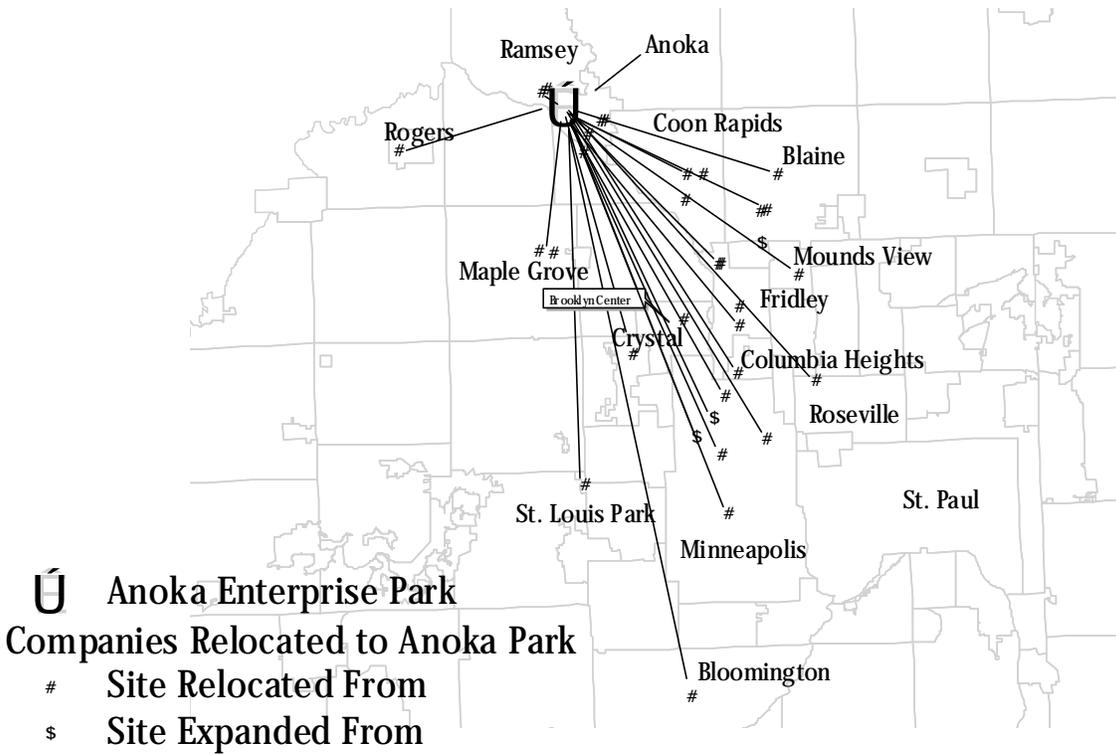


# Another Way Sprawl Happens: Economic Development Subsidies in a Twin Cities Suburb



## Good Jobs First

A Project of the Institute on Taxation and Economic Policy  
January 2000

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# **Another Way Sprawl Happens: Economic Development Subsidies in a Twin Cities Suburb**

## **Executive Summary**

The role of economic development subsidies in urban sprawl has barely been addressed by either academic literature or the media. Research to date focuses on how other public goods – such as highways, schools, and sewers – contribute to metropolitan development patterns. Now, thanks to Minnesota’s exceptional subsidy disclosure law (followed by Maine), we can explore another way sprawl happens.

Since 1994, the Twin Cities suburb of Anoka, Minnesota has made aggressive use of tax increment financing (TIF) to offer free land to certain companies willing to locate in its 300-acre Anoka Enterprise Park. Substantially more than \$7.5 million in such free land subsidies have been granted to date, luring at least 29 companies employing about 1,600 workers into the Park. Most are small and medium-sized manufacturers. An unknown number of other companies are tenants in rental buildings, some of which were also given TIF subsidies.

The City of Anoka was motivated by a desire to improve its relatively poor tax base (caused by a low-value housing mix and high rate of tax-exempted property) and a desire to diversify its industrial base, which was dominated by a few large employers. The Park did achieve these positive goals for Anoka, and had two other benefits as well: it reclaimed 300 vacant acres to productive use; and it cleaned up a contaminated site.

From a regional perspective, however, the subsidized relocations present a very different picture. By many measures, they have had an adverse impact on the Twin Cities area.

Specifically, a detailed case study of the Anoka Enterprise Park finds:

- # The free land subsidy played an important role in determining where, within the Twin Cities metro region, companies relocated. For a variety of “push” factors — mostly the need to expand — the companies were seeking new sites. As a “pull,” Anoka’s deal so exceeded the offers of other cities that it was an “important” or “decisive” factor for most of the companies as they chose a new site within the region. Interviews with company executives and public officials, as well as contemporary press accounts, all support this finding.

- # The 29 companies that relocated or expanded to the Park were all originally located within the Twin Cities seven-county region.
  - < Fifteen companies came from Minneapolis or six inner-ring suburbs to its north and west. Six of the 15 companies were originally in Minneapolis and four in Fridley. Direct job loss to the seven cities is estimated at 450.
  - < Thirteen of the remaining 14 companies came from suburbs farther north or northwest of Minneapolis, including three each from Coon Rapids and Blaine. Ramsey and Maple Grove each lost two firms. The four largest relocations were from Ramsey, Coon Rapids, Bloomington (the only relocation from south of Minneapolis) and Plymouth. Direct job loss to the eight suburbs is estimated at 1,150.
  - < Altogether, 26 of the 29 companies that relocated or expanded — with more than three-fourths of the jobs — were located either within the urban core area or closer to it than Anoka.
  
- # The net effect of the relocations was to move jobs out of or away from the urban core and closer to the edge of the 2020 Municipal Urban Service Area (MUSA). This has several implications.
  - < The jobs are now further from the region's largest concentrations of people of color, households receiving public assistance, and households in poverty.
  - < Bus service to the Park was not initiated until more than four years after it opened, and service is so infrequent that all of the companies are now deemed inaccessible by public transportation. Before relocating, 23 of the 29 companies, with more than 70 percent of the employees, were accessible by transit. Current plans for the Northstar Corridor commuter rail system would not make the Park accessible by public transit; the closest possible station will likely be in downtown Anoka, more than a mile from the Park.
  - < Workforce commuting patterns for the companies have very likely shifted outward, so that an increasing share of the companies' employees are commuting from outside the MUSA.
  
- # The relocations represent an inefficient regional use of development subsidies.
  - < The relocations do not represent a net gain in economic activity for the region or the state. The companies that relocated to the Park clearly had

the ability to locate elsewhere without such a subsidy, and most if not all would have. Only one is known to have actively considered leaving the region. Therefore, from a regional perspective, the Anoka subsidies represent a transfer of property tax revenues away from public services and into free land for the companies.

- < The millions of dollars subsidizing the relocations represent a public investment in land subsidies, but the region's greatest economic development challenge is a skilled labor shortage. The region has no natural barriers causing land shortages, but it is at risk of losing future job growth because incumbent workers lack critical skills. Ironically, as the Park's physical plant booms, the adjoining Anoka-Hennepin Technical College is threatened with closure.

The findings suggest numerous policy options, including:

- # A new state anti-piracy rule making intrastate corporate relocations ineligible for development subsidies such as TIF. Or, short of a piracy ban, safeguards such as:
  - < a requirement that companies seeking relocation subsidies consult with state or regional authorities, and with the city they are leaving; and
  - < an impact statement requirement for subsidized relocations, with data on how many workers are likely to be dislocated, how the relocation will affect future commuting distances and modes of commuting and whether the new location is accessible via public transportation.
- # New state or regional rules to make development subsidies "location-efficient," by restricting their use to sites that are within a quarter-mile of frequently-served public transportation routes.
- # Consideration of improved bus service to the Park, especially from Minneapolis and its inner-ring suburbs, including express bus service.
- # Consideration of a shuttle bus link to the Park from a future commuter rail line.
- # Intensified industrial retention, including accelerated clean-up of brownfields within the core.
- # Additional research to guide future policy-making: an analysis of the state's first disclosure data that will specify subsidized corporate relocations, due out in June of 2000. The data will require companies to provide old and new addresses and an explanation of why they did not use the subsidy at their old location.

## **Anoka's Strategy vs. Regional "Smart Growth" Priorities: A Balance Sheet**

In some respects, Anoka's strategy to develop its Enterprise Park clearly clashes with regional "smart growth" development policies, including principles articulated by Governor Jesse Ventura.<sup>1</sup> But by other measures, the Park meets criteria for good economic development. To summarize the pluses and minuses:

### **On the Positive Side**

- # The Park reclaimed vacant industrial land that was partially contaminated.
- # The Park is inside the Metropolitan Urban Service Area (MUSA), so it meets the Metropolitan Council's goal of using land served by existing infrastructure (roads, utilities, schools, and sewers, though not public transportation).
- # The Park created new jobs in a city with a stagnant tax base and generally lagging economic well-being (although the subsidized employers are not obligated to hire Anoka residents).
- # The Park has diversified Anoka's industrial base and will, after the TIF deferral period, diversify the City's tax base.
- # Three of the relocations moved jobs slightly closer to the urban core (but not significantly).

### **On the Negative Side**

- # The Park subsidized the relocation of at least 450 jobs away from Minneapolis and six inner-ring suburbs. About 165 more jobs were relocated all the way from Bloomington. Some low-wage workers did not keep their jobs.
- # Many of the subsidized relocations made jobs less accessible to low-income and minority residents of the Twin Cities core area.
- # More than 70 percent of the relocated jobs went from being accessible by public transportation to being not accessible.
- # The Park subsidized the relocation of about 1,600 jobs from other cities, creating more pressure on cities in the region to grant similar subsidies, with no net economic gain.

- # Anoka provided millions of dollars in land subsidies, although the region's greatest economic problem is a skilled labor shortage. The region has no shortage of land, but it is at risk of losing future job growth due to a skilled labor shortage.
- # The Park's relocation of jobs changes some of the companies' commuting patterns, increasing the number of commuters from beyond the MUSA and outside the seven-county metro area.
- # From a net regional perspective, the Anoka subsidies represent a transfer of property tax revenues away from public services and into free land for the companies. The companies that relocated to the Park had the ability to locate elsewhere without such a subsidy, and most if not all would have. Only one is known to have actively considered leaving the region.

## **Discussion and Conclusions**

We conclude that the subsidy-fueled Anoka Enterprise Park — while serving many worthy local development goals — has also contributed to urban sprawl in the Twin Cities. It has subsidized relocations that have reduced economic opportunities for inner-city residents. It has not created net new economic activity for the region as a whole. And it has shifted some economic activity closer to the urban fringe, where commuters arrive from beyond the MUSA. Those commuters will likely have longer commutes than the regional average. They will also use roads, build homes, raise children who need schools, and otherwise contribute to new development outside the MUSA.

Given the Park's location in the state's hottest growth corridor, adjacent to an arterial highway in an area with a favorable labor supply, the Park's land would very likely have been developed eventually. The TIF/free land strategy accelerated the process and gave the City more control over the Park's development and its mix of users. However, the relocations had negative outcomes for core-area residents, including poor households, people of color, workers who commute by bus, and families seeking to leave public assistance.

## **Foreword to the Citizens of Anoka and of Minnesota (And to Everyone Else)**

This is the second analysis of economic development incentives in Minnesota issued by Good Jobs First/TTEP in the last year. We are pleased by the productive dialog that ensued after we issued *Economic Development in Minnesota: High Subsidies, Low Wages, Absent Standards* in February 1999.

However, we also appreciate the fact that some Minnesotans may feel that our studies suggest the State is especially loose in its use of development incentives. That is not the case. We chose to perform these studies because of Minnesota's first-in-the-nation subsidy disclosure law, which generates unique data that has greatly facilitated our analysis. We have issued other publications and statements commenting on development deals in many other states, including Alabama, Missouri, New York, Louisiana, Virginia, California, Illinois, Oregon, Kentucky, and Texas.

Nationally, other states are enacting disclosure or publishing analyses, and other groups are releasing data. Maine followed Minnesota in enacting annual subsidy disclosure in 1997. That state began generating its first incentive data in mid-1999, which has just been analyzed and published by a research organization.<sup>2</sup> The State of Ohio recently published a massive outside evaluation of its entire development system.<sup>3</sup> Connecticut has a less robust form of disclosure which has enabled less-detailed studies there. A network of groups in Kentucky recently released a large study of that state's development programs.<sup>4</sup> Several other states have fragmentary forms of disclosure covering various programs. State auditors and oversight committees routinely publish studies on development incentives.

All of which is to say: we are not singling out Minnesota for criticism; we just cannot avoid its high-quality data. And we believe that more information is always beneficial to effective public policy making. In that spirit, we offer this study to readers nationwide, and we say explicitly here: this study neither states nor implies that Minnesota is especially wasteful in its economic development practices compared to other states. Instead, we hope that readers will rightly admire Minnesota's pioneering sunshine law and make their own inquiries into whether or not economic development subsidies are contributing to sprawl in their communities.

To the citizens of Anoka, we add this: we acknowledge – and detail here – how the City's aggressive use of incentives was well-motivated by a history of tax-base stagnation and a struggle for industrial retention. Reasonable people may disagree about the particulars – or about the regional perspective which informs our analysis – but Anoka's intentions were altogether honorable. Local interests sometimes conflict with regional priorities, and this case appears to be one such instance.

## **Introduction and Acknowledgments**

This exploratory analysis, the first of its kind, was made possible by Minnesota's first-in-the-nation development subsidy disclosure law, first enacted in 1995 and substantially amended by the Minnesota Legislature in May, 1999.

A previous report issued by Good Jobs First/ITEP in February 1999, *Economic Development in Minnesota: High Subsidies, Low Wages, Absent Standards* (on the Web at <http://www.ctj.org/html/minmenu.htm>), cites eight instances in which tax increment financing was used to make grants to companies relocating operations from within the Twin Cities region. This report details many more such instances, buttressing our earlier finding that relocations are often the recipients of development incentives.

Among that report's policy options was the idea that the state could make corporate relocations ineligible for future incentives. The Minnesota Legislature in its May, 1999 amendments chose instead to obtain more data on the issue by requiring that annual disclosure reports include the following information:

1. the location of the recipient [company] prior to receiving the business subsidy; and
2. why the recipient did not complete the project outlined in the subsidy agreement at their previous location, if the recipient was previously located at another site in Minnesota.<sup>5</sup>

Without such data (which will be published for the first time in June 2000), this study relied on very labor-intensive methods for tracking the details of corporate relocations analyzed here. Future analysis will be greatly facilitated by data from the amended law.

We wish to thank our many sources, especially Anoka's Director of Community Development and Assistant City Manager Robert Kirchner, the 14 companies that granted us interviews, the development officials in communities that lost employers, numerous scholars, Russ Adams and the members of the Alliance for Metropolitan Stability (a Twin Cities coalition of social justice and environmental groups), and Scott Elkins and 1000 Friends of Minnesota. We also wish to thank Jessica Whalen, who provided research assistance in Minnesota, and our fellow GJF/ITEP staffers who assisted us: Fiona Hsu, Tyson Slocum, Michael Ettlinger and Robert McIntyre.

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## **Defining Our Terms: Tax Increment Financing and Urban Sprawl**

### **Tax Increment Financing (TIF)**

TIF is the most complex and controversial development subsidy in Minnesota.<sup>6</sup> In creating a TIF district, a city defines a “project area” for development or redevelopment. It also designates a subset of the project area as the “TIF district.” The city then splits future property tax revenues from the TIF district into two separate streams. The first stream is set at the level of taxes due on the current valuation; those taxes continue to flow to the school district, the city, and the county. The second stream is the tax increment; it consists of the increase in taxes resulting from rising property values associated with the new development. In younger TIFs, TIF proceeds may only be spent within the project area; older, less-regulated TIFs have ways to spend funds outside the project area as well.<sup>7</sup>

As of 1996, there were 392 TIF authorities in Minnesota administering 1,830 TIF districts. They captured \$231.4 million of property tax capacity in 1997, or 6.2 percent of the state’s total tax base.<sup>8</sup> TIFs in Minnesota are not subject to any state rules concerning wage requirements or dollars-per-job assistance caps. However, under 1999 state amendments, cities must now embed each TIF deal with public policy goals, including wage standards. That is, each Minnesota city now sets its own TIF standards.

The Minnesota Legislature has tightened TIF rules several times in the last decade, but TIFs remain the most versatile development tool Minnesota cities have. Their most common use has been to write down the price of land for developers. TIF dollars also pay for public improvements such as roads, sewers and utilities to newly-developing areas, improvements to streets or construction of new roads, and downtown improvements. TIF proceeds may be used to issue bonds for activities such as site preparation or infrastructure. TIFs are increasingly used to reimburse developers on a “pay as you go” basis, enabling developers to obtain private loans, while shielding government agencies from the risk of up-front expenditures if the development fails to materialize.<sup>9</sup>

State law requires that a company benefitting from a TIF certify that the development would not occur “but for” the TIF assistance. This has proven to be a problematic issue. In its 1996 analysis of TIF in Minnesota, the state’s Legislative Auditor found that cities use six different interpretations of the “but for” test. One was:

A city recognizes that the proposed development would occur without assistance, but it uses TIF to make sure the development occurs in this city and not another, and at a location consistent with the city’s development goals.<sup>10</sup>

Minnesota cities control TIF, even though school district and county revenues are also diverted. The State reimburses school districts for some of the revenues lost due to TIF (operating revenues but not capital costs). State sources estimate such reimbursements cost the State \$112 million in 1997.<sup>11</sup>

Counties are thus the net revenue losers in TIF, especially if a deal would have occurred in the county anyway. The Metropolitan Inter-County Association (MICA) seeks to change TIF rules to grant counties more control over and benefit from TIF districts. MICA seeks new powers for counties to separately determine whether they will make a contribution to any proposed tax increment district and, if so, the amount. It also seeks county control over tax increment revenues generated that exceed the amount needed to retire existing bonds. MICA also seeks an overall limitation on the percentage of tax capacity that can be captured within tax increment districts. MICA cites wide variation in cities' use of TIF, with some having more than 15 percent of their value captured within TIF districts, while other similar cities do not use TIF at all.<sup>12</sup>

## **Urban Sprawl**

Urban sprawl typically refers to development characterized by low density, lack of alternative transportation options, and strict separation of residential and non-residential property. Combined with increased spatial separation of jobs from housing, these phenomena increase dependence on automobiles and average time spent driving, and are associated with increased spatial concentrations of poverty. Sprawl is also associated with consumption of open space, neglect of central city infrastructure and services, and fiscal strains produced by rapid suburban growth.

There are many possible contributing factors to sprawl, including: some people's desire for large-lot/low-density housing; white flight from urban areas with minority residents; lack of regional planning; cities competing for development instead of cooperating; redlining, or geographic discrimination by lenders and insurance companies; crime; contaminated land or "brownfields" in core areas; restrictive suburban zoning that effectively excludes multi-unit dwellings and mixed-use development; federal capital gains tax rules that used to encourage people to buy ever-larger homes; the low price of gasoline; declining quality of central city schools; and large federal highway spending coupled with comparatively little funding for public transportation.

Urban sprawl is also associated with the decentralization of entry-level jobs in the manufacturing, wholesale and retail sectors, moving work further from concentrations of low-skilled, unemployed workers. The lack of affordable suburban housing and adequate public transportation in the suburbs effectively cuts central city residents off from regional labor markets.<sup>13</sup> Public agencies seek to address these mismatches with transportation and housing programs, but employer decisions to locate on the fringe of metro areas, often away from public transit, are a key cause of the problem. When public funds subsidize such decisions, legitimate public policy concerns arise.

## **Development Subsidies, Relocations, and Sprawl: A Little-Understood Subject**

Ever since 30 states competed for the General Motors Saturn auto assembly plant in 1985 – complete with several governors pitching their wares on the Phil Donahue Show – media reports have created the misleading impression that development subsidies and companies relocating are primarily an issue between states rather than within them.

Some large companies – especially those with multiple facilities – do have the ability to pit states against each other. However, as this study documents, many corporate relocations occur within the same metro region, enabling companies to maintain ties to their labor force, customers, suppliers, and other business basics.

There is very little scholarship on intra-regional corporate migrations, despite their obvious problematic implications for urban development patterns and regional economic growth. Although possible explanations for employment decentralization are well developed, the role of economic development subsidies in the process has not been adequately examined.

There are at least three ways development subsidies can contribute to sprawl:

### **1. Localities Use Development Subsidies to Lure Companies Away from the Urban Core**

If suburban jurisdictions were more willing or able to offer incentives than urban core areas, then the net effect of subsidy use would be to pull companies toward the edge of metro areas. Because of the lack of data on intra-regional migrations, few studies have attempted to determine whether such a pattern exists.

A recent study of development patterns and spending in Phoenix, Arizona found that “[t]axation and expenditure policies of municipal governments have strong spatial biases that tend to intensify differences between inner-city and suburban areas.”<sup>14</sup> The authors conclude that this bias provides an additional incentive for higher and faster rates of suburbanization. Our analysis of the Anoka Enterprise Park provides another example to support this theory. As additional jurisdictions adopt disclosure laws for economic development subsidies, we will be able to explore this question more fully.

In the absence of such data, researchers have focused on what characteristics determine a jurisdiction’s tendency to offer incentives. Generally, that research has found that the poorest places and places with relatively high ratios of jobs to residents are more likely to use incentives than places with higher incomes and better fiscal health.<sup>15</sup> Cities with lower assessed valuation per capita (which characterizes Anoka) were found to be more willing to provide business incentives, especially TIFs, tax abatements, and loans, all of which defer spending in the short run.<sup>16</sup> But this research

has typically compared cities in different regions, rather than comparing jurisdictions within a region. Again, we hope that with additional disclosure, intra-regional comparisons can be made.

## **2. Competition for Development Stymies Regional Smart Growth Efforts**

The competition for development activity makes implementation of regional goals difficult. When communities use subsidies to compete for development activity, they subvert regional tools for rationalizing growth and channeling development. This bias can affect new regional migrations also; once a company has decided to locate within a given metro area, the various incentives offered by jurisdictions within that area can greatly determine its final location.

A joint study by the Chicago Metropolitan Planning Council and the Federal Reserve Bank of Chicago suggests that “the search by communities for development is one factor in the rapid outward expansion of the region. This expansion is creating costs.”<sup>17</sup> The pressure for development makes it difficult for jurisdictions to pursue other regionally desired goals such as preservation of open space, affordable housing, or concentrating new jobs near existing transportation infrastructure.

In some states, such as California and Utah, sprawl has been tied to cities’ competition for sales tax revenues, which constitute a large local revenue source. Known in policy terms as “fiscalization of land use,” cities grant economic development subsidies to “big box” retail projects (e.g., auto malls, Home Depot, Wal-Mart) in order to capture the local share of the resulting sales tax revenues.<sup>18</sup> Big-box retail outlets promote dependency on autos, and are usually poorly served by public transit and pedestrian walkways. Big-box stores are also often accused of cannibalizing sales from retail strips in denser areas that do have transit.

When development subsidies favor suburban jurisdictions, for whatever reason, they exacerbate barriers to redevelopment of the urban core. Similarly, when subsidies favor corporate developments that are inaccessible to transit and leapfrog existing development, they directly contribute to urban sprawl. Until subsidies are removed as a contributing factor to the problem, smart growth efforts will be severely hampered by intra-regional competition for development.

## **3. Development Programs May Go to Areas That Were Not Intended Beneficiaries**

Many development programs were originally intended to channel resources to disinvested core areas within a metropolitan region. Unfortunately, research suggests that even programs designed this way often wind up benefitting suburban areas. A study of the geographic distribution of business loans made under the Small Business Administration’s 504 loan guarantee program in the Chicago metro area found that

higher income and outlying zip codes received more loans than lower income and closer-in areas.<sup>19</sup>

Several studies have found that incentive programs such as industrial development bonds, intended to benefit distressed areas, are in fact used more often by more prosperous jurisdictions.

A 1995 Kansas City Star series on sprawl named several cases of prosperous suburbs providing tax breaks to companies moving from depressed areas in the urban core. The paper found the deals particularly galling because the tools being used by the wealthy suburbs were originally intended to help central cities. “Created to combat sprawl, tax breaks now subsidize it,” the report concluded.<sup>20</sup>

A very recent series in the Milwaukee Journal Sentinel cited the example of a mutual fund company located in suburban Menomonee Falls which received a \$3 million tax credit. The deal was justified because it is “close to Milwaukee County, which continues to have higher unemployment than the state average.” A state senator commented: “[i]t’s essentially a government subsidy to promote sprawl.”<sup>21</sup>

In at least one place, residents are suing to block a TIF deal, saying their rural area is not “blighted.” In the St. Louis suburb of Hazelwood, a citizens’ “Yellow Ribbon Committee” in the area known as Missouri Bottoms seeks to block a TIF business park deal and thereby preserve farmland and wetlands.<sup>22</sup>

## **The City of Anoka and Its Enterprise Park: From Sand Pit to Showcase**

The city of Anoka is the seat of Anoka County, which forms a northern “slice” of the seven-county Twin Cities metropolitan area.<sup>23</sup> Anoka is located about 15 miles up the Mississippi River, north and slightly west, from downtown Minneapolis. It is a predominately blue-collar city, with a population of about 17,800, of which nearly 98 percent was white as of the 1990 census.<sup>24</sup> Anoka claims to be the “Halloween Capital of the World” for its enormously popular Halloween Festival; it is also known for being the hometown of public radio personality Garrison Keillor.

Anoka city’s population grew more slowly than many other parts of the Twin Cities area between 1990 and 1998, with less than 5 percent growth. Over the same period, Anoka County’s population grew by nearly 20 percent, and the region’s by 10 percent. Anoka County was hardly the fastest-growing county in the region, but it did exceed Hennepin County (including Minneapolis), which grew by only 3 percent, and Ramsey (including St. Paul), which lost population. The fastest-growing county in the state is Sherburne County, to the northwest of Anoka, which grew by 43 percent. Minnesota’s next three fastest-growing counties are in the seven-county region: Carver, Scott, and Washington counties, to the west and east of the core, all grew by over 33 percent.

Although Anoka is located a substantial distance from the Twin Cities, its economic and tax base most resembles that of an inner-ring suburb such as Brooklyn Center. That is, in the visual iconography of Myron Orfield’s book *Metropolitica*, Anoka is an orange-colored, inner-ring suburb, the only one which is not contiguous to the Twin Cities or another adjoining inner-ring suburb. Under the Twin Cities’ metropolitan fiscal disparities system in which increases in commercial-industrial property tax revenues are partially shared, the City of Anoka has been a net revenue gainer.<sup>25</sup> Fully one third of the city’s land is tax exempt, further stressing the city’s tax base. Non-taxable facilities in Anoka include both city and county properties, a regional drug and alcohol treatment center, Anoka High School (the state’s second-largest), a golf course and parks.<sup>26</sup>

Anoka’s tax base is also weakened by its relatively low-priced housing stock, which consists mostly of less expensive “starter” homes – bungalows and ramblers built shortly after World War II – as well as rental units built in the late 1960s and early 1970s when the City demolished some older, deteriorating housing. It also has a smaller number of higher-priced homes, especially close to the Mississippi and the smaller Rum River, but lacks sufficient “move-up” mid-priced homes. Its downtown retail district suffers from a loss of sales to newer retail strips on the eastern side of town that include some “big box” establishments.<sup>27</sup>

In addition to its tax base difficulties, Anoka struggled during the 1980s with the threat of deindustrialization. Like other mature industrial cities, it faced two classic industrial retention challenges: heavy dependence upon a dominant manufacturing employer, and smaller family-owned companies that in some cases lacked successors to sustain them.<sup>28</sup> The City organized the Anoka Business Call Team in 1984 to help retain companies. Composed of local business owners, City officials, and Chamber of Commerce representatives, the Call Team made sure companies were aware of local business services and otherwise encouraged companies to stay or grow in Anoka.<sup>29</sup>

The dominant manufacturer was Federal Cartridge Corporation (FCC), best known for its pistol, rifle and shotgun ammunition lines. Owned by a foundation and paternalistic in its management style, FCC had even built Anoka a new City Hall and public swimming pool in the 1950s. By the 1980s, FCC employed more than 2,500 workers, and its Hoffman Engineering subsidiary, a pioneering producer of metal enclosures, comprised more than half of the business. FCC was owned by the Olin Foundation, but under a 1969 federal tax law change, the non-profit Olin had to divest the for-profit FCC by 1989. In 1985, a management group bought FCC through a leveraged Employee Stock Ownership Plan (ESOP), in a deal that included ESOP investment banking pioneer Louis Kelso.<sup>30</sup>

The company, renamed Federal-Hoffman, Inc. (FHI), faced a new life with more than \$100 million in buyout debt and outside investors. While it benefitted from a highly productive workforce and large market shares, FHI's buyout debt meant it lacked cash for new investment in a period when manufacturing automation was giving competitors new cost advantages. In 1988, FHI was sold to Pentair, a diverse, publicly-traded industrial conglomerate based in Roseville Minnesota, with a reputation for good production management and adequate reinvestment. Pentair injected money into both sides of Federal-Hoffman for new facilities and equipment and for new products, and it initiated an ESOP plan as an anti-takeover device. In a period during which many companies such as Federal-Hoffman had been acquired, disinvested and shut down, Anoka's largest private employer had dodged the bullet of deindustrialization.<sup>31</sup>

So it was against this backdrop – a low tax base, low-end housing stock, and its dominant private employer luckily surviving two ownership changes – that the City of Anoka considered what to do with about 460 underutilized acres in its northwest corner that the City had annexed in 1974. The eastern half had been surface-mined for sand, and the operations of H & S Asphalt dominated the area's northeast corner. A railroad overpass built in 1987<sup>32</sup> to bridge the land to main artery Highway 10 had failed to generate redevelopment. A fiscal impact study to determine what uses would generate the most new taxes concluded that dense office buildings and higher-quality industrial parks would generate the most revenue. Low-priced housing was deemed negative because of the additional school costs it would generate.<sup>33</sup>

Responding to neighborhood preferences for some housing, the City parceled about 160 acres on the eastern end for mid-priced housing. The remaining 300 acres would be used for an industrial park. To manage the park development process, the City hired a dynamic consultant, Gary Stout, in late 1993. Besides previous consulting work for Anoka, Stout had worked as director of the St. Paul Department of Planning and Economic Development for Mayor George Lattimer between 1977 and 1980, when that city made aggressive use of development subsidies, including large sums of federal support, to boost its downtown revitalization efforts. Stout had organized the first national conference on TIF, in 1987.<sup>34</sup>

In a whirlwind series of events that brings Vince Lombardi to mind, Stout organized the City's staff and elected leadership into an economic development fire drill. Beginning in early 1994, Anoka, acting as its own developer and using TIF, took options and acquired the remaining 300 acres in approximately seven different parcels. It paid prices of between six and 20 cents per square foot and would later sell the land or give it through subsidies at \$1 per square foot. Although the City would be deferring the new tax revenues five years by diverting them into the TIF, Stout concluded that the strategy would in the long run both enhance Anoka's tax base and diversify its manufacturing mix. He convinced the City Council to use TIF to reclaim the mined land, clean up some minor debris, build streets, curbs, sewers, street lights, and utility hook-ups, and then offer free land to attract industrial investments into the newly-ready Park. The City also paid ancillary costs such as attorney's fees for legal documents, the City's consultant charges, and the TIF application fees. Stout and the City sought to expedite the dealings with companies by using simple Memorandums of Agreement. The memoranda gave companies a lot of flexibility in initial negotiations and helped avoid lengthy legal reviews. A site of contaminated sand of about 25 acres was cleaned up at a cost of about \$579,000 (three fourths of which was state-funded, one fourth TIF). About 100 acres overall, including some minor dump sites, were cleaned up.<sup>35</sup>

Able to offer free land and development services, Stout designed an aggressive recruitment strategy for the Park. Publicized primarily through industrial realtors, Stout's Anoka subsidy deal was so lucrative it enabled the City to pick and choose companies – primarily light manufacturing and distribution facilities – to occupy the Park. The City dealt with only a sixth of the companies that called. The deal was this: if the company met the City's screening criteria (adequate financial strength, no large pollution emitters, not too many machine shops, no "clusters" of similar companies, able to dispose of old property), and agreed to set levels of new investment and employment (\$250,000 and 10 jobs per acre, or one square foot developed for each 3.5 square feet granted), the Park would effectively give the company free land. Companies were also given the option of purchasing additional land at \$1 per square foot for future expansion, with the agreement that if they built on it within five years, Anoka would refund the purchase price. With the new companies pledging to negotiated property tax assessment values on the new factories, Anoka supported the TIF obligations that were used to buy and clean up land and build infrastructure in the

Park. A small number of rental spaces and office buildings were also sited, some without the land subsidy. Stout wrote that “[l]ocal businesses were actively recruited for the park so that there would be no political fallout for offering something to an out of town company that was not offered to local companies first.” At least three Anoka companies came.<sup>36</sup>

Anoka’s strategy produced dramatic results by 1996, and by 1999 it would see the 300 acres nearly filled up with more than 30 companies and about 2,000 workers.

Table 1 in the next section summarizes the relocations and expansions.

The first company to arrive was Lund Industries (relocated from Coon Rapids, where it had employed about 250 workers). Lund built a 228,000 square-foot facility that opened in early 1995. (Lund had been founded in Anoka and grown in Coon Rapids.) Lund’s arrival quickly prompted two of its supplier firms – Royal Engineering and Manufacturing (relocated from Blaine) and Reliant Engineering and Manufacturing (also relocated from Blaine) to also move to the Park. However, Anoka deliberately avoided a “cluster” strategy of related firms. Lund later added 104,000 square feet to its facility; both Reliant and Royal also expanded their Anoka facilities.<sup>37</sup>

Other 1995 arrivals included: Neotech Research (relocation within Anoka); Copper Sales – a 200,000-square foot facility (relocated from Plymouth, where it had employed about 140 workers); National Communications Services (relocated from Maple Grove); First Team Sports (a 204,000 square foot facility into which relocated from Mounds View; the firm had begun in Anoka); James Automotive Industries (a start-up); and Central Power Distributors (relocated from Roseville).<sup>38</sup>

Projects underway by late 1995 and 1996 included: Wisconsin Magneto (relocation from Fridley); Rainbow Signs (the largest building in Anoka city history at 335,000 square feet, and the farthest relocation in this study, from Bloomington, where it had employed about 165 workers); Artom (relocation from Coon Rapids); Victory Tool (relocation from Rogers); Machine and Process Design (relocation from Maple Grove; it later expanded its Anoka plant); Pioneer Packaging and Printing (formerly Kimm Printing, a relocation from Minneapolis where it had employed 75 workers); Ballantine, Inc. (relocation from Fridley); Hakanson Anderson Associates (relocation within Anoka); and Arrowhead Tool (relocation from Blaine). Additionally, the new McKinley Business Center reported six tenant companies. In August, 1996, a new electric substation came on line in the Park after a new transmission line was completed.<sup>39</sup>

Projects launched in 1997 included: Power Generation Service, Inc. (relocation within Anoka); International Building Concepts (relocation from Minneapolis); Wiltec Industries (relocation from Crystal); E Street Makers (relocation from Columbia Heights, born in Anoka); ProLabel, Inc. (relocation from Brooklyn Center); Rise, Inc. (expansion of a

regional service group for mentally disabled adults); Mentor Urology (expansion from a facility in Minneapolis); and S & S Tool (relocation from Fridley).<sup>40</sup>

Park additions in 1998 and 1999 included: Meier Tool (relocation from Champlin); Case & Associates (relocation from Coon Rapids); Retailer Services Corporation (relocation from Minneapolis); Midwest Fixture Group (an expansion of a facility based in Minneapolis); F. Dohmen Company (172,000 square feet, relocation from Minneapolis); Mate Precision Tooling (200,000 square feet, a relocation from Ramsey slated to be completed by mid-2000, with about 345 employees, making it the largest relocation into the Park); the expansion of Lund Industries; and the Thurston Business Center office building. Anoka's development director says the City repeatedly advised Mate Precision Tooling not to leave Ramsey (which borders Anoka to the north).<sup>41</sup>

Today, the Anoka Enterprise Park is a bustling, well-kempt development with only four remaining vacant lots. It has more than 30 owner-occupant employers as well as some tenant employers. Cumulatively, they employ approximately 2,000 workers. The Park has an architectural review board dominated by resident companies that enforces covenants on construction materials, signage and landscaping. Nestled near one end is a pond that provides a lunchtime amenity and which saved the companies the need to construct storm ponds. Overlooking Stout Pond is a plaque memorializing Anoka's consultant Gary Stout, who died in 1997 at age 55.<sup>42</sup>

## **Migrations from the Core: Minneapolis and Six Inner-Ring Suburbs**

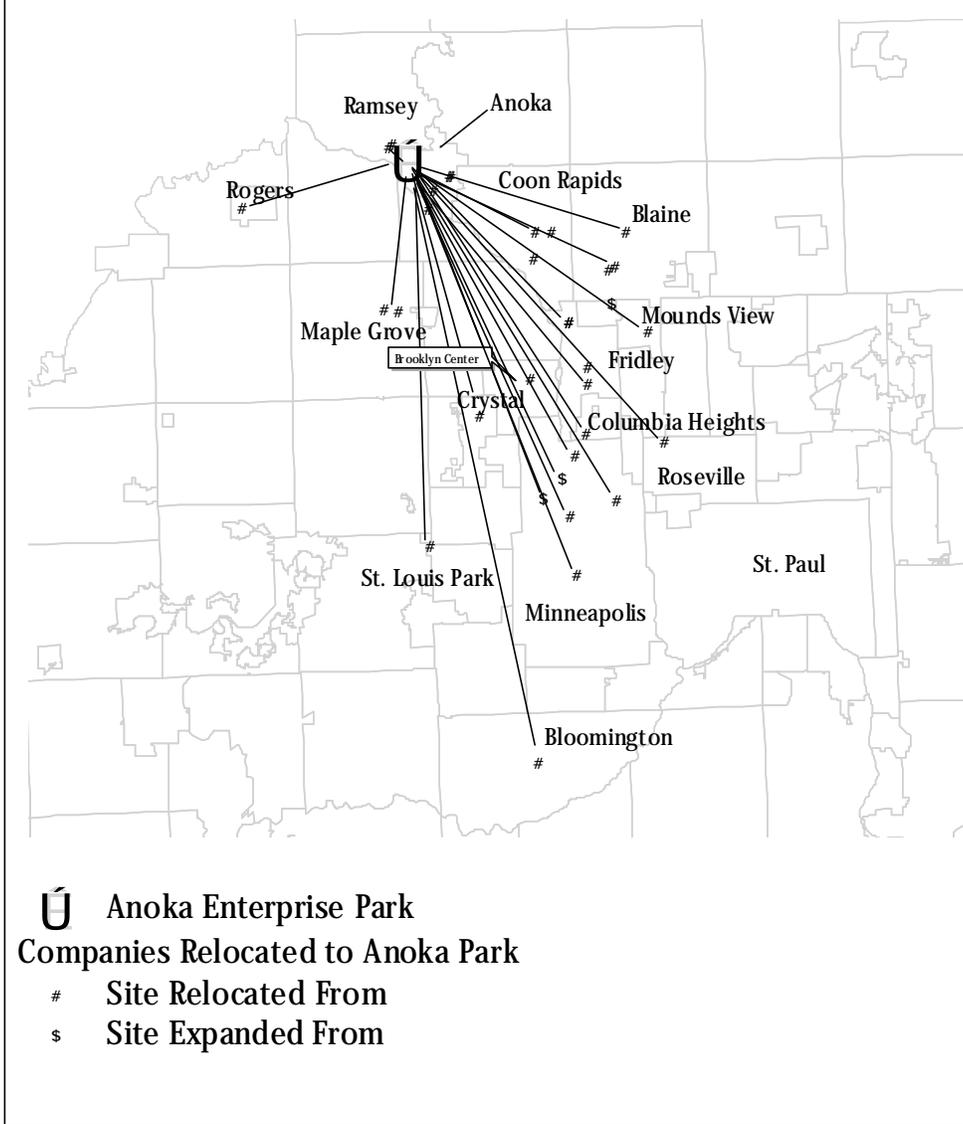
As Figure 1 dramatically illustrates, the relocations were a large movement away from the region's core and its surrounding suburbs. The City of Minneapolis and six inner-ring suburbs just to its north contained fifteen of the companies. Minneapolis lost four companies and lost the expansion of two others. Fridley lost four companies, and the cities of Roseville, Columbia Heights, Mounds View, Brooklyn Center and Crystal each lost one. Altogether, the relocations cost the seven cities about 450 jobs, 200 from Minneapolis and 250 from the six suburbs.<sup>43</sup>

The largest worksite relocated from the six cities was First Team Sports from Mounds View, with about 90 jobs. The other eight companies were smaller, with employment ranging from 10 to 30. The largest relocations from Minneapolis were Kimm Printing (about 85 employees) and F. Dohmen (about 80).<sup>44</sup>

In addition to the direct job loss, these cities lost the job growth at the companies that moved. While precise figures are difficult to obtain, it is evident that at least a few of the 13 relocating companies have enjoyed substantial growth. Carbide Tool appears to have roughly doubled its employment, to around 50.<sup>45</sup> International Building Concepts reported 10 new jobs.<sup>46</sup> The two Minneapolis companies that expanded into Anoka have also reported job creation: eight at Mentor Urology<sup>47</sup> and four at Midwest Fixture.<sup>48</sup>

Three companies moved to the Park from within the city of Anoka: Hakan Anderson, Neotech Research, and Power Generation Service. Another company, Rural Community Insurance, had moved from another Anoka location into the Park in 1988.

**Figure 1. Corporate Relocations and Expansions to the Anoka Enterprise Park**



**Table 1. Summary of Anoka Enterprise Park Relocations, Expansions and Subsidies**

Company (* = Mfr. or Distributor)	Old Address	New Address	Relocation/Expansion	TIF/Other Subsidy <sup>49</sup>	New FT Jobs Pledged
Able Management	9920 Zilla Street NW Coon Rapids 55433	(Landlord)	(Landlord)	\$321,043	0
Arrowhead Tool & Design*	1640 94th Ln. NE Blaine 55449	700 Lund Blvd. Anoka 55303	Relocation	\$166,298	1
Artom, Inc.*	1408 Coon Rapids Blvd. Coon Rapids 55433	1120 Lund Blvd. Anoka 55303	Relocation	\$64,550	1
Ballantine*	7800 Elm Street Fridley 55432	840 McKinley St. Anoka 55303	Relocation	\$179,550	2
Capco Abrasive*	14059 Sunfish Lake Blvd. Ramsey 55303	900 Lund Blvd. Anoka 55303	Relocation	\$174,558	1
Carbide Tool Services, Inc.*	7831 Hickory St NE Fridley 55432	1020 Lund Blvd. Anoka 55303	Relocation	Not Disclosed	NA
Case & Associates*	12144 Bluebird Cir. Coon Rapids 55448	701 Weaver Blvd., Anoka 55303	Relocation	\$78,778	1
Central Power Distributors*	2976 Cleveland Roseville 55113	1101 McKinley St. Anoka 55303	Relocation	Not Disclosed	NA
Copper Sales*	1405 Highway 169 N. Plymouth, 55441	1001 Lund Blvd. Anoka 55303	Relocation	18 acres + \$280,000 imprvmts <sup>50</sup>	53
E Street Makers, Inc.*	550 39th Ave. NE, Columbia Hghts, 55421	731 Lund Blvd. Anoka 55303	Relocation	\$153,208	1
F. Dohmen Co.*	2001 Kennedy St. Minneapolis 55413	1101 Lund Blvd. Anoka 55303	Relocation	\$522,900	1
First Team Sports*	2274 Woodale Drive Mounds View 55112	1220 Lund Blvd. Anoka 55303	Relocation	Not Disclosed	NA
Hakanson Anderson	222 Monroe St. Anoka 55303	3601 Thurston Ave. Anoka 55303	Relocation w/in Anoka	\$70,326	2
International Bldg. Concepts*	3040 4th Ave. South Minneapolis 55408	1100 McKinley Anoka 55303	Relocation	\$222,377	1
James Automotive*	NA (start-up)	1150 McKinley St. Anoka 55303	NA	\$98,453	1
Lund Industries*	9055 Evergreen Blvd. Coon Rapids 55443	911 Lund Blvd. Anoka 55303	Relocation	Approx. <sup>51</sup> \$800,000 + \$238,774	Unknown
Machine and Process Design*	11333 91st Ave. N. Maple Grove 55369	820 McKinley St. Anoka 55303	Relocation	\$171,303	2
Mate Precision Tooling*	6400 Industry Ave. Ramsey 5503	[Enterprise Park] Anoka 55303	Relocation by mid-2000	Disclosed in June, 2000	Disclosed in June, 2000
McKinley Business Center	NA	1030 & 1050 McKinley Anoka 55303	(Office Building)		

Company (* = Mfr. or Distributor)	Old Address	New Address	Relocation/Expansion	TIF/Other Subsidy <sup>49</sup>	New FT Jobs Pledged
Mentor Urology*	1601 West River Rd. N. Minneapolis 55411	3300 7th Ave. N Anoka, 55303	Expansion	\$166,239	1
Meier Tool and Engineering*	860 Downs Rd. Champlin 55316	875 Lund Blvd. Anoka, 55303	Relocation	\$185,280	1
Midwest Fixture Group*	2928 N. 2nd Street Minneapolis 55411	900 McKinley St. Anoka, 55303	Expansion	\$190,000	1
Nat'l Commnctns Service	Maple Grove, 55369	1100 Lund Blvd. Anoka 55303	Relocation	Not Disclosed	NA
Neotech Research Inc.	2615 9th Ave. N. Anoka 55303	3651 Thurston Ave. Anoka 55303	Relocation w/ in Anoka	Not Disclosed	NA
Pioneer Packing and Printing* (Kimm Printing)	428 Washington Ave. N. Minneapolis 55401	1220 Lund Blvd. Anoka 55303	Relocation	\$304,469	1
Power Generation Service *	815 North Street Anoka, 55303	1160 McKinley St. Anoka 55303	Relocation w/in Anoka	\$93,399 \$70,225	1
ProLabel Inc.*	6510 Shingle Cr Pkwy. Brooklyn Ctr 55430	711 Weaver Blvd. NW Anoka 55303	Relocation	\$71,654	1
Rainbow Signs, Inc.*	9655 Penn Ave. S. Bloomington 55431	3500 Thurston Ave. Anoka 55303	Relocation	\$2,063,134	70
Reliant Engineering & Manufacturing*	1550 94th Lane NE Blaine 55440	1000 Lund Blvd. Anoka 55303	Relocation	Not Disclosed	NA
Retailer Services Corp.*	3134 California St. NE Minneapolis 55418	3750 Thurston Ave. Anoka 55303	Relocation	\$141,623	1
Rise, Inc.	8406 Sunset Rd. NE Spring Lake Park 55432	Lund Boulevard Anoka 55303	Expansion	\$56,525	1
Royal Engineering and Manufacturing*	2101 108th Lane Blaine 55449	1040 Lund Blvd. Anoka 55303	Relocation	Not Disclosed	NA
S&S Tool, Inc.*	7800 Beech St. NE Fridley 55432	830 Lund Blvd. Anoka 55303	Relocation	\$129,308	1
Thurston Business Center	NA	900 Lund Boulevard Anoka 55303	(Office Building)		
Victory Tool, Inc.*	21110 Rogers Dr. Rogers 55374	1151 McKinley St. Anoka 55303	Relocation	Not Disclosed	NA
Wiltec Industries*	5247 Hanson Ct. Crystal 55427	730 Lund Blvd. Anoka 55303	Relocation	\$110,826	1
Wisconsin Magneto*	8010 Ranchers Rd NE Fridley 55432	800 McKinley St. Anoka 55303	Relocation	\$218,943	1 or 2 <sup>52</sup>

## **Migrations from Better-Off Suburbs: Ramsey, Coon Rapids, Bloomington, Plymouth**

The four largest job relocations to Anoka were from suburbs with higher tax capacities. Mate Precision Tooling is a relocation in process; it is moving from Ramsey with about 345 employees. Lund Industries relocated from Coon Rapids with about 250 workers. Rainbow Signs relocated all the way from Bloomington, south of Minneapolis, with about 165 employees. And Copper Sales relocated from Plymouth, where it employed about 140.

Two higher tax-capacity suburbs lost three employers each. Coon Rapids, in addition to losing the large Lund Industries plant, lost Artom and Case & Associates. Blaine lost three smaller employers: Arrowhead Tool & Design, Reliant Engineering & Manufacturing, and Royal Engineering & Manufacturing. Ramsey lost Mate Precision Tooling and Capco Abrasive, and Maple Grove lost two firms: Machine and Process Design, and National Communications Service.

We estimate the total direct job loss to the eight communities at 1,150. Regarding lost growth opportunity, we conservatively estimate that these companies have gained at least 150 new jobs since relocating to Anoka. Lund Industries, Rainbow Signs, and Cooper Sales have apparently accounted for the bulk of that growth.<sup>53</sup>

### **How Companies Landed in Anoka: Pushes and Pulls**

To gain insights about the Anoka-bound corporate migrations, we sought to interview every relocating subsidized company and succeeded in interviewing 14 about the process by which they relocated there. We also sought to interview public officials in both Anoka and in every community that lost two or more companies to the Park. We supplemented those interviews with extensive analysis of contemporary press accounts about the relocations, with information from several other databases, and from past editions of the Minnesota Manufacturers Directory.<sup>54</sup>

Summarized below is what the 14 companies (12 of which came from other cities) said about the process by which they located in the Anoka Enterprise Park. Because this was not a large sample, we offer no quantitative analysis of the results. Some companies did not answer all of our questions:

- # Regarding why they relocated, 13 companies said their old facilities were either too small, obsolete, or needed to be consolidated. One said the major pull was proximity to the owner's residence; that reason was given as a contributing factor by two additional companies. None of the 14 said that crime, taxes or a change in ownership prompted the relocation.

- # Six companies indicated that Anoka's offer of free land was a deciding factor and six said it was important. The distinction here is not sharp; among the companies citing the free land offer as "important" are a company that called the land subsidy the primary reason for locating in Anoka and another that said Anoka's was the best offer it received. Only one respondent said free land was a factor, but not decisive or important.
- # In describing the circumstances of their departure and their relationships with their former communities, three companies said they did not consider staying and made no effort to solicit retention services, three others said they had been poorly serviced and/or that the cities they were leaving did not make any counter offers, while two indicated they had good relationships with their former jurisdictions but despite joint efforts could not find a suitable new site in their former city.
- # Regarding access to labor, one company said Anoka is generally closer for its employees, five indicated that it is convenient for many of its employees or that commutes generally improved, and two said that their workforces come from all over the metro area so that there was no advantage. Three companies, including one of those already cited, said relocating to Anoka provided them with a better labor pool, while one indicated it is experiencing difficulty recruiting and a public official said another was having recruitment problems.
- # Six companies said they heard about Anoka through their realtor or site location consultant; four said they contacted Anoka first. Two said Anoka called them first, in each case via realtor connections.
- # Two companies said Anoka is farther away from customers and/or suppliers, three companies said the new location made no difference, and a company relocating within Anoka said the Park is closer to customers and/or suppliers.
- # Among companies that were already in a suburb, the cities most often mentioned as competing sites were Ramsey, Coon Rapids (both of which adjoin Anoka) and Lino Lakes (two cities east of Coon Rapids).
- # Five companies cited Anoka's efficiency and flexibility as positive factors in their decision, and five offered positive words about the Park's appearance and organization.

So the typical profile of a company relocating to Anoka is that of a manufacturer that needed more space, was not inclined to stay in its current city, used a realtor or consultant to shop around, liked the labor force in the general Anoka area, and found Anoka's offer of free land important or decisive in its location decision.

Our interview results are consistent with a large 1996 survey of manufacturers in Minneapolis which also found that incentives figured prominently in companies' thinking about relocation. Of the 673 companies polled for the Minneapolis Community Development Agency, 19 percent said they were likely to stay in their current facility less than two years. Of those likely to relocate, only 18 percent said they would stay in the city; 56 percent said they would relocate elsewhere in the metropolitan area. Incentives offered by other cities was the third most commonly mentioned reason for leaving Minneapolis, behind property taxes and crime, for companies likely to stay within the state. In fact, of the eight leading factors cited in the study, incentives were the only "pull" factor; the other leading factors were all "push" issues (e.g., crime, property taxes, lack of land, lack of employees, city services, Minnesota tax system), and the vaguely-worded "market changes."<sup>55</sup>

Contemporary press accounts about companies that moved to Anoka strongly complement our conclusions about the significance of the subsidies. Six of the following seven accounts involve companies that did not grant us interviews:

- # A 1995 press account said that Royal Engineering was offered free land by Elk River, Buffalo and Monticello while Blaine offered a 6.6 acre parcel for \$178,000 (or about 62 cents per square foot, below market). "Royal's owners criticized the city of Blaine, which they described as their first choice, for its inability to put a good offer on the table," said the account.<sup>56</sup>
- # The same story reports that Lund Industries wanted to expand in Coon Rapids and was offered \$500,000 in tax increment financing there, but chose to move to Anoka after being offered a package worth about \$800,000 to move into the Enterprise Park.<sup>57</sup>
- # Similarly, Copper Sales reportedly sought a subsidy to stay and expand in Plymouth, but that city is very selective in the use of TIF and does not give away free land. The company entered serious negotiations with a city in Wisconsin until it heard about Anoka's free land. Anoka gave Copper Sales 18 acres fully improved for free, plus additional site improvements valued at \$280,000.<sup>58</sup>
- # The CFO of First Team Sports Inc. told a newspaper that his company investigated a number of northern suburbs and found Anoka's package the best.<sup>59</sup>
- # A Carbide Tool Services executive said he relocated the company from Fridley to Anoka because of cheap land and the need to grow.<sup>60</sup>
- # Minneapolis was working with Kimm Printing (now Pioneer Packing and Printing) in 1996 and thought it was close to finalizing a deal for the company to expand by buying an adjoining lot, which would have retained 85 jobs, mostly

paying between \$14 and \$15 an hour. But Kimm “suddenly changed its mind.” “I understand that Anoka offered [Kimm] free land, and we couldn’t compete with that,” said a Minneapolis official. Kimm received about 5.25 acres free in Anoka.<sup>61</sup>

# The president of Wiltec Industries, a 25-employee machine shop, said he decided to relocate to Anoka because of the incentives. “It’s the money up front that makes it a little more attractive than other incentives,” he said. “Tax reduction over 15 years, that’s nice too, but the land kind of pushed us over the hump.”<sup>62</sup>

We also sought to interview economic development officials in each city that lost two or more companies to Anoka: Minneapolis, Coon Rapids, Fridley, Blaine, Ramsey and Maple Grove. These public officials – who in most cases tried to retain the employers – made it clear that they found Anoka’s offer of free land a powerful lure and often decisive in the companies’ relocation decision.

Coon Rapids borders Anoka to the southeast. A Coon Rapids official said he understood the free land offer was decisive in Lund Industries’ decision to move. He said another company – relocating from Plymouth – recently bought the Lund building, with financial assistance from both the state and the city. He admitted that Coon Rapids had been aggressive for 20 years in the use of TIF to attract companies, and said the City is out of industrial land. He generally regards TIF as an accelerating incentive, saying that Coon Rapids has a lot of companies it would not otherwise have except for TIF. Despite losing Lund, he considers the Anoka Park a good strategy. Coon Rapids doesn’t give away free land, but it did recently use TIF with a company that was considering moving to Wisconsin. He criticized neighboring states for actively seeking to pirate jobs from Minnesota. “Once you’re in South Dakota, you’re in South Dakota,” he warned.<sup>63</sup>

Blaine borders Coon Rapids to the east. A Blaine official said that city has not done a TIF deal since 1986. He said Blaine does not recruit from other cities, and that if a company calls him, he notifies his counterpart in the city where the company is located. Royal Engineering sought an incentive from the City when it was deciding about Anoka. Blaine offered land at \$1.30 per square foot, a loan of up to \$100,000 at 8.5 percent and “great service, low taxes and that’s it.” He reported that the company “felt insulted” that Blaine would not offer an incentive. Speaking of both Royal Engineering and Arrowhead, he acknowledged that Blaine could not compete with Anoka’s offer. “I don’t know how companies can say no to it,” he said.<sup>64</sup>

The Blaine official described a corporate attitude of entitlement. When companies or brokers call, he said their first two questions are always: “Do you have 10 acres?” and then “What incentives do you offer?” He expressed confidence that Blaine will capture future growth. He said Blaine had received one company from Minneapolis and one from Fridley, and that it had lost two to Lino Lakes, one to Spring Lake Park, and two

to western Wisconsin. To closely paraphrase him on the City's philosophy: "We've got land and we're in the metro area. The growth will catch up to us."<sup>65</sup>

A contemporary press account supports the Blaine interview. In 1995, Blaine's development director told a reporter that the City's no-TIF policy sometimes caused anger among Blaine companies that were being lured by other cities. But he reported that the City had enjoyed the addition of almost 800,000 square feet of new commercial-industrial space during the last four years. "We might have had more if we'd given incentives," he said. "Sometimes we feel like we've unilaterally disarmed."<sup>66</sup>

A Minneapolis official said the City was working "religiously" with Kimm Printing to retain the company by helping it relocate into an industrial park. But at the last minute, the company decided to go to Anoka, in a process the official described as having the rug pulled out from under him. Regarding Mentor Urology, he acknowledged that the company is landlocked, hence its need to expand elsewhere (while maintaining its Minneapolis operations). Minneapolis has a policy of selling land at fair market value, or between \$2.50 and \$3.00 per square foot (a rate sometimes subsidized by clean-up costs). He said the City has 4,000 acres of industrial-zoned land, of which more than 1,000 is either highly polluted, railyard, or vacant. Clean-up costs for highly polluted brownfield areas such as the Seward corridor are running \$6 per square foot. He reported that Minneapolis has benefitted from rising levels of state and Metro Council funding for brownfield clean-up. Reclaimed land sells quickly, he said, however, the City cleaned up only 33 acres in 1998.<sup>67</sup>

Maple Grove is two cities south southwest of Anoka, across the Mississippi; it lost two small employers to Anoka's Park. The city administrator knew the story well: "They went there because of the incentives," he declared flatly, saying there was no way his city could match Anoka's land write-down and TIF. He added that about eight companies approached him about moving to Anoka. "We could have lost more than two," he recalled. Although he retained the other six, "I won't get into a bidding contest with another community. Nothing is to be gained," he explained. He stressed that Maple Grove has a hands-on business climate, including lots of site visits, a strong labor force, close access to the core cities, its own transit system, a wide range of housing stock, declining tax rates, and good access to job training. "There are more to incentives than the dollar sign," he summarized.<sup>68</sup>

Fridley lost four companies that relocated to Anoka. Fridley's development director could not recall interacting with any of the companies as they considered leaving. She said the city has less than 80 developable acres and lacks mid-sized properties for companies to grow into.



## Impacts of the Relocations

### **Jobs Moved Further from Regional Concentrations of Minority and Low-income Residents**

As Figures 2 and 3 demonstrate, poverty households and people of color in the region are concentrated in the core cities of Minneapolis and St. Paul, and nearly all of the companies moving to the Anoka Park are now significantly further away from those cities. Similarly, Figure 4 shows that the relocations also generally moved jobs away from areas where substantial shares of households receive public assistance. While the city of Anoka shows a small concentration of such households, the subsidies granted to the companies in the Park do not require them to hire workers leaving welfare.

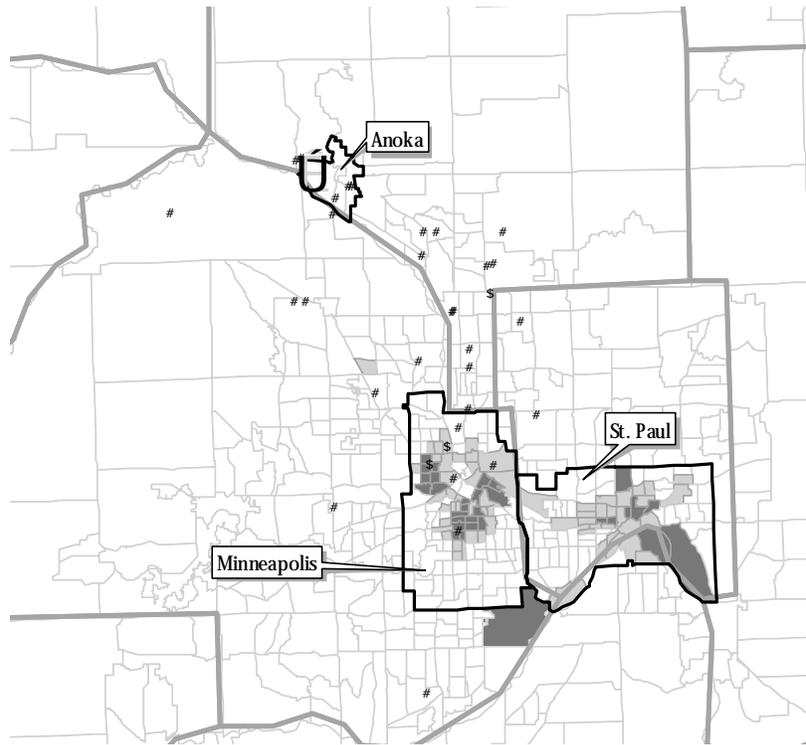
People of color and poor residents in the Twin Cities metro area are highly concentrated compared to other metro areas; the rate of poverty concentration was fourth-highest in the nation in the 1980s, and has not substantially changed since.<sup>69</sup>

While it is impossible to determine how the relocations affected specific low-income or Black employees, this migration pattern mirrors a troubling national trend, in which jobs migrate further from concentrations of minority and low-income residents. The trend of employment decentralization also represents movement away from an underutilized labor pool, which further exacerbates the problems associated with persistent unemployment in central cities.<sup>70</sup>

Many studies have shown that decentralization of employment from central city to suburban locations has disproportionately harmed minority and low-income workers because they face barriers finding housing in the suburbs. One study examined an employer's relocation from downtown Detroit to suburban Dearborn. Following the relocation, the center of employee residence locations shifted, mirroring the company's move. The shift happened for two reasons: some employees moved closer to the new workplace, and others quit. Black workers were more likely than whites to quit rather than relocate, in part because of barriers to residential relocation.<sup>71</sup>

Decentralization of employment also harms low-income people more because they are less able or likely to commute long distances to new job centers. This can happen for several reasons: low-income people are less likely to own cars, typically have smaller job search areas, and face barriers to home-ownership in many suburbs. Low-income workers face relatively high transport costs (as a share of total income), making them more reliant on local labor market opportunities than are higher earners.<sup>72</sup> Barriers to low-income housing in the suburbs often trap low-income workers far from centers of low-wage jobs, forcing them to commute longer distances.<sup>73</sup>

## Figure 2. Companies Move Further from Regional Poverty Concentrations



**Original Location**

- # Site Relocated From
- \$ Site Expanded From

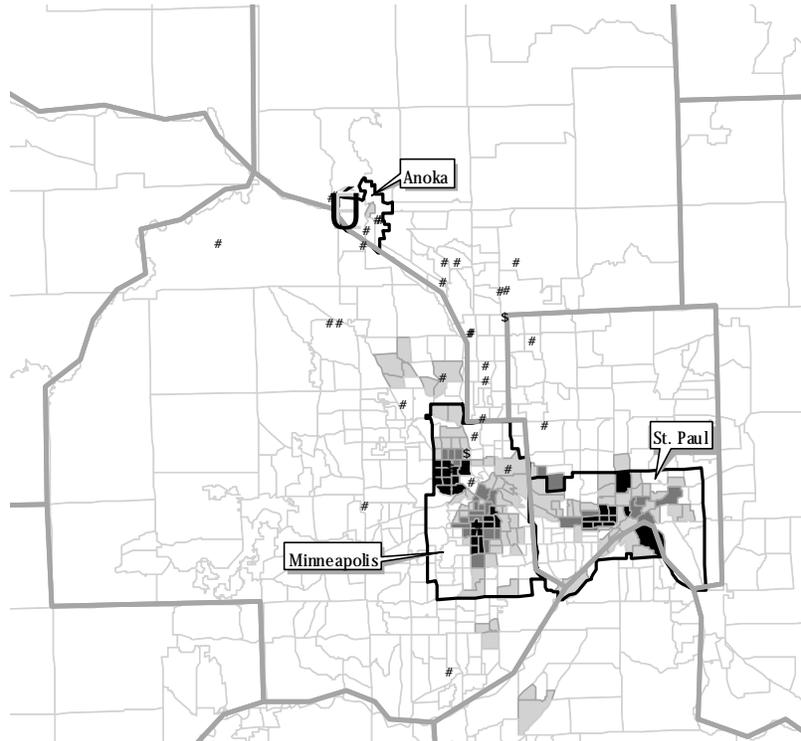
**Share of Households Below Poverty**

- < 20%
- 20% - 40%
- > 40%

- Anoka Enterprise Park
- Metro Counties

Source: 1990 Decennial Census

### Figure 3. Companies Move Further from Concentrations of People of Color



**Original Location**

- # Site Relocated From
- s Site Expanded From

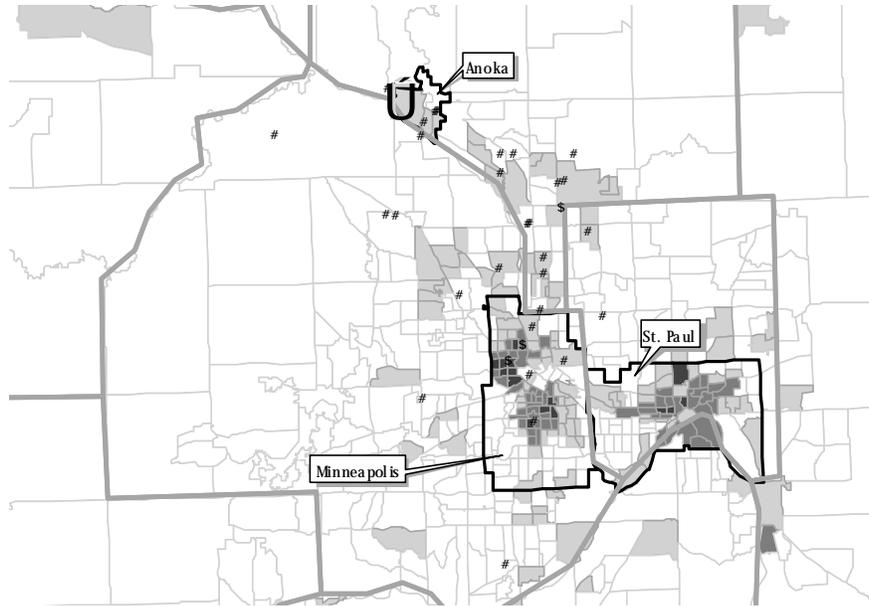
**Share of Population That Is Nonwhite**

- < 10%
- 10% - 25%
- 26% - 50%
- > 50%

- Anoka Enterprise Park
- Metro Counties

Source: 1990 Decennial Census

**Figure 4. Companies Move Further from Concentrations of Households Receiving Public Assistance**



**Original Location**

- # Site Relocated From
- s Site Expanded From

**Share of Households Receiving Public Assistance**

-  < 5%
-  6% - 14%
-  15% - 29%
-  > 30%

-  Anoka Enterprise Park
-  Metro Counties

Source: 1990 Decennial Census

## **Jobs Moved Away From Public Transportation**

The relocations also moved many companies and jobs off the region's regular-route public transportation grid. Figure 5 shows the prevalence of bus stops within a half-mile of the original company locations. Of the 29 relocating or expanding firms, 23 were within a half-mile of a regular route bus stop before moving to Anoka, and they accounted for more than 70 percent of the jobs that moved.

Bus service to the Park was not initiated until September 1999, more than four years after it opened, and service is very infrequent, so that all of the companies are now deemed inaccessible by public transportation. Current plans for the Northstar Corridor commuter rail system would not make the Park accessible; the closest possible station will likely be in downtown Anoka, over one mile from the Park.

This movement will especially harm inner-city workers, who are more likely to rely on public transportation because they are less likely to have access to a reliable automobile. One study found low-income households were less than one-sixth as likely to own a vehicle as middle- or upper-income households.<sup>74</sup> Only 40 percent of Black households in the Twin Cities region owned a vehicle in 1990.

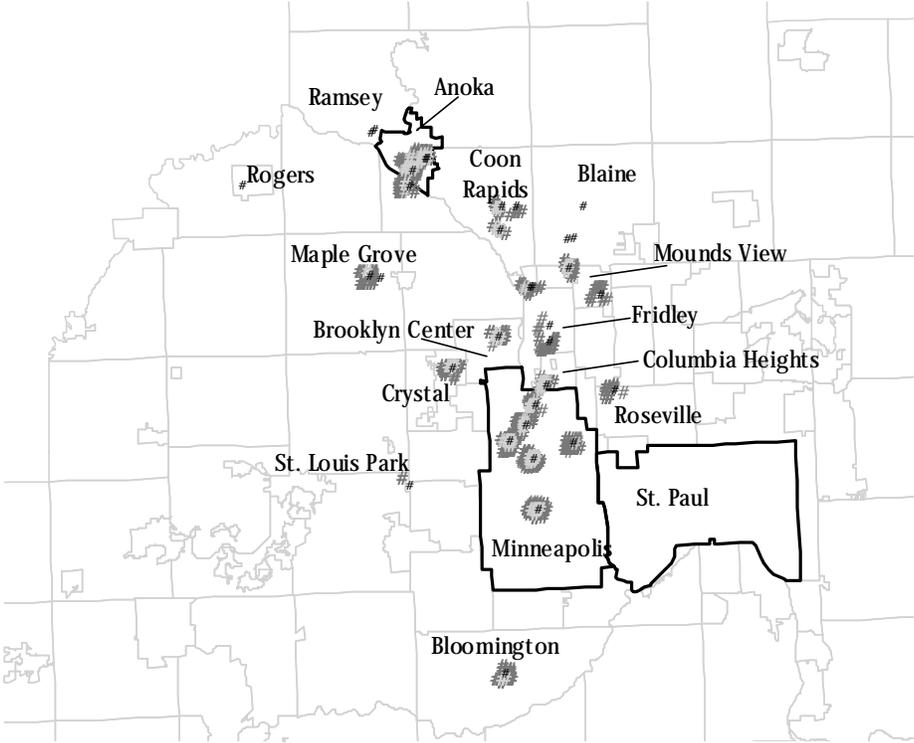
The movement of jobs away from public transportation is a national phenomenon, and poses one of the most significant challenges to equitable metropolitan growth. Automobile ownership is increasingly necessary to obtain employment in a sprawling metropolitan economy, so low relative rates of automobile ownership likely contribute to high rates of inner-city unemployment. A recent report on nonresidential development trends in the Twin Cities region highlighted the troubling fact that 50 percent of the region's net employment growth will occur in the developing area (defined by the Metropolitan Council); in 1998, nearly half of the projects underway in that area were inaccessible by transit.<sup>75</sup>

## **Commuting Patterns of Workers Shift Beyond the MUSA**

Using census data and information from a transit survey of Enterprise Park companies, we are able to make some generalizations about the impact of the relocations on overall commuting patterns.

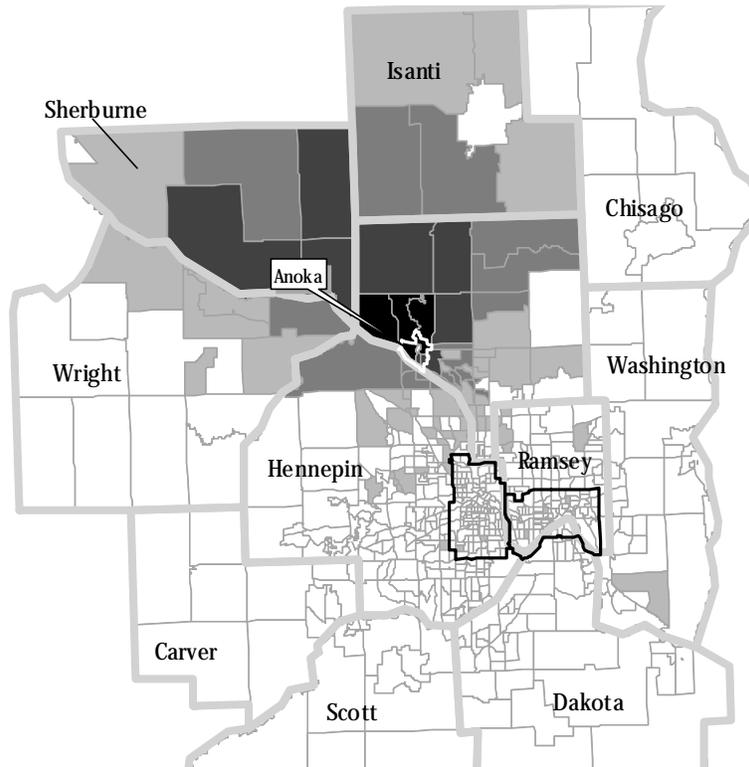
An analysis of commuting data from the 1990 census reveals sharp contrasts between workplaces in Minneapolis and the city of Anoka. Among workers in all Minneapolis locations, only 4 percent came from outside the seven-county region, but 15 percent of workers in the city of Anoka came from outside the region.

**Figure 5. Bus Stops Within 1/4 Mile and 1/2 Mile of Original Locations**

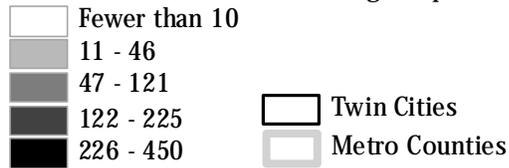


- # Site of Relocating or Expanding Company
- # Bus Stops Within 1/4 Mile
- # Bus Stops Within 1/2 Mile
- City Boundaries

**Figure 6. Commuting Patterns of Workers in Tracts of Hoffman Engineering & Federal Cartridge**

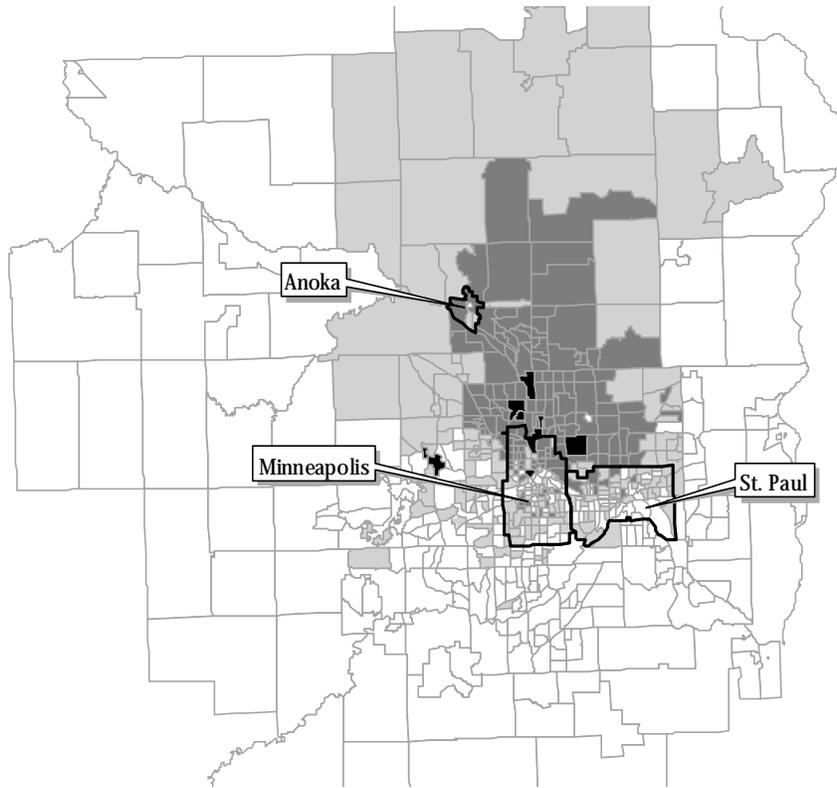


Number of Residents Commuting to Specified Anoka Tracts

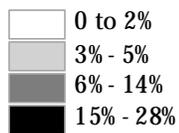


Source: 1990 Decennial Census

**Figure 7. Commuting Patterns of Workers in Tracts of Original Inner-ring and Minneapolis Company Locations**



Share of Workers Commuting to Specified Tracts



Source: 1990 Decennial Census

We also analyzed residential locations for workers in two sets of census tracts: those tracts in Minneapolis and inner-ring suburbs that formerly housed companies now in the Enterprise Park (Figure 7); and the two tracts in Anoka that house Federal Cartridge and Hoffman Engineering, the city's dominant factory employers (Figure 6). The contrast is striking; the resident tracts in the Minneapolis/inner-ring set are centered closer to the urban core, while the Anoka set is more heavily weighted toward the northwest part of the region and beyond. More than 20 percent of workers in the two Anoka tracts commuted from outside the seven-county region, compared to only 4 percent of workers in the Minneapolis and inner-ring worksites.

While we cannot conclude that these patterns apply to the behavior of the employees of the specific relocating companies cited in this study, it is likely that the long-term effect of the relocations is to push population growth further away from the core and decrease the share of central city residents employed by the relocating companies.

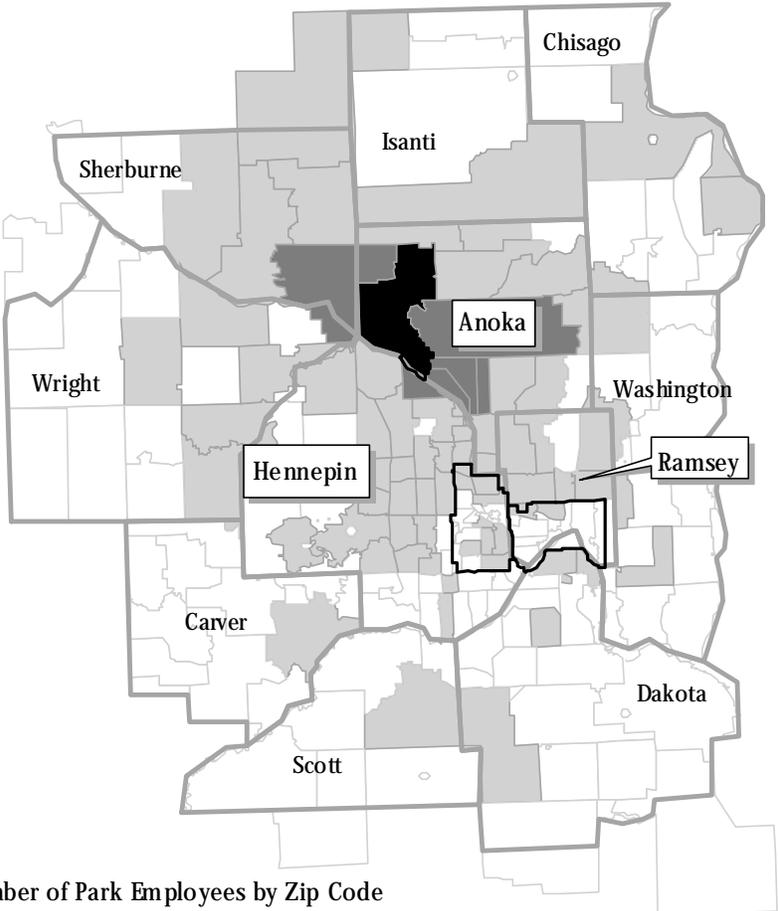
A survey of Enterprise Park workers generally supports this hypothesis (Figure 8). A July 1999 survey conducted by the Anoka County Office of Transit shows that 61 out of 416, or about 15 percent of the employees surveyed, commute to the park from outside the seven-county Twin Cities region (the same rate found in the 1990 census data). About 215, or just over half, commute to the park from within Anoka County.<sup>76</sup> One hundred, or just under one quarter, commute to the park from Hennepin County.

The relocations to the Park will also have a negative effect on regional traffic congestion and commute times. Anoka is included in the list of primary work destinations within the MUSA of commuters residing outside the metro area (as are Minneapolis and St. Paul). An assessment of the impact of commuters living outside the region but working within it found that the largest number of trips enter the region from the north, northwest, and east. Overall, the Metropolitan Council finds that as of 1990, fully 28 percent of work commutes originating in the 13 counties surrounding the metro area come into the seven metro counties.<sup>77</sup> Our map of commuting times shows that the proportion of workers who commute 30 minutes or longer increases with distance from the central city (Figure 9).

### **Conclusion: Relocations Contribute to “Hollowing Out” of the Region**

Drawing from the literature on decentralization of employment and population, and our analysis of commuting data, we conclude that the relocations to Anoka parallel the shift of activity away from the urban core, which in turn is associated with inefficient and undesirable regional development patterns.

**Figure 8. Commuting Patterns of Anoka Enterprise Park Employees**

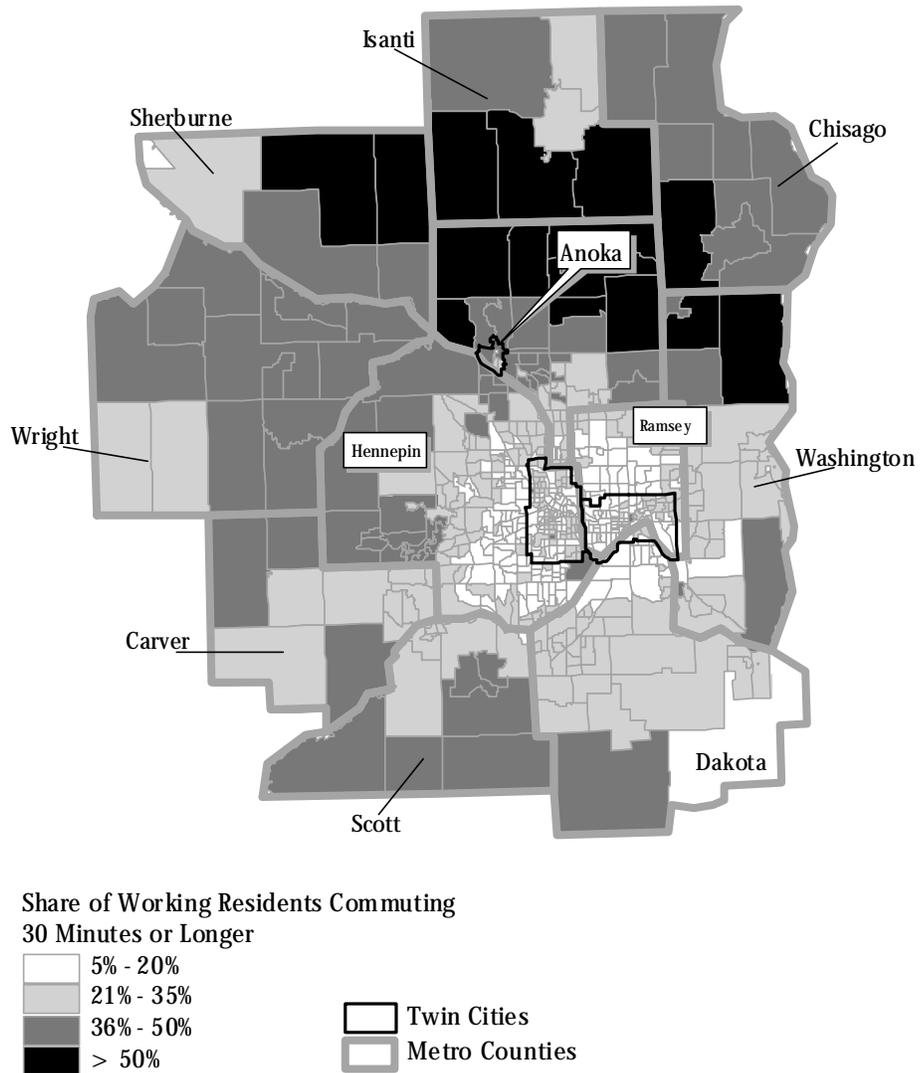


**Number of Park Employees by Zip Code**

	1 - 10		Twin Cities
	11 - 30		Metro Counties
	90		
	None		

Source: July 1999 Survey of Enterprise Park employees for Anoka County Office of Transit

**Figure 9. Share of Workers  
Commuting 30 Minutes or Longer**



Source: 1990 Decennial Census

## **Subsidizing Land and Disinvesting Training — Despite a Labor Shortage**

The millions of dollars invested in the relocations to Anoka represent an investment in land subsidies, but the region's greatest economic development challenge is a skilled labor shortage. The region has no natural barriers causing land shortages, but it is at risk of losing future job growth because incumbent workers lack critical skills. Ironically, as the Park's physical plant glistens, the adjoining Anoka-Hennepin Technical College is threatened with closure.

The Twin Cities metro area currently has the lowest unemployment rate of all U.S. metro areas with a population of one million or more — only 1.7 percent.<sup>78</sup> This very low jobless rate has created spot shortages in some skills categories and prompted debate about an effective economic development strategy response. For example, the Printing Industry of Minnesota, Inc. reported that its members are experiencing labor shortages and have responded with increased training and recruitment activity. Pay and benefit hikes — and even a bonus of up to \$5,000 for recruiting friends — are reported. One Anoka Park employer that hires lower-skilled workers and trains extensively described its labor supply situation as a “crisis” now.<sup>79</sup>

In two reports, the Citizens League has argued for a reallocation of development resources away from job creation and into skills and productivity improvement. It reports that the greatest labor shortages are primarily within high-skill sectors and urges that greater attention should be paid to incumbent workers, to better enable them to fill vacant higher-skill jobs. It cites an information technology company that expanded to India and a computer disk drive company that expanded in Wisconsin and South Dakota in part because of Minnesota's skilled labor shortage, and predicts that the state will lose more employers if the skills gap is not bridged. While acknowledging that there remain “significant pools of unemployed and underemployed people — the result of a mismatch between worker skills and available jobs,” the League holds that “[f]ocusing on high-skill needs will also create more opportunity further down the ladder, as vacancies are created when individuals move up into higher skilled positions.”<sup>80</sup>

However, the vocational skills training infrastructure in Anoka is troubled. In June 1999, the Anoka-Hennepin Technical College laid off 12 staff, including five faculty. The College adjoins the Anoka Enterprise Park, and has benefitted some of the Park's employers. The College's interim president said it was \$800,000 below budget and he blamed the state's funding formula for hurting technical education. As of late 1999, the outlook for the College is poor, with the chancellor of Minnesota State Colleges & Universities recommending that the facility, which needs rehabilitation or rebuilding, be closed or merged. In a November, 1999 letter to the chancellor, the Anoka Workforce Council urged that the Technical College be kept open.<sup>81</sup>

## **Public Transportation Service to the Anoka Enterprise Park**

As previously stated, the Anoka Park is not deemed to be accessible by public transit because it is not served by regular-service buses or trains. Because of Anoka's distance from the Twin Cities, bus service to the Anoka Enterprise Park is quite limited. Two branches of one bus line with infrequent service from Minneapolis arrive in Anoka, one a long walk from the Park. A connecting bus from those branches into the Park was only recently added, but it shows extremely low ridership. A parcel of land in the Park was set aside as a possible site for a future commuter rail station, but the site has been deemed too small.

### **Bus Transportation**

One branch of Metro Transit bus route #27 runs from Minneapolis to the Anoka Technical College, which lies across railroad tracks from the Park's southwestern border. Outbound from Minneapolis in the morning, however, there are only three buses on that branch route, and only two in the afternoon, one of which is very early (2:24 p.m.). The main branch of route #27 adds three morning buses and four in the afternoon, but its route can only drop commuters at Main and Ferry Streets, more than a mile and half from the Park entrance. On the branch to the College, running times to and from downtown Minneapolis are between 59 and 79 minutes each way.<sup>82</sup>

On September 13, 1999, Metro Transit added an extension bus service into the Park from both branch lines. However, the extension line bus only runs twice to the Park in the morning and twice from it in the afternoon. After two and a half months in service, Metro Transit reports that the extension buses carry only one to four passengers per day. Apparently because of the long running times, and because of the long lag-time between the movement of jobs into the Park and the start-up of extension-line service, very few workers are commuting by bus from the urban core to the Anoka Enterprise Park. The new service is slated to be funded by welfare-to-work monies from the Federal Transit Administration, and was initiated pursuant to a July, 1999 survey of Park employers by the Anoka County Office of Transit. Three workers have standing orders for rides to the Park through Anoka County's dial-a-ride program; they commute from Anoka, Circle Pines and Lexington (both are east of Anoka).<sup>83</sup>

To summarize: Minneapolis residents who rely (or would have relied) upon public transit to work in the Anoka Enterprise Park face a round trip of more than two hours, and possibly much longer, depending on where they board, how far they reside from the #27 bus line, and whether they have to connect via another bus first. They may face long waits to start work or to catch their return bus, depending on whether the bus schedule happens to coincide with their shift. And until September 1999 – more than four years after the Park opened – they faced an additional long walk into and out of the Park. Not surprisingly, very few access the Park via public transportation.

## Possible Rail Transportation

Anoka lies within the Minneapolis-to-St. Cloud corridor, the fastest-growing region of the state and likely beneficiary of the state's first commuter rail line. A January, 1999 feasibility study on commuter rail for the Minnesota Department of Transportation (MNDOT) found that a line extending from the Twin Cities through Anoka and on to Elk River (about 30 miles of the 80-mile distance to St. Cloud) had the second-highest potential ridership of 19 potential routes it examined. It recommended that this route as far as Ramsey (the next city beyond Anoka) be the first priority in the region's commuter rail construction program. Subsequent reviews by the Metro Council and MNDOT judged the route as the region's most promising.<sup>84</sup>

The commuter line is slated to start operations in late 2003, along the Burlington Northern-Santa Fe railroad tracks that straddle the southwestern side of the Anoka Enterprise Park. To provide a place for an Anoka station, the City reserved a plot of land in the park adjoining the tracks at Thurston Avenue.<sup>85</sup> However, in mid-late 1999 deliberations, the City of Anoka chose instead to propose a station site in the center of the city, at Fourth Avenue and the tracks. In October, the Anoka City Council directed City staff to purchase two lots there. However, the lots are across the Rum River and more than three-fourths of a mile from one corner of the Enterprise Park, and about two miles from the Park's northwest corner. Nor is there any certainty a station will even be built in Anoka. A Riverdale site, a mile and a half south – even farther from the Park – is competing with Anoka.<sup>86</sup>

Assuming that the train station will not serve the Park directly, the issue of shuttle-bus service to the Park is critical. Rail and City authorities could assess the feasibility of shuttle service to the Park. Anoka City and County both participate in the Northstar Corridor Development Authority (NCDA), a joint powers board planning the commuter rail line. The executive director of the Anoka County Regional Railroad Authority reports early interest by a few area employers (including Medtronic) to set up feeder buses to the line's stops, but says there have been no discussions yet with Anoka Enterprise Park employers. He says the NCDA anticipates substantial reverse commuting on the line, primarily by blue-collar urban residents traveling to suburban job sites.<sup>87</sup>

## Policy Options

Our findings suggest numerous policy options. Specifically:

### Deterring Subsidized Intrastate Relocations

- # **Anti-Piracy Rule:** the State may wish to consider an anti-piracy rule which would make intrastate corporate relocations ineligible for development subsidies. This would enable Minnesota cities to compete with each other on a more level playing field and redirect resources away from “zero-sum” deals. There are numerous precedents in other states in which relocation deals are denied development subsidies. (And all major federal programs have such ineligibility rules on interstate piracy.)

Short of a prohibition, two other safeguards could deter subsidized relocations:

- # **Consultation Requirement:** using the existing model of the Minnesota Investment Fund, the State may wish to add a requirement to TIF and other subsidies that when a company seeks a subsidy to relocate, it must consult, jointly with state and/or regional authorities, the “losing” community before signing a development agreement at the new location.
- # **Relocation Impact Statements:** the State may wish to enhance its relocation disclosure requirement to include data from the recipient company such as: 1) how many workers will likely be dislocated by the relocation? 2) how will the relocation affect the commuting distances of its existing and future workforce? 3) how will it affect the modes of transportation used by its workforce? 4) is the new location within a quarter-mile or half-mile of a frequently-served public transit line? and 4) what is the disposition of the property it is vacating?

### Making Development Subsidies “Location-Efficient”

- # **“Location-Efficient” Incentives:** state, regional and local bodies may wish to consider new development rules to require that incentives be “location-efficient.” In other words, in urban areas, subsidies such as TIF would be restricted geographically to areas that are accessible (within a quarter-mile) to frequently-served public transportation routes. A system with similar intent was enacted in 1995 in Minnesota, allowing commercial-industrial property tax reductions of 10 percent to 15 percent for certain kinds of development projects, if they were within a quarter-mile of a frequently-operating regular-

route transit line. That criterion covered large swaths of Minneapolis and St. Paul and some areas of Brooklyn Center, Crystal, Robbinsdale, Hilltop, Columbia Heights, Golden Valley, St. Louis Park, Edina, Richfield, West St. Paul, Falcon Heights, Maplewood, Roseville, and Lauderdale.<sup>88</sup> This exemption has been criticized as poorly designed and has been substantially repealed. The concept of tying subsidized economic development to existing transit infrastructure, however, is sound.

### **Mitigating the Adverse Impacts of the Corporate Relocations to Anoka**

- # **Bus Access:** The Metropolitan Council could assess the feasibility of increasing the frequency of buses going into the Anoka Enterprise Park. It could also explore the possibility of establishing a new express bus service to Anoka from Minneapolis and the inner-ring suburbs most affected.
- # **Rail access:** assuming the Northstar Corridor commuter train station will not serve the Park directly, rail and City authorities could assess the feasibility of shuttle bus service to the Park when rail service commences in 2003.

### **Promoting Industrial Retention**

- # **Accelerated Brownfield Reclamation:** to better enable cities such as Minneapolis to retain companies that need to expand, the State and cities could explore ways to increase the rate of brownfield reclamation. The need to expand was a major “push” issue for most companies relocating to Anoka, and there is clearly a market for parcels in the core once they are free of environmental liabilities.

### **Additional Research to Guide Future Policy-Making**

- # **Relocation Data Analysis:** pursuant to May 1999 amendments to Minnesota’s subsidy disclosure law, the state’s Department of Trade and Economic Development will publish in June 2000 new data on companies that received development subsidies to relocate within the state. The data will specify each company’s old and new addresses, and include its statement as to why it did not build the subsidized project at its old address. The Metropolitan Council may wish to analyze the relocation data to determine how the subsidized relocations affect other development priorities.

## Endnotes

“Subsidizing economic development in the suburbs is like paying teenagers to think about sex.”

Lyle Wray, Citizens League<sup>89</sup>

1. Ventura administration, “Smart Growth Criteria for Evaluating Capital Budget Requests,” October 21, 1999.
2. “Economic Development Subsidies in Maine: Modest Job Gains at High Cost,” Marc Breslow, Commonwealth Institute, Cambridge, Mass., December 15, 1999.
3. See the Ohio report by clicking on “Economic Development Report” at <http://www.senate.state.oh.us/horn/>.
4. See “Kentucky's Low Road to Economic Development: What Corporate Subsidies are Doing to the Commonwealth,” by the Democracy Resource Center and the Kentucky Economic Justice Alliance at [www.kydrc.org](http://www.kydrc.org).
5. Minnesota Statutes 116J.993, §2, Subd. 7, parts 6 and 7. The Minnesota Department of Trade and Economic Development fact sheet and frequently-asked questions about the law may be viewed at <http://www.dted.state.mn.us/01x00f.asp>.
6. See, for example: “Reforming TIF, Some unfinished work to do,” Minneapolis Star Tribune, 3/18/96, p. 10A; Dave Beal column, Saint Paul Pioneer Press, February 16, 1997; “TIF or nothing? A needed redevelopment alternative,” Minneapolis Star Tribune, April 29, 1996, p. 10A; “Minnesota Cities’ Use of Tax-Increment Financing Rising,” Saint Paul Pioneer Press, May 5, 1998.
7. For a good introductory primer on TIF in Minnesota, see “Tax Increment Financing,” March, 1996 report of the Program Evaluation Division, Minnesota Legislative Auditor, pp. 3-13.
8. “Tax Increment Financing Report,” March 10, 1998, Minnesota Office of the State Auditor, p. 5. “Tax-increment use grows at faster rate,” Minnesota Journal, May 19, 1998 (publication of the Citizens League).
9. “Tax Increment Financing,” Legislative Auditor, March 1996 report, op cit, pp. 59-60.
10. Ibid, p. 72.
11. Interview December 17, 1998 with Jerry Silkey, Minnesota Department of Revenue. “Tax Increment Financing,” Legislative Auditor, March, 1996 report, op cit, p. 26. Joel Michael, Minnesota House Research Department, cited in the May 19, 1998 issue of Minnesota Journal, op cit. The State’s school aid formula pegs a school district’s obligation at (a) property values

times the uniform rate of taxation minus (b) the number of students times the operating cost per student. However, when a school district's tax base includes TIF, that part of the property value is excluded from the computation, raising the difference between the two products and creating a gap that is then largely offset by the State. The state offset only covers lost operating revenues, not capital expenses.

12. MICA Website: [www.mica.org](http://www.mica.org). MICA also foresees problems with the new power granted to Minnesota cities in 1997 to give property tax abatements: "Rather, it would appear that this program will simply duplicate many of the problems that existed or still exist in tax increment financing: bidding wars between local governments, negative impacts on existing businesses through subsidization of their competition, and incessant demands by developers and others who stand to benefit from this program."

13. Bruce Katz and Katherine Allen. *Help Wanted: Connecting Inner-City Job Seekers with Suburban Jobs*. Brookings Institution, Fall 1999.

14. Subhrajit Guhathakurta and M. Wichert. (1998). "Who pays for growth in the city of Phoenix: an equity-based perspective on suburbanization," *Urban Affairs Review*, 33(6), p. 813(26).

15. Irene S. Rubin and H.J. Rubin. (1987). "Economic Development Incentives: The Poor (Cities) Pay More," *Urban Affairs Quarterly*, 23(1), pp. 37-62.

16. Id.

17. William H. Oakland and W.A. Testa, *Does Business Development Raise Taxes: An Empirical Appraisal*, January 1995. Deborah C. Stone, Executive Director of Metropolitan Planning Council, *Comments on Does Business Development Raise Taxes: An Empirical Analysis*, January 1995.

18. See, for example, "Development Priorities in California Cities: Results from a PPIC Survey," by Elisa Barbour and Paul G. Lewis, Public Policy Institute of California, which found that "[f]or new growth on vacant land sites, generating new sales tax revenue is the most important consideration for respondents when seeking development or evaluating developer proposals." See also "Sales Tax Riches Tempt Cities to Embrace Sprawl," *Salt Lake Tribune*, May 2, 1999.

19. Dan Immergluck and Eric Mullen. (1998). "The Intrametropolitan Distribution of Economic Development Financing: An Analysis of SBA 504 Lending Patterns," *Economic Development Quarterly*, 11(4), p. 372(13). While Immergluck did not look at the loan-granting process, and he offers several alternate explanations for his findings, the absence of a clear bias toward distressed areas calls into question the effectiveness of the program, which is structured to encourage lending in distressed areas. As Immergluck concludes, economic and business development programs should at least not result in net subsidy flow to higher income areas. If they do, they set up a false competitive advantage for suburban businesses, exacerbate barriers to business development in inner city areas, and may support decentralization.

20. "Giveaways set the stage for a loss," by Chris Lester and Steve Nicely, *Kansas City Star*, December 20, 1995.

21. "State pays out, but promises of jobs don't always play out," by Steve Schultze, Milwaukee Journal Sentinel, December 5, 1999.
22. "Down on the Farm," The Riverfront Times, June 24-30, 1998. "A development revolution?" St. Louis Post-Dispatch editorial, December 27, 1998. Hazelwood Yellow Ribbon Committee v. Hazelwood City Clerk, No. 99CC-002505 (Circuit Court St. Louis).
23. Unless otherwise stated, "Twin Cities metro region" refers to the 7-county region (Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington) which is also the jurisdiction of the Metropolitan Council. By contrast, the U.S. Census Bureau definition of the Minneapolis-St. Paul MSA includes 13 counties as of 1999.
24. In 1990, 79 percent of the population of Minneapolis was white, as was 92 percent of the 13-county metropolitan statistical area.
25. Myron Orfield, *Metropolitics*, Map 2-6 and pp. 116-117. Brookings Institution Press and Lincoln Institute of Land Policy, 1997.
26. Interview with City of Anoka Development Director and Assistant City Manager Robert Kirchner July 7, 1999.
27. "Spotlight on Anoka: Two rivers flow through city's history and shape its future," Minneapolis Star Tribune April 10, 1993. Kirchner interview, July 7, 1999.
28. Kirchner interview, July 7, 1999.
29. City of Anoka newsletter, January 1993.
30. "Employees purchase Federal Cartridge in buyout," *American Metal Markets*, January 13, 1986. "Federal-Hoffman Comes Out Smoking," *Corporate Report Minnesota* November, 1987.
31. "Hoffman Engineering Finds Safe Haven at Pentair," *Metalworking News*, September 3, 1990. "Anoka's Hoffman to build Mexico plant," *Minneapolis Star Tribune*, December 22, 1993. "Hoffman Engineering breaks ground," *Tennessee Manufacturer*, October, 1996. After Pentair acquired Federal-Hoffman, the company developed hundreds of new enclosure models; it also created new high-end ammunition lines, including rifle loads that won gold and silver medals in the 1992 Olympics. But Pentair remained under pressure to restructure as its stock price continued to trail its break-up value, and Federal Cartridge suffered declining profitability by the mid-1990s due to sales volatility. In 1994, Pentair announced that a new Hoffman plant in Mexico would cost 100 Twin Cities area jobs, and in 1996, Hoffman broke ground on a new plant in Kentucky that would open with 250 jobs. Pentair also pursued acquisitions away from ammunition, and in 1997, it sold Federal Cartridge for \$112 million to Blount International, a diversified company with a sports equipment division based in Montgomery, Ala. This was the first time Anoka's two largest factories had been separately owned since Federal had birthed Hoffman in 1953. "Pentair Inc. to sell Federal Cartridge unit," *Minneapolis Star Tribune*, June 17, 1997; "Pentair Completes Sale of Federal Cartridge to Blout International," Pentair press release November 4, 1997; "Pentair aims for new-look lift," *Minneapolis-St. Paul CityBusiness*, January 23, 1998.

32. City of Anoka newsletter, May 1987.

33. Kirchner interview, July 7, 1999.

34. Kirchner interview, July 7, 1999. Anoka County Union, March 18, 1994. City of Anoka newsletter, April, 1994. "Anoka Enterprise Park finds success," Minnesota Industrial Properties, November 1995. Among the subsidies St. Paul used during Stout's tenure were the new federal Urban Development Action Grants (UDAGs), a program upon which Stout had consulted the Carter administration. Stout worked as a planning official in Portland, Ore. from 1973 to 1977. After his work for St. Paul, Stout consulted for various U.S. cities, and for cities in the Czech Republic. "Gary Stout, who helped revitalize downtown St. Paul, dies at 55," Minneapolis Star Tribune, June 10, 1997. "St. Paul revitalizing crew loses key member," St. Paul Pioneer Press, October 3, 1980. "Downtown coming alive," St. Paul Dispatch, November 19, 1979. "Lowertown wins U.S. housing grant," St. Paul Pioneer Press, September 21, 1978.

35. Kirchner interview, July 7, 1999. "The Planning and Development of An Urban Industrial Park," paper published by the National Council for Urban Economic Development, (circa 1995, date unknown, no byline but attributed to Stout by Kirchner.) City of Anoka newsletter, July 1994 and October 1994. Stout wrote that competing land in the area was selling for between 70 cents and \$2.25 per square foot. As an example of the zeal with which Stout organized the City Council, an official of Rainbow Signs, which relocated to Anoka all the way from Bloomington (south of Minneapolis, the farthest relocation into the Park), stated that almost every member of the Anoka City Council paid a recruitment site visit to the company in Bloomington. (Interview with Mike Holmberg of Rainbow Signs, July 7, 1999.) The Park's TIF obligations are aggregated within Anoka's redevelopment activities, which include other projects in its central business district, a flood plain, and a park. (Kirchner interview, December 15, 1999.)

36. Kirchner interviews July 7 and December 15, 1999. "The Planning and Development of An Urban Industrial Park," op cit. "Anoka Enterprise Park finds success," Minnesota Industrial Properties, November 1995. The analysis of how lucrative the subsidies were is ours, not Kirchner's, based on interviews with companies and officials of other cities, as well as press accounts, as cited elsewhere in this study. Kirchner stressed that although the TIF subsidy was critical in attracting applicants, the City tried to treat companies consistently. Boilerplate language in individual Anoka development agreements binds the companies to set market values and prohibits them from seeking property tax reductions or abatements. According to Kirchner, only one deal involved another subsidy, an industrial development bond (tax-exempt financing) for Lund Industries.

37. Kirchner interview, July 7, 1999. City of Anoka newsletter, January 1995, October 1997, and Fall 1998. In this and following paragraphs, employment figures for the companies prior to their relocation are primarily from the Minnesota Manufacturers Directory, annual volumes of the 1990s, to which companies voluntarily report.

38. City of Anoka Newsletter, July 1995.

39. City of Anoka Newsletters: January, April, and October 1996 and January 1997.

40. City of Anoka Newsletters, July and October, 1997.
41. City of Anoka Newsletters, Fall 1998 and Summer 1999. Kirchner interview, December 15, 1999.
42. Kirchner interview, July 7, 1999. "Gary Stout, who helped revitalize downtown St. Paul, dies at 55," Minneapolis Star Tribune, June 10, 1997. City of Anoka newsletter, October 1997.
43. Minnesota Manufacturers Directory and news accounts.
44. This estimate is based upon the companies' self-reported employment figures to the Minnesota Manufacturers Directory and/or contemporary news accounts, which covered three of the eight. This estimate also does not include any "ripple effect" numbers for related community jobs lost as a result of the relocations.
45. "Decision time in Anoka: Residents more than ready to cast their votes on the nation's future," Minneapolis Star Tribune, November 3, 1996. American Business Directory.
46. 1998 Minnesota Business Assistance Form.
47. 1998 Minnesota Business Assistance Form.
48. 1999 Minnesota Business Assistance Form.
49. 1998 and 1999 Summaries Minnesota Business Assistance Forms Submitted by City and County Government Agencies, published by Minnesota Department of Trade and Economic Development, June 1998 and 1999. The disclosure law took effect July 1, 1995 and the 1996 and 1997 disclosure forms did not include the dollar value of the subsidy; therefore, Anoka deals that were both initiated and completed in 1994-1996 have not had their dollar value disclosed. Deals executed before July 1, 1995 were not subject to the state's requirement that the company create at least one new job. The form was improved in 1997 for the 1998 report – to include the type and value of subsidy – by the Department of Trade and Economic Development as a result of recommendations made by the state subsidy reform commission.
50. The estimated subsidy amount comes from "The new venture capitalists – Taxpayers," Business Dateline; Corporate Report Minnesota, August 1995. Eighteen acres equals 784,080 square feet. If the land was worth at least \$1 per square foot, the Copper Sales package exceeded \$1 million.
51. The \$800,000 figure for Lund's first deal comes from "The new venture capitalists – Taxpayers," Corporate Report Minnesota, August 1995.
52. 1997 and 1998 disclosure forms for Wisconsin Magneto reported different job creation numbers.
53. Minnesota Manufacturers Directory. American Business Directory.

54. We offered to interview all companies while on site in July 1999, and did interview three then; ten more were interviewed by phone in November 1999, and one answered our survey by faxed response. Some companies did not answer every question; others offered supplemental details.
55. "Community Partners: City of Minneapolis, Introduction to the Business Base," by Community Resource Partnerships, September 10, 1996, pp. iii, 15, 16, 48.
56. "The new venture capitalists – Taxpayers," Corporate Report Minnesota, August 1995.
57. Ibid.
58. Ibid.
59. "Anoka's land deal doubles its tax base," Minneapolis-St. Paul CityBusiness, April 7, 1995.
60. "Decision time in Anoka; Residents more than ready to cast their votes on the nation's future," Minneapolis Star Tribune, November 3, 1996.
61. "Anoka's promised land attracts manufacturers," Minneapolis-St. Paul CityBusiness, November 1, 1996.
62. "Anoka's free-land strategy paying off," Minneapolis-St. Paul CityBusiness, June 27, 1997.
63. Interview with Lee Star, Coon Rapids development director, July 7, 1999.
64. Interview with Curt Larson, Blaine Development Director, July 6, 1999.
65. Larson interview, July 6, 1999. Larson added that he believes Anoka draws more workers that Blaine does from the northwest, towards St. Cloud, because of arterial Highway 10.
66. "The new venture capitalists – Taxpayers," Corporate Report Minnesota, August 1995.
67. Interview with Terrell Towers, Director of Economic Development, Minneapolis Community Development Agency, July 8, 1999. Interview with MCDA staffer Patrick Kanoy, July 23, 1999. One small company's story suggests that MCDA could improve its industrial retention program. International Building Concepts is a manufacturer of low-cost housing suitable for in-fill lots in urban neighborhoods. It was located in a tough part of Minneapolis, and hired and trained inner-city workers with no skills. It partnered with Urban Ventures, a church-based redevelopment group, and it tolerated a neighborhood that saw two drug murders. The company wanted to build housing in Minneapolis, but in two years could not get the required clearances. Only since relocating to Anoka has IBC constructed its first home in Minneapolis; meanwhile, it has shipped homes to eight other states and exported to earthquake-stricken Kobe, Japan and hurricane-ravaged Guatemala. An IBC executive said that MCDA was aware of the company's attempt to develop a new facility in Minneapolis and did not counter when it was courted by Anoka. Compared to repeated red tape the company says it encountered in Minneapolis, Anoka clinched the deal in about 120 days, including numerous revisions. July 6, 1999 interview with Robert Leslie, IBC President.

68. Interview with Al Madsen, Maple Grove City Administrator and Community Development Director, December 13, 1999.
69. Orfield p. 17.
70. Joseph Persky, Elliott Sclar, and Wim Wiewel. (1991). "Does America Need Cities?" Washington, DC: Economic Policy Institute.
71. Zax, Jeffrey S. and John F. Kain. (1996). "Moving to the Suburbs: Do Relocating Companies Leave Their Black Employees Behind?" *Journal of Labor Economics*, 14(3), pp. 472-504.
72. Holzer, Ihlandfeldt, and Sjoquist. (1994). "Work, search, and travel among white and black youth," *Journal of Urban Economics*, 35(3), pp. 320-45. D. Deka. (1998). "Job decentralization and central-city well-being: an empirical study with sectoral data," *Urban Affairs Review*, 32(2), pp. 263-301.
73. Q. Shen. (1998). "The spatial variation of commuting time in US metropolitan areas."
74. J. D. Kasarda. (1993). "Urban industrial transition and the underclass," in W.J. Wilson (Ed.), *The Ghetto Underclass: Social Science Perspectives*, pp. 43-64. Thomas W. Sanchez. (1999). The connection between public transit and employment: the cases of Portland and Atlanta. *Journal of the American Planning Association*, 65(3), pp. 284-94.
75. Major Nonresidential Construction Projects in the Twin Cities Metropolitan Area, July 1999. Metropolitan Council.
76. Numbers are not exact because zip codes cross county lines.
77. External County Commute, Destination Counties, Metropolitan Council analysis of 1990 census data.
78. U.S. Bureau of Labor Statistics, December 1, 1999 press release.
79. "A pressing concern," *City Business-Minneapolis*, February 26, 1999. "Regional, statewide efforts needed to address worker shortage," *Anoka County Union*, February 18, 1999.
80. Citizens League, "Help Wanted: More Opportunities Than People," November, 1998 and "From Jobs for Workers to Workers for Jobs," November, 1999.
81. "Twelve staff members laid-off at Anoka-Hennepin Community College," *Anoka County Union*, June 6, 1999. November 9, 1999 letter from Mark Wheeldon, Anoka Workforce Council Chair, to Morris J. Anderson, Chancellor of Minnesota State Colleges & Universities. Kirchner interview, December 15, 1999.
82. Metro Transit #27 bus schedule, effective 9/18/98.

83. Interview with Cindy Woltzen, Transit Planning Assistant, Anoka County Office of Transit, July 7, 1999 and December 6, 1999. Interview with Metro Transit planner Adam Harington, December 6, 1999.

84. Final Summary Report, Twin Cities Metropolitan Commuter Rail Feasibility Study, Phase II, January 1999, by the consulting firm Parsons Bickerhof for the Minnesota Department of Transportation, pp. 11, 12. Interview with Tim Yantos, executive director of the Anoka County Regional Railroad Authority, December 3, 1999. Highway congestion along main artery Highway 10, which straddles the Anoka Enterprise Park, is expected to increase because there are no plans to expand the highway within the next 20 years.

85. Kirchner interview, July 7, 1999.

86. "Four of 13 commuter rail stations would be in Anoka County, excluding City of Anoka," Anoka County Union, August 21, 1999. "City to have its ticket ready if commuter rail line stops in Anoka," Anoka County Union, October 7, 1999.

87. Interview with Tim Yantos, executive director of the Anoka County Regional Railroad Authority, December 3, 1999.

88. Metropolitan Council Transportation Policy Plan, adopted by the Metropolitan Council on December 19, 1996, pp. 64-65.

89. St. Paul Pioneer Press, February 28, 1999, as quoted by Eileen Weber.