996 and 1997 Minnesota Business Assistance Forms, which it obtained from DTED through a Freedom of Information request and then supplemented with income and wage data and over 100 interviews with city, regional, and state officials. The study found that almost half of the 525 deals examined were paying wages 20 percent or more below the market (defined as the same industries in the same counties or metro areas). The study also found major discrepancies in reporting compliance, no positive relationship between subsidy amounts and wage outcomes, some deals simply subsidizing company relocations within the state, and confusion about compliance timelines, leading to a failure to enforce clawbacks when companies failed to meet goals.

Spurred by these troubled deals and research findings, a subsidy reform bill that had been introduced unsuccessfully in 1998 was enacted in 1999.<sup>13</sup> The bill replaced the original seven-sentence 1995 law with a detailed, comprehensive law that implemented all the recommendations of the subsidy reform commission listed above. (It did not include *every* reform in the commission's report; for example, it failed to include a living wage recommendation that 90 percent of subsidized jobs have compensation totaling 110 percent of the federal poverty level for a family of four.) While the law has been subject to subsequent amendments, the law remains in effect in substantially similar form today.

The 1999 law kept the threshold for covered subsidies at assistance of \$25,000 or more from a state or local government agency, and clarified that the definition included grants, contributions of property or infrastructure, below-market-rate loans, loan guarantees, or preferential uses of government facilities given to a business. The

definition was accompanied by a list of specific exceptions. The law added a new requirement that communities and agencies adopt criteria for all future deals, including a wage policy for jobs created, before granting any new subsidies. It required public notice and a hearing for adopting these new subsidy criteria and for granting any particular local subsidy over \$100,000 or state subsidy over \$500,000. It also required that elected officials (rather than appointed officials) approve all subsidy deals. The law specifically defined provisions that must be included in each subsidy agreement, the annual reporting requirements that recipients must meet to grantors, who forward the reports to DTED (now DEED), and the data that the department must in turn publicly disclose.

All subsidy agreements must include:

- the amount and type of subsidy, and the type of TIF district if the subsidy is tax increment financing;
- a statement of the public purposes of the subsidy and its goals;
- the financial obligation of the recipient if goals are not met;
- a statement of why the subsidy is needed;
- a commitment to continue operations at the site for at least five years;
- the name and address of any parent corporation of the recipient; and
- a list of all financial assistance by all grantors for the project.

Recipients' annual disclosure to grantors, forwarded to the department, must include:

- the type, public purpose, and amount of assistance, and the type of TIF district if the assistance is tax increment financing;
- the hourly wage of each job created, with separate bands of wages, and the sum of the hourly wages and cost of health insurance provided by the employer;
- the date the job and wage goals will be reached;
- a statement of goals identified in the subsidy agreement and an update on achievement of those goals;

- the location of the recipient prior to receiving the business subsidy, and if the recipient was previously located at another site in Minnesota, the reason the recipient did not complete the subsidized project at its previous location;
- the name and address of the parent corporation of the recipient, if any; and
- a list of all financial assistance by all grantors to the project.

The department must summarize this disclosure in a report that includes:

- the total amount of subsidies awarded in each development region of the state;
- the distribution of business subsidy amounts by size of the subsidy, by time category, by type, and by public purpose;
- the percent of all business subsidies that reached their goals;
- the percent of all business subsidies that did not reach their goals by two years from the benefit date (usually the date the recipient receives the subsidy);
- the total dollar amount of business subsidies that did not meet their goals;
- the percent of subsidies that did not meet their goals and were not repaid;
- a list of recipients that have failed to meet the terms of a subsidy agreement in the past five years and have not satisfied their repayment obligations; and
- the number of part-time and full-time jobs created within separate bands of wages, and benefits paid within separate bands of wages.

The statute also requires that the department “coordinate the production of reports so that useful comparisons across time periods can be made.”<sup>14</sup> The department implements this requirement by maintaining five separate forms tied to which year the subsidy agreement was signed, and reporting separately on each year’s forms in the department’s annual summary. (Local officials we interviewed for our survey expressed some consternation about dealing with the proliferation of these forms.) The department posts its summary reports, along with the MBAF forms they summarize, on the internet; they can be downloaded from <http://www.dted.state.mn.us/searchframe.asp?url=02x05.asp>.

In early 2000, Good Jobs First issued a second report enabled by the subsidy disclosure law. *Another Way Sprawl Happens: Economic Development Subsidies in a Twin Cities Suburb* is a case study of Anoka, a city located about 15 miles north of Minneapolis. In the early and mid-1990s, Anoka created a 300-acre TIF district as an industrial park and recruited 29 light manufacturing companies with about 1,600 jobs to relocate there by

offering them free land, made possible by TIF. All of the 29 companies came from other cities in the region, mostly from Minneapolis or inner-ring suburbs on its northern edge. The study concluded that the TIF-subsidized park served Anoka well, but harmed the region by moving jobs away from pockets of poverty, people of color, welfare households and access to public transit.

The Minnesota Legislature has continued to amend and refine the law. In 2000, because DTED had concluded that the 1999 repeal of section 116J.991 eliminated any obligation to report on pre-1999 deals, the Legislature passed a “repealer of no effect” provision restoring all obligations under the old law for deals initiated between 1995 and 1999.<sup>15</sup> Other 2000 amendments responded to the economic development community’s calls for increased flexibility:

- The threshold for loans and loan guarantees was raised to \$75,000, although the threshold for other subsidies remained at \$25,000.<sup>16</sup>
- A provision was added to permit wage or job goals in a subsidy agreement to be set at zero if, after a public hearing, “the creation or retention of jobs is determined not to be a goal.”<sup>17</sup>
- The requirement that job retention could only be used as a public purpose or a goal in cases where job loss is “imminent and demonstrable” was changed to “specific and demonstrable.”<sup>18</sup>
- A provision was added to allow granting authorities to deviate from their usual criteria if they documented the reason for the deviation in writing and reported it to DTED.<sup>19</sup>
- The requirement that subsidy agreements include a recipient’s commitment to continue operations in the jurisdiction for at least five years was softened with an amendment permitting a grantor to approve a recipient’s request to move after first holding a public hearing.<sup>20</sup>

The 2000 amendments also slightly relaxed reporting requirements by eliminating the report required from each recipient within 30 days after the deadline for meeting its job and wage goals, and changing the deadline for DTED’s annual compilation and summary report from July 1 to August 1.<sup>21</sup>

However, the 2000 amendments also added several provisions that strengthened accountability requirements. Local criteria can no longer be adopted on a case-by-case basis, and must include a specific wage floor for jobs created, stated either as “a specific dollar amount” or as “a formula that will generate a specific dollar amount.”<sup>22</sup> Criteria now must be submitted to DTED (now DEED), which must in turn publish them.<sup>23</sup> Goals included in subsidy agreements must now be “measurable, specific, and



tangible.”<sup>24</sup> Also, the section covering economic development grants provided directly by DTED was modified so that these subsidies now also must meet a two-year goal deadline and a clawback requirement if their goals are not met.<sup>25</sup>

In 2001, only minor technical changes were made amending how the minimum interest rate for clawbacks should be calculated. No amendments were made in 2002.

In 2003, the Legislature amended the kinds of job goals to be included in subsidy agreements to include “jobs to be enhanced through increased wages.” Also, in an amendment requested by DTED as a cost-saving measure, the schedule of the department’s compilation and summary reports was changed from every year to every other year, beginning in 2004.<sup>26</sup> However, the language requiring that “the reports of the government agencies to the department . . . must be made available to the public” was left unchanged, so presumably the forms themselves will still be available annually.

The business subsidy accountability law’s primary author in the Minnesota senate, John Hottinger of Mankato, stated at a fall 2000 conference that he believes the law has prompted more civic engagement in economic development – more news media coverage, more discussion on talk radio, more deals being contested. This report seeks to verify Senator Hottinger’s impressions.

## Survey Methodology

We began by reviewing the written record of the business subsidy reform law, including the above-cited reports, DTED compilations, news accounts and the legislation itself. Next, we interviewed nine key people who played a role in the enactment of the subsidy reform laws, including activists, public officials, and members of the legislative commission. Commission members we interviewed were: State Senator Hottinger<sup>27</sup> and State Representative Karen Clark<sup>28</sup>, who co-chaired the commission; Alexa Bradley<sup>29</sup>, who at the time of her service on the commission was co-director of MAPA; Duluth activist Erik Peterson<sup>30</sup>, who was Business Representative for AFSCME, Arrowhead District Council 96; and Arthur Rolnick<sup>31</sup>, Senior Vice President and Director of Research of the Federal Reserve Bank of Minneapolis. We also interviewed Beth Fraser of MAPA<sup>32</sup>, Dave Mann<sup>33</sup>, who was MAPA co-director with Bradley during the law's early years and the commission, and Robert Isaacson and Ed Hodder<sup>34</sup>, who administer the law at DEED.

We then conducted a telephone survey of economic development directors in each of Minnesota's 25 largest cities by population (Minneapolis to Moorhead). These telephone surveys included a standard set of questions (reproduced in Appendix A) that typically took about half an hour to complete. These interviews were conducted in June and July of 2002. We then chose a sample of 25 smaller cities around the state, aiming for a mix both by geography and size, and administered the same survey to officials in these smaller cities in July and August of 2002. (Because our two sets of 25 cities were chosen by different methods, we summarize their results separately throughout this report.)

We identified these economic development directors by three means: calling the contact person identified on the city's MBAF form posted on DTED's website, searching the city's own website, or calling city staff listed in the 2002 League of Minnesota Cities Directory of Minnesota City Officials.

We also researched the volume and content of news media coverage using database searches of Minnesota newspapers, and we reviewed news coverage and reported case law surrounding selected high-profile disputes involving subsidies, such as the Richfield/Walser/Best Buy case and the Target store in downtown Minneapolis.

## Survey Findings

We summarize here the findings of our interviews.

### General impressions about changes in civic engagement

We began each survey by asking for officials' general impressions. We asked them to consider two time periods: civic engagement in economic development since 1995, when the first disclosure and clawback law was passed, and since 1999, when the law was significantly strengthened.

Survey group	More civic engagement	Less civic engagement	No change	No response / other	Question wording
Largest cities	28%	0%	56%	16%	Before I ask about specifics, what is your general impression: are citizens in your locality more or less engaged in economic development matters than they were before 1995? More, less, or about the same?
Smaller cities	24%	8%	64%	4%	
Largest cities	28%	0%	72%	0%	[Same question] Before 1999? More, less, or about the same?
Smaller cities	32%	8%	60%	0%	

Although most cities reported no change, between a fourth and a third of cities in both groups reported more engagement. No big cities reported less engagement, and only 8 percent of small cities reported less.

Of those who reported more citizen engagement, a comment from Burnsville was typical: “It seems like we’ve had more calls, people more willing to pick up the phone and ask what’s going on.” An official in St. Charles said, “Oh, I think that the last five years, I think the interest started in about ’98 and then the last two years it’s been unreal. We’re working on feelers all the time. A lot of local involvement. In the last two years here I’ve seen the most.” An official in the city of Wyoming said, “[E]very time we publish a notice, people call and ask questions, or they come and ask

questions. Some of them e-mail me.” In Morris, an official said, “People have become more aware of what the city can do. They realize that the city is involved in assisting local businesses.”

Some who reported more citizen engagement specified other causes besides the reform laws. “I know it wasn’t ‘corporate welfare,’” said a Minneapolis official. “What changed is this: the lack of good-paying jobs meant that people couldn’t get housing, so when we started talking about affordable housing, we started talking about jobs.” An official in St. Cloud echoed this theme, saying: “But it has nothing to do with the business subsidy act. Mostly it has to do with Fingerhut [a large subsidized employer that failed to meet its goals]. Also, there has been a lot of talk both nationally and locally about affordable housing, and people have been recognizing the link between affordable housing and good-paying jobs, and that’s raised their awareness.” An official in Blaine mentioned “[t]he Ventura factor: people who were unhappy with government got more involved.” Others felt that civic engagement increased because their own agencies had stepped up their efforts. A Brooklyn Park official said it was “[o]nly because we have published more material,” and one in Glyndon said, “We’ve actually done things; before, we just talked about them.”

A majority of officials saw no change, however, with most saying that citizen engagement was low before the business subsidy law and remains low now. An Apple Valley official said, “It’s the same; pretty minimal engagement.” An official in another city (which out of courtesy we won’t identify) said, “We have all kinds of hearings and nobody shows up; I hope I don’t get quoted.” An official in Fergus Falls remarked, “Unless you’re going to take public funds and take a trip to Hawaii, it’s pretty hard to get people interested . . . Unless something really gets into people’s craw, you’re not going to see them.”

### **Duluth: contrasting views on how change happens**

Of course, relying on only one point of view – that of development directors – in most of the cities covered here creates the possibility of bias in our findings. That is, in complex events involving many people and organizations, there are inevitably sharply different recollections. The Japanese movie *Rashomon* is often cited as an artistic rendering of this problem, which vexes criminal juries as well as social scientists.

For example, Duluth was one of the communities where the official we interviewed felt the business subsidy law was not responsible for the increased citizen engagement he observed. “I would not attribute it *at all* to the subsidy legislation,” said Mike Conlan, Duluth’s Director of Planning and Development and the Executive Director of its EDA. “I think it’s because local government has been much more involved as a catalyst in

development issues and dealing with some high-visibility projects and that's heightened the community's awareness."

However, a very different story emerges from another source. Recalling that Duluth is the community where MAPA Co-Director Alexa Bradley said 80 citizens signed up to testify at the 1997 Corporate Subsidy Reform Commission hearing, we interviewed Erik Peterson, commission member and longtime Duluth activist, about his impressions of the law's effect.<sup>35</sup> Asked if everyday people are more involved in economic development issues, he responded, "People are definitely more involved than pre-'95. ... In Duluth, the notion that ordinary citizens can comment on development is taken for granted – to the point of annoyance by public officials."

In our survey interview, Conlan reported no change in the amount of local media coverage. By contrast, Peterson has seen an increase in both the quantity and quality of newspaper coverage. "There's been such a shift in what is considered acceptable, that development is something that needs to be talked about. Any time there's a living wage article, the Duluth paper prints it. ... We have a majority of living wage folks on the city council." Duluth passed a living wage ordinance in 1997.

When asked if the nature of deals being proposed has changed because of the business subsidy law, Conlan responded, "No. If so, it's driven by other market conditions, not the business subsidy law." But Peterson says the law has improved the quality of projects the city pursues. "What it's done is the city's no longer going after low-wage jobs." He cited telemarketing and hotels as examples of businesses the city no longer subsidizes. "There's also a built-in defensiveness among developers that they're creating good-paying jobs."

In response to whether deals are getting amended more frequently, Conlan reported no change, and added, "This type of public dialogue really doesn't lend itself to changing the terms of a deal. We lay out to the parties the issues that may come up ahead of time." In response to whether his agency's approach to economic development had changed as a result of the law, Conlan replied, "No."

Peterson, however, credited Duluth's up-front planning process to the criteria requirement in the law. He told us that part of Duluth's business subsidy criteria is a four-page form, developed in cooperation with the Chamber of Commerce, to "force the discussion up front – so you don't find out you're cutting off a trout stream at the time you're asking for the building permit."

Peterson said the accountability law has fostered public involvement in related issues. "We have a comprehensive planning process now in Duluth." He mentioned efforts to preserve open space, prevent "mall sprawl," and seek living wages as outgrowths of

subsidy accountability. “The underlying tone is, what are we getting: a bunch of minimum wage jobs?” A meeting the United Food and Commercial Workers called in opposition to a proposed Wal-Mart superstore drew 100 people on short notice, Peterson noted.

Here Conlan seems to agree with Peterson; he reported more challenges to deals as a result of the law. “The legislation has provided a forum of opportunity for people to challenge all kinds of things, and they do it under the guise of the business subsidy law,” Conlan said.

### Measures of civic engagement

We next asked a series of questions intended to assess whether more people had become involved in economic development issues. Are more people coming to public hearings? Are the local media doing more stories? Are more deals being amended or challenged? Are more subsidies getting clawed back when deals go sour?

Survey group	Attendance up	Attendance down	No change	No response / other	Question wording
Largest cities	12%	8%	76%	4%	What has been the trend over time in attendance at your hearings? Up, down, or no change?
Smaller cities	12%	4%	84%	0%	

Survey group	Attendance records yes	Attendance records no	Speakers only	No response / other	Question wording
Largest cities	20%	16%	64%	0%	Do you keep records (such as sign-in sheets) of how many people attend your hearings? Yes or no? [Many respondents volunteered “only those who speak.”]
Smaller cities	60%	8%	32%	0%	

Survey group	Yes, tabulated	No (or no records)		No response / other	Question wording
Largest cities	4%	72%		24%	[If yes] Are those records tabulated?
Smaller cities	20%	60%		20%	

The most common comment we heard was that attendance at public hearings has always been low and remains low; this may be why the vast majority responded “no change.” A Plymouth official’s remark was typical: “No change because nobody shows up, except the applicant.”

A few officials, though, did see a change in attendance. A Woodbury official who responded that attendance is up added, “Slight, though, but the trend is slightly up.” A St. Louis Park official said, “Public involvement has gone up, but not necessarily at *hearings*. It depends on the project – we have a lot of meetings with the stakeholders, neighbors, to address concerns and talk about issues early on, so the hearings may be lightly attended. People are more interested in physical aspects – traffic, noise, etc. – than the financial aspects of it. Although they do expect more say in physical aspects if public participation is involved. Our policies, TIF, etcetera, are oriented to that.”

In Minnetonka, the official we spoke with perceived that attendance had gone *down*, but “primarily because people became more comfortable with the city council’s approach; we heard fewer concerns expressed at hearings.”

### **Local cable TV, Internet expand the audience**

Still, low attendance at hearings does not necessarily mean lack of interest, as communities who televise their hearings are discovering. A Brooklyn Park official said, “For redevelopment, it [hearing attendance] has been up. For new development, no change; unless they’re participants, they’re not there. We do televise them; it’s amazing how many people watch that.”

A Lakeville official was able to quantify his community’s cable audience: “According to our surveys, of our 13,000 households, 70 percent have cable, which is about 9,000 households. About 4,500 of those households are watching [televised city council meetings], either live or replays.”

Officials in the cities of Wyoming and Brooklyn Park mentioned that some citizens express their interest by e-mail. In Brooklyn Park, “We have e-mail capabilities on our website. We get three or four questions a day.”

Many of Minnesota’s cities maintain websites. Their typical address format is <http://www.ci.city-name.mn.us>, and they offer content such as:

- Schedules, agenda & minutes of meetings
- City newsletters in PDF format
- Contact info for city staff and departments
- Sometimes photos of projects or Frequently Asked Questions
- Sometimes text of resolutions or subsidy criteria that apply to all deals.

At least two cities (Duluth and Sauk Rapids) have discussion boards on their web pages, and at least one city (Eden Prairie) maintains a weblog on its website, “blogged” by its city manager.

**Has the amount of media coverage (newspaper, TV, radio news, talk radio) about economic development changed?**

Survey group	Increased coverage	Decreased coverage	No change	No response / other	Question wording
Largest cities	44%	0%	40%	16%	To the best of your knowledge, has the amount of local media coverage (newspaper, television, radio news and talk radio) about economic development changed since 1995? Increased, decreased, or about the same?
Smaller cities	44%	0%	52%	4%	
Largest cities	40%	4%	52%	4%	[Same question] Since 1999? Increased, decreased, or about the same?
Smaller cities	36%	0%	56%	8%	

This is among the strongest indications of change reported by local officials; almost half of the officials we surveyed observed an increase in media coverage. A slight



majority of officials surveyed felt that media coverage was about the same. However, some of the officials who reported no change remarked that this was because economic development coverage had always been extensive. A Plymouth official who answered “same” to our media questions noted that 20 years ago, the city of Cottage Grove had competed for the Saturn plant that ultimately went to Spring Hill, Tennessee, and that story “got a lot of attention” from the media. An Apple Valley official approved of the quality of coverage: “Local media have always covered it [economic development] well; gotten the numbers correct and whether or not there’s a subsidy involved.” A Fergus Falls official, on the other hand, drew a distinction between the quantity and quality of local media coverage. “We have a very aggressive newspaper . . . They follow up pretty closely. Coverage has been extensive since before 1995. Extensive – I wouldn’t say good. Sometimes they make assumptions,” he said, adding that he would like to see reporters get certification, or at least training, in subjects they cover.

Others thought coverage was about the same because their particular communities have not had many economic development subsidy projects to cover. A Bloomington official said that coverage had increased on a metro basis, but local coverage was about the same, mainly because “we’re not a big user of it [business subsidies].” A Maplewood official said, “Media coverage is a non-factor here. We don’t use it [subsidies] to a great extent.”

A Minneapolis official noted a change in the focus of the coverage. “As it pertains to the accountability of public subsidies to private development [there has been an increase]. Economic development in general was always covered and is still covered.” In Richfield, the home of one of the state’s highest-profile projects, the new Best Buy headquarters, an official somewhat ruefully agreed: “I don’t think the coverage has changed, but I think the terminology has changed. It’s a change in semantics. The media use the language of the statute, ‘business subsidy.’ Now we’ve categorized those things we do for public purposes with a term that some people find distasteful.” Even so, the media attention can be useful. He added, “When we have a project, we have news, and then there’s reporting. They help us get the word out about projects.”

Some officials who observed an increase in coverage felt that local factors, not the business subsidy law, drove the change. “It’s due to Maple Grove’s growth, not due to the disclosure law,” observed an official from that booming northwest Twin Cities suburb. An official in East Grand Forks noted that his city’s flood recovery efforts in 1997 caused an increase in coverage there. A Morris official said, “I think it has increased as we’ve become more involved [in assisting businesses],” and a Lake City official said media coverage had “increased in our community somewhat because of the projects we’ve had going on.” Media coverage has increased “due to public debate on TIF,” a Lakeville official said.

Several survey respondents attributed their level of media coverage to the particular characteristics of the media outlets and their local markets; the presence of a local newspaper was frequently noted as an advantage. A Minnetonka official noted that there had been “better coverage by local newspapers,” and that Minnetonka has two local papers, but that the city’s development projects “rarely get coverage in the [Minneapolis] Star Tribune.” An Aitkin official said, “We do have a local newspaper and they cover all our meetings.” An Austin official noted that his city is an “outstate city with one television station, one radio station, and two daily newspapers, so there’s plenty of coverage.” An official in Glyndon answered “not applicable” to our media questions, explaining that Glyndon has no local newspaper, and doesn’t get much attention from the media in Moorhead ten miles away: “They don’t penetrate our market very well.” A St. Charles official noted that media coverage locally has been “about the same, but area-wide it’s a lot more,” because “the local paper’s editor is not from the town,” but there is good television coverage from Rochester, about 20 miles away. An official in Mankato thought that there had actually been a “slight decrease” in coverage since 1999, but added, “I think it had more to do with a change in staffing at local media than a change in the law.” And a Spring Grove official said: “We expect a lot more coverage because a former council person is now on the staff of the local paper.”

## High-profile projects drive increased media attention

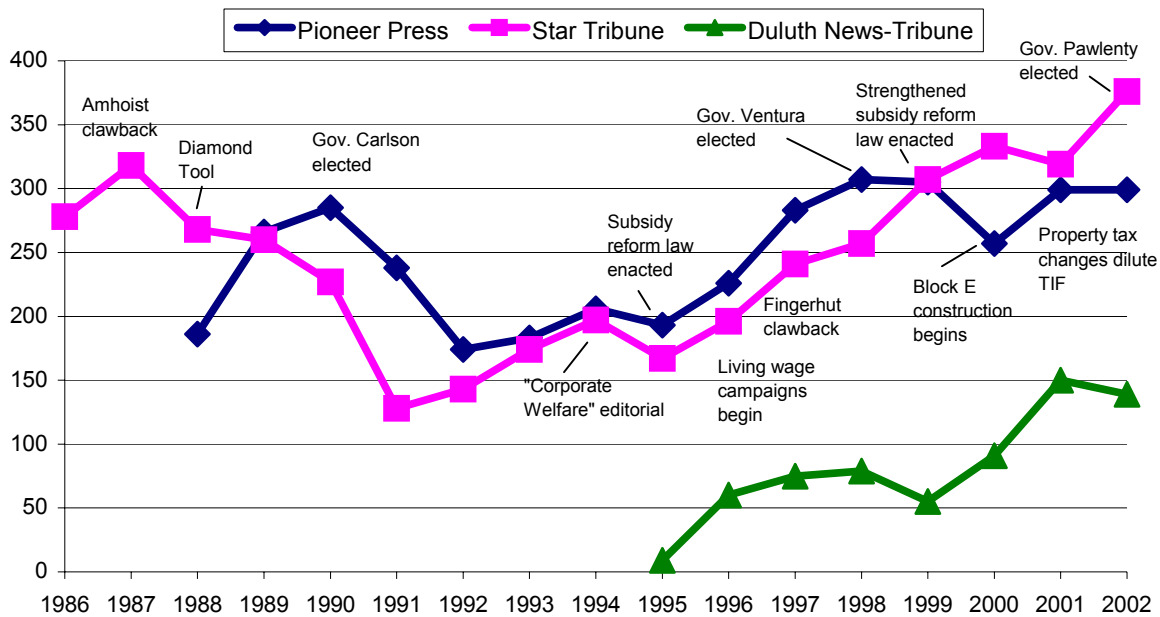
Some local officials said coverage has increased in recent years; others said coverage is about the same as in past days of high-profile projects. Who's right? Our database searches of Minnesota newspaper coverage suggest they *both* are.

The level of coverage fell after the period of high-profile deals that occurred in the late 1980s, then began to rise again in the years when the first business subsidy accountability law was debated and passed, and continued to rise until it reached and then exceeded the level of the late 1980s. The above chart juxtaposes a timeline of events during that period with the number of stories in the newspapers that maintain keyword-searchable databases for the period: the St. Paul Pioneer Press, the Minneapolis Star Tribune, and the Duluth News-Tribune (whose searchable database only goes back to 1995). Search terms included tax increment financing, business subsidies, and economic development.<sup>36</sup>

Many survey respondents observed that high-profile projects or proposals had drawn increased media attention. A St. Paul official who observed “a little bit more” coverage added that the issue of whether public subsidies should fund a new Minnesota Twins stadium “gets a lot of media.” A St. Louis Park official said that locally, there had been “a slight increase,” while regionally, “lightning rod projects – Best Buy, Target [in downtown Minneapolis] – have received attention.” A Blaine official said the “only increase in media coverage is the regional issue of a Twins stadium, plus some media attention about the Anoka business park and Northstar [a commuter rail proposal].” The Plymouth official mentioned above who felt that development has always received media attention added, “but not about Plymouth in particular – the Twin Cities metro in general. With all the coverage of the Best Buy deal that Richfield did, the fact that it was challenged made a difference and it got more media attention.”

An official in Hutchinson, 60 miles west of Minneapolis, mentioned increased coverage by both public and commercial radio. “MPR [Minnesota Public Radio] and WCCO [a commercial station based in Minneapolis] cover quite a bit. MPR, it seems to be a weekly topic for them. For example, Wal-Mart in Inver Grove Heights.” She also mentioned the Best Buy headquarters in Richfield.

## Newspaper coverage of economic development, 1986-2002



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| <p>1987 Amhoist clawback</p> <p>1988 Duluth's Diamond Tool lawsuit decided</p> <p>1990 Governor Carlson elected</p> <p>1994</p> <ul style="list-style-type: none"> <li>• MAPA "Corporate Welfare" editorial in Star Tribune</li> <li>• Seaboard Corp. leaves Albert Lea</li> </ul> <p>1995</p> <ul style="list-style-type: none"> <li>• First corporate subsidy reform law enacted</li> <li>• MAPA begins 1995-1998 series of over 50 corporate subsidy reform workshops statewide</li> </ul> <p>1996</p> <ul style="list-style-type: none"> <li>• Minnesota legislature passes living wage requirement for subsidized companies, but Governor Carlson vetoes it</li> <li>• Minneapolis, St. Paul, and Duluth begin living wage campaigns</li> </ul> <p>1997</p> <ul style="list-style-type: none"> <li>• Minneapolis, St. Paul and Duluth pass living wage ordinances</li> <li>• St. Cloud claws back \$1 million of subsidy from Fingerhut</li> <li>• Public financing proposal for a new Twins stadium defeated</li> <li>• Legislature's Corporate Subsidy Reform Commission begins hearings</li> </ul> | <p>1998</p> <ul style="list-style-type: none"> <li>• Governor Ventura elected</li> <li>• Legislature's Corporate Subsidy Reform Commission issues its report</li> <li>• TIME magazine publishes special report on corporate subsidies</li> <li>• Minnesota Court of Appeals approves condemnation and subsidies for downtown Target store project</li> </ul> <p>1999</p> <ul style="list-style-type: none"> <li>• Good Jobs First publishes study using Minnesota's data</li> <li>• Strengthened corporate subsidy law enacted</li> <li>• Best Buy announces plans to build TIF-assisted corporate headquarters in Richfield</li> </ul> <p>2000</p> <ul style="list-style-type: none"> <li>• Additional amendments made in corporate subsidy reform law</li> <li>• Construction begins on TIF-subsidized Block E retail / entertainment complex in downtown Minneapolis</li> </ul> <p>2001</p> <ul style="list-style-type: none"> <li>• Tri-partisan tax reforms dilute TIF availability</li> <li>• Minneapolis elects new mayor whose campaign criticized Target and Block E subsidies</li> </ul> <p>2002</p> <ul style="list-style-type: none"> <li>• Governor Pawlenty elected</li> <li>• Minnesota Court of Appeals issues Walser / Richfield / Best Buy decisions</li> </ul> |
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## Best Buy Court Decision Widens “Public Purpose” Debate

When retailer Best Buy received subsidies from Richfield, Minnesota to relocate its corporate headquarters there from another suburb, the ensuing litigation spotlighted a dichotomy in Minnesota law: a condemnation action requires only that there be *some* public purpose for the condemnation, even if it is *not* the primary purpose, but use of TIF financing requires that the TIF district’s *primary* purpose be public.

The City of Richfield greeted Best Buy with open arms when in late 1999 the company announced that it wanted to locate its new corporate headquarters at the high-visibility intersection of interstate highways 494 and 35W. Richfield amended its redevelopment plans to include the site, which was already occupied by two very successful dealerships owned by Walser Auto Sales. Richfield quickly established a “blight” TIF district to finance major infrastructure for the project, and when Walser balked at selling, the city condemned the property and transferred it to Best Buy.

Walser sued Richfield, challenging both the condemnation and the TIF district. Walser declined to post the \$15 million bond the trial court required to stay the property’s transfer, so demolition and construction proceeded as the case made its way through the courts. (The bond requirement was eventually invalidated on appeal, so property owners will not face the same problem in future cases.)

Two different panels of Minnesota’s Court of Appeals heard two different aspects of the case. The first panel upheld the condemnation in July 2001, using Minnesota’s very broad “public purpose” standard for condemnation cases. Later in 2001, the second panel invalidated the TIF district, holding that the TIF district procedure was improper largely because Richfield used novel methodology to achieve the city’s “desired result,” and remanded the case back to the district court for a determination of whether the *primary* purpose of the TIF district was public or private.

In April and May of 2002, an evenly divided Minnesota Supreme Court left both Court of Appeals decisions unchanged.<sup>37</sup> Walser’s petition asking the U.S. Supreme Court to review the condemnation action was denied certiorari in October 2002. After mediation in the spring of 2003, the parties agreed to settle all issues if the district court would issue an order holding that the TIF district’s primary purpose was a public purpose and keeping the TIF district intact. The district court issued the order and approved the settlement, under which Walser received \$18.5 million, about twice what it would have received in the original condemnation, plus relocation expenses yet to be determined.

The case's effect is still rippling through Minnesota's legal and development communities. The aftermath of the Walser decisions has been a hot topic at continuing legal education courses, including several presented by attorney Bruce Malkerson, one of the attorneys who represented Walser. In one such course,<sup>38</sup> Malkerson noted that in the Walser TIF case, the Court of Appeals required "a comparative approach ... of which purpose (public or private) is the primary purpose."<sup>39</sup> He argued that future cases involving uses of public funds other than TIF might also require a weighing of public and private benefits, and that this issue will remain unclear until the Minnesota Supreme Court rules on it. Malkerson has collected other condemnation attorneys' reactions to the Walser case<sup>40</sup>:

- "Shockwave to the cities and redevelopment authorities."
- "Much needed shake up. Prior to the Walser cases it was just go through the motions, schlock due diligence, do a one-page statement of whatever public purpose you can come up with."
- "Now government must do what it always should have done and that is pay attention to the statute and the tests set forth by the courts."
- "It is a very good thing for the government, not just a sham process as before."
- "The fact that three Justices thought something was wrong indicates that the Supreme Court is very concerned about public purpose in the redevelopment setting. Whether ultimately 10 years from now we look back and see if there has actually been a change – who knows?"
- "Now we [attorneys representing cities] prepare to fight public purpose long before the local unit of government adopts the resolution and we are now utilizing outside consultants and experts, lengthy reports, and detailed findings of fact to support the finding of a public purpose."
- "We are also finding that some property owners have their attorneys involved at the administrative level to introduce into the record reasons why it is not a public purpose."
- "The fact that you do not have to file a bond in order to proceed with the public purpose appeal after an adverse district court ruling levels the playing field for property owners. When there is a serious public purpose challenge made, I do not know how developers and cities can go forward indefinitely with that cloud over the entire process."
- "The case raised the awareness of property owners; every owner wants to know if they are like the Walser case and can they stop the condemnation."
- "Is it malpractice not to so advise the client to fight public purpose?"

We researched case law relying on the Walser decisions. As of August 2003, there have been no published cases on point, although Malkerson notes that the Walser case is being cited in the trial courts.

**Have more deals been amended or challenged?**

Another measure of civic engagement we sought to measure was whether or not more deals are being amended or challenged. Small fractions of those responding reported more amendments and challenges due to public input, but in smaller cities, slightly more reported fewer amended deals. The most distinct result was in big cities, where a fifth reported more deals being challenged by litigation or community opposition since 1995.

Survey group	Amended more	Amended less	No change	No response / other	Question wording
Largest cities	16%	0%	68%	16%	Sometimes deals get amended due to public input during the time the deal is being considered. Have deals been getting amended more or less frequently there since 1995? More, less, or about the same?
Smaller cities	0%	8%	92%	0%	
Largest cities	12%	0%	76%	12%	[Same question] Since 1999? More, less, or about the same?
Smaller cities	4%	8%	88%	0%	

Survey group	Challenged more	Challenged less	No change	No response / other	Question wording
Largest cities	20%	4%	60%	16%	Sometimes deals get challenged, either by lawsuits or by community opposition. Have deals there been getting challenged more or less frequently since 1995? More, less, or about the same?
Smaller cities	4%	0%	96%	0%	

Largest cities	16%	8%	68%	8%	[Same question] Since 1999? More, less, or about the same?
Smaller cities	16%	0%	84%	0%	

A Minneapolis official noted that there has been some increase in amendments and challenges since 1995, and “much more since 1999.” But Minneapolis is the exception rather than the rule. Most respondents, especially in the smaller communities, said there hasn’t been any change in amendments or challenges because they simply haven’t seen many challenges, either before or after the business subsidy law. Officials in 6 of the largest 25 cities and 15 of the smaller ones volunteered that they’ve never had an amendment or challenge, and another 5 officials in larger cities and 5 in smaller ones said they had seen only 1 or 2, or that they were very rare.

A Bloomington official saw no change in challenges yet, but added, “But talk to Richfield. The Best Buy decision will really change the way communities around here do business.” In Richfield, the official we interviewed responded, “I don’t think the statute has made people more willing to challenge. I don’t think that’s the case at all.”

In Maple Grove, an official reported that there have been more challenges since 1995, but not since 1999. He attributed this to a 1997 change in administration, leading to a “far more open government now.” He said that more information is provided earlier before a project comes up for hearing, through television and newsletters, and since this more open approach was instituted, “challenges have been almost non-existent.” A Brooklyn Park official also cited her city’s efforts to head off challenges, saying, “We don’t bring deals to the council that the public wouldn’t support. We screen.”

But a few officials have seen an increase in challenges. A Hutchinson official said that she had observed “inquiry recently about older projects,” more people asking for records, agreements, and minutes. A Lake City official said that since 1999, challenges had “maybe slightly increased.” An official in Spring Grove said that so far, deals “haven’t been challenged that much. But there’s talk that there might be a challenge to our next one.”

**Has there been more interest in clawbacks or recapture?**



Another measure we tested was public interest in clawbacks, also known as recapture, or money-back guarantee contracts if a deal fails.

Survey group	Increased interest in recapture	No interest before or since	No change	No response / other	Question wording
Largest cities	12%	76%	4%	8%	The original 1995 law provides for a recapture or clawback of public funds if a company falls short on its job creation or wage promises. Have you seen an increase since 1995 in people asking about or seeking enforcement of this recapture? None before or since, or increase?
Smaller cities	8%	92%	0%	0%	

Even more than with challenges to deals, most of our respondents reported that there’s been no change to interest in clawbacks because they haven’t seen any before or since the enactment of the subsidy reforms. Again, Minneapolis was the exception, where an official told us there has been an “increase in people asking about it, yes, but no enforcement increase because there’s no need. All six deals are meeting their goals.”

A St. Paul official said: “The general public, no. The state auditor, yes.” A Duluth official asked about clawbacks responded, “We’ve always incorporated that as a provision in our development agreements anyway.” A Rochester official responded, “We only had to deal with that once, in 1998 or ’99, and it ended up we never got to the point of actually giving them anything – just decertified the TIF district. There was state assistance in that deal, and it was paid back.” A Brooklyn Park official said, “We have seen a need to do that, but not because the public asks, but because the council asks. Since meetings have been televised, we have been getting more questions from our council/EDA. They tell us, outside the meeting, that this is because people are watching.”

All of the officials quoted above are from one of the state’s ten largest cities. Outside of those ten, only three officials we interviewed observed an increase in interest in clawbacks. One of those was in Hutchinson, where, “We had a company that developed around ’97 and left around ’98. After that, people are requesting security. It made people more aware.”

**Has the nature of deals changed?  
Are some kinds of deals no longer being proposed?**

Nearly a third of the larger-city officials we spoke with and half of those in smaller cities said that the nature of deals has changed. When we asked these respondents in what way deals have changed, we heard five themes:

- Communities seek more high-wage deals now.
- Communities seek more high-wage industries now.
- Some deals now are smaller to avoid coverage by the law.
- More deals now use pay-as-you-go financing to reduce communities' risk.
- Changes in Minnesota's property tax system have had a big impact on TIF.

Survey group	Yes, nature of deals has changed	No, no change		No response / other	Question wording
Largest cities	32%	64%		4%	Has the nature of deals being proposed changed since 1995? Or since 1999? For example, are certain kinds of deals no longer being proposed? Yes or no?
Smaller cities	52%	40%		8%	

**Seeking more high-wage deals**

An official in Little Falls said, “We look closely at wages; we like to see \$10 [an hour] and above, and we prefer higher-tech. But we would consider lower-tech. We looked at the number of jobs and wages before, but lower amounts, for example \$7 to \$8 per hour. Now, lower wages, we might help them to find a location, but we wouldn’t finance them.” In Brooklyn Park, an official told us, “We have a greenfield [new development] policy that has become tougher and tougher as we have been more successful. We don’t count a job unless it’s \$15.45 [an hour] or over – three times the minimum wage. For redevelopment, we try to bring the land up to market value, rehabilitating the land to useable land.”

### **Seeking more high-wage industries, avoiding low-wage ones**

A Maple Grove official told us deals there are now “more manufacturing-related.” In Worthington, an official said, “We no longer consider retail. Local competition is another factor. . . . The non-profit arm that does our marketing has probably changed. For example, we wouldn’t go after chain restaurants now.” A Blaine official said, “Before 1995, TIF was used to put an anchor store in a mall. We probably wouldn’t do something like that today.”

A Waterville official spoke critically of state efforts to focus on higher-wage industries: “The state of Minnesota used to be more open to moving companies within your corporate limits and helping them. . . . If you’re not a high-tech company, this state doesn’t want you.”

### **Some deals are smaller**

The business subsidy law’s requirements have prompted some communities to limit the size of their deals so that they fall below the thresholds of the business subsidy law (\$75,000 for loans and \$25,000 for other subsidies). A Lake City official remarked, “I think that the smaller deals, more public assistance is left out – there’s not public assistance where there might have been in the past.” An Owatonna official said, “I would say the only thing is we try to tailor our EDA loans so they stay under the business subsidy threshold.” In Hibbing, an official told us, “In particular, we’re very cognizant of our own loan funds, and we try to keep it below the \$75,000 amount.” This would seem to be a win-win deal for communities and businesses alike: the business still gets some assistance without being subject to disclosure, while the community still gets the project, but for a smaller investment than it would otherwise have made.

### **A shift to pay-as-you-go**

Some cities reported they are less willing to incur debt and have switched to a more conservative pay-as-you-go method, in which companies only get reimbursed as they deliver new investment and jobs. A Wyoming official noted: “We used to be willing to sell a bond and be repaid by TIF; now we only do pay-as-you-go.” An official in North Branch said, “Many cities, us included, would buy the land and finance it with a bond and sell it to the developer for a reduced price, maybe as little as a dollar. Now all we’ll do is pay-as-you-go. It takes the

city out of the risk.” A Morris official agreed, saying deals have “changed in how they’re funded. Before ’95, we used general obligation bonds; since ’95 we just use pay-as-you-go TIF so as not to put the city at risk.”

### **TIF changes have had big impact**

Several respondents attributed the changes in the nature of deals to factors other than the business subsidy law, especially property tax revisions during the Ventura administration and their effect on tax increment financing (TIF). Officials in Eagan, one of the larger communities we surveyed, and Cottonwood, one of the smallest, responded in almost identical language, saying “Yes” to whether deals had changed, then adding, “but it’s because of changes in TIF, not the business subsidy law.” A Mankato official agreed: “Deals have changed because the Legislature has changed the tools we have available. The notification law hasn’t changed anything.”

### **What changed in Minnesota’s property tax and TIF laws?**

Tax increment financing is a subsidy intended to be used for redeveloping areas that are “blighted” or otherwise difficult to redevelop without a subsidy. When a designated TIF district is redeveloped, property values rise and property tax revenues rise with them. At that point property tax revenues get split into two streams. The first stream, pegged to the original property value before the redevelopment, continues to go to the city, county, and other taxing bodies as before. The second stream, resulting from the increase in taxes due to the redevelopment’s higher property value, or the so-called “increment,” gets diverted into the TIF district to subsidize the redevelopment’s costs.

In 2001, Minnesota enacted a tri-partisan property tax reform bill that significantly cut the property tax stream available for TIF. The new law took control of the general education property tax levy away from school boards and gave it to the state. The general education levy previously had accounted for about half of the local property tax burden, and the new law reduced local property taxes accordingly. To partially fund the new obligation in the state budget, the law instituted a new statewide property tax that cannot be diverted into TIF districts. The new tax is levied on commercial and industrial business property and vacation cabins, but not other homes.

In addition, the 2001 law compressed Minnesota’s classification rates, so that most homeowners now pay a single rate of 1 percent, and the rate for commercial and industrial property valued over \$150,000 dropped from 3.4 percent to 2 percent.

Cumulatively, these changes reduce the tax increment available for redevelopment to just the city and county increment, plus a small remaining part of the school tax levied locally. Generally this reduces available tax increments by approximately 30 to 40 percent, but the reduction is even greater if the TIF district contains much high-value owner-occupied housing.<sup>41</sup>

While the TIF statute itself has undergone frequent changes before, this restructuring of school funding is expected to have greater impact than other TIF changes. Many expect it will scale back communities' reliance on TIF. An official in the city of Wyoming said, "The TIF laws change in Minnesota every year. The property taxes no longer support the school systems, so the TIF increment is 30 to 40 percent less. We're using TIF more since 1995, but since 2001, the amount of money is smaller."

A Moorhead official felt that the nature of deals hadn't changed, "But the TIF law has changed and that has changed what gets proposed." An official in St. Louis Park responded, "Yes [the nature of deals has changed], but it's due to 2001 TIF changes and the Best Buy case. Developers may be less interested in doing pay-as-you-go TIF due to property tax changes."

A Lakeville official said, "TIF laws have been modified dramatically and the opportunity to use TIF has become more limited, so its use has declined." An official in Coon Rapids said, "Modifications in TIF make it increasingly more difficult to use as an economic development tool," and added that in his community, there's been a "switch to redevelopment because the community is now fully developed." Neither change is related to the accountability law, he said, noting that his city "had criteria already before the law went into effect."

**Have cities' approaches to development changed as a result of the law?**

Survey group	Yes, approach has changed	No, no change		No response / other	Question wording
Largest cities	32%	64%		4%	Has your agency's approach to economic development changed as a result of the 1995 law or the 1999 amendment? Yes or no?
Smaller cities	52%	48%		0%	

In response to whether his city's approach had changed, a St. Cloud official told us, "No. It adds another layer of administrative paperwork and one more

hearing, plus a reporting requirement; more of a burden than a blessing. I think the major benefit of the business subsidy law is that the media pick up the hearing announcements, and that's how most people get their information."

But officials in other cities said their approach now involved higher goals and tougher standards. In Minneapolis, "We've understood that when we start changing the urban landscape, we have to think about jobs and living wages and housing on the front end, not later when we get to the hearing. Particularly since 1999." In Elk River, the official we spoke with felt that her city's approach had become more policy-driven, less case-by-case. She said, "Our city's own policies for types of development the city wants to encourage, the amount, and requirements for the recipient to meet [have changed]. This has changed what deals we're interested in and which ones we're not."

Other officials said their changed approach included closer scrutiny of deals and better coordination with other levels of government. A Brooklyn Park official said, "It certainly has changed our amount of paperwork. It has created a greater awareness of what the state was looking for and our need to follow up on compliance. Improved internal administration." In the city of Wyoming, "We used to be willing to sell a bond and be repaid by TIF; now we only do pay-as-you-go. We think more about the public hearings and what questions might come up, so I think they're more careful about the politics as well as the financials. Also, we now work much better with the county – we regard this as an excellent effect of this law. Tax abatement – we can abate taxes if we both agree. The city's share is 25 percent of the bill; with the county, it approaches 80 percent. We have two separate hearings and some planning before the hearing, on both sides. Then we compare notes before the meeting and see what we can do together."

### **We've changed, but we're not convinced it's worth it . . .**

An intriguing result of our survey was that several respondents said that yes, their agency's approach has changed, but later in the survey said that their overall impression of the business subsidy law is negative. Officials in four (16 percent) of the 25 largest cities and six (24 percent) of the 25 smaller cities gave this combination of responses.

An official in Woodbury said about her city's changed approach, "We've always been a fairly conservative city; it made us more conscientious [about] wage and job goals, those kinds of things." About her overall impression, she said, "Neutral to negative. There seems to be less flexibility. It's difficult to write a

‘one size fits all’ formula. That makes it difficult if you have a business that provides other benefit besides jobs, like tax base or retention. Maybe an overemphasis on jobs.”

A Blaine official said: “Before 1995, TIF was used to put an anchor store in a mall. We probably wouldn’t do something like that today.” But his overall impression is negative because he feels the business subsidy law’s reporting requirements are “bureaucracy at its worst – they go back 10 years, and they change! I think it’s irresponsible. Do it current. Don’t go back to deals done before the law, and don’t keep changing. Problems should be caught by audit.”

In Lakeville, “Our economic development commission has adopted since 1995 two strategic plans and strategic growth management plans. We’re more focused, and more focused on strategies. One of our higher priorities is to educate our citizens on the value of commercial and industrial development to the community. At every city council meeting, an economic development commissioner introduces two CEOs. We show pictures of the companies, have them talk about their businesses, and at the end tell how much the business pays in taxes. We are doing this in 2002-2003; we are going to introduce over 100 businesses over the next year on live television. . . . We also do a newsletter quarterly, Airlake News, for Airlake Business Park, 100 businesses, which has won awards, is well-received, very effective,” an official there told us. But his overall impression of the business subsidy law is that “unnecessary bureaucracy was instituted by the legislature because of some inappropriate TIF districts. A total overreaction to a handful of problems. . . . Unnecessary – we already had a very public process.”

An official in Moorhead told us, “We make it very clear to businesses on the front end that if they make employment projections, they are required to meet them and report until they do. More staff time is going into monitoring of projects. We do a lot of projects: 75 to 80 projects since 1999.” But her overall impression is negative “because I’m one of the people who has to do the reporting. Intentions were good. But we don’t have businesses that are abusing assistance. In rare cases where for financial reasons companies can’t meet their goals, we can’t get the money back anyway. It’s not a worthwhile use of government staff time.” She also finds the details of the reporting requirements burdensome. “The one real pet peeve that I wish somebody would listen to are the different forms for different years the project started. I would rather send the same reporting form to everyone. Really focusing on each year makes it way more cumbersome than it has to be.”



A Hibbing official said about his city's changed approach, "There's a lot more hesitancy to do projects because of the extra time and effort. We've got to make sure it's a necessary deal much more than we did before." His overall impression is negative because, "It hand-ties the economic development deals much more than it ever did before. It makes it harder for us to find interested businesses that want to make that kind of commitment, put their name to those kinds of goals."

In Thief River Falls, the official we spoke with said his city's approach had changed, "only slightly in that we're certainly more aware that projects are going to have to meet those requirements and make sure developers are aware of those requirements. We do more expansion than new businesses." His overall impression was "Slightly negative, partly because it initially had the appearance of just filling out forms – 'what's the state doing with them?' – it's perceived as 'more interference from St. Paul.' On the positive side, it will force the communities to do better deals. Our agreements are tighter, that sort of thing."

A North Branch official was one of those who told us that his city's approach had changed but "It wasn't because of the business subsidy law, but because of tax law changes. There's much less TIF available now because business property taxes are lower. ...We're doing more tax abatement and less TIF. Tax abatement is easier to do and 100 times less reporting. ...You don't have to report to the state auditor's office like you do with TIF, just do the MBAF (Minnesota Business Assistance Form)." Explaining his overall negative impression, he said, "I could answer that a couple different ways. I don't like [state] government putting any more controls on me than necessary. We have to do all this reporting, no one ever looks at them, and it's an unfunded mandate. ...If it serves any purpose at all, no one has told me. ...No one has more control [from citizens] than city government; people know us and ask us questions. You don't get that at higher levels of government."

An official in Annandale said that in her city, "I would say they've become more savvy about offering TIF to any business – they really get the 'but for' test. It's got to bring something to the community. They're a little bit more demanding about if you're going to get a subsidy, what is the community getting back?" Nevertheless, her overall impression is negative because, "It's a lot of paper, a lot of money being paid to consultants, and not much good coming from it. Maybe it fixed something somewhere that's worth every taxpayer in every town paying for it, but not here – our taxpayers are pretty smart and involved if they want to be."

In Waterville, the official we spoke with told us disapprovingly, “We’re a lot more rigid in what we demand from companies or small businesses that want to deal with our EDA, because the state is more rigid. Good old boys sounds terrible, but it’s not the warm fuzzy that it used to be. When the legislature, state or federal, tries to fix something, they make it worse.” She was unequivocal about the reason for her overall negative impression: “Because it impedes a city’s ability to actually attract and retain business, period.”

A Cottonwood official told us that his city’s approach had changed in that “They look at things a little more thoroughly than they have in the past. They look a little bit more at the detail of the deals.” But his overall impression was “negative, since we’re a smaller community. Probably it’s more appropriate for a larger community that does a large volume. Having the process be more complex discourages us from taking advantage of opportunities. I don’t specialize in economic development – I do about twelve other things. It’s hard to take care of all the details when you’ve got a lot of other unrelated responsibilities.”

**How respondents view the impact of the business subsidy law:  
grumbling, praise, and paperwork**

We gave our respondents a chance to volunteer their own impressions with an open-ended question: “What have we missed? What do you see as the impact of the business subsidy reform law?” A Wyoming official responded, “I think that it has made governments more careful. I’ve heard both grumbling and praise.” A Rochester official said, “It creates more paper shuffling for us – we have to report more detail to the state. We were getting the information anyway.” An official in Duluth said, “Companies look for disqualifiers – hiring consultants to narrow down the number of communities – we think they do use this as a disqualifier. We’ll never know how many times the phone didn’t ring.”

But other officials had praise to offer. An Eagan official said, “I think there’s clearly more attention to quantifying the true benefit to the community; it’s not just a handout to developers. There’s a requirement of tangible deliverables from them – job creation goals and new tax base to be generated.” A Richfield official mentioned the flexibility added in later amendments. “The 2001 amendments were very helpful... because there are multiple public purposes for doing projects. It used to focus solely on job creation. Replacing declining retail, adding competitive retail, office, housing, adding public spaces that are integral and connected to transit – things that are equally important to the community.”

A St. Cloud official saw the law as just part of a bigger picture: “I think there’s a lot more interest in our community in economic development, housing, redevelopment, but it’s not because of the business subsidy law, but through local economic conditions and affordable housing grass-roots activism. [There’s a group called] GRIP – Great River Interfaith Partnership – [that has] been very effective in getting their point across to the community in media. Also, there’s a 10-year revision of the comprehensive plan by the city. Also the 9/11 loss of jobs. Also the election of Jesse Ventura – whether you agree with him or not, he has engaged a lot of people, has made major changes in tax law. Decreased TIF availability by two-thirds. Cities have been making efforts at the legislature to find alternatives. They were unsuccessful this year, but it raised the awareness of legislators. I don’t think they realized what they did. Also, the media are hungry, ravenous for stories.” An Edina official shared a similar perspective: “My perception is that there are other issues and concerns that are affecting the interest in development more than the business subsidy law. Condemnation authority, TIF changes, recent court decisions – these are a lot more impactful than the business subsidy law.”

Some officials saw minimal impact. A Blaine official responded, “I don’t think there’s been much of any. I just think it forces communities to be a little more responsible.” An official in St. Louis Park said, “Whatever the law requires, you just work through it. It’s just one more thing to deal with, not a real negative.” A Mankato official said, “The notification law has increased neither awareness nor participation. People come because of the issues, not because of the notification requirements in the subsidy law.” In Cottonwood, an official observed, “It’s just created more administrative work. As for people getting more involved locally, not much difference. Attendance at hearings and input that we get are not that much different.”

Some officials saw discernible, but not large, impact. An Austin official responded, “Well, in our case it’s not had any huge impact. I don’t think it’s eliminated anything from happening. It’s made sure we emphasize jobs and within a specific time frame, and that’s useful.” An official in Elk River said, “From an economic development and administrative standpoint, the ever-changing rules have made it difficult to administer. Such a law is good, but the goals should be driven by the local community itself rather than the state. The project goals and the amount of the assistance should be set by the local community, not the state. But I do believe this law has made communities more accountable.”

The most consistent theme this question elicited was a concern about paperwork. A Worthington official responded, “Besides the extra paperwork I

have to go through? That’s the biggest thing. It irks me. I used to work in Iowa and there was nothing; they trusted you. Then I came here! They don’t trust you; you have to prove you aren’t using it incorrectly.” A Little Falls official observed, “It adds a tremendous amount of cost on the city. They have to keep all these records, fill out all these forms. Every year they change the forms. Your finance person isn’t cheap, [and he or she has to spend all this time on forms]. Because the state has decided that economic development is bad. Because the forms change every year, you can’t just look up what you did last year and see what changed.” A Lake City official commented, “The theory behind the business subsidy law was to try to get more public accountability, and I don’t think it’s achieved that. I’m a firm believer that there are times when subsidies are needed. I don’t think it’s fixed the problems it was intended to address. We’ve added complexity rather than streamlining the process. I think it’s more of a penalty to those of us who need to use it – we have to hire a consultant, hire an attorney to comply with these rules. Now we have more hoops to jump through and the developer has more expense.” And in Hibbing, “I guess in a lot of ways we’re looking at it from the paper tracking aspect and asking is it even worth doing these deals anymore. It adds to the confusion both for the city and for the business. Every time you spend time on it, it takes time away from other things.”

**When did cities begin holding public hearings and when did they first mandate that elected officials vote on deals?**

We also asked questions aimed at learning how many communities were following best practices, such as holding public hearings, before and since the business subsidy law mandated them. It’s important to note when comparing responses that some smaller cities weren’t having hearings until recently because they weren’t granting any business subsidies until recently.

Survey group	Began before 1995	Began 1996 to mid-1999	Began after mid-1999	No response / other	Question wording
Largest cities	80%	4%	16%	0%	When did your agency start having public hearings about proposed deals? Pre-1995, 1996-mid-1999, or since mid-1999?
Smaller cities	48%	24%	28%	0%	
Largest	96%	0%	4%	0%	When did your agency start

cities					having proposed deals voted on by elected officials? Pre-1995, 1996-mid-1999, or since mid-1999?
Smaller cities	64%	28%	0%	8%	

Several officials noted that their communities' use of hearings depended on when the law required them. For example, a Woodbury official said that when hearings started "depends on the type of subsidy." She noted that Woodbury had been doing TIF hearings since before 1995. Similarly, a Richfield official said that hearings for most subsidies began after 1999, "except for TIF, which already had a hearing requirement." A Worthington official also said that his city's use of hearings "depends upon funding mechanisms. State-funded things that required a hearing had a hearing. City-funded aid that didn't require it, such as revolving loans, started mid-1999."

A few officials commented on when deals began to be approved by elected officials. An official in St. Louis Park said, "There was a time when the HRA board was appointed prior to 1988, but the city council took that over in 1988." For other communities this was not an issue because, as a Worthington official said, "the city council and the economic development authority are the same people."

Officials in two of the smaller communities were not sure that elected officials *were* making the subsidy decisions. One said his community had switched to delegating to the EDA around 1990, but for "mostly small amounts." In another community, when asked when elected officials began to decide, the official we spoke with replied, "Never. It always has been the HRA." (This is legal so long as the business subsidies are small enough that they don't meet the business subsidy law's thresholds, but loans over \$75,000 and other subsidies over \$25,000 must go to elected officials for approval.)

A Lakeville official said, "Everything's the same now except now there's a legal notice required. Have we been made more cognizant as public officials of our responsibilities? Yes. We're probably educating people about this law. Has that changed how corporations respond? To a limited extent, I think it has. I think the public process has had somewhat of an impact on corporations; they don't all want to be part of a public disclosure process."

Indeed, some deals are now deliberately kept below the subsidy law's dollar thresholds. Although we did not specifically ask about this, three survey respondents mentioned it, and a fourth is considering this approach for a new program. One can regard this as a win-win approach; a business can get some

assistance without the deal being subject to the disclosure process, and the community gets the economic development project for a smaller investment than it might otherwise have made.

**What are cities’ overall impressions of the business subsidy law?**

Survey group	Positive	Negative	Neutral / neither	No response / other	Question wording
Largest cities	28%	32%	36%	4%	Is your overall impression of the business subsidy reform law positive or negative? [Many respondents volunteered “neutral” or “neither.”]
Smaller cities	20%	60%	20%	0%	

An Edina official observed, “It’s possible to declare a public purpose other than job creation, and once you do that [there’s no impact]. I’ve got a feeling that there are a whole lot of cities out there that are figuring out how to do it without job creation just to get out of the reporting.” An official in Mankato said, “Local governments can be trusted to involve their citizens in the issues of government without state procedural oversight. ...I think the state is creating a paperwork exercise that is unnecessary. The business subsidy law adds an extra requirement of publishing a notice of public hearing; it’s a specific notice and an expensive notice to publish. It also delays the decision because of a requirement for publication before hearing.”

A Coon Rapids official said his overall impression was “Sort of neutral. ...The Legislature has a concern, puts in an elaborate system, and the concern goes away but the system is still there. [It’s an] unfunded mandate.” A Hutchinson official said her overall impression was “Medium. I think it’s positive for some communities, for example, Chanhassen had a debacle with using TIF for companies that would have come anyway – Byerly’s [grocery chain], Target. Cities were abusing it in some cases. But for the cities that weren’t abusing it, it obviously was a negative. I have mixed feelings.”

An official in Glyndon responded, “Its general goal or intent is we want to raise people up, not just shuffle the deck – I think that’s a noble goal. But out here, we may be aspiring to get to some place someone else is trying to leave.” A St. Cloud official said, “It keeps the economic development bodies like us on task, morally and ethically on task, and it’s another tool to keep the public informed and give them an opportunity to speak up if something doesn’t sit well with

them.” A Worthington official said his overall impression was “Positive because the general public has the opportunity to know what the local unit of government is doing. Even if they don’t take advantage of it, the opportunity is there.”

A St. Louis Park official said, “It raises the awareness of the development community that there are expectations they have to meet. You can’t just say it at a meeting that you’ll create X number of jobs – you have to follow through.” An official in Austin said, “I think society deserves to have some economic improvement that’s substantiated for its investment in private business. Otherwise let them do it themselves. ...We get right down to checking the payrolls and the pay periods – we don’t let them just call us up and say ‘we hired those ten folks – bye.’ We work with DTED, make sure that things happen the way we’ve agreed for them to happen.” A Minneapolis official said, “It makes the statement that if we give taxpayers’ money to a private concern, then we need a public purpose for that. I think you’re seeing some of that, at least subconsciously, in the discussions we’re having about stadiums and the like. Yet the law also allows flexibility.”

### **Controversial deals**

We asked respondents to tell us about their community’s most controversial deals. Then we asked them if changes had ever resulted from controversy surrounding a deal, and if so, what changed?

Examples of controversial deals included:

- Proposals for publicly funding a new Twins stadium.
- The Best Buy headquarters in Richfield.
- The downtown Minneapolis Target store, and the redevelopment of Block E in downtown Minneapolis for an entertainment/retail complex.
- The Lawson Software headquarters’ move from Minneapolis to St. Paul.
- TIF for Mall of America infrastructure.
- TIF for Carlson Center freeway ramps (benefiting wealthy property owner Curt Carlson).
- Fingerhut (catalog retailer) expansion in St. Cloud.

- A Bennigan’s restaurant in Moorhead, a city of 32,000 population. (“Our community didn’t have any restaurants like that.” But owners of established restaurants opposed it.)

**Did changes result from controversy about a deal?**

Survey group	Yes	No	Not clear yet	No response / other	Question wording
Largest cities	44%	52%	4%	0%	What has been the most controversial deal in your locality? When did it occur and what happened? Did any changes in the deal occur as a result of the controversy?
Smaller cities	32%	64%	0%	4%	

An official in Woodbury responded, “Yes, in 1977. It was an engineering firm, an aircraft component manufacturer, with 50 jobs involved; it needed rezoning and there was a request for TIF. We did site modifications, buffer areas, landscaping, better street design than was initially proposed. A blessing in disguise, but a tough deal at the time. Shortly after approval, the neighbors sued the city. The business didn’t want to wait to resolve litigation and decided to look elsewhere. We’ve since developed a business park there, the neighbors are happy, but that history still comes up, in questions to consultants, in the word on the street.”

A Minnetonka official said his city’s most controversial deal was in 1985, “TIF for Carlson Center [a high-rise office development]. Both Plymouth and Minnetonka did TIF for freeway interchanges for that. The owner of the property was Curt Carlson, “probably the richest man in Minnesota at the time. Some were opposed to subsidizing him.” Changes involved “additional security and safeguards [that] were added to the deal to protect the city. Only revenue bonds, not general obligation bonds, so that the city wouldn’t be responsible for any shortfall, and the city insisted on guarantees that the owner would cover any shortfall.”

In Bloomington, when the Mall of America was built in 1989-90, “Public investment was somewhat controversial; more controversial was the size and the impact of the project on competing malls,” an official there told us. The public investment “got restructured when development partners changed.



Originally [we] bonded for parking and land acquisition, switched to pay-as-you-go TIF for later funds.”

Maple Grove encountered controversy over affordable housing projects in 1995 and 1996, an official there said. “Both were finally approved, but one did involve a lawsuit. ...For one, the location changed – proposed for one area of town, but due to controversy, ended up in another part of town. Also, we changed TIF to pay-as-you-go instead of up-front. For the other, the number of years of subsidy changed, from 20 year to 15 year pay-as-you-go; the nature of units changed to include more senior/assisted care and fewer market rate units.”

St. Cloud’s most controversial deal was “Fingerhut [catalog retailer], 1998 or 1997,” which had received \$18 million in TIF for an expansion project. “They didn’t meet their job requirements,” a St. Cloud official said. “Instead of going up in jobs, they went backwards.” As a result of controversy, part of the subsidy was clawed back. “They had to pay \$1 million back – got off pretty easy.”

In Brooklyn Park, an official told us, the city’s most controversial deal “was a redevelopment area, had nothing to do with jobs or subsidies.” It was a proposal in 1997 or 1998 for “removal of a 300-apartment unit in an exceptionally dense apartment area. Tremendous density in the area remains a problem today.” The result of the controversy was that the project “didn’t happen. The owner backed out.”

A Rochester official said, “There’s an exemption for redevelopment projects [so it didn’t have to be reported], but there was one with two developers vying for a project [downtown]. One wanted to do residential, one retail – the controversy was over the highest and best use of the site. The council picked the smaller project with less public subsidy.”

In Moorhead, controversy resulted from “selling some publicly owned land and offering tax incentives to a Bennigan’s restaurant. Our community didn’t have any restaurants like that.” An official there told us the incentives offered were “the same as for as other businesses with a qualifying increase in value (\$150,000).” Established restaurants opposed it. Due to the controversy, “financing was modified – we required more cash up front from the partners. Employment has been higher than expected – everybody loves it.”

Asked for Wyoming’s most controversial project, an official there responded, “That’s easy. We’re a small town that had one small supermarket. A guy came in and wanted to quadruple the size of the supermarket. We offered him a 9-to-11-year abatement. We wanted to make sure this got done, thought it would

encourage other development. We had about a dozen people go to the county commissioners. They did not think it was a good deal for the city – the owner was a ‘buddy’ of city decision makers, the jobs were low-wage jobs. The county commissioners said the city needs this. It happened and it’s working just fine. It’s a really good supermarket, other businesses are around it, an eyesore abandoned building was cleaned up. ...I believe they did not offer him the 100 percent for 15 years because of this [controversy]; gave him 75 percent for 9 years.”

Elk River had a controversial deal pending at the time we spoke with an official there. “We received a proposal for speculative office development that engendered a lot of discussion.” She explained, “Our city’s policy doesn’t allow assistance for speculative retail – we believe these should be market-driven.” The controversy “has resulted in some amendments in our policy, not approved yet. Puts some further definition on office projects we will support – number of jobs, occupancy requirements, size (physical space). To get approved now, they’d have to change their project. I think the process is good. I wouldn’t want to see the state dictating these decisions.”

In East Grand Forks, there was some opposition to a condominium development that involved no public subsidy, “just sale of city-owned land that the city had cleaned up, a redevelopment project.” After about 15 people at the zoning hearing opposed the condominium development, “the developer pulled the project,” and the city “gave the land to a non-profit that built three single-family homes.”

In Minneapolis, the official we spoke with said: “Block E and the Target store were controversial because of the perceived amount of subsidy that Target got. It was of such a nature that it became an issue and may have influenced the election, including the defeat of some office holders.” The projects did see changes as a result, he said; changes involved “Renegotiating; changes in the design of the building. We got our mid-priced retail, a home office, tax base. The question was ‘how much is enough?’”

## Subsidies Were Key Issue in Incumbent Mayor's Defeat

"Sharon wanted a store. She didn't care what the economics were,"<sup>42</sup> said former city council member Steve Minn of the \$62 million in public subsidies that Mayor Sharon Sayles Belton spent to bring a Target store to downtown Minneapolis, in what Minn characterized as "the most brilliant, tactical municipal holdup ever conceived."<sup>43</sup>

Sayles Belton's persistence, in the face of costs that escalated from an initial estimate of \$16 million, likely cost the two-term incumbent her party's endorsement and ultimately the 2001 election. After the Minneapolis Democratic-Farmer-Labor party's convention declined to endorse Sayles Belton or either of her two DFL challengers, both of whom made subsidies an issue, the mayor said, "The left wing of the DFL is saying, 'We're not happy with Target. We're not happy with the progress you've made on affordable housing. We're not going to give you the endorsement.'"<sup>44</sup>

The Target project, which includes a store on downtown Minneapolis' Nicollet Mall, a nearby office tower, and an underground parking garage, will cost Minneapolis residents approximately \$160 each. Over the next 50 years the project will generate in property taxes an amount equivalent in today's dollars to about half of what the city invested up front.<sup>45</sup>

The city committed to construction of the store and parking garage without limiting what it would pay for site assembly. It also allowed Target to decide how much it would pay for the store site, and structured the deal so that the city, rather than Target or the developer, is at risk if the new buildings' property taxes prove inadequate to service the bond debt, the Minneapolis *Star Tribune* reported in June of 2001. The bond debt will require payments over 12 years totaling \$93 million, the paper reported. As cost estimates rose, the project's survival eventually required that property taxes from two neighboring Nicollet Mall buildings, the Target Corp. headquarters in the 1000 block and the U.S. Bancorp headquarters in the 800 block, be dedicated for the next 12 years to help pay the public debt on the 900 block where the store is located. Under the final terms, taxpayers will pay 61 cents for every dollar of private investment.<sup>46</sup>

Sayles Belton was challenged for the DFL endorsement by Lisa McDonald, then a Minneapolis City Council member, and community activist R.T. Rybak, both of whom campaigned on the subsidy issue. McDonald said, "I think that [the Target store] was basically the mayor's pet project. There's no other way to put it."<sup>47</sup> "You need to know when to write a check from the citizens' checkbook and when to make the private sector pay their own bill," said Rybak when he

announced his campaign.<sup>48</sup> Rybak singled out the Target store project and the \$39 million subsidy for the Block E hotel-retail-entertainment complex on Hennepin Avenue.<sup>49</sup>

Jim Niland, then another City Council member, who opposed the project and was convention floor manager for Rybak, disputed Sayles Belton's claim that dismay about Target was driven by only a faction of the DFL. "It's an issue that's come up again and again, both with DFL delegates and regular voters, on what's possessed the city to spend millions" on Target, Niland said. "We don't have to bring it up. People mention it on their own accord."<sup>50</sup>

At the Minneapolis DFL's convention in May, a candidate needed 60 percent of the delegates' votes to gain the party endorsement. Both McDonald and Rybak criticized the downtown subsidies in their speeches. During Sayles Belton's speech, some delegates held up Target signs to signal their opposition. McDonald dropped out after polling 6 percent on the second ballot. On the final ballot, Rybak polled 49 percent to the mayor's 48 percent, and the convention adjourned without making any endorsement, prompting a non-partisan primary election in September to winnow the field to two for the general election in November.

McDonald's primary campaign included a pamphlet featuring a lacy black bra with the caption, "Welcome to Minneapolis. We can't get our trash picked up. We can't get affordable housing. We can't keep schools open. But after the \$62 million Target giveaway, at least we can get cheap underwear."<sup>51</sup> Rybak also continued to criticize the subsidies, saying he would be a mayor who "puts down the checkbook and picks up the telephone."<sup>52</sup> In the September primary, Rybak received 34 percent of the vote, Sayles Belton 27 percent, McDonald 18 percent, and a fourth challenger 16 percent, so Rybak and Sayles Belton advanced to the general election.<sup>53</sup>

A Minneapolis *Star Tribune* poll taken a few weeks before the general election suggested a very close race, with the mayor in a statistical tie with her challenger, 43 percent for Sayles Belton and 41 percent for Rybak, with a 4 percent margin of error. The same poll showed that a 54 percent majority of voters disapproved of the subsidies for the Nicollet Mall Target store and the Block E retail-entertainment-hotel complex.<sup>54</sup>

The general election results suggest that those who disapproved of the subsidies were highly motivated to vote: Rybak walloped Sayles Belton, 65 percent to 35 percent.<sup>55</sup>

## Other suggestions for enhancing civic engagement

Our last question of our survey was, “If you could amend the system to enhance civic engagement, what would you do?” Typically respondents said something like, “I don’t know – there’s already so much information,” and then offered examples of what their communities were already doing.

As previously mentioned, many Minnesota cities maintain websites; the typical site address format is [www.ci.city-name.mn.us](http://www.ci.city-name.mn.us). On their websites, one can find:

- Schedules, agenda & minutes of meetings;
- City newsletters in PDF format;
- Contact info for city staff & departments;
- Sometimes photos of projects or Frequently Asked Questions;
- Sometimes text of resolutions, criteria; and
- Sometimes discussion boards.

Several cities air their council meetings on cable TV. Other ideas already in practice include:

- Newsletters to every household;
- Newsletters to every business;
- Informal open houses with city staff;
- Focus groups;
- Weekly “messages” page in local newspaper;
- Annual city tours using city buses;
- Cable TV shows about businesses or projects;
- Meetings with neighborhood groups; and
- Direct mail to neighbors or competitors of projects.

To our question about enhancing civic engagement, an official in St. Cloud responded, “That’s a tough question. I think it’s pretty good the way it is. If we added more hearings, it would make the process even slower, and there are ample opportunities for people to be heard now.” A Plymouth official commented, “I’m not sure that one can do that [enhance engagement] because most people don’t care about these things unless it’s in their neighborhood or directly affects their pocketbook. It’s not necessarily bad – it may mean they trust their elected officials.” An official in Elk River said, “I don’t know what else to do. Sometimes you throw opportunities out there and no one shows up. Other times you get a lot of people. It depends on the project. A lot of communities are now putting things on the Web. To the extent that it’s a controversial deal, I think the media is covering it very well.”

Other communities offered strategies that have been working for them. A Maple Grove official suggested, “Do just what we do: hold more public informational meetings, put an article in the paper, get the word out. Our public information meetings are informal, not structured, open house, with things up on boards and coffee and punch and cookies, with staff there for residents to talk to. People are more willing to talk in an informal setting. Also, at least once a year we use our city buses and give citizens a tour of the city. We send a quarterly newsletter to all businesses (850) and all households (18,000). We have a TV show every two weeks, a half-hour, and every two months a 10-minute shot focusing on one or two particular projects.” In Woodbury, “We try to time things so they come up at the same time. If you come to hear about land use, you’ll hear about [business] assistance. We do an informal neighborhood pre-meeting. We go out further in our notices than state law requires us to. We have a phone line that lists agendas.” In St. Louis Park, “We shape our approach based on the circumstances of the project: focus groups, task forces, newsletters, website FAQs, neighborhood meetings. Our council likes it when the nuts and bolts have been worked out ahead of time and they can deal with broader policy issues – ‘is this a good thing to do?’ – at the hearing.”

A Lakeville official recommended, “Have communications programs. Newsletter, cable, newspaper – we have a ‘Messages’ page that we own in the local newspaper once every week. I just think you can’t have enough communication.” An official in Cottonwood commented, “If people are interested, they’re going to make themselves heard whether there’s a hearing or not. The best way to get people involved is to have media involved, coverage in the local newspaper.”

An official from North Branch commented on how reporting consumes time that could otherwise be spent on outreach. “I would eliminate the reporting. I would like to see the legislature change the limits on tax abatement to make it a more flexible tool. TIF reporting to state auditors takes hundreds of hours each year and I see no benefit to it. I see no tangible results from it. Nothing’s really changed since they took it over 7 or 8 years ago. I would simplify and reduce the reporting, not only for business subsidy reporting but for TIF reports to the state auditor. We have an EDA, we have open meetings, we advertise them, we have it in the paper. We have begun the process of putting up a website and making a very user-friendly website. We’re using the press and the internet to try to accomplish that [citizen involvement].”

An official in Worthington said, “It’s one of those rhetorical questions, actually. You want as much public participation as possible, but you don’t want it to hinder the project.” A Hutchinson official commented, “You get projects that are controversial and that’s just part of working for the greater public good. Public testimony should be a part of your process, but it shouldn’t be your entire process. She noted that cities may sometimes not do a project because of controversy, and that’s not right. She added, “Cities don’t always do their preparation properly. Don’t just have a public notice in legal format. Have a neighborhood meeting. Doing just the minimum requirement is not always the right thing to do. For example, our hospice house, we had a picnic. People were upset, and we didn’t have all the answers yet. Start them earlier. Totally less formal. Get out of city hall and have them somewhere else.” In the city of Wyoming, “A lot of what we do is on a less-formal basis – for example an information session with a lawyer in one corner and an engineer in another, a real ‘roll up your sleeves’ format, very informal.”

An Annandale official commented, “I think if people had input at a higher level – the state’s decision that there can be business subsidies – should we have it at all? Can you really be against one particular project, when it will just go to the neighbors? And the same with the states. It seems to me that the debate should be at the federal level. I just think they’re aiming the debate at the wrong level. They should be engaging people at the federal level, not just lobbyists.” She added that if subsidies were prohibited at the federal level, then communities could compete on their merits rather than on subsidies.

## **The JOBZ Debate: How civic engagement drives increased expectations, leads to still greater accountability**

The state's most recent incentive debate is a case study in how civic engagement is shaping policy. A concern frequently voiced by economic development professionals is that citizens expect them to be proactive; as an official in Morris put it, people in his community are generally supportive of development and "I think they would be upset if we didn't try."

But civic engagement in Minnesota is driving increased expectations. It's no longer sufficient that government "do something"; citizens now expect government to do something *effective*.

These heightened expectations were evident during the 2003 debate over a new economic development subsidy proposed by Governor Tim Pawlenty: tax-free zones to encourage development in outstate Minnesota, which he called "Jobs and Opportunity Building Zones (JOBZ)."

The JOBZ plan was the topic of a radio call-in program on Minnesota Public Radio's Midmorning show on January 24, 2003.<sup>56</sup> The sophistication of remarks made by callers speaks volumes about the cumulative effect of civic engagement on development issues in Minnesota.

Speaking in favor of JOBZ was Mayor Lynn Stauss of East Grand Forks who said: "We've lost 38,000 jobs in the manufacturing field since the year 2000, which is 80 percent of all of the jobs that we've gained during the 1990s. And so [the Governor is] saying that we have to do something different if we're going to bring manufacturing and jobs to Minnesota."

However, during the call-in segment, citizens repeatedly insisted that government not just "do something different," but do something that would be worth the public's investment. Of the sixteen callers that morning, only three supported the JOBZ idea uncritically. Eleven listeners posed specific, skeptical questions and comments about effectiveness and accountability to guest Tim Bartik, Senior Economist at the Upjohn Institute for Employment Research in Michigan, and Midmorning host Katherine Lanpher. Examples are transcribed below.

### **On runaway companies:**

"How do you keep companies from just running all around the country taking advantage of this? I know specifically of a company



from St. Paul who went down to Kentucky – my aunt and uncle lived in the town where they went to – and they gave them a ten-year tax holiday. They did all kinds of things; they put up buildings for them, and so on. And almost to the day when the tax holiday ran out, this company laid off all the workers, closed the buildings, packed up and moved to Mexico. And I think we have to have some really realistic safeguards. We just can't take their word that, yes, they're going to stay here." – Jim in Marine On St. Croix

"Say you locate a business and it's doing well, making money, people are employed and all, so does the city at one point come in and say, okay, now we're going to tax you? Because you know, obviously you're here now you don't need the incentive any more... ..[L]ocal cities are running into this problem because you know, a Target moves in, or someone, but when they want to start taxing them, they say, okay, we'll move out now. So I don't see how these programs actually benefit in the long run." – Sean in Minneapolis

#### **On the negative effects of subsidizing big-box retail:**

"I have a cautionary tale from my own experience; grew up in west central Illinois, and the community established one of these zones for manufacturing jobs to come to town. Nothing ever came of it. Eventually they were approached by Wal-Mart and other big box stores for this real estate; they were afforded the tax breaks, and so the big box stores came in, and subsequently many local grocery stores and businesses have gone out of business. . . . I didn't want to see that happen in Minnesota. [Are these zones] focused primarily on manufacturing jobs, or how do they kind of slide into that slippery slope of retail? ... [W]e all know that, for the most part, those big box stores suck monies out of the local community. . . . In Grand Rapids we just lost a bunch of jobs at the Blandin mill, and the local leaders are saying, 'You know, it's okay; we're switching to a service economy.' That's all well and good if you've got the backbone of real manufacturing jobs to support those goods and services." – Steve in Grand Rapids

#### **On the need to require job creation and job quality standards:**

“When we give money to companies, we forget to ask them to demonstrate what they’re giving back – and the objective is to get something back. So why not put the requirement on that they have to be from out of state, then we know that the jobs are new, or if they’re from in-state, that they demonstrate some expansion of their business – a doubling of jobs, an increase in productivity – whatever the case may be... But let’s at least ask those we give money to, to demonstrate that they’re giving something back.” – Mike in Apple Valley

“I’ve actually looked at the bill that the House introduced, which is similar to what the Governor introduced when he was in the House. . . . There’s a job creation requirement, [but] there’s no [job] quality requirements, and if you don’t meet that, you could get the tax break just for an increase in capital expenditures.” – Carrie in St. Paul

“This seems to want us to look over here at what’s going on to save on taxes, but things have to be paid one way or the other. . . . [T]hese zones are going to have to be, to some degree, arbitrarily set up, and that’s going to rub a lot of people who didn’t get this advantage the wrong way. So again, we have an inherent unfairness. I think we’re beating around the bush here too much, on what we really want and what we really need... [T]his economy works only if our dollars are running around like a rabbit around a track, and without some kind of basis for decent wage job creation through this program, I don’t see where it benefits us.” – Myron in Eagle Bend

### **On the need for enhancing job skills:**

“I worked in the Phillips neighborhood in Minneapolis from ’90 to ’97, for an organization that helped businesses locate to the community and who are already there and helped people find jobs, and it is hard to have businesses move into a low-income neighborhood, even if you give them tax breaks and assistance. There’s oftentimes people that live in the community don’t have the job skills that are required by the businesses. They do want to work close to where they live, but it’s difficult. ...I don’t think it’s as easy as it sounds.” – Kristin in Minneapolis

**On whether subsidies are a windfall to the wealthy:**

“My dentist, he’s a real nice guy, very chatty, he’s got a townhouse in town that he works out of during the week, a home up north, and a home down by the border. If he buys another one and calls it his permanent home, is he exempt from all taxes? Will the wealthy get to buy one of their houses in those zones?” – John in St. Paul

**On hidden taxpayer costs:**

“If a business moves to one of these zones, and it’s successful and has a fair number of workers and takes advantage of the fact that it’s a depressed area, pays minimum wages, low or no benefits, my concern is, what’s the hidden social costs to local government?”  
– Dave in Bemidji

**On competition between communities being a zero-sum game:**

“I think anytime you’re starting to pit one part of a state against the other, it’s just a plain bad policy. ...And to me it just doesn’t seem right to go and keep pitting all these communities against each other, with tax-free zones, and we’ll give you this and we’ll give you that.” – Ron in Minneapolis

“I’m wondering if this is a zero sum game, that if we move something here [then] it disappears someplace else.” – Steve in St. Cloud

Even Mayor Stauss in his parting remarks acknowledged that he had concerns:

“East Grand Forks really would look on it favorably but we need other questions answered, too, because you can’t give up any tax base if you’re already having problems in the city of keeping jobs, and taxes are already high enough you know on the people that are there, so it’s many things that have to be looked at, and I don’t think any mayor or any town would sign on until they get these answers for sure. . . . [W]ould we better doing the infrastructure instead of giving free taxes so that they don’t have to pay for all

that infrastructure that comes in? . . . [E]specially with the state having a budget that they can't allow money to go out to the cities to do this type of thing, too; they don't have any budget for it. So it's those types of questions, of what would it cost the city besides just free taxes?"

Host Katherine Lanpher closed the program by asking the economist Bartik: "What are the questions people should be asking as conversation continues on this proposal?" Dr. Bartik responded,

"I think people should be asking, what does it really cost when we allow for the fact that some of this activity would have occurred anyway? Let's have some realistic projections; let's not assume this is all new activity to Minnesota. Let's ask how we are targeting these zones; I mean, are we targeting these, are these going to be huge neighborhoods, whole cities, whole counties, or are we targeting it more narrowly, to sites that are very difficult to redevelop? I think we need to ask, is this proposal going to be accompanied by other economic development measures that might target job creation more or augment public services or infrastructure more, that might be complementary to this proposal, might make it work better? So I think those are the issues that people should be debating."

Citizens and community groups continued to debate those sorts of questions as the JOBZ proposal made its way through the Minnesota Legislature's 2003 session. After such questions were raised in committee hearings, the original bill was replaced by a new version containing a more rigorous application process and significant accountability improvements.

The JOBZ bill that was ultimately enacted requires that each community's application include "an agreement by the applicant to treat incentives provided under the zone designation as business subsidies under sections 116J.993 to 116J.995 and to comply with the requirements of that law."<sup>57</sup> Thanks to Minnesota's climate of civic engagement, proposed zones under the JOBZ program will be subject to public scrutiny from the beginning of the program.

### **Economic developers observe public's heightened expectations**

Interviews with leaders of the state's largest association of development officials confirm our finding of heightened expectations. "I think Minnesota has set itself up to expect a little more. I think this issue has gotten a lot of coverage in recent years. I think people are pretty educated about it, even the '9 to 5 guy,'" <sup>58</sup> said Mark Nevinski, the legislative committee chair for EDAM, the Economic Development Association of Minnesota. "Every community wants to do good deals. We want to see tools put in place that make it more viable that good deals will occur."

Originally EDAM was skeptical that the business subsidy accountability law would be such a tool; it opposed both the original 1995 bill and the amended version in 1999. Nevinski said that at first there were concerns that the law might scare off financiers, plus some resentment of the state setting out what local goals needed to be. Former EDAM president Dave Anderson also mentioned initial concerns about Minnesota's business climate. "Accountability is good – there's no dispute on that topic. But there were concerns about unnecessary administrative hurdles and concern that the data could lead to inaccurate conclusions... what the data would be used for," <sup>59</sup> Anderson said. The major concern was "how is it introduced and presented to the private sector? Prudent standards, or 'another claw into businesses,' another reason not to do business in Minnesota and invest in a neighboring state?" Anderson added, "That perception needs to be handled appropriately by the economic development community, and probably has been."

However, EDAM's members have adjusted to the requirements of the business subsidy law and have begun to observe its benefits. Nevinski said, "We woke up one morning and all of the sudden there was this legislation. After the shock wore off, we said, 'I guess this is something we'll have to deal with.' It probably is a good process for communities to have to go through: 'these are our goals.' Each city is unique and needs to figure out its priorities for itself." "People said, 'okay, we have to do this reporting, we'll do it.' Life has just gone on," Anderson said. "Maybe the law brought just a little more of a standard. ...It prompted cities to be a bit more thoughtful about accountability measures."

Current EDAM president Bill Lucking observed that the culture among economic developers seems to be changing to "cooperation rather than competition."<sup>60</sup> He noted that EDAM's legislative committee is working with DEED on creating a statewide economic development policy, and that there would be a meeting in September 2003 of economic developers interested in forming a Twin Cities metro area alliance to work on regional issues. Nevinski also sees more cooperative efforts. "I think there is more of a climate of trying to work

together in Minnesota,” Nevinski said, noting that he sees more county-wide and regional organizations springing up.

Nevinski observed that economic developers are recognizing Minnesota needs more coordination of state programs. He noted that EDAM had not yet taken a position on the JOBZ proposal, which was offered at a time when other state economic development programs were being cut. “If there isn’t transportation, infrastructure, and workforce training, why would companies want to go there? You don’t want to attract companies that will just leave [when the zone tax incentives expire]. Nobody wants that,” Nevinski said.

### **Minnesota Competes on Strengths, Not Subsidies, in Bid for Boeing Plant**

This summer, Minnesota joined an estimated 21 states in the bidding to win Boeing’s newest factory, which will assemble a new advanced-technology passenger jet. Boeing’s 7E7, or “Dreamliner,” is designed to use 20 percent less fuel to carry 200 to 250 passengers on routes of up to 9,200 miles. The factory is slated to begin production in 2005; Boeing expects to make its final decision by the end of 2003.<sup>61</sup>

“The 7E7 is very much a different aircraft,” said Matt Kramer, Commissioner of the Minnesota Department of Employment and Economic Development. “Boeing really believes this aircraft is a breakthrough for them... Twelve hundred to 1,500 jobs is a significant new expansion. Any state would be interested in those jobs.”<sup>62</sup>

The state of Washington, which lost out in Boeing’s 2001 relocation of its headquarters from Seattle to Chicago, is so interested in those jobs that Washington state and Seattle have offered a \$3.2 billion subsidy package. That works out to more than \$2.1 million per job, or about \$100,000 per year per worker over a span of 20 years. The jobs are expected to pay an average of \$65,000 a year. “When I saw \$3 billion, I thought, ‘The number is a typo,’” said Arthur Rolnick, director of research at the Federal Reserve Bank of Minneapolis.<sup>63</sup> Washington is willing to go out on that limb because state officials estimate the 7E7 plant could generate as many as 17,000 spin-off jobs and \$60 million to \$70 million in annual tax dollars. Other states offering large incentives include Michigan at \$300 million and California at \$250 million.<sup>64</sup>

But Minnesota is moving more cautiously. DEED’s Kramer said he and Gov. Tim Pawlenty believe that Duluth, with access to a major airport,

seaport and rail lines, will meet Boeing's site requirements. It cost the state very little to fill out Boeing's questionnaire about tax structure, labor force availability and education, and other site considerations, Kramer told the *Star Tribune*. "It was not something we needed to go to the Legislature for or expend huge amounts of dollars on. Right now, Minnesota hasn't given up anything. Minnesota chose not to offer a salivate-at-the-sight-of-a-bone benefits package," Kramer said.<sup>65</sup>

Duluth's congressman, Rep. Jim Oberstar, who is the ranking Democrat on the House Transportation and Infrastructure Committee, said he informed Pawlenty of Boeing's plans and hopes Minnesota will win the plant. But Oberstar, too, wants Minnesota to compete on its strengths. "These companies really know that to dangle jobs out in front of places like northern Minnesota that has lost \$200 million in payrolls in the last couple of years, that they'll rise to the bait and offer all sorts of financial incentives to attract the plant and the jobs," he said. "That's fine, within reason." But Oberstar is less enthusiastic about taxpayer subsidies than he was in the late 1980s, when he supported then-Governor Rudy Perpich's offer of \$895.6 million in incentives to attract the first Saturn auto plant, which ultimately went to Tennessee. These days, Oberstar told the *Star Tribune*, Pawlenty and Duluth officials should offer promises of new roads, sewer lines, fiber optics connections and other infrastructure that could be used not only by Boeing but by all households and companies in the area.<sup>66</sup>

### **Minneapolis: accountability shows we value what our community offers**

"We shouldn't be in a race to the bottom," said former Minneapolis City Council member Jim Niland, who served on the council when the state's business subsidy law was strengthened in 1999. Minneapolis took advantage of that opportunity to amend its 1997 living wage ordinance to broaden its applicability to more projects, Niland said. "Corporations *want* to locate in Minneapolis," said Niland. "To be a doormat implies we don't value what Minneapolis offers."<sup>67</sup>

Niland sees a "huge difference" in civic engagement since the subsidy accountability law was passed. He mentioned an increase in attendance at public hearings, an increase in print and television news coverage, and an increase in political activism. In addition to the impact on the 2001 mayoral and city council races in Minneapolis, Niland also noted that in 1997 some unions made their endorsements dependent on support for the living wage policy.

Such political activism led to a change in attitude at the Minneapolis Community Development Agency (MCDA), Niland said; in the end, the City Council is the final policymaker and “naked political pressure” changed the MCDA emphasis from caution to support. Since 2000, the MCDA’s Job Linkage Agreement form has included a box showing how many jobs comply with the city’s living wage ordinance. “It made staff conscious that that’s something they have to address in cutting a deal,” Niland said.

MCDA job linkage agreements also include goals for local hiring in Minneapolis, and MCDA’s business subsidy criteria require at least one full time living wage job for every \$25,000 in assistance. Living wage is defined to mean the lesser of the union wage scale where a collective bargaining agreement is in effect, or a wage level equivalent to at least 110 percent of the federal poverty level for a family of four (or 100 percent of that level if the job meets certain basic health insurance requirements).

“Since we have a limited pool of public resources, we’re going to be smart about how we use them,” Niland said. “It’s the fiscally responsible approach.”



## Conclusions and Recommendations

Minnesota's business subsidy accountability law is a powerful tool to help economic development officials respond to citizens' rising expectations. The following strategies could further enhance accountability and effectiveness:

***Simplify the Minnesota Business Assistance Form (MBAF) reporting to focus on results.***

Minnesota, like many other states, is wrestling with a state budget deficit; in response, DEED has sought to reduce its costs by reducing the frequency of its reports. A better avenue would be to develop a unified form, which would both reduce costs and encourage better compliance. The accountability statute requires DEED to "coordinate the production of reports so that useful comparisons across time periods can be made,"<sup>68</sup> but this needn't require five separate forms; the department could ask for the year of the subsidy agreement on a single form. Data collection and analysis would be better focused not on when a deals was initiated but rather on which tools and strategies work best.

Local economic development officials who say "I would rather send the same reporting form to everyone" have a good point. The 2000, 2001, 2002, and 2003 MBAFs differ only slightly in their wording. Yet DEED asks local officials to send each recipient the form that matches the year the recipient signed its business subsidy agreement. Developing one unified reporting form would reduce costs (both for completing the forms and for processing them) and make compliance easier. Local officials we interviewed said that the current multiple-form scheme is "more cumbersome than it has to be" and that a complex process "discourages us from taking advantage of opportunities" because, especially in smaller cities, they are "do[ing] about twelve other things." Time that local officials spend on unnecessarily complex paperwork is time they cannot use for activities that truly enhance public participation.

On the output side, the problem is similar. DTED's past Business Assistance Reports have divided their findings into separate sections that each summarized a different year's forms. Any comparison of the different sections has been left to the reader, making the reports long on description and short on analysis. This might be contributing to some local officials' impressions that they are "just filling out forms" that "no one ever looks at."

This format also makes it difficult for researchers to perform additional analysis. The original MBAFs are available as appendices to the Business Assistance Reports and posted on the DEED website, but they are not searchable or sortable. They appear only in the form of individual PDF images of each MBAF, organized by separate links naming each agency that files them. Unless the researcher knows, or can find out, which agency filed the MBAFs for the deal or deals in question, and in what year, examining each agency's MBAFs to find information can be time-consuming and tedious.

When Good Jobs First made a Freedom of Information request for the 1996 and 1997 MBAF data for our first Minnesota study, DTED quickly supplied the data in spreadsheet format. If the data supporting each year's Business Assistance Reports were posted on DEED's website in spreadsheet format, researchers could search and analyze the data easily. This would allow many more "useful comparisons across time periods [to] be made," at minimal cost to DEED.

### *Evaluate all strategies by weighing costs against public benefits*

As old strategies such as tax increment financing decline in importance, Minnesota's legislators have introduced new tools such as property tax abatement and Job Opportunity Building Zones (JOBZ), but have not formally analyzed whether the public benefits of these strategies will exceed their costs.

In the wake of the *Walser* case, communities risk legal challenges if they fail to weigh public purpose against private benefit. Recent advances in information technology provide tools to perform such analysis, such as the modeling that University of Iowa professors Alan Peters and Peter Fisher have done to evaluate enterprise zones' effectiveness<sup>69</sup>, or economic impact models such as REMI, IMPLAN, or RIMS II. With a small investment in software and training, economic developers could evaluate whether a proposed deal would hold up in court – or whether it might fail to yield the bang for the buck the public increasingly demands.

Also, as was done with the JOBZ program, legislators could ensure that the safeguards of the business subsidy accountability law apply to new programs as well as existing ones. DEED's list of Frequently Asked Questions about the JOBZ program touts business subsidy agreements as a means for local communities to "ensure businesses are meeting their obligations" and "set goals and requirements" to "protect existing businesses from unfair competition."<sup>70</sup>

### ***Make subsidies location-efficient***

Minnesota policymakers could better integrate economic development expenditures with land-use planning and transportation by amending incentive rules to require that when an economic development project is proposed within a metro area, the project site must be transit-accessible. This would make economic development and transit spending more efficient by encouraging their integration, increase commuter choice, create more job opportunities for low-wage workers, improve air quality, and help reduce the traffic congestion that vexes Twin Cities area commuters.

Similarly, when development projects are proposed in outstate Minnesota, public transit accessibility should be included in the cost-benefit analysis. For example, the JOBZ application process includes “success criteria” such as “Existing resources available to the proposed Zone” and “How the designation of the Zone would relate to other economic and community development projects and to regional initiatives and programs.”<sup>71</sup> As communities cooperate to develop regional JOBZ proposals, they should include regional transportation resources and initiatives in their planning.

Such coordination is a key way that economic developers can deliver the cost-effectiveness that Minnesota citizens are increasingly demanding.

### ***Redirect funding from large single-company deals to skills and infrastructure that benefit all employers***

Minnesota citizens have taken to the polls and the courts to voice their dissatisfaction with deals whose costs spiral out of control. Minnesota could go one better and prevent, rather than simply punish, such excesses by enacting across-the-board eliminations of or caps upon big single-company deals. This would preserve revenue that could be redirected to public goods that benefit all employers, such as investments in transportation, infrastructure, education and workforce development.

### ***Encourage early and informal citizen participation in development projects***

Several of our survey respondents reported that the most effective means of inviting citizen participation are early, informal methods. Processes that engage people at early stages of a project can identify problems and improve projects. We hope that as communities engage in more

cooperative development arrangements, they will also borrow from neighboring communities their successful models for encouraging early, informal citizen involvement. We heard many good examples in our survey interviews, particularly from communities that are making innovative use of local access cable, the internet, and informal open houses to get the word out about projects.

Building on the many positive developments since 1995 and adding these best practices, Minnesota can meet rising public expectations that the state devote its economic development resources to strategies that really work for communities, taxpayers, and workers.

**Appendix A:  
Minnesota Civic Engagement Survey**

Date: \_\_\_\_\_ Interviewer: \_\_\_\_\_

Jurisdiction: \_\_\_\_\_

Interviewee: \_\_\_\_\_ Title: \_\_\_\_\_

Phone #: \_\_\_\_\_

Hello, my name is Anne Nolan. I'm calling from the Institute on Taxation and Economic Policy<sup>72</sup>, a non-profit research group based in Washington, D.C.

We are surveying local economic development officials in Minnesota about your state's business subsidy accountability law. Specifically, we are looking at whether or not the law has affected civic engagement with development issues. By civic engagement, we mean: are citizens in your community more aware of, or more involved in, the process of granting subsidies?

We have a quick set of specific questions about the process since the first law was enacted in 1995, and since it was amended in 1999.

1. *(If job title known:)* Do I have the correct job title for you--  
\_\_\_\_\_?

-or-

*(If not known:)* What is your job title? (if not known)

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Name

Job Title

And you started working in economic development there in \_\_\_\_\_ (which year)?

Did you work in economic development in another place in Minnesota before that?

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2. Before I ask about specifics, what is your general impression: are citizens in your locality more or less engaged in economic development matters than they were before 1995? More \_\_\_\_\_ Less \_\_\_\_\_

Before 1999? More \_\_\_\_\_ Less \_\_\_\_\_

Any why do you say that? What changed?

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3. Again, we are talking about three different time periods: first before the original 1995 law, second is 1996 through mid-1999 when the law is amended, and the third period is mid-1999 to the present.

Regarding procedural matters:

3A. When did your agency start having public hearings about proposed deals?

Pre-1995 \_\_\_\_\_ 1996-Mid-1999 \_\_\_\_\_ Since Mid-1999 \_\_\_\_\_

3B. When did your agency start having proposed deals voted on by elected officials?

Pre-1995 \_\_\_\_\_ 1996-Mid-1999 \_\_\_\_\_ Since Mid-1999 \_\_\_\_\_

4. What has been the trend over time in attendance at your hearings?

Up \_\_\_\_\_ Down \_\_\_\_\_ No Change \_\_\_\_\_

(Details if they vary within the three time periods) \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

5. Do you keep records (such as sign-in sheets) of how many people attend your hearings? Yes \_\_\_\_\_ No \_\_\_\_\_

Are those records tabulated? Yes \_\_\_\_\_ No \_\_\_\_\_

6. To the best of your knowledge, has the amount of local media coverage (newspaper, television, radio news and talk radio) about economic development changed since 1995? Increase \_\_\_\_\_ Decrease \_\_\_\_\_ Same \_\_\_\_\_

Since 1999? Increase \_\_\_\_\_ Decrease \_\_\_\_\_ Same \_\_\_\_\_

7. Sometimes deals get amended due to public input during the time the deal is

being considered. Have deals been getting amended more or less frequently there since 1995?

More \_\_\_\_\_ Less \_\_\_\_\_ Same \_\_\_\_\_

Since 1999? More \_\_\_\_\_ Less \_\_\_\_\_ Same \_\_\_\_\_

8. Sometimes deals get challenged, either by lawsuits or by community opposition. Have deals there been getting challenged more or less frequently since 1995? More \_\_\_\_\_ Less \_\_\_\_\_ Same \_\_\_\_\_

Since 1999? More \_\_\_\_\_ Less \_\_\_\_\_ Same \_\_\_\_\_

9. The original 1995 law provides for a recapture or clawback of public funds if a company falls short on its job creation or wage promises. Have you seen an increase since 1995 in people asking about or seeking enforcement of this recapture?

None before or since \_\_\_\_\_ Increase \_\_\_\_\_

10. Has the nature of deals being proposed changed since 1995? Or since 1999? For example, are certain kinds of deals no longer being proposed?

Yes \_\_\_\_\_ No \_\_\_\_\_

If yes, what has changed? \_\_\_\_\_

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11. Has your agency's approach to economic development changed as a result of the 1995 law or the 1999 amendment? Yes \_\_\_\_\_ No \_\_\_\_\_



How so? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

12. What have we missed? What do you see as the impact of the business subsidy reform law? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

13. Is your overall impression of the business subsidy reform law positive or negative? Positive \_\_\_\_\_ Negative \_\_\_\_\_  
Why? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

14. What has been the most controversial deal in your locality?  
\_\_\_\_\_  
When did it occur and what happened? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Did any changes in the deal occur as a result of the controversy? Yes \_\_\_ No \_\_\_  
(If yes:) Please describe what changed.  
\_\_\_\_\_

15. Last question: If you could amend the system to enhance civic engagement, what would you do? \_\_\_\_\_

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Thank you for your time! Would you like us to send a copy of our report when it is published?

Yes \_\_\_ No \_\_\_

*(If yes:)* To what address should we send it?

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## Appendix B: Survey Participants

We thank the following economic development officials in the 50 communities<sup>73</sup> that responded to our survey. We appreciate their cooperation, their candor, and their willingness to spend a half hour (or more) of their time on the phone with us.

Ross Wagner, City Clerk, City of **Aitkin**, July 25, 2002.

Mary Degiovanni, City Administrator, City of **Annandale**, August 2, 2002.

Richard Kelley, Community Development Director, City of **Apple Valley**,  
June 18, 2002.

Patrick McGarvey, City Administrator, City of **Austin**, August 12, 2002.

Curt Larson, Economic Development Specialist, City of **Blaine**, June 14, 2002.

Clark Arneson, Manager of Planning and Economic Development, City of  
**Bloomington**, June 19, 2002.

Ann Bateman, Business Developer, City of **Brooklyn Park**, June 17, 2002.

Chad Wohlers, Planning and Economic Development Specialist, City of **Burnsville**,  
June 14, 2002.

Lee Starr, Community Development Director, City of **Coon Rapids**, June 14, 2002.

Greg Isaackson, Clerk Administrator, City of **Cottonwood**, August 9, 2002.

Mike Conlan, Director of Planning and Development, City of **Duluth**, Executive  
Director, Duluth EDA, June 24, 2002.

Jamie Verbrugge, Assistant City Administrator, City of **Eagan**, June 18, 2002.

James Richter, Executive Director, Economic Development Housing Authority,  
**East Grand Forks**, July 30, 2002.

Don Uram, Director of Community Development and Financial Services,  
City of **Eden Prairie**, June 27, 2002.

Gordon Hughes, City Manager, City of **Edina**, June 25, 2002.

Catherine Mehelich, Director of Economic Development, City of **Elk River**,  
August 1, 2002.

Penny Davis, Office Manager, City of **Fergus Falls**, July 26, 2002.

Gordon Hydukovich, Community Development Director and City Planner,  
City of **Fergus Falls**, July 26, 2002.

David Pederson, City Clerk / Treasurer, City of **Glyndon**, August 1, 2002.

Duane Northagen, Community Economic Development Coordinator, City of  
**Hibbing**, August 12, 2002.

Julie Wischnack, Director of Planning, Zoning, and Building, City of **Hutchinson**,  
July 26, 2002.

Ron Zeigler, Executive Director, **Lake City** EDA, August 14, 2002.

Bob Erickson, City Administrator, City of **Lakeville**, July 2, 2002.

Carol Anderson, Executive Director, Morrison County Community Development  
(**Little Falls**), August 7, 2002.

Daniel Jordet, Deputy City Manager, City of **Mankato**, June 14, 2002.

Al Madsen, City Administrator, City of **Maple Grove**, June 19, 2002.

Melinda Coleman, Assistant City Manager, City of **Maplewood**, June 21, 2002.

Kent Robbins, Workforce Coordinator, **Minneapolis** Community Development Agency, June 18, 2002.

Ron Rankin, Community Development Director, City of **Minnetonka**, June 19, 2002.

Beth Grosen, Business Development Specialist, City of **Moorhead**, June 14, 2002.

Ed Larson, City Manager, City of **Morris**, July 25, 2002.

Craig Wainio, City Administrator, Executive Director Of HRA, City of **Mountain Iron**, August 2, 2002.

David Schnobrich, Community Development Director, City of **New Ulm**, August 6, 2002.

David Stutelberg, Finance Director, Economic Development Director, City of **North Branch**, August 13, 2002.

David Strand, Community Development Director, City of **Owatonna**, August 8, 2002.

Wanda Morgan, City Clerk / Treasurer, City of **Pine River**, August 14, 2002.

Anne Hurlburt, Community Development Director, City of **Plymouth**, July 1, 2002.

Bruce Nordquist, Housing and Redevelopment Manager, City of **Richfield**, June 26, 2002.

Doug Knott, Development Administrator, City of **Rochester**, June 13, 2002.

Terry Spaeth, Administrative Assistant to the City, City of **Rochester**, June 13, 2002.

Cathy Bennett, Economic Development Specialist, City of **Roseville**, June 20, 2002.

Dianne Vesterse, City Clerk-Treasurer, City of **Spring Grove**, August 2, 2002.

Arly Hamman, Mayor, City of **St. Charles**, August 16, 2002.

Bruce Thielman, Deputy Director, **St. Cloud** HRA, June 20, 2002.

Tom Harmening, Community Development Director, City of **St. Louis Park**, June 21, 2002.

Peter Klein, Vice President of Finance, **St. Paul** Port Authority, June 12, 2002.

Don Stewart, Community Development Director, City of **Thief River Falls**, July 26, 2002.

Nickie Roberge, City Administrator, City of **Waterville**, July 31, 2002.

Deb Kramer, Clerk Treasurer, City of **Watkins**, August 6, 2002.

Janelle Schmitz, Planner / Economic Development Coordinator, City of **Woodbury**, June 13, 2002.

Brad Chapulis, Manager of Planning and Economic Development, City of **Worthington**, July 26, 2002.

Dennis Coryell, City Administrator, EDA Director, City of **Wyoming**, August 2, 2000

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## Endnotes

- <sup>1</sup> “The Incredible Shrinking Company,” Corporate Report Minnesota, January, 1988, p. 40; “Amhoist spokesman: Settlement doesn’t mean a misuse of grant,” United Press International dispatch, July 26, 1987.
- <sup>2</sup> See, e.g., New York Times, June 28, 1988, “Duluth Wins Court Ruling on Plant”; Chicago Tribune, June 28, 1988, “Duluth Wins Plant-Closing Case”; New York Times, June 24, 1988, “When a City’s Deal to Save Jobs Sours”; The Bond Buyer, June 28, 1988, “Decision Barring Move of Equipment Financed by IDBs May Stir Other Cities.”
- <sup>3</sup> [http://news.mpr.org/features/199605/01\\_wittl\\_econwar/ewconference.htm](http://news.mpr.org/features/199605/01_wittl_econwar/ewconference.htm)
- <sup>4</sup> A living wage requirement in the original version of the bill was vetoed by Governor Arne Carlson.
- <sup>5</sup> On July 1, 2003, Governor Tim Pawlenty merged Minnesota’s Department of Trade and Economic Development (DTED) with Minnesota’s Department of Economic Security (DES) to create the Department of Employment and Economic Development (DEED). His rationale was the merger of “two core missions: assisting Minnesotans in gaining employment and driving economic development.” See <http://www.deed.state.mn.us/AboutDEED.htm>.
- <sup>6</sup> *Minnesota Corporate Welfare Law ... 2 Years Later*, MAPA, November, 1997.
- <sup>7</sup> Director of Research Arthur Rolnick, who with Melvin Burstein co-authored the influential essay, “Congress Should End the Economic War Among the States” in the 1994 annual report of the Federal Reserve Bank of Minneapolis and the March 1995 issue of the Minneapolis Fed’s magazine *The Region*. The essay is available on the Minneapolis Fed’s website at <http://minneapolisfed.org/pubs/ar/ar1994.cfm>.
- <sup>8</sup> Telephone interview with former MAPA co-director Alexa Bradley, April 25, 2002. In a *Working USA* article, Erik Peterson recalled that for this hearing, “the Duluth Living Wage Coalition mobilized nearly 200 living-wage supporters, and the legislative hearings made front-page news.” Erik Peterson, “Coming Together: Promises and Pitfalls of Minnesota’s Corporate-Accountability Campaigns,” *Working USA*, vol. 5, no. 3, Winter 2001-2002, p. 46, at p. 62.
- <sup>9</sup> 1997 Corporate Subsidy Reform Commission Report, February 6, 1998, p. 4.
- <sup>10</sup> *Ibid* at pp. 4-9.
- <sup>11</sup> St. Cloud Times, May 14, 1997, p. 1A.
- <sup>12</sup> *Time*, November 20, 1998, pages 52-55. “Minnesota: Agribusiness ‘Milks’ Town for Millions,” *Arizona Republic*, November 24, 1998, p. B3. “*Time* reports Albert Lea was milked for corporate welfare,” Associated Press, November 22, 1998. “Workers and plant remain idle after fire in Albert Lea,” *Minneapolis Star Tribune*, July 15, 2001, Metro Edition, p. 1B. “Farmland says it won’t rebuild plant in Minnesota,” The Associated Press State & Local Wire, October 9, 2002. E-mail communication from City Manager Paul Sparks, City of Albert Lea, September 8, 2003.
- <sup>13</sup> Erik Peterson noted that “highly visible corporate welfare deals” pointed out the need to strengthen the law, and Good Jobs First’s “analysis and testimony before the legislature were instrumental in passing the 1999 law.” “Coming Together: Promises and Pitfalls of Minnesota’s Corporate-Accountability Campaigns,” *Working USA*, op cit., at p. 74.
- <sup>14</sup> Minnesota Statutes 116J.994, Subd. 9.
- <sup>15</sup> Minnesota Session Laws 2000, Chapter 482, Section 14, Subdivisions 1 and 2.
- <sup>16</sup> Minn. Stat. 116J.993, Subdivisions 3 (1) and 3 (21).
- <sup>17</sup> Minn. Stat. 116J.994, Subd. 4.
- <sup>18</sup> Minn. Stat. 116J.994, Subdivisions 1 and 4.
- <sup>19</sup> Minn. Stat. 116J.994, Subd. 2.
- <sup>20</sup> Minn. Stat. 116J.994, Subd. 3 (e).
- <sup>21</sup> Minn. Stat. 116J.994, Subd. 7 (b) (10); Minn. Stat. 116J.994, Subd. 9.
- <sup>22</sup> Minn. Stat. 116J.994, Subd. 2.
- <sup>23</sup> Minn. Stat. 116J.994, Subdivisions 2 and 10.
- <sup>24</sup> Minn. Stat. 116J.994, Subd. 3 (a) (3).
- <sup>25</sup> Minn. Stat. 116J.995.

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- <sup>26</sup> Minnesota Session Laws 2003, Chapter 128, Sections 24-27.
- <sup>27</sup> In-person interview, May 29, 2002.
- <sup>28</sup> In-person interview, June 20, 2002.
- <sup>29</sup> Telephone interview, April 25, 2002.
- <sup>30</sup> In-person interview, June 24, 2002.
- <sup>31</sup> In-person interview, June 27, 2002.
- <sup>32</sup> In-person interview, June 18, 2002.
- <sup>33</sup> In-person interview, June 24, 2002.
- <sup>34</sup> In-person interview, May 31, 2002.
- <sup>35</sup> Although we present their responses side-by-side here for contrast, we interviewed Peterson and Conlan independently of each other. We interviewed Peterson first, on June 24, 2002, and we interviewed Conlan by phone using our regular 50-city survey format later the same day.
- <sup>36</sup> The Newsbank query was (business ADJ3 (subsidy OR subsidies)) OR (tax ADJ2 increment) OR (redevelop OR redevelopment).
- <sup>37</sup> *Housing and Redevelopment Authority v. Walser Auto*, 630 N.W.2d 662 (Minn. Ct. App. 2001), *aff'd* 641 N.W.2d 885 (Minn. 2002) (condemnation case); *Walser Auto Sales v. City of Richfield*, 635 N.W.2d 391 (Minn. Ct. App. 2001), *aff'd* 644 N.W.2d 425 (Minn. 2002) (TIF case).
- <sup>38</sup> Malkerson, Bruce D., "Condemnation: Tips for Developers After Richfield/Walser," in *Urban Redevelopment: Redevelopment in Tough Times*, July 1, 2003, Minnesota Institute of Legal Education.
- <sup>39</sup> *Ibid.*, p. 24, citing 635 N.W.2d at 400 n.5.
- <sup>40</sup> *Ibid.*, pp. 19-20.
- <sup>41</sup> Herman, John H. and Hahne, Kathy S., "Tax Increment After Tax Reform," in *Redevelopment After Tax Reform—New Developments in Housing and the City of Richfield/Walser Cases*, June 13, 2002, Minnesota Institute of Legal Education.
- <sup>42</sup> "The Public Price of Private Development," *Minneapolis Star Tribune*, June 10, 2001, Sunday Metro edition, p. 1A.
- <sup>43</sup> *Ibid.*
- <sup>44</sup> *Ibid.*
- <sup>45</sup> *Ibid.*
- <sup>46</sup> *Ibid.*
- <sup>47</sup> *Ibid.*
- <sup>48</sup> "Rybak to kick off bid for Minneapolis mayor; Airport noise foe stresses vision, neighborhoods," *Minneapolis Star Tribune*, January 11, 2001, Metro edition, pg. 1B.
- <sup>49</sup> *Ibid.*
- <sup>50</sup> "The Public Price of Private Development," *Minneapolis Star Tribune*, *op cit.*
- <sup>51</sup> "Election 2001; Mayors' races; For now it's primarily the primary; Final weekend brings big push to get the word out," *Minneapolis Star Tribune*, September 9, 2001, Sunday, Metro Edition, p. 1B.
- <sup>52</sup> "Minnesota Poll," *Minneapolis Star Tribune*, September 23, 2001, Metro Edition, p. 1A.
- <sup>53</sup> "Leaders of the mayoral pack; Rybak, Sayles Belton to face off," *Minneapolis Star Tribune*, September 12, 2001, Metro Edition, p. 1A.
- <sup>54</sup> "Minnesota Poll," *Minneapolis Star Tribune*, *op cit.*
- <sup>55</sup> "Sayles Belton loses bid for third term," *The Associated Press State and Local Wire*, November 7, 2001.
- <sup>56</sup> <http://news.mpr.org/programs/midmorning/listings/mm20030120.shtml> (scroll to Friday programs at the bottom of the page). Copyright 2003, Minnesota Public Radio. All rights reserved. Reproduced with permission of Minnesota Public Radio. (We thank Carrie Thomas of the JOBS NOW Coalition in St. Paul for calling our attention to this program, and we thank Mary Ellen Nolan for her work transcribing the audio recording into text.)
- <sup>57</sup> H.F. 7, 2003 1<sup>st</sup> Special Session, 1<sup>st</sup> Engrossment, Section 18, Subd. 2(5).
- <sup>58</sup> Telephone interview with Mark Nevinski, August 18, 2003.
- <sup>59</sup> Telephone interview with Dave Anderson, July 10, 2003.
- <sup>60</sup> Telephone interview with Bill Lucking, August 11, 2003.
- <sup>61</sup> "Bidding for Boeing draws fire; Efforts are ill-conceived, critics say," *Minneapolis Star Tribune*, July 9, 2003, Metro Edition, p. 1D.

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<sup>62</sup> Ibid.

<sup>63</sup> Ibid.

<sup>64</sup> “States court Boeing while failing to compete in the global marketplace,” *Duluth News-Tribune*, July 21, 2003.

<sup>65</sup> “Bidding for Boeing draws fire,” *Minneapolis Star Tribune*, op cit.

<sup>66</sup> Ibid.

<sup>67</sup> In-person interview, April 28, 2003.

<sup>68</sup> Minn. Stat. 116J.994, Subd. 9.

<sup>69</sup> Peters and Fisher, *State Enterprise Zone Programs: Have They Worked?* (Upjohn Institute for Employment Research, 2002).

<sup>70</sup> <http://www.dted.state.mn.us/PDFs/JOBZfaq.pdf> (questions 46 and 48).

<sup>71</sup> <http://www.dted.state.mn.us/PDFs/JOBZapplication.pdf>

<sup>72</sup> ITEP was Good Jobs First’s parent organization at the time we conducted the surveys in summer 2002.

<sup>73</sup> We had a total of 52 participants because in two communities, two officials asked to be interviewed together in one three-way telephone conversation with our interviewer.