

State of the Cities Report 2003



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The League of Minnesota Cities is a non-profit, membership organization dedicated to helping cities throughout Minnesota build quality communities through excellence in governance, management, and services to citizens. The League serves its 818 member cities through advocacy, education and training, policy development, insurance, and other services.

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Executive Summary

Minnesota's cities are in a period of transition. Record population growth and the projected increase in the number of older Minnesotans, migration out of rural areas and into the lakes area, and changing development patterns are impacting cities' housing needs and adding stress to an overburdened transportation system. Long-term changes to cities' revenue structure, recent tax reforms, and the state budget deficit make responding to these needs even more difficult.

The State of the Cities Report 2003 explores these broad trends faced by Minnesota's cities. The report has two distinct purposes:

- To help readers better understand major issues facing Minnesota's cities today.
- To help city officials put their own city's circumstances in context of the broader city community.

To help illustrate this context, each of the 853 cities was placed into a group, or cluster, based on four city characteristics: population in 2000; population change from 1990 to 2000; median household income in 1999; and commercial/industrial tax base per capita in 2002. Cities in the seven-county Twin Cities metropolitan area and in greater Minnesota were analyzed in separate groups. The analysis produced 17 city clusters—eight in the metro area and nine in greater Minnesota. Each cluster represents a grouping of cities with similar qualities and growth patterns. These clusters are a useful tool to assist city officials in making meaningful comparisons of trends among cities.

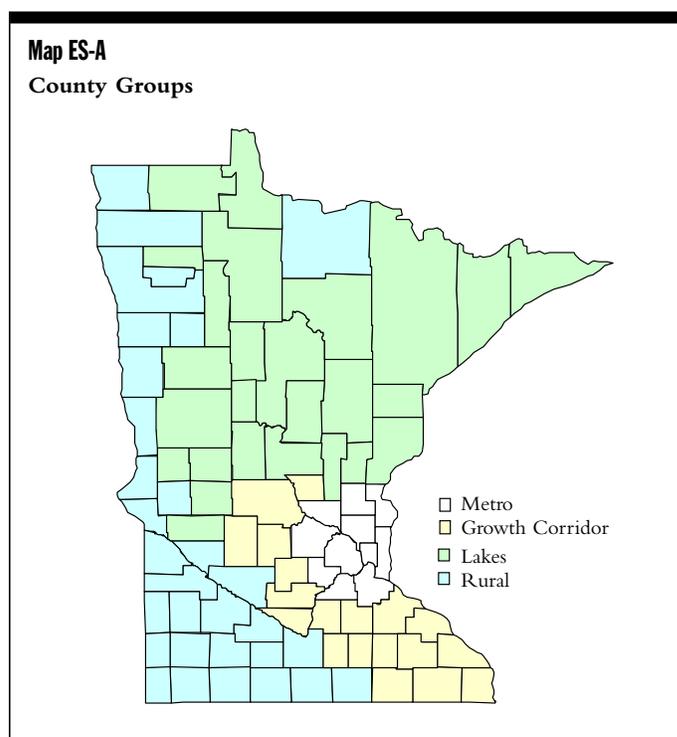
Demographics

During the 1990s, Minnesota led Midwestern states with 12.4 percent population growth. There was a surprising level of in-migration to Minnesota during the 1990s, reversing a 50-year trend of net out-migration¹.

Map ES-A categorizes Minnesota's 87 counties into four groups based upon population change, migration patterns, and geographic proximity. The 31 rural counties in the west and southwest experienced modest population loss from 1990 to 2000, mostly from net out-migration. The 26 lakes counties in northeast and north central Minnesota grew by 8.8 percent with significant in-migration. The 19 growth-corridor counties grew by 10.1 percent with less than half of the growth from migration. The 11 metro counties grew by 16.8 percent, mostly from natural increases.

A major factor in Minnesota's growth was the significant increase in the state's non-White and Hispanic populations (herein referred to as "ethnic populations"), which grew much faster than the total population. Although ethnic populations account for only 11.8 percent of Minnesota's population, they contributed 56.7 percent of the growth in the 1990s.

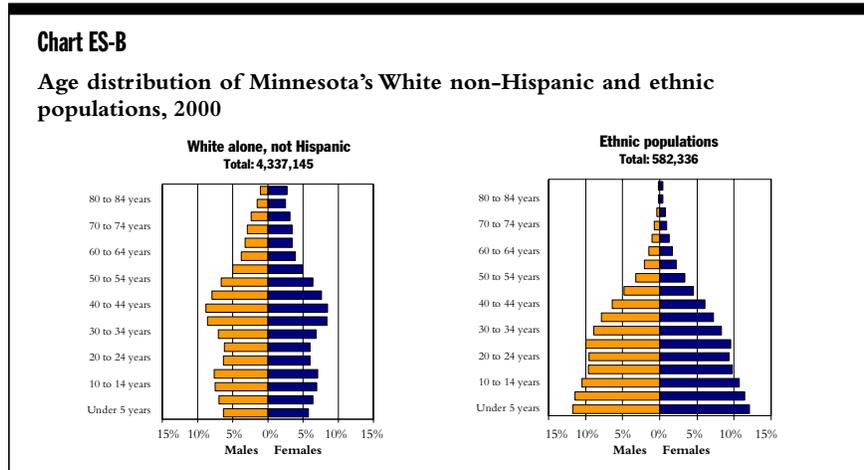
Only 10 of Minnesota's 87 counties saw increases of less than 50 percent in their ethnic populations in the 1990s. The two central cities' share of the state's ethnic



population decreased from 49.3 percent to 42.4 percent. The balance of the 11-county metropolitan area experienced the highest growth rate in ethnic populations and became the largest gainer in the relative share of the state’s ethnic populations. Greater Minnesota cities’ ethnic population grew by almost 150 percent in the 1990s, and their share of the state’s ethnic population grew from 14.6 percent to 16.9 percent.

The white non-Hispanic population is dominated by baby boomers and their elders, as seen in Chart ES-B, while the ethnic populations are dominated by people under 40. Over 45 percent of the White non-Hispanic population is over 40, compared to only 21 percent of the ethnic populations.

“Minnesota’s housing stock has changed over time in response to demographic and economic trends, changing consumer preferences, and evolving technologies and practices in housing production.”



An increasing number of Minnesotans will be reaching retirement age over the next two decades. According to the State Demographic Center, Minnesota’s population over age 55 will double to about 2 million in the next 30 yearsⁱⁱ.

Housing

Minnesota’s housing stock has changed over time in response to demographic and economic trends, changing consumer preferences, and evolving technologies and practices in housing production. A policy shift away from large public housing complexes has also occurred. Whereas cities’ role was once limited to administration of zoning ordinances, cities became owner and administrator of public housing as federal housing funds flowed in. With the subsequent retreat of the federal government, cities have often become the planner, developer, and partial funder of subsidized and market-rate housing projects.

One of every four Minnesota households rents its primary residence. Homeownership rates vary from 52.8 percent for Minneapolis and St. Paul to over 95 percent in many higher income suburbs. The median monthly rent statewide in 2000 was \$566. Median rents were lower in greater Minnesota cities than in the metro area, reflecting both cost of living differences and higher vacancy rates in greater Minnesota at the time of the 2000 Census. In 2000, 35 percent of renters and 16.6 percent of homeowners pay more than 30 percent of their income for housing, a common standard of affordability. That’s down from 39.5 percent for renters and up from 15.4 percent for owners in 1990.

Chart ES-C shows the distribution of Minnesota's 2,065,946 housing units between single-unit dwellings, multi-unit buildings, and mobile homes and other housing units by the decade in which they were built. Multi-unit buildings were one-third of all units built in the 1960s and 1980s and almost one-half of all units built in the 1970s. They were only 19 percent of the units built in the 1990s, but there is some evidence that construction of multi-unit buildings and attached single-unit dwellings is on the rise, at least in the Twin Citiesⁱⁱⁱ.

A city's age and growth patterns, residents' wealth, the ability to expand, and its proximity to job centers, transportation corridors, and natural amenities influence housing diversity. Some cities have a less diverse housing stock than others. For some, relative homogeneity of their housing is an asset and seen as part of the community's identity. Other cities feel they need to diversify their housing stock, for example by building more "starter" homes, affordable rental and owner-occupied homes, attached town homes, senior-oriented, multi-unit complexes, or units with many bedrooms for larger households.

The Second Mayors' Regional Housing Task Force identified several strategies to increase housing diversity and affordability. These included modular construction technologies, design features like narrow lots and streets, developments featuring a range of housing sizes and types, and pedestrian-friendly mixed use developments^{iv}.

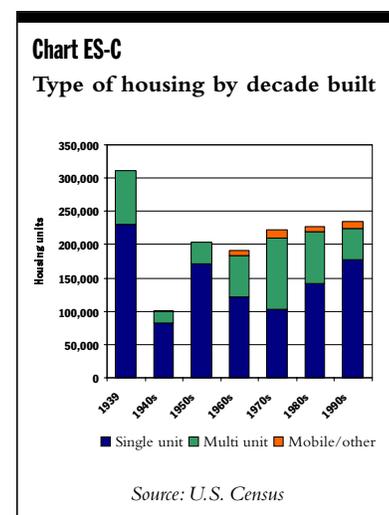
City and non-city development

During the 1990s, the population growth rate in townships exceeded that of cities in 34 of Minnesota's 87 counties, even after accounting for annexations. While it was most common in the lakes area, counties in each of the four county groups experienced this trend. Further, residential construction (including seasonal recreational units) in the 1990s in townships exceeded that of cities in 36 counties^v. In the lakes area, counties have been truly transformed, with new units in townships representing from 10 percent to 24 percent of the entire housing stock in most lakes area counties during the 1990s.

When urban-scale residential development occurs outside of cities, city residents often pay in several ways for citizens choosing to live in townships. First, cities provide many municipal services to townships based on contracts. When contract amounts for services such as fire protection do not keep pace with new township development, city taxpayers end up subsidizing township services. Second, city taxpayers pay for township residents' use of city services like parks, streets, libraries, and community centers. Third, since city residents pay county and school property taxes, they are sharing in the higher per capita costs of county and school services that occur with lower density development. Finally, environmental costs incurred through water pollution when septic systems fail are borne at the county or even the state level. In addition, older township developments often eventually require retrofitting to city sewer systems, which is very expensive for both homeowners and city residents.

Transportation

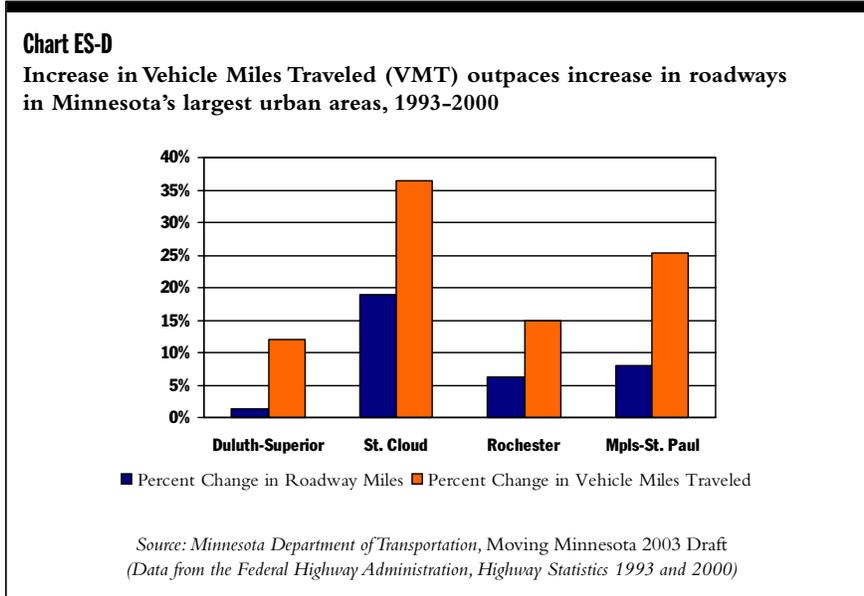
Population increases, more trucking, growth in commuting distances, and continuing residential development in cities and in non-city areas fuel demand for roads and transit. The projected growth in older Minnesotans suggests that policy-makers should be exploring alternatives to private autos.



“During the 1990s, the population growth rate in townships exceeded that of cities in 34 of Minnesota’s 87 counties, even after accounting for annexations.”

The amount of vehicle miles traveled (VMT) increased on all types of roadways by 35.1 percent between 1990 and 2000. Chart ES-D shows that as cities struggle with the high costs of road construction, increases in VMT outpace the addition of new roadways, contributing to congestion. Of the state’s largest urban areas, this gap was most severe in Duluth-Superior, where VMT increased by 11.9 percent and new roadways were added at a rate of 1.3 percent.

“The average commute time climbed from 19.1 minutes in 1990 to 21.6 minutes in 2000, a 13 percent increase.”



Congestion and longer commuting distances have increased commute times around the state. The average commute time climbed from 19.1 minutes in 1990 to 21.6 minutes in 2000, a 13 percent increase. Commute times were longer in the metropolitan area in 2000 (23 minutes compared to 18 in greater Minnesota), but commute times actually grew faster in greater Minnesota from 1990 to 2000 (25 percent compared to 10 percent in the metropolitan area).

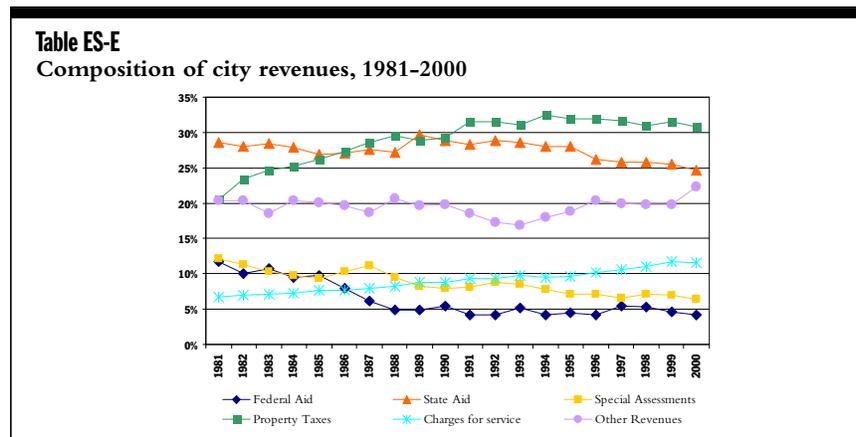
More people driving alone has also contributed to congestion. In 2000, 77.6 percent of Minnesota workers drove to work alone, up from 73.8 percent in 1990—an increase of roughly 370,000 solo drivers. The number of solo drivers has increased most dramatically in greater Minnesota cities, where there are 31.8 percent more solo drivers.

The system of major city streets across the state is in essence a public good since residents of one city frequently use the streets in one or more additional cities. To help cities pay for this public good, the state distributes Municipal State Aid (MSA) to eligible streets within cities over 5,000. The total amount of this funding has grown from roughly \$81 million to slightly more than \$103 million over the last 10 years. When adjustments for inflation are made, however, the appropriation has actually fallen over time. The roadway mileage in the MSA system has increased over time, meaning that the aid is being spread over a growing pool of eligible roads. While the aim of MSA is to help larger cities meet the maintenance and construction costs of major streets, MSA funding as a portion of total city spending on streets has decreased over time. The trend in MSA funding means cities have to increasingly rely on other revenues, such as the property tax, to maintain and construct both MSA and non-MSA streets.

Funding city services

Cities are facing their most challenging budget situation in years. The state budget deficit for 2004–05 is projected at \$4.2 billion and reducing aid to local governments is a potential budget-balancing strategy. A decade of economic expansion came to an end in early 2001 and the subsequent recession has dampened many city revenue sources. Simultaneously, city budgets are strained by employee health insurance costs, public safety challenges, and myriad other local needs. State-imposed limits on larger cities' property tax levies have hampered some cities' ability to address these challenges.

Since 1980, the composition of city revenues has changed as the state and federal governments have moved away from revenue sharing and cities have been forced to rely more on own-source revenues, such as the property tax and direct charges for services. Chart ES-E shows the change in city revenues from 1981 to 2000, the most recent year for which data are available. Over this 20-year period, city revenues have grown 16 percent after adjusting for inflation and population growth.



“Since 1980, the composition of city revenues has changed as the state and federal governments have moved away from revenue sharing and cities have been forced to rely more on own-source revenues, such as the property tax and direct charges for services.”

The 2001 omnibus tax act, part of Gov. Ventura’s “Big Plan” initiative, continued many of the trends shown above. One of the goals of the Big Plan was to make cities more reliant on property tax and less reliant on state revenues. General-purpose aid to cities was cut by almost 10 percent, but the cut was by no means uniformly shared among cities: 464 cities lost \$88 million in aid while 390 cities gained \$40 million in aid. The cities that gained the most aid were generally those that were already very dependent upon state aid, while those that lost the most generally relied much less on state aid than on property taxes.

Other components of the bill, most notably education and transit funding changes, provided more relief to metropolitan suburban areas than to greater Minnesota and to the central cities. Taking state aid away from

Table ES-F

General state aid	Number of cities	Cumulative population	Percent of all cities' population
Less than \$10 per capita 2001	8	4,711	0.1%
Less than \$10 per capita 2002	90	954,543	24.3%
More than \$300 per capita 2001	123	252,166	6.4%
More than \$300 per capita 2002	138	460,369	11.7%

suburban cities and increasing it for other cities helped to achieve the goal of uniform tax relief, but increased the disparity in the distribution of state aid to cities (see Table ES-F).

There is growing concern that cities will feel the pain of budget balancing in the form of reductions to state aid payments—both local government aid (LGA) and the market value homestead credit reimbursement (MVHC).

A cut to city aids will not produce one simple, predictable result for all cities because there are a wide variety of city fiscal situations. For some cities, aid cuts mean immediate service reductions. There are some cities that have limited flexibility to absorb or delay the impacts of temporary aid cuts through use of undesignated reserves. For many cities, however, reserves may not be available to cover aid reductions because they are needed for cash flow or for upcoming capital improvements or other major projects. Depleting reserves in these cities will force them into a debt cycle to cover operating expenses, or to delay planned projects and increase their costs.

Cities only have access to one general tax: the property tax. But any redress for aid reductions through a levy increase does not solve short-term budget problems because cities' next opportunity to increase levies is in December 2003, and those levies won't be paid to cities until June and December 2004. Property tax wealth varies greatly from city to city, so for some cities property tax increases may not be feasible. And LGA is in part a tax base equalization program; that is, cities with lower property wealth receive more LGA. Therefore, those cities most vulnerable to aid cuts may be the least able to recover aid cuts through property tax increases.

Endnotes

- ⁱ "Migration a major factor in Minnesota's population growth," Martha McMurry, *Population Notes*, July 2002, Minnesota Planning State Demographics Center
- ⁱⁱ "Minnesota Population Projections 2000-2030," Martha McMurry, Minnesota Planning State Demographics Center, October 2002, p. 1
- ⁱⁱⁱ "Multifamily housing surpasses new homes," Neal Gendler, *Star Tribune*, Dec. 6, 2002, p. D1.
- ^{iv} Second Mayors' Regional Housing Task Force, *Affordable Housing: Making It a Reality*, 2002.
- ^v New housing is measured using 2000 Census data on the year structures were built.

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Introduction

Minnesota's cities are in a period of transition. Record population growth and the projected increase in the number of older Minnesotans, migration out of rural areas and into the lakes area, and changing development patterns are impacting cities' housing needs and adding stress to an overburdened transportation system. Long-term changes to cities' revenue structure, recent tax reforms, and the state budget deficit make responding to these needs even more difficult.

The *State of the Cities Report 2003* explores these broad trends faced by Minnesota's cities. The report has two distinct purposes: to help readers better understand major issues facing Minnesota's cities today, and to help city officials put their own city's circumstances in the context of the broader city community.

The report covers five topics. Chapter one is an overview of the demographic trends that are reshaping Minnesota, including population growth and migration, growth in ethnic and older populations, and changes in income and poverty levels. Chapter two describes how Minnesota's housing stock changed between 1990 and 2000, and how emerging demographic trends impact housing needs. Residential development in townships and unorganized areas of the state is analyzed in chapter three. Chapter four looks at how demographic and development trends impact Minnesota's deteriorating transportation system. Finally, chapter five analyzes how city revenue sources have changed over time and how the state's current budget crisis may impact city service delivery.

Report methodology

Each chapter explores a major trend that impacts the state of Minnesota's cities. Trends were identified through analysis of data, including 1990 and 2000 Census data, property tax data, city revenue and expenditure data, and state transportation data. Reports from other organizations helped identify key policy issues. Each chapter concludes with a list of policy questions for state and city policy-makers that are raised by examining the trends. This report does not presume to answer these policy questions, but the analysis provided should help policy-makers assess these policy issues.

Census data summarized in this report is available on the League of Minnesota Cities web site (www.lmnc.org) and is organized by city, county, and economic development region. State and national totals are included as well. These census profiles allow readers to compare their own city's experience with the trends identified in this report.

Two methods of illustrating trends that are used in this report may be new to many readers, and therefore require some explanation. These methods will herein be referred to as county groupings and city clusters.

County groupings

To assist in illustrating broad population trends, we grouped Minnesota's 87 counties into four regions based upon population change, migration patterns, and geographic proximity. The four groups, shown in Map A, are rural counties, lake counties, growth-corridor counties, and metro counties. Their general characteristics are described below.

- *Rural counties (31 counties)*

The 31 rural counties had net emigration (more people moving out than moving in) during the 1990s. Twenty-five of them have lost

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population, while natural growth (births minus deaths) outpaced the loss in migration for the remaining seven counties. They are all geographically adjacent in the west and southwest of the state, except for Koochiching in the north central region. Combined, these counties lost 2 percent of their population.

- *Lake counties (26 counties)*

Counties in this group experienced significant in-migration, in large part because of their natural amenities. They include counties in the northeast and north central area of the state. In general, this area has experienced 8.8 percent population growth, and migration accounts for 90 percent of the population growth.

- *Growth-corridor counties (19 counties)*

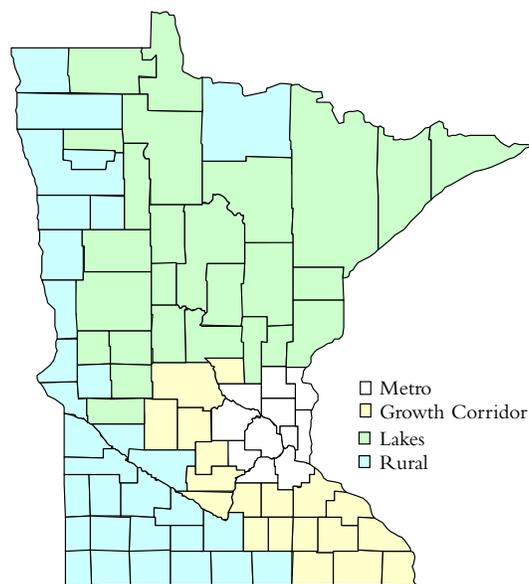
The growth corridor counties are in the outer ring of the Twin Cities, St. Cloud and Rochester metro areas, and the connecting counties that stretch from Houston County in the southwest corner of the state to Stearns County in the middle. The growth rate (10.1 percent) is similar to lake counties, but the sources are quite different. While migration alone drives the population growth in lake counties, natural increase contributes slightly more than migration to the population growth in growth-corridor counties.

- *Metro counties (11 counties)*

The 11-county metropolitan area grew by 16.8 percent. The population growth in the two central counties (Hennepin and Ramsey) is driven mainly by natural increase. There is net out-migration in Ramsey, and the net in-migration in Hennepin accounts for only 6 percent of its population growth. In the nine suburban metro counties, migration accounts for 63 percent of population growth and natural increase contributes the remaining 37 percent.

Map A

County groups



City clusters

A more sophisticated methodology was employed to classify Minnesota's 853 cities into relatively homogeneous groups. This analysis, known as the hierarchical cluster method, was modeled after a similar analysis done by Pat Dalton of the House of Representatives Research Department in 1996. Our analysis compared cities by four characteristics: population in 2000; population change 1990 to 2000; median household income in 1999; and commercial/industrial tax base per capita in 2002. The analysis ignored geographic proximity, except that cities in the seven-county Twin Cities metropolitan area and cities in greater Minnesota were analyzed in separate groups. The analysis produced 17 city clusters: eight in the metro area and nine in greater Minnesota. The clusters are briefly described in Table B. (See the appendix for more detail on the analysis, including a list of cities by cluster.)

Table B			
Cluster name	Number of cities	Dominant characteristics	Example cities
<i>Metropolitan clusters</i>	138	<i>Cities in the seven-county Twin Cities metro area</i>	
Central Cities	2	Major population and economic centers of the state and Twin Cities metropolitan area.	Minneapolis and St. Paul
Large Cities	12	Large cities in the metro area besides the two central cities, with population over 45,000.	Burnsville and Plymouth
Old Cities	13	Relatively larger low-income cities with stable or declining population growth.	Brooklyn Center and Richfield
Diversified Cities	15	High commercial/industrial market value per capita.	Roseville and Wayzata
Extremely High Growth Cities	17	Extremely high population growth rate.	Rogers and Woodbury
High Growth Cities	18	Relatively larger cities with high population growth.	Chaska and Medina
High Income Cities	20	Smaller cities with high median household income.	Minnetonka Beach and North Oaks
Smaller Cities	41	Small population size.	Hilltop and New Trier
<i>Greater Minnesota Cities</i>	715	<i>Cities in the 80-county greater Minnesota area</i>	
Major Cities	3	Major economic centers for greater Minnesota.	Duluth, Rochester, and St. Cloud
Regional Centers	22	Large cities with high commercial/industrial market value per capita.	Mankato and Marshall
Sub-Regional Centers	27	Medium-sized cities with high commercial/industrial market value per capita.	Hinckley and Waite Park
Urban Fringe	10	Extremely high population growth rate and high median household income.	Albertville and St. Michael
High Income Cities	25	Very high median household income.	Hanover and Oronoco
Moderate Growth Cities	60	Higher than average median household income and higher population growth rate.	Cohasset and Lake Shore
Established Cities	107	Low population growth, stable or declining, average median household income.	Silver Bay and Pipestone
Low Income Rural Cities	102	Below average median household income.	Lakefield and Moose Lake

Chapter 1: Demographic changes

During the decade of the 1990s, Minnesota's population grew by 12.4 percent to 4,919,479. Minnesota led the Midwest in growth; many midwestern and northeastern states saw little growth or declined in population.

Beyond the state's surprising population growth are three demographic trends that have significant policy implications for cities and the state:

- Minnesota's growing racial and ethnic diversity.
- The aging of the population.
- The state's growing affluence.

Minnesota's growing diversity

A major factor in Minnesota's growth was the significant growth in the state's non-White and Hispanic populations (herein referred to as "ethnic populations"). Minnesota's ethnic population grew much faster than total population. Table 1A shows a distribution of Minnesotans' race and ethnic identification in 2000 and 1990 (see sidebar on comparing 2000 and 1990 Census race data). Hispanic identification is a separate census question from race because Hispanic is considered an ethnic rather than a racial identification. Because of this, Hispanics also identify with one or more race categories. In Table 1A, Hispanics are listed as a separate category, but are also included in a race category so the categories total more than 100 percent. In 2000, about 86 percent of Minnesota's Hispanics identified with either the "White" or "Other" race category.

Racial and ethnic diversity is increasing faster in Minnesota than in the nation as a whole. However, the state remains one of the least diverse in the nation, ranking 10th highest in the percent of the population identifying themselves as White and not Hispanic (88.2 percent). Yet the state's ethnic population more than doubled in the 1990s from 273,833 to 582,336, or 11.8 percent of the overall population. In fact, all ethnic populations, except American Indians, are growing faster in Minnesota than in the nation. Hispanics are the fastest growing ethnic population in the state. The slow growth rate in the American Indian population is due partly because this group has the highest proportion of people identifying with multiple races in 2000.

The growth in ethnic and foreign-born populations is a major contributor to the state's population growth. Although ethnic populations account for only 11.8 percent of Minnesota's population, they contributed 56.7 percent of the growth in the 1990s. The foreign-born population reached 260,439 in 2000, increasing from 2.6 percent of the state's overall population in 1990 to 5.3 percent in 2000. The growth of foreign-born people contributes 3.4 percentage points to the overall 12.4 percentage points of population growth. There is likely a large overlap between ethnic populations and people of foreign birth.

According to Martha McMurry of the State Demographic Center, almost half of Minnesota's growth during the 1990s was due to net in-migration.ⁱ For most of the previous 50 years, Minnesotans moving out of the state outnumbered newcomers moving into Minnesota. This trend reversed sharply in the 1990s, with an estimated net in-migration of over 250,000 people (see Table 1B).

Comparing 1990 and 2000 Census race data

The 2000 Census for the first time allowed respondents to identify themselves with more than one race. The change means 2000 Census race data is not exactly comparable with previous census data. In the 2000 Census, 82,742 Minnesotans—or 1.7 percent of the total population—identified themselves with multiple races. Multiple race identifications were most common among those choosing non-White races, accounting for 16 percent of the state's non-White population. It is impossible to know how many of these Minnesotans identified themselves with White or with another racial group in the 1990 Census. For the sake of simplicity, this report will include those identifying themselves with more than one race in the ethnic population for 2000, which will somewhat overstate increases from 1990 and alter measures of the share of the non-White population in various racial groups.

Table 1A

Race/Ethnicity*	2000	1990
White	89.5%	94.4%
Black	3.5%	2.2%
American Indian	1.1%	1.1%
Asian	2.9%	1.8%
Other race	1.3%	0.5%
More than one race	1.7%	NA
Hispanic*	2.9%	1.2%

*Hispanics also identify with a race category, so the categories total more than 100 percent

Table 1B

Minnesota net migration 1940-2000, by decade

1940-1950	-171,484
1950-1960	-98,140
1960-1970	-25,933
1970-1980	6,482
1980-1990	-29,515
1990-2000	258,056

Geographic distribution of ethnic diversity

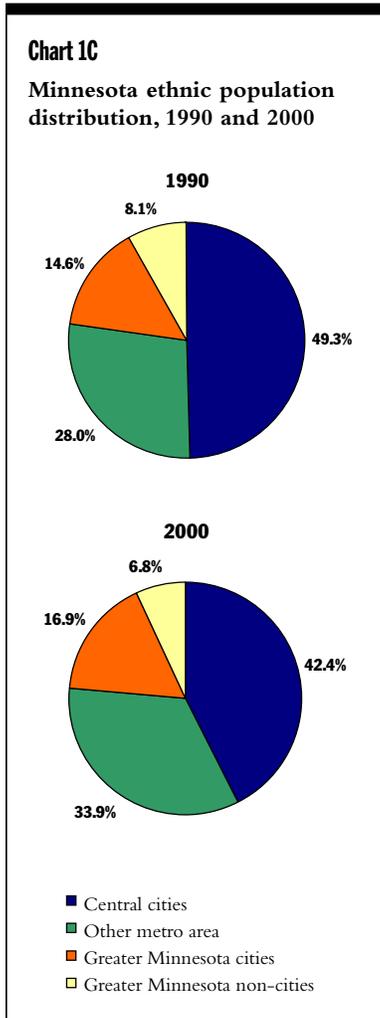
Minnesota's ethnic population growth is a statewide phenomenon. Only 10 of Minnesota's 87 counties saw increases of less than 50 percent in their ethnic populations in the 1990s. In 11 counties, the total population would have declined but for the growth in ethnic populations. In another 24 counties, overall population declines were reduced due to simultaneous growth in ethnic populations.

While ethnic population growth was widespread, it was by no means uniform. Minneapolis and St. Paul, historically home of a large share of the state's ethnic populations, experienced modest total population growth and became more diverse in the 1990s. As they lost some White non-Hispanic population, the overall growth of the two cities can be attributed to their rapid growth in ethnic populations. They have experienced an 83 percent growth in ethnic populations, and the proportion increased from 21.1 percent of the two cities' combined population in 1990 to 36.8 percent in 2000. However as their ethnic population growth rate is still less than the state average of 113 percent, the two central cities' share of the state's ethnic population has decreased from 49.3 percent to 42.4 percent (see Chart 1C). The one ethnic group that is still heavily populated in the central cities is Blacks. The two cities are home to 60 percent of the state's Black population.

The balance of the 11-county metropolitan area experienced the highest growth rate in ethnic populations and became the largest gainer in the relative share of the state's ethnic populations. The metro suburban areas' share of the state's ethnic population has increased from 28 percent in 1990 to 33.9 percent in 2000. Geographically, ethnic populations are more concentrated in the older suburbs around the central cities. The 20 metro suburban cities with the highest proportion of ethnic populations account for 30 percent of the total suburban population, but almost half of the suburban ethnic population. All but two of these 20 cities are within or border the 494-694 interstate beltway.

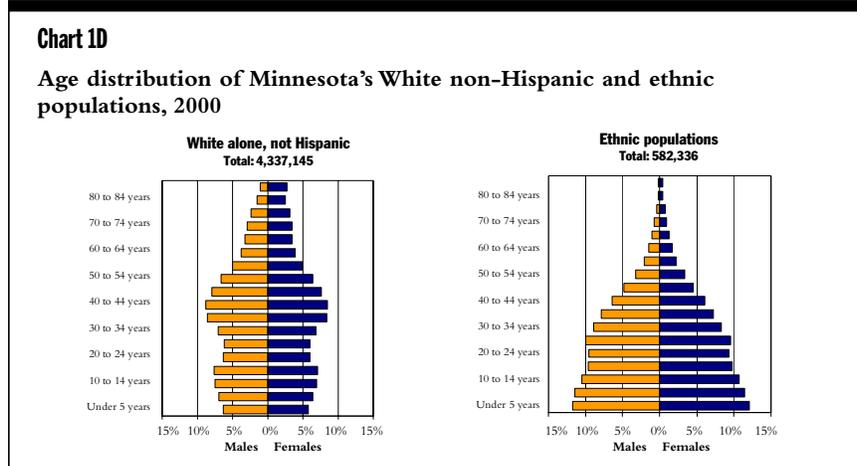
Greater Minnesota cities' ethnic population grew by almost 150 percent in the 1990s, and their share of the state's ethnic population grew from 14.6 percent to 16.9 percent. Hispanics are generally the largest ethnic population in greater Minnesota cities, especially in the south and southwest. The Hispanic population in greater Minnesota cities almost tripled in the 1990s. In 2000, 2.9 percent of greater Minnesota cities' total population, or two-fifths of their ethnic population are Hispanics. Compared to other ethnic populations that are generally more concentrated in larger cities and non-city areas, the Hispanic population is spread more evenly among cities of all sizes.

Cities under 500 population had a lower ethnic population percentage, 4.1 percent, than larger Minnesota cities. The growth in ethnic populations among small cities totaled 1,440 people. Yet this is almost four times the growth of the total population in cities under 500, which in aggregate grew by only 367 people.



Age differentials

The population pyramids in Chart 1D compare the age distribution of Minnesota’s White non-Hispanic population to Minnesota’s ethnic populations. The striking difference in the two pyramids’ shapes indicates that the White non-Hispanic population is dominated by baby boomers and their elders, while the ethnic populations are dominated by people under 40. Over 45 percent of the White non-Hispanic population is over 40, compared to only 21 percent of the ethnic populations.



“The striking difference in the two pyramids’ shapes indicates that the White non-Hispanic population is dominated by baby boomers and their elders, while the ethnic populations are dominated by people under 40.”

This discrepancy has many likely causes. First, as noted above, many of the ethnic populations are recent arrivals to Minnesota and people tend to migrate at younger ages. Second, a larger share of the ethnic populations are women of child-bearing age and birth rates for many ethnic populations are much higher than for White non-Hispanics. Third, life expectancy is higher for the White non-Hispanic population than for ethnic populations, although the gap has declined over time. These causes, especially the first two, indicate that the ethnic populations will likely continue to grow more quickly than the White non-Hispanic population into the future.

Language

Of the Minnesota population over age five, 227,161 or 8.5 percent speak a language other than English at home, up from 5.6 percent in 1990. Of these people, more than one in three say they speak English less than “very well.” According to the Dept. of Children, Families and Learning, Minnesota students spoke 75 languages other than English at home in the 2001-02 school year, up from 64 in 1996-97.

“Of the Minnesota population over age five, 227,161 or 8.5 percent speak a language other than English at home, up from 5.6 percent in 1990.”

Other issues

Minnesota’s ethnic populations differ from the White non-Hispanic population in many ways. Table 1E shows the average household size,

Group	Household size	Median household income	Home-ownership rate
White non-Hispanic	2.46	\$48,389	77%
Hispanic	3.58	\$35,933	43%
Black alone	2.82	\$28,926	32%
American Indian alone	3.13	\$28,533	53%
Asian alone	3.66	\$45,520	53%

“Ethnic population growth accounted for more than half of the total growth in the state, and kept many areas from having overall population declines.”

median income, and homeownership rate for White non-Hispanics and ethnic populations in Minnesota in 2000. Households headed by White non-Hispanics are generally smaller than other households, especially households headed by Asians and Hispanics. Households headed by White non-Hispanics and Asians have higher incomes than those headed by Hispanics, Blacks, and American Indians. Similarly, home-ownership rates for ethnic populations lag significantly behind White non-Hispanics, especially for Hispanics and Blacks.

While Minnesota’s ethnic population growth in the 1990s was not uniform, it is changing the population of cities of all sizes across the state. Ethnic population growth accounted for more than half of the total growth in the state, and kept many areas from having overall population declines. The age structure and birth rates of ethnic populations and migration trends indicate that this growth is likely to continue into the future.

Aging population

While Minnesota’s burgeoning ethnic populations are dominated by people under 40, the larger White non-Hispanic population is older. During the 1990s, the share of Minnesota’s population over 65 declined slightly from 12.5 to 12.1 percent of the population, but grew in absolute numbers from 546,934 to 594,266. This relative decline is expected to reverse sharply, however, as the baby boom generation enters retirement age over the next two decades. According to the State Demographic Center, Minnesota’s population over 55 will double to almost 2 million in the next 30 years.ⁱⁱ

“During the 1990s, the share of Minnesota’s population over 65 declined slightly from 12.5 to 12.1 percent of the population, but grew in absolute numbers from 546,934 to 594,266.”

Age patterns differ across the county groups. Table 1F shows that rural and lake counties remain much older than metro and growth-corridor counties, and the gap between their median ages grew from 1990 to 2000. Lake counties surpassed the rural counties to have the highest average median age at 39.8. Metro counties continue to have the lowest median age and the lowest aging rate.

	Growth-Rural Counties	Lake Counties	Corridor Counties	Metro Counties	Minnesota
2000 median age	39.6	39.8	35.9	33.8	35.4
1990 median age	36.3	36.0	32.8	30.9	32.4
Change in median age	3.3	3.8	3.1	2.9	3.0

**Sources: 1990 and 2000 Census data, using the unweighted mean of the county median age in each group.*

Besides the natural aging of the population, the difference in migration patterns impacts the age distribution. Table 1G shows the change in net migration by age category for the four county groupings.ⁱⁱⁱ Net migration is the change in population caused by people moving in or out of the area. It does not include natural increases (people born or growing older in the same place) or deaths. Table 1G shows that metro and growth-corridor counties are attractive to younger adults and working people, in large part because of educational facilities and greater job opportunities. These counties also outpace the rural and lake counties in natural increase, which contributes more than half of the population growth in the area. Con-

Table 1G
Net migration 1990-2000

Age Group	Rural Counties	Lake Counties	Growth Counties	Metro Counties
Age 0 to 14	7.5	16.7	11.9	21.4
Age 15 to 24	-15.8	-11.9	1.5	1.8
Age 25 to 44	-5.4	14.6	4.2	36.3
Age 45 to 54	-0.1	16.4	5.0	8.5
Age 55 to 64	0.3	24.2	3.0	1.3
Age 65 to 74	-0.3	16.1	3.1	2.6
Age 75 and over	2.9	4.1	5.5	13.5
All Ages	-2.9	10.9	4.7	17.5

“Net migration is the change in population caused by people moving in or out of the area. It does not include natural increases (people born or growing older in the same place) or deaths.”

versely, rural and lake counties are facing low or even negative natural increase and net out-migration of younger adults. The natural amenities of lake counties make them attractive to older adults and retirees. The large in-migration of people aged 45 to 74 drives the population growth in lake counties, offsetting negative natural increases in some of them.

City clusters and age

Cities' age composition is highly correlated to their population growth. Cities that have experienced growth generally have a lower share of their population over 64 years old and a higher share under 15 years old (see Table 1H).

Table 1H
Population change and age distribution by city cluster

	Percent population change	Percent of population under 15	Percent of population over 64	Median age
<i>Greater Minnesota</i>				
Urban Fringe	123	29	7	31.3
High Income Cities	44	24	10	34.8
Moderate Growth Cities	21	22	16	35.8
Major Cities	13	19	13	32.6
Sub-Regional Centers	12	19	21	39.1
Regional Centers	6	19	16	34.9
Low Income Rural Cities	3	19	26	42.5
Established Cities	1	20	19	38.4
Small Rural Cities	0	20	19	39.6
Greater Minnesota Total	11	20	17	39.0
<i>7-County Metro</i>				
Extremely High Growth Cities	97	29	4	31.8
High Growth Cities	41	26	6	34.1
High Income Cities	19	24	8	41.0
Large Cities	18	22	9	35.7
Central Cities	5	20	10	31.1
Smaller Cities	4	21	13	35.6
Diversified Cities	3	18	16	39.4
Old Cities	0	19	15	36.8
7-County Metro Total	16	22	10	36.2

Table 1I
Midwest median incomes

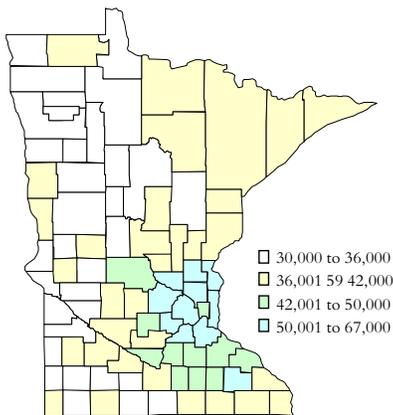
	1999 Median income	1989 Median income	Change after inflation
Minnesota	47,111	30,909	17%
Illinois	46,590	32,252	11%
Michigan	44,667	31,020	10%
Wisconsin	43,791	29,442	14%
Iowa	39,469	26,229	15%
South Dakota	35,282	22,503	20%
North Dakota	34,604	23,213	14%
United States	41,994	30,056	7%

Minnesota’s growing affluence

Minnesota experienced a decade of growing affluence in the 1990s. The median household income of the state has increased from \$30,909 in 1989 to \$47,111 in 1999, which represents a 17 percent increase after adjusting for inflation.^{iv} In contrast, the U.S. median income grew by only 7 percent in the same time. Minnesota led the Midwest in median income, and only South Dakota had a higher percentage increase (see Table 1I). Nearly one quarter of Minnesota households had incomes of \$75,000 or more in 1999, while 36 percent had incomes of \$34,999 or less.

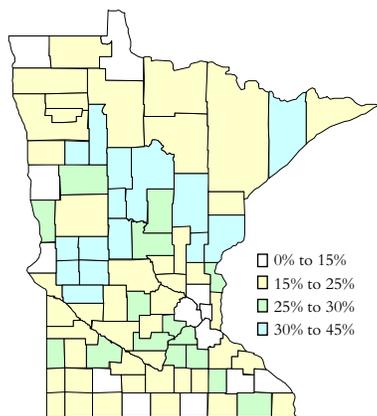
County median incomes decrease from metro to non-metro areas as well as from east to west. Map 1J shows the distribution of median household incomes in Minnesota counties. Eleven counties in the state had a median household income of \$50,000 or more. Ten of them are in the 11-county Twin Cities metro area and the other one, Olmsted, contains the city of Rochester and is in the growth county group. With the exception of Ramsey, all counties with incomes ranging from \$42,000 to \$50,000 are in the growth county group, stretching from St. Cloud to the Rochester area. Western Minnesota remained the poorest, and the median household incomes of most of the western counties were less than \$36,000. The pattern of income distribution is similar to population growth, with higher median incomes in the higher growth areas. The exceptions are several counties in the lakes area, where both population and incomes grew significantly. But because they had very low median incomes in 1989, these counties still rank below average in median income.

Map 1J
Household income



Regional income gaps decreased in the 1990s. Map 1K shows the growth rate in median household income at the county level. The figure differs quite a bit from the figure showing median household income distribution. The highest income growth occurred in the lake counties. Among 15 counties with more than 30 percent real growth rate (after adjusting for inflation), 13 are in lake counties and two are in rural counties. The rest of greater Minnesota experienced more moderate increases in median household incomes. Metro counties had relatively lower income growth, which reduced the income gaps in the state.

Map 1K
Growth in household income
in 1990s



Non-city areas are more affluent than cities. As shown in Table 1L, non-city areas in both greater Minnesota and in the 11-county metro area had a higher proportion of households with incomes over \$75,000 than their city counterparts. These results hold for the growth, lake, and rural regions individually as well. The poverty rate declined in all areas, with the state-wide rate decreasing from 10.0 percent to 7.7 percent. Non-city areas have much lower poverty rates than their city counterparts in the same region.

Policy implications for cities and the state

These demographic trends have many implications for public policy in Minnesota. Minnesota’s increasing diversity obliges city and state officials to re-examine policies and procedures to ensure equal access of all citizens to government services, public decision-making processes, and economic opportunity. This may include reviewing ordinances for possible unintended bias. For example, zoning restrictions on occupancy levels beyond what is

Table 1L**Income and Poverty**

	Percent of households with income under \$35,000	Percent of households with income from \$35,000 to \$75,000	Percent of households with income over \$75,000	1990 Poverty Rate	2000 Poverty Rate
Central Cities	45.6	35.4	19.0	17.1	15.7
Other Metro Cities	24.6	39.9	35.5	4.7	3.9
Non-city areas in 11 Metro Counties	19.7	42.5	37.8	5.1	3.5
Greater MN Cities	48.6	37.7	13.7	13.1	10.3
Non-city areas in Greater MN	37.8	44.3	17.9	11.7	7.6
Minnesota	35.9	39.4	24.7	10.0	7.7

deemed necessary to ensure public safety may be more burdensome on families from ethnic populations that tend to have larger households.

For more information, see the League of Minnesota Cities *Building Inclusive Communities Action Guide for City Officials*. This guide was designed to assist city officials in rising to the challenges and opportunities posed by Minnesota's increasing cultural diversity in such areas as understanding and addressing housing needs, enhancing public safety efforts, bridging language gaps, and recognizing and working against racism.

The aging of Minnesota's population will create new demands on cities for transit and pedestrian-friendly business areas, affordable senior housing, and community/senior centers. Cities may also want to take stock of more basic issues like sidewalk conditions, clarity of street signs, and adequate timing of traffic lights. One helpful resource is the Minnesota Board on Aging's survey for communities to measure their senior-readiness (available online at: www.mnaging.org).

The aging population also has implications for the state's economic vitality. As the baby boom generation reaches retirement age, government and business will need to work together to create incentives for older workers to work longer and to attract new young workers to the state. For more and more communities, new immigrant populations have been providing this economic boost.

The state's growing affluence during the 1990s was broadly shared across the state. But despite the reduction of the income gap between regions of the state, the gap is still significant. And the current recession may eliminate some of the gains of the 1990s. Statewide, personal income has stagnated since the Census was taken in 2000. According to the Minnesota Dept. of Finance, Minnesota real wages per job grew more slowly than national averages in 2001 and are predicted to grow more slowly for 2002, with the growth rate catching up to the national average in 2003. Minnesota's employment growth lagged the national economy and is predicted to continue to lag until 2005^v. Special efforts may be needed to spur economic development and opportunity in areas hardest hit by both the current economic downturn and long-term trends in stressed industries like agriculture and mining.

“Minnesota’s increasing diversity obliges city and state officials to re-examine policies and procedures to ensure equal access of all citizens to government services, public decision-making processes, and economic opportunity.”

“The state’s growing affluence during the 1990s was broadly shared across the state. But despite the reduction of the income gap between regions of the state, the gap is still significant.”

Endnotes

- ⁱ Minnesota Planning State Demographics Center, "Migration a major factor in Minnesota's population growth," Martha McMurry, *Population Notes*, July 2002.
- ⁱⁱ Minnesota Planning State Demographics Center, "Minnesota Population Projections 2000-2030" Martha McMurry, October 2002, p. 1.
- ⁱⁱⁱ Data are from Martha McMurry, Minnesota Planning State Demographics Center
- ^{iv} The Bureau of Labor Statistics' Consumer Price Index (CPI-U-RS) is 187.1 for 1989 and 244.1 for 1999. To adjust 1989 income to 1999 constant dollars, multiply 1989 dollar values by $244.1/187.1$, or by 1.30465.
- ^v Minnesota Department of Finance, "Economic Forecast," November 2002, p. 30.

Chapter 2: Housing trends

Minnesota’s housing stock has changed over time in response to demographic and economic trends, changing consumer preferences, and evolving technologies and practices in housing production. Over time, the federal government has cut back its production of public housing and the focus of housing policy has shifted from large public housing complexes to scattered-site and mixed-affordability housing developments.

Cities’ role in housing has evolved throughout this transition. Whereas cities’ involvement was once limited to the administration of zoning ordinances, the rise of federal funding of housing led cities to become owner and administrator of public housing. Then with the retreat of the federal government’s involvement in housing in the past 25 years, cities have often become the planner, developer, and partial funder of subsidized and market-rate housing projects.

The housing stock of an individual city is a product of many factors, including the age of the city and its historic growth patterns, the wealth of city residents, the ability of the city to expand its boundaries over time, and its proximity to job centers, transportation corridors, and natural amenities. For example, housing in many first-ring Twin Cities suburbs is dominated by post-World War II multi-unit buildings and single-unit homes that are smaller and more densely situated than housing built in later decades. Fast growing cities on the urban fringe have less rental housing and larger homes on larger lots. Many larger greater Minnesota cities have a more diverse mix of housing that reflects their steady growth and development over time, while smaller greater Minnesota cities that peaked in population several decades ago tend to have mostly older housing and less rental housing.

As a result of these factors, some cities have a less diverse housing stock than others. For some cities, the relative homogeneity of their housing is considered an asset and part of the community’s identity. And often cities in close proximity have complimentary housing stock so that among them, there is a diversity of options for area residents. Take, for example, many smaller communities near regional centers that had been losing population and jobs for many years. Now they are growing again because their housing choices make them attractive locations and more affordable for some people working in the larger cities.

But many other cities feel they need to diversify and are identifying gaps to fill in their housing stock. Some want more “starter” homes that young families can afford. Others may want more affordable rental and owner-occupied homes so people who work in their cities can afford to live there as well. The aging of Minnesota’s population is fueling demand for more attached town homes and senior-oriented, multi-unit housing. Cities with growing ethnic populations may need more units with many bedrooms, since the average household size of ethnic populations is significantly larger than that of White non-Hispanic households (see Table 1E, p. 7).

Filling these gaps can benefit new residents moving into the community, as well as existing residents whose housing needs are changing—from

“Minnesota’s housing stock has changed over time in response to demographic and economic trends, changing consumer preferences, and evolving technologies and practices in housing production.”

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“One component of housing diversity is the availability of both rental and ownership opportunities.”

young adults moving out of parents’ homes to empty-nesters trading lawn care for association dues to seniors who need housing within walking distance of the grocery store. For these reasons and others, many cities are seeking to develop housing of sorts not currently available in their communities.

Housing diversity

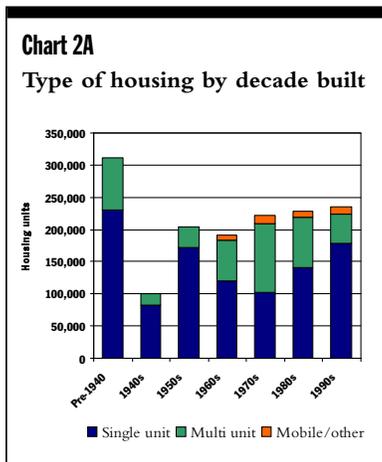
There are a variety of ways to measure housing diversity. The Housing Diversity Profile in Table 2B uses census data to profile some important aspects of the housing stock of a sample community and of the whole state. (The data included in this table can be found for every city, county, and economic development region on the League of Minnesota Cities web site at: www.lmnc.org.)

One component of housing diversity is the availability of both rental and ownership opportunities. One of every four Minnesota households rents its primary residence. For many citizens, renting is the only option they can afford. Others choose to rent for a variety of reasons. For example, they may not want the commitment of a mortgage or of maintaining a house and yard. Table 2C on page 16 shows the rates of home ownership by city cluster. Rates vary from 52.8 percent for Minneapolis and St. Paul to an average of 95.3 percent in the high-income metro city cluster.

Another measure of housing diversity is the number of housing units in multi-unit buildings. Across the state, 68 percent of housing units are single-unit detached dwellings and 5 percent are single-unit attached dwellings (like town homes). Five percent are manufactured homes (called mobile homes by the Census Bureau) or miscellaneous other residences like recreational vehicles or houseboats. The remaining 22 percent are units in multi-unit buildings with half of these in buildings of 20 units or more. The metro area has more multi-unit buildings and attached single-unit dwellings while greater Minnesota has more detached single-unit dwellings and manufactured homes.

Chart 2A shows the distribution of Minnesota’s 2,065,946 housing units between single-unit dwellings, multi-unit buildings, and mobile homes and other housing units by the decade in which they were builtⁱ. About one of five housing units in Minnesota in 2000 was built before 1940. Only 100,000 of today’s units were produced during the 1940s, with from 190,000 to 235,000 built in each succeeding decade. Single-unit dwellings represented over 80 percent of all units in the 1940s and 1950s. Multi-unit buildings, however, were one-third of all units built in the 1960s and 1980s and almost one-half of all units built in the 1970s. They were only 19 percent of the units built in the 1990s. The 1986 changes to the federal tax code are often credited for the decline of construction of multi-unit buildings in the 1990s.

There is some evidence that construction of multi-unit buildings and attached single-unit dwellings is on the rise, at least in the Twin Cities. A recent *StarTribune* article noted that multifamily housing (including attached single-unit housing) was more than 50 percent of units in permits applied for during November 2000. This type of housing was about 46 percent of units applied for in the first 11 months of 2002 in a large portion of the Twin Cities area, compared to 42 percent in 2001 and 37 percent in 2000ⁱⁱ.



Affordability

Does the city have rental and home ownership opportunities appropriate for people in a broad range of economic circumstances? The affordability of units is perhaps the most commonly discussed housing issue. One common measure of affordability is paying less than 30 percent of income on housing costs. The Housing Diversity Profile (Table 2B) shows the breadth of range of monthly rents and owner-occupied home values in the sample city and for the whole stateⁱⁱⁱ.

Table 2B
Housing Diversity Profile

Sample city

Total housing units	1,200
Occupied housing units	1,169
Percent renter-occupied	27%
Units built from 1990 to 2000	15%

Monthly rents		Value of owner-occupied housing		Bedrooms per unit		Units per building	
Median	\$515	Median	\$111,300	5+ bedrooms	3%	1 unit, detached	69%
\$1,000 or more	2%	More than \$500,000	0%	4 bedrooms	17%	1 unit, attached	2%
\$750 to \$999	6%	\$300,000 to \$499,999	0%	3 bedrooms	40%	2 units	3%
\$500 to \$749	45%	\$200,000 to \$299,999	2%	2 bedrooms	29%	3-4 units	4%
\$300 to \$499	35%	\$150,000 to \$199,999	9%	1 bedroom	9%	5-9 units	8%
\$200 to \$299	6%	\$100,000 to \$149,999	51%	No bedroom	1%	10-19 units	3%
Less than \$200	4%	\$50,000 to \$99,999	37%			20 or more units	9%
No cash rent	2%	Less than \$50,000	0%			Mobile home	2%
						Other	0%

State of Minnesota

Total housing units	2,065,946
Occupied housing units	1,895,127
Percent renter-occupied	25%
Units built from 1990 to 2000	16%

Monthly rents		Value of owner-occupied housing		Bedrooms per unit		Units per building	
Median	\$566	Median	\$122,400	5+ bedrooms	4%	1 unit, detached	68%
\$1,000 or more	7%	More than \$500,000	1%	4 bedrooms	18%	1 unit, attached	5%
\$750 to \$999	16%	\$300,000 to \$499,999	4%	3 bedrooms	35%	2 units	3%
\$500 to \$749	36%	\$200,000 to \$299,999	10%	2 bedrooms	27%	3-4 units	2%
\$300 to \$499	23%	\$150,000 to \$199,999	17%	1 bedroom	13%	5-9 units	2%
\$200 to \$299	7%	\$100,000 to \$149,999	33%	No bedroom	2%	10-19 units	4%
Less than \$200	7%	\$50,000 to \$99,999	27%			20 or more units	11%
No cash rent	4%	Less than \$50,000	8%			Mobile home	5%
						Other	0%

All data are from the 2000 U.S. Census SF3 dataset

The median monthly rent statewide in 2000 was \$566. As shown in Table 2C, median rents were lower in all greater Minnesota clusters than in the metro area clusters, reflecting both cost of living differences and higher vacancy rates in greater Minnesota at the time of the 2000 Census. A similar pattern exists for the median value of owner occupied homes, although two greater Minnesota clusters (high income and urban fringe) have higher median values than some metro area clusters.

Table 2C also shows that 35 percent of renters pay more than 30 percent of their income for housing, an improvement from 39.5 percent in 1990. For Minnesota's homeowners, 16.6 percent pay more than 30 percent

of their income for housing, up from 15.4 percent in 1990. Part of this divergence may be explained by the fact that the state's median rent increased 34 percent from 1990 to 2000, while the median mortgage increased 44 percent^{iv}.

Table 2C
Selected housing characteristics by city cluster

Cluster	Home-ownership Rate (%)	Median* Home Value (\$)	Median* Monthly Rent (\$)	% Paying 30%+ of Household Income for Mortgage (%)	% Paying 30%+ of Household Income for Rent (%)	Percent of all units with 4 or more bedrooms (%)
Greater Minnesota Cities						
High Income Cities	78.0	128512	530	17.0	29.8	24.8
Low Income Rural Cities	73.7	50443	345	13.7	34.0	16.3
Moderate Growth Cities	77.1	98523	438	15.1	29.9	19.6
Major Cities	64.7	97530	487	14.8	37.5	20.6
Regional Centers	66.5	86111	434	13.7	36.6	16.9
Sub-Regional Centers	61.5	81646	426	17.2	36.1	15.7
Small Cities	82.4	50272	355	13.7	25.5	17.6
Established Cities	74.3	70365	390	12.4	32.2	18.7
Urban Fringe	83.7	131493	554	19.0	32.1	24.5
Metro Minnesota Cities						
Diversified Cities	69.6	142072	683	15.8	35.7	17.4
Extremely High Growth Cities	89.7	166751	804	18.1	38.0	37.8
High Growth Cities	86.7	155012	706	17.8	35.6	31.7
High Income Cities	95.3	280914	846	21.3	23.4	46.8
Large Cities	77.5	164410	795	16.5	33.9	29.0
Old Cities	65.7	126086	648	16.1	37.2	16.0
Smaller Cities	73.0	131340	611	17.1	34.1	18.6
Central Cities	52.8	109966	571	20.3	38.1	11.3
State	74.6	122400	566	16.6	35.0	20.9

All data are derived from the 2000 U.S. Census SF3 dataset.

*Weighted average median

The size of housing units is another important housing characteristic. Larger households generally seek units with more bedrooms. The Housing Diversity Profile (Table 2B) shows the distribution of housing units by number of bedrooms. In addition, Table 2C shows the percent of units with four or more bedrooms for each city cluster. The number of bedrooms roughly correlates with the home ownership rate and median home value—more affluent communities with more homes and fewer rental units have larger average units.

Both the affordability measures and the number of bedrooms highlight an important caveat to the Housing Diversity Profile data. The range of housing—by price, size, or any other measure—that exists in a city does not necessarily reflect what is currently available on the market. Nor is it necessarily accessible to those who need it. For example, large families of modest means may not be able to afford the larger units that would best accommodate them.

City strategies

In its October 2002 report, the Second Mayors' Regional Housing Task Force highlighted several practices that have the potential to increase affordable housing or fill other housing needs. The commonly held standard is housing costs that are less than 30 percent of monthly household income. Since household income varies extensively throughout the state, a wide range of affordable housing is required in order to meet the 30 percent standard.

Some of the affordable housing practices identified in the report involve construction methods such as modular technology. This lowers building costs as the housing units can be constructed in days rather than weeks or months. In Chaska, facing rapid population growth, city planners designed a neighborhood featuring attached and detached homes built with modular technologies. Units start at \$140,000 and average \$190,000, while the average market-rate home elsewhere in the city sells for \$295,000^v.

As noted above, changing household size or other life circumstances often leads to demand for different kinds of housing over time. Developments that feature different sizes and types of houses are seen as critical to providing this range of housing, often referred to as lifecycle housing. The village-style development in Chaska features a range of house sizes and types.

The Task Force report also highlights innovations in sustainable construction. Using energy-efficient and strong materials can help control future energy costs, and can therefore improve affordability.

Community land trusts are a way to improve the sustainability of a city's affordable housing stock. With a land trust, a public or nonprofit entity owns the land and private citizens purchase only the housing unit. In this way, subsequent selling prices are held down. Several community land trusts operate in Minnesota, including in the cities of Chaska, Duluth, Minneapolis, Minnetonka, Northfield, Rochester, and St. Paul.

Other practices involve design issues, specifically lot size and width of streets. Smaller lots and narrower streets lead to higher density neighborhoods with lower infrastructure costs, thereby increasing affordability. The St. Peter City Council, for example, approved these kinds of designs in addressing the need for entry-level housing after disastrous tornadoes struck the area. The city is developing a subdivision that includes 76 single-family homes and two townhouse developments. Units in this development are selling for between \$109,000 and \$120,000^{vi}. The average sale price for homes in St. Peter is about \$134,000^{vii}. Higher density development can also have implications for the cost of providing services to residents. When residents live in closer proximity, school transportation, police, fire, and other services can be provided more efficiently.

The report also discusses housing practices that meet the unique housing needs of certain groups. Pedestrian-friendly, high-density, mixed-use developments are one way to address the needs of specific groups within a community, such as older Minnesotans. These kinds of developments feature a range of housing sizes and types, including owner and renter units, as well as commercial space. In St. Louis Park, for example, the new Excelsior and Grand neighborhood features housing units built over retail stores and other businesses, open spaces, and pedestrian walkways. The development is adjacent to an existing commercial area. This encourages walking between home, shopping, and perhaps even work. As the proportion of older Minnesotans grows, such pedestrian-friendly neighborhoods become more critical since physical health may impact the ability to drive.

As a result of these kinds of developments, fewer residents must travel by automobile on local streets, which helps to alleviate road congestion. Mixed retail and residential development also means that alternative modes of transportation become more feasible. It is less expensive to operate a transit

“Pedestrian-friendly, high-density, mixed-use developments are one way to address the needs of specific groups within a community, such as older Minnesotans.”

system, such as buses, when the places people need to go are located closer together.

The Mayors' Report concludes with a look at what cities can and are doing to increase affordable housing and meet the range of housing needs they face. Some cities have responded to the need for affordable housing, using zoning and land-use planning. For example, in Eden Prairie, Woodbury, and Apple Valley, developers are eligible for density bonuses. Other cities keep lot sizes for single-family housing small, as in St. Peter. Minnetonka and Apple Valley offer other examples of mixed-use development.

A study underway by the Office of the Legislative Auditor will look at another important aspect of housing—best practices for preserving older housing. As our housing stock ages, more of the older housing, which is often more affordable than newer housing, is in need of major repair and improvement. Preserving existing affordable housing is usually much less expensive than creating new affordable housing. This report, which should be released in March or April 2003, will identify programs and practices that are found most effective in maintaining this important part of cities' housing stock.

Policy implications for cities and the state

Demographic trends are changing Minnesotans' housing needs. Many cities are looking to new types of development to diversify their housing options or address particular needs. Despite the economic boom of the 1990s, affordability is still a critical issue—35 percent of renters and 16.6 percent of homeowners pay more than 30 percent of their income for housing.

Budget shortfalls at the state and federal levels could reduce already inadequate funding for existing housing programs, which will impact cities' ability to address these housing needs. In lieu of increased funding, should the state give cities greater authority to require developers to include affordable units in new developments?

The adequacy of the highway and transit systems will impact the location of new housing development and the success of transit-oriented development. How should cities and the state coordinate their efforts to provide housing choices? In the metro area, how should the Metropolitan Council interact with cities and developers to ensure housing choices?

Affordability is an issue not only because of the cost of housing, but also because of households' ability to pay. Recent legislative changes have reduced the potency of tax increment financing, which cities have used to create affordable housing and to attract and expand businesses that provide well-paying jobs (see Chapter 5). If additional tools and resources are unavailable for direct or indirect housing subsidies, what strategies will the state and cities use to increase economic opportunity for those who currently can't afford adequate housing?

“Budget shortfalls at the state and federal levels could reduce already inadequate funding for existing housing programs, which will impact cities' ability to address these housing needs.”

Endnotes

- ⁱ Census data on the decade in which a unit was built should be considered an estimate since many people completing the census long form, especially renters, may not know the exact age of their housing unit. This caution can also be applied to census data generally, since those completing the forms may be guessing or knowingly providing false information on any census question. But the age of housing units seems to be the data element most likely to be unknown by the responder.
- ⁱⁱ “Multifamily housing surpasses new homes,” Neal Gendler, *Star Tribune*, December 6, 2002, p. D1.
- ⁱⁱⁱ The census also includes average mortgage payments for owner-occupied units. But since the level of a mortgage is function of the value (and prevailing interest rates) at the time the home was purchased, current home value was determined to be a better measure of affordability of housing.
- ^{iv} The increase in the median mortgage being only 10 percentage-points more than the increase in median rent is more significant than it may first appear. Most rents increase regularly with market forces, so the 34 percent increase in rents from 1990 to 2000 is probably reflective of typical increases for all renters. Mortgages, however, are generally fixed amounts for 15- or 30-year periods, or may even be reduced over time through refinancing. Because of this, it is likely that a large share of mortgages in 2000 also existed in 1990 at the same monthly cost. The 44 percent increase in the median mortgage is therefore likely the result of mortgages that were created in the 1990s being much more than 44 percent higher than the 1990 median.
- ^v Second Mayors’ Regional Housing Task Force Report, *Affordable Housing: Making it a Reality*, October 2002. Supplemented by a conversation with Kevin Ringwald of the City of Chaska.
- ^{vi} Second Mayors’ Regional Housing Task Force Report, *Affordable Housing: Making it a Reality*, October 2002.
- ^{vii} According to staff at the Southwest Minnesota Housing Partnership.

past 10 yearsⁱⁱ. This is especially true in the lakes area, where 22 of the 26 counties saw faster increases in commercial property value in townships than in cities (see Table 3C). Note that increases include both new construction and increasing value of existing property.

Table 3C
Commercial value growth 1992–2002 by county

County Group	Counties where townships' growth rate more than double cities	Counties where townships grew faster but not double cities	Counties where cities' commercial grew faster	Counties where cities grew, townships declined
Rural	8	8	10	5
Growth	3	7	7	2
Lakes	7	15	4	0
Metro	3	3	5	0
Total	21	33	26	7

Public costs

There can be public costs to township development. Waste treatment costs are most significant and tangible. Much township residential development using septic systems occurs on environmentally sensitive land like lakeshores or soil with high clay content. When these septic systems fail they become a public health concern, contaminating ground water and harming fish, streams, and lakes.

“There can be public costs to township development. Waste treatment costs are most significant and tangible.”

There are approximately 530,000 unsewered households statewide, most of which use septic systems. The Minnesota Pollution Control Agency (MPCA) estimates that 50 percent of these septic systems are failing to adequately treat sewageⁱⁱⁱ. Septic system failure is not just a greater Minnesota issue. According to the Metropolitan Council, approximately 77,000 of the state’s individual sewage tank systems are in the metropolitan area^{iv}.

Many older township residential developments eventually require connection to adjacent city sewer systems. Such retrofitting is much more expensive to the public than investing in sewer connections when developments are first constructed because the development is often quite distant from the city system, homes are spaced far apart, and existing streets may need to be torn up.

Fixing septic system problems is very expensive. In the 1980s, the Metropolitan Waste Control Commission utilized a federal grant and state and local funds to take corrective action on failing septic systems serving 1,818 households. The corrections cost \$21.5 million, at an average cost of \$12,000 per system. Since then, the Met Council has worked with 13 cities to correct failing septic systems in residences and businesses at a cost of \$7.5 million^v. The MPCA estimates that the total cost to provide adequate wastewater treatment to all Minnesotans, including those living in small cities without adequate wastewater facilities, is more than \$2 billion^{vi}.

There are direct public costs to rural residential development as well. A report by the Minnesota Dept. of Agriculture found that the cost of providing local services to new residential development is generally much higher if the development is built outside of cities, with the extra burden falling most heavily on county and school budgets^{vii}.

The study analyzed development in five counties and found that new residential development had a combined negative fiscal impact on local governments in each of the five counties (new service costs were greater than new revenues generated). But in all five counties, the development came much closer to paying for new service demands if the development occurred in cities rather than in townships. Services to existing residents were found to generally come even closer to paying for themselves than services to new residences in either cities or townships.

One reason for this discrepancy is that the cost of many services, such as school transportation, law enforcement, fire, and ambulance, are all significantly higher per capita when residential development is less dense and harder to reach because of lakes or other natural barriers.

Costs to city residents

City residents pay for citizens choosing to live in townships in many ways. First, many municipal services are provided by cities through contract arrangements negotiated between cities and townships. When contract amounts for services such as fire protection do not keep pace with new township development, city taxpayers end up subsidizing township services. Second, city taxpayers pay for township residents' use of city services like parks, streets, libraries, and community centers.

Third, as noted above, county and school services are more expensive to provide to township areas. Since city residents pay county and school property taxes they are sharing in those higher per capita costs. In many areas, taxes collected within cities represent the lion's share of county and school taxes. Fourth, the environmental costs of failed septic systems discussed above are usually borne at the county or state level, so city taxpayers share in the costs.

In addition, when low-density residential development proliferates in areas around a city, the city can become "landlocked." That is, even if new residents want to live within the city, there may be no land that is available to the city for more dense urban development because it is already filled with low-density, unsewered residential development. This can force new residents to choose to live in township areas and may leave cities with expensive, unused sewer capacity that had been created in anticipation of future planned growth.

Policy implications for cities and the state

Often, development in township areas is environmentally responsible and coordinated with other jurisdictions that provide services to the new residents. But some development occurs in an unplanned and unsustainable manner. And even current septic technologies are not effective if the systems are not properly maintained by the owner. While it is impossible, and probably undesirable, to restrict all development in township and unincorporated areas, this development should be environmentally sustainable and should not require subsidization by city taxpayers.

Should state policy clearly differentiate between appropriate urban and rural development and restrict urban development outside of cities? The environmental costs and hidden subsidies that occur with some township development are clear. City officials contend that cities are in the best position to plan development and to provide the necessary infrastructure

"Often, development in township areas is environmentally responsible and coordinated with other jurisdictions that provide services to the new residents. But some development occurs in an unplanned and unsustainable manner."

and other services that development demands. Therefore, urban-scale residential development and most commercial and industrial development is most appropriately located within incorporated cities.

If such restrictions are deemed undesirable, should state and local policy more effectively identify and remedy hidden subsidies enjoyed by township developments? Should state policy more aggressively enforce quality standards and maintenance for septic systems?

In the seven-county metropolitan area, the Metropolitan Council advises local governments on development and controls access to the metropolitan sewer system. The council recently adopted its plan for guiding future growth, entitled “Blueprint 2030.” The Blueprint is raising important questions about development density, how to accommodate growth in metropolitan townships and in smaller cities on the edge of the metro area, and how such growth may impact existing cities’ development, transportation, and infrastructure needs.

Endnotes

- ⁱ New housing is measured using 2000 Census data on the year structures were built.
- ⁱⁱ Commercial property values are from Minnesota Dept. of Revenue assessment abstracts.
- ⁱⁱⁱ “Wastewater Treatment and Collection Systems Report to the Legislature,” Minnesota Pollution Control Agency, September 2000.
- ^{iv} “Comprehensive plan amendments reviewed by the Council involving sewer extensions to bail out failed ISTS systems,” Staff memorandum included in agenda packet, Metropolitan Council, September 11, 2002.
- ^v Ibid.
- ^{vi} “Wastewater Treatment and Collection Systems Report to the Legislature,” Minnesota Pollution Control Agency, September 2000.
- ^{vii} “Cost of Public Service Study,” Minnesota Dept. of Agriculture and Duncan Associates, June 1999.

Chapter 4: Transportation challenges

Population increases, more trucking, and growth in commuting distance around the state fuel demand for roads. These trends have created a number of transportation challenges, including a rising proportion of aging roadways in poor condition, increasing demand for roadway capacity, escalating congestion on Minnesota's roads, and growing commute times. The ability to address these challenges is impacted by the shrinking availability of funding for road construction and maintenance.

In addition, demographic changes throughout the state suggest policymakers should be exploring alternatives to private autos. The State Demographic Center projects the state's population will grow to just over 6.2 million people by 2030, and the over-55 population will grow to almost 2 million over the next 30 yearsⁱ. Transit provides alternatives for getting from one place to another when the roadway system is at capacity and when travel by automobile is not desirable.

The degree to which road and transit funding is unable to keep up with need will influence Minnesotans' quality of life. It will also impact the health of a city's economy and citizens' potential to benefit from future state and regional economic growth. Funding availability, demand for new roads, needs for alternative modes of transportation, and commuting patterns will guide local transportation policy decisions. Decisions at the state level regarding funding policies, particularly the gas tax, will have widespread impact. Increasingly, the business community is raising public awareness of the connection between adequate roadways and economic growth, and many business leaders are voicing support for raising the gas tax.

Deteriorating roads

The quality of Minnesota's roadways is declining. The Minnesota Dept. of Transportation (Mn/DOT) estimates that in 2001, just over 64 percent of Minnesota roadway miles in the state aid system are deficient, up from 62.5 percent in 1996. The standard road life cycle is 40 years, and any road more than 40 years old is deemed deficient. A survey of cities that receive state aid for streets, conducted by the Transportation Policy Institute in 2002, indicates that the construction life cycle of their state-aided streets now exceeds 50 yearsⁱⁱ. This pattern likely holds true for other streets as well.

Stretching out the life of roads has consequences for both drivers and taxpayers. Drivers will traverse more roads in poor condition and fewer roads in good condition. Maintenance costs increase dramatically with a road's age. Once a roadway has dropped below "fair" condition, maintenance costs to restore the pavement surface sharply increase. Today's savings on deferred maintenance bring tomorrow's bills for more expensive reconstruction. In order to avoid any further increases in the percentage of state aid roadway miles in poor condition, Mn/DOT predicts that a 40 percent increase in state funding is requiredⁱⁱⁱ.

Demand for new roadways

The amount of vehicle miles traveled (VMT) increased on all types of roadways by 35.1 percent between 1990 and 2000^{iv}. Mn/DOT estimates that total vehicle miles traveled increased by 2.5 percent each year from 1990 to 1995 and by 3.6 percent each year from 1995 to 2000. Part of the

“The degree to which road and transit funding is unable to keep up with need will influence Minnesotans’ quality of life. It will also impact the health of a city’s economy and citizens’ potential to benefit from future state and regional economic growth.”

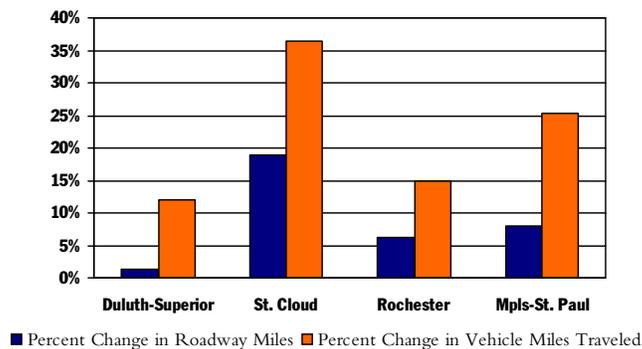
“Funding availability, demand for new roads, needs for alternative modes of transportation, and commuting patterns will guide local transportation policy decisions.”

“As cities struggle with the high cost of road construction, a gap between the increase in vehicle miles traveled and the increase in roadways grows.”

increase comes from citizens choosing to live further from where they work, shop, and play. Trucking of goods and materials on roadways throughout the state is also increasing about 2 percent each year. The average daily traffic flow has increased on major city streets as more drivers opt to take local routes in order to avoid congested highways. Residential development continues, putting pressure on areas where only limited roadway structures exist. All of these traffic trends increase the need for construction of new and expanded roadways.

As cities struggle with the high cost of road construction, a gap between the increase in vehicle miles traveled and the increase in roadways grows. The following chart highlights this pattern for Minnesota’s largest urban areas between 1993 and 2000. Of the areas shown, the gap is most severe in Duluth-Superior, where vehicle miles traveled increased by 11.9 percent while new roads were added at a rate of only 1.3 percent.

Chart 4A
Increase in Vehicle Miles Traveled (VMT) outpaces increase in roadways in Minnesota’s largest urban areas, 1993-2000



Source: Minnesota Department of Transportation, Moving Minnesota 2003 Draft (Data from the Federal Highway Administration, Highway Statistics 1993 and 2000)

“The gap between vehicle miles traveled and roadway miles added creates congestion on existing roadways. The Twin Cities ranked 15th worst of 68 urban areas for congestion using 1999 data, according to the Texas Transportation Institute’s 2001 Urban Mobility Report.”

Congestion

The gap between vehicle miles traveled and roadway miles added creates congestion on existing roadways. The Twin Cities ranked 15th worst of 68 urban areas for congestion using 1999 data, according to the Texas Transportation Institute’s 2001 Urban Mobility Report^v. The area ranked 34th in 1990 and 38th in 1982. The Twin Cities area has a travel rate index score of 1.31, which indicated it takes drivers 31 percent more time during peak morning hours to reach their destinations than during other times of the day. The area ranks second in the nation for growth in this congestion index between 1992 and 1999. The Texas Transportation Institute estimated that the average, annual delay per person due to traffic congestion in Minnesota in 2001 was 38 hours, or approximately 45 minutes each week. The average annual delay was only 15 hours in 1990 and just three hours in 1982^{vi}. As mentioned above, congestion is not just a highway issue since more drivers are opting to take local routes in order to avoid congested highways.

Another indication of growing congestion is an increase in the number of households with three or more cars. According to U.S. Census data, 18.4 percent of households in Minnesota owned three or more cars in

1990. By 2000, that proportion had climbed to 24.8 percent. The Minnesota Dept. of Public Safety reported a 19.3 percent increase in the number of cars registered, up from 3.52 million in 1990 to 4.2 million in 2000. At the same time, Minnesota’s population increased by 12.4 percent.

Commute times

Commute times are rising due to increases in both congestion and commuting distance. The average commute time in Minnesota climbed from 19.1 minutes in 1990 to 21.6 minutes in 2000, a 13 percent increase compared to an 8.5 percent average increase nationwide. The tables below contain census data showing average commute times in both greater Minnesota and metro area cities in 1990 and 2000. In all of the metro area city clusters, 2000 average commute times are longer than 20 minutes, while the average commute is longer than 20 minutes in only four of the greater Minnesota city clusters. The growth in commute times from 1990 to 2000, however, was greater in each greater Minnesota city cluster than in any metro city cluster. Overall, average commute times in greater Minnesota climbed almost 25 percent, while in the metro area, the increase was just over 10 percent.

“The average commute time in Minnesota climbed from 19.1 minutes in 1990 to 21.6 minutes in 2000, a 13 percent increase compared to an 8.5 percent average increase nationwide.”

Chart 4B

Average commute times in metro area cities, 1990–2000

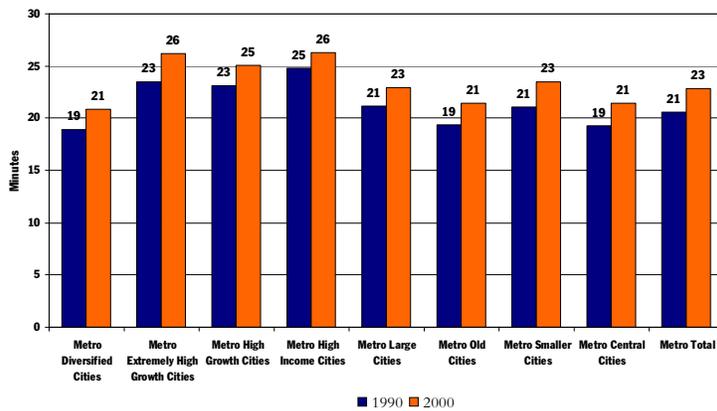
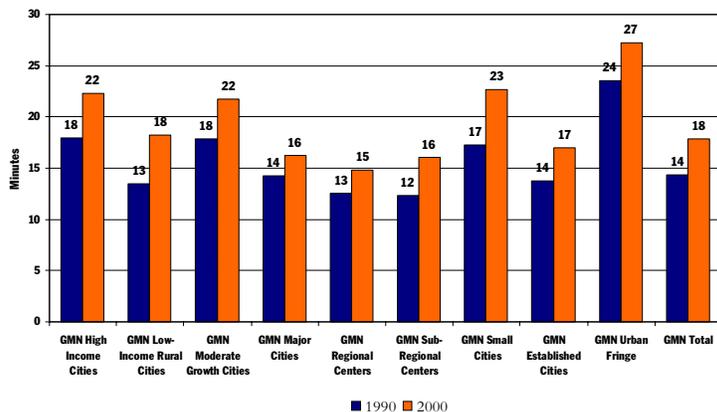


Chart 4C

Average commute times in greater Minnesota cities, 1990–2000



Sources: 1990 and 2000 U.S. Census

“Overall, average commute times in greater Minnesota climbed almost 25 percent, while in the metro area, the increase was just over 10 percent.”

“The population and financial characteristics of a city contribute to trends in commute times.”

The population and financial characteristics of a city contribute to trends in commute times. The availability of jobs in the city where they reside determines in part whether citizens travel to different cities for work. For example, high income, moderate growth, and urban fringe city clusters in greater Minnesota had some of the longest commute times (22, 22, and 27 minutes, respectively) outside of the metro area in 2000. These cities had above average growth, and many of them are in areas surrounding the Twin Cities, St. Cloud, and Rochester metro areas. Large numbers of people are moving into these cities and likely commuting into the urban areas. Low-income rural cities and small cities also had long commute times, 18 and 23 minutes respectively. In these areas of low population, there is not a strong employment base. The market value of the commercial and industrial property in these two clusters is below the regional average.

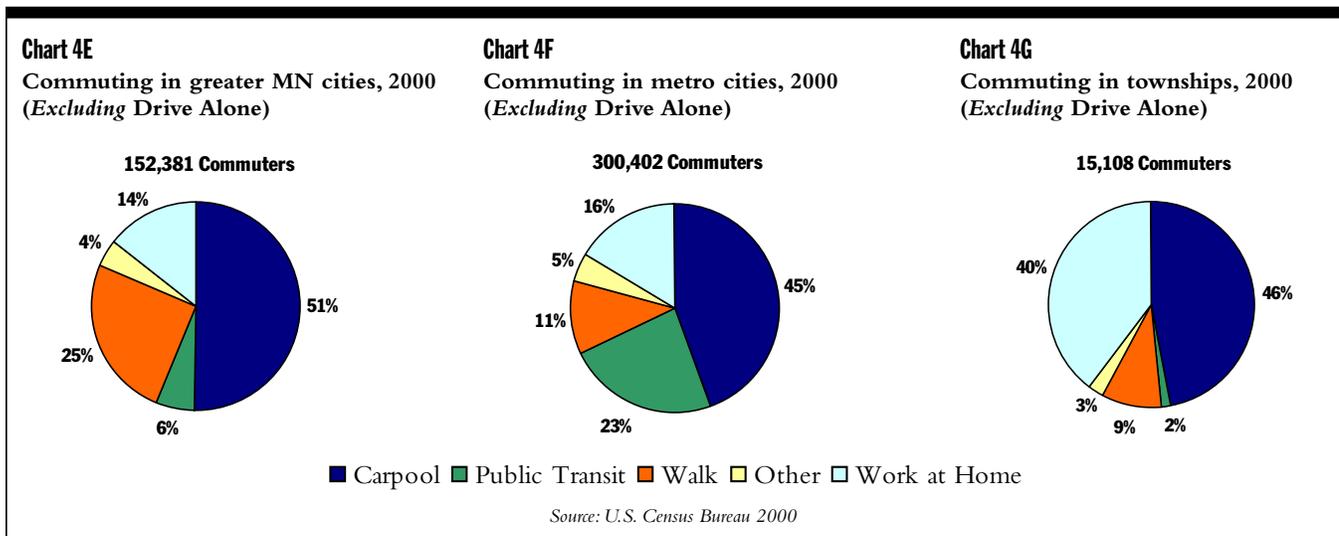
Commute times in the metro area have historically been higher than in greater Minnesota, due in part to more densely populated cities and more congested roadways. Among metro commutes, some of the shortest are in the central and old cities (21 minutes). These cities make up the traditional urban core where large portions of residents live close to work. In extremely high-growth and high-income metro cities, commute times are longest at 26 minutes. As in the fast-growing greater Minnesota cities, population growth outpaces job growth in these areas, which also have lower commercial and industrial property value.

Trends in commuter choice

In 2000, 77.6 percent of Minnesota workers drove to work alone, up from 73.8 percent in 1990. This is an increase of roughly 370,000 solo drivers during the 1990s. Table 4D shows that the number of solo drivers has increased most dramatically in greater Minnesota cities (31.8 percent) and in townships (28.1 percent), with the number in metro area cities growing by 18.8 percent.

The number of Minnesotans choosing to commute by ways other than driving alone remained basically unchanged, increasing by 4,000 people from 1990 to 2000. This is clearly outweighed by the increase in solo drivers, a primary reason for the growing congestion on roadways. Charts 4E, 4F, and 4G show trends in commuter choice, excluding driving alone, for greater Minnesota and metro area cities and townships in 2000.

	1990	2000	Percent Change
Greater MN Cities	392,199	517,043	31.8
Metro MN Cities	899,228	1,068,287	18.8
Townships	301,592	386,338	28.1
State	1,593,019	1,971,668	23.8



In each of these groups, a larger share of workers carpooled than used any other method of commuting besides driving alone. The third most frequent method of commuting, however, differed between the three groups. In greater Minnesota cities, walking to work was the preferred method of 25 percent of workers (excluding solo drivers), down from 35 percent in 1990. In metro cities, 23 percent of workers (excluding solo drivers) used public transit.

In townships, 40 percent of workers (excluding solo drivers) worked at home, down from 47 percent in 1990. Census data show that the number of agricultural jobs has fallen since 1990. More township residents, therefore, had to travel in 2000 in order to work. The number of township residents using carpools has increased from 40 percent to 46 percent. Very few people used transit (2 percent) or walked to work (3 percent).

The proportion of workers (excluding solo drivers) who work from home increased from 13 percent (36,226 workers) to 16 percent (48,822 workers) in metro area cities and from 12 percent (19,132 workers) to 14 percent (21,950 workers) in greater Minnesota cities. Some of this increase may be due to increased telecommuting during the 1990s.

A brief overview of state transportation aids

The network of major city streets is in essence a statewide good, as drivers from one city frequently cross over jurisdictional boundaries and use streets in another city over the course of a single trip in the car. Consequently, a state aid system is in place to assist cities in maintaining the busiest city streets upon which their residents and residents of other cities depend. Municipal State Aid (MSA) is a relatively small portion of the state's Highway User Tax Distribution Fund (HUTDF). In FY 2001, the HUTDF was \$1.2 billion and the MSA appropriation was \$117.6 million. Revenues from the motor vehicle fuel tax (gas tax) and the motor vehicle license fee (tab fee) go into the HUTDF. Motor vehicle sales tax revenues go into the general fund, from which an appropriation is made to the HUTDF^{vii}.

Only those cities with populations exceeding 5,000 are eligible for MSA funding and only 20 percent of each eligible city's streets receive funding. Mn/DOT uses traffic data and the role of each street in making connections to major points to determine which streets are eligible^{viii}. MSA dollars are distributed as follows: 50 percent is distributed based on population and 50 percent is distributed according to need, defined as the estimated cost of constructing and maintaining a city's municipal state aid streets over a 20-year period. In 2001, roughly two-thirds of streets that received MSA funds were in cities in the metro area, as there are more cities over 5,000 population in the metro area.

As of November 2002, there are more than 135,000 miles of roadway in Minnesota. Almost 19,000 of those (14 percent) are streets maintained and operated by cities^{ix}. Cities that have more than 5,000 residents, thereby satisfying the population requirement for MSA, operate roughly 17,000 of all city street miles. Only 20 percent of an eligible city's streets receive MSA, so 2,818 miles of streets in these cities received MSA funding. These funding criteria mean that 85 percent of city streets in Minnesota receive no state funding. Just over 14,000 of these are streets in cities over 5,000 and approximately 1,700 of them are in cities with fewer than 5,000 residents. For construction and maintenance of streets receiving no state

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“As of November 2002, there are more than 135,000 miles of roadway in Minnesota. Almost 19,000 of those (14 percent) are streets maintained and operated by cities.”

aid, cities must depend on property tax revenues, special assessments, and general aids.

MSA as portion of city spending on streets

Mn/DOT, in cooperation with each eligible city, determines which streets are most critical for connections with major routes and which have the heaviest traffic flow. These streets, then, are seen as the most crucial for economic growth and quality of life, as businesses transport goods on these streets and citizens commute to work and access a variety of services and community features by using these streets. Since MSA streets are those identified as the most heavily traveled within a city, they are also generally the most expensive to maintain.

“Mn/DOT, in cooperation with each eligible city, determines which streets are most critical for connections with major routes and which have the heaviest traffic flow. These streets, then, are seen as the most crucial for economic growth and quality of life, as businesses transport goods on these streets and citizens commute to work and access a variety of services and community features by using these streets.”

The table below shows that MSA funding has grown since 1990. Statewide, the total aid increased from roughly \$81 million to slightly more than \$103 million. MSA funding as a portion of total city spending on streets, however, has fallen over time. MSA is growing but not fast enough to meet the costs of maintaining and constructing MSA streets. It is not keeping up with the maintenance needs of existing roads or with the demand for new roadways.

In current dollars, MSA has grown over time and reflects the growth in revenues from the gas tax and the vehicle registration fee. When adjustments for inflation are made, however, the appropriation has actually fallen over time. The gas tax, set at \$.20 per gallon in 1988, is worth only about \$.12 per gallon in real dollars in 2002^x. Gov. Ventura’s fee reduction initiative in 2000 and inflation have also eroded the revenues from the vehicle registration fee. Also, the increases to the city street mileage in the MSA system mean that over time the aid is spread over a growing pool of eligible roads. MSA-eligible mileage has increased from just 920.4 miles in 1958 to more than 2,800 in 2002^{xi}. In other words, the purchasing power of MSA dollars is falling at the same time those dollars are being apportioned to an increasing amount of city street mileage.

Table 4H shows the portion of total city spending on streets that is MSA in both 1990 and 2000.

		1990	2000	Percent Change
Greater Minnesota	<i>Aid amount</i>	\$23,963,624	\$30,848,325	28%
	<i>Total city spending on streets*</i>	\$99,249,742	\$189,904,907	91.34%
	<i>MSA as % of street spending</i>	24.14%	16.24%	-32.7%
Metro Area	<i>Aid amount</i>	\$57,553,483	\$72,354,444	26%
	<i>Total city spending on streets</i>	\$286,471,174	\$389,006,385	35.79%
	<i>MSA as % of street spending</i>	20.09%	18.60%	-7.4%
State Total	<i>Aid amount</i>	\$81,517,107	\$103,202,769	27%
	<i>Total city spending on streets</i>	\$385,720,916	\$578,911,292	50.09%
	<i>MSA as % of street spending</i>	21.13%	17.83%	-15.6%

*Street spending=maintenance, construction, other capital outlay

Sources: Minnesota Department of Transportation, 1990 and 2000 MSAS Apportionment; State Auditor, City Revenues and Expenditures 2000

In 1990, MSA was at least 20 percent of total city spending on streets in both greater Minnesota and in metro cities that received MSA. By 2000, that had changed, most dramatically in greater Minnesota. In MSA cities outside the metro area, 2000 MSA made up just more than 16 percent of total city spending on streets, down from slightly more than 24 percent in 1990. Expenditures for all streets, however, increased by more than 90 percent. Most of this increase was due to higher spending on road construction, which went up roughly 113 percent from just more than \$60 million to more than \$128 million.

Metro area cities also saw a drop in the portion of street expenditures that is MSA, from a little more than 20 percent in 1990 to 18.6 percent in 2000. City spending on streets in the metro area climbed about 36 percent during the 1990s. Most of this increase was for maintenance of existing streets, which went up 75 percent from approximately \$64 million in 1990 to more than \$112 million in 2000.

For eligible cities statewide, MSA as a portion of city spending on streets fell from a little more than 21 percent in 1990 to slightly less than 18 percent in 2000.

The trend in MSA funding means cities have to increasingly rely on other revenues, such as the property tax, to maintain and construct both MSA and non-MSA streets.

Policy implications for cities and the state

Safe, adequate, and efficient transportation is important to the everyday well-being of individuals and businesses alike. Easy access by roadway or by some alternative mode of travel, such as rail, to work, family, healthcare facilities, recreation, and public services is an important element of quality of life. Continued economic growth depends on manufacturers' and retailers' abilities to move goods from one place to another and on how easily employees can commute to work.

Changes in population size, density, and makeup will influence decisions about the kinds of transportation projects most appropriate in the future. The growing proportions of elderly residents in many cities around the state may require funding for alternative modes of transportation. Design issues, particularly designs for pedestrian-friendly areas, will become increasingly crucial.

Funding construction and maintenance of city streets and for transit will continue to be challenging. City officials will face tough decisions about how much of a city's general fund to dedicate for transportation expenditures. These decisions will be made more pressing by the large anticipated state budget deficit and the possibility of reduced general purpose aid payments to local governments. If cities are forced to rely upon property tax revenues to make up lost state aid, it leaves even less revenue available for local transportation projects. And if levy limits continue, those cities unable to raise their levies will be limited in their ability to raise more revenue for street expenditures.

Citizens are facing increasing congestion and longer commute times. In order to address congestion and the resulting increases in commuting times, policies dealing with adequate roadway expansion, carpooling

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incentives, commuter and bus lanes, transit options, and telecommuting may need to be explored. Improved high speed Internet access can boost the number of workers who are able to telecommute either all or part of a work week and help retain people in cities located farther from regional centers or the metropolitan area. State and local efforts to improve accessibility to and affordability of high speed Internet may be a cost-effective compliment to adding roadway miles.

Endnotes

- ⁱ Minnesota Planning State Demographics Center, *Minnesota Population Projections 2000-2030*, October 2002.
- ⁱⁱ Transportation Policy Institute, *An Examination of Road and Bridge Construction and Maintenance Programs in Minnesota's Cities, Draft*. 2002.
- ⁱⁱⁱ Minnesota Dept. of Transportation, *State Aid to Local Transportation (SALT) Group, Business Plan*, 2002.
- ^{iv} Minnesota Dept. of Transportation, *Moving Minnesota 2003, Draft*. 2002.
- ^v Transportation Policy Institute, *An Examination of Road and Bridge Construction and Maintenance Programs in Minnesota's Cities, Draft*. 2002.
- ^{vi} Transportation Policy Institute, *An Examination of Road and Bridge Construction and Maintenance Programs in Minnesota's Cities, Draft*. 2002.
- ^{vii} Transportation Policy Institute, *An Examination of Road and Bridge Construction and Maintenance Programs in Minnesota's Cities, Draft*. 2002.
- ^{viii} Minnesota House of Representatives Research Department, *Municipal State-Aid Street System*, 2002.
- ^{ix} Transportation Policy Institute, *An Examination of Road and Bridge Construction and Maintenance Programs in Minnesota's Cities, Draft*. 2002.
- ^x Transportation Policy Institute, *An Examination of Road and Bridge Construction and Maintenance Programs in Minnesota's Cities, Draft*. 2002.
- ^{xi} Transportation Policy Institute, *An Examination of Road and Bridge Construction and Maintenance Programs in Minnesota's Cities, Draft*. 2002.

Chapter 5: Funding city services

Cities are facing their most challenging budget situation in years. A decade of economic expansion came to an end in early 2001. Since then, the recession has dampened many city revenue sources, including building permit fees, interest earnings, and local sales, lodging, food, and liquor taxes. City budgets are strained by employee health insurance costs, public safety challenges, volunteer relief pension contributions, and myriad other local needs. State-imposed limits on larger cities' property tax levies have hampered cities' ability to address these challenges.

Perhaps most important is the fact that the state government has now ended an eight-year run of budget surpluses, and instead is facing its second consecutive multi-billion dollar deficit. In aggregate, state aids and grants made up about 25 percent of the revenue of Minnesota cities in 2000; in some cities, the percentage of state revenue was as high as 70 percent. Because these aids represent about 7.5 percent of the state General Fund budget, they are a possible, even likely, target of cutbacks for budget balancing. These revenue challenges could severely impact cities' ability to deliver high quality services, diminishing Minnesotans' quality of life.

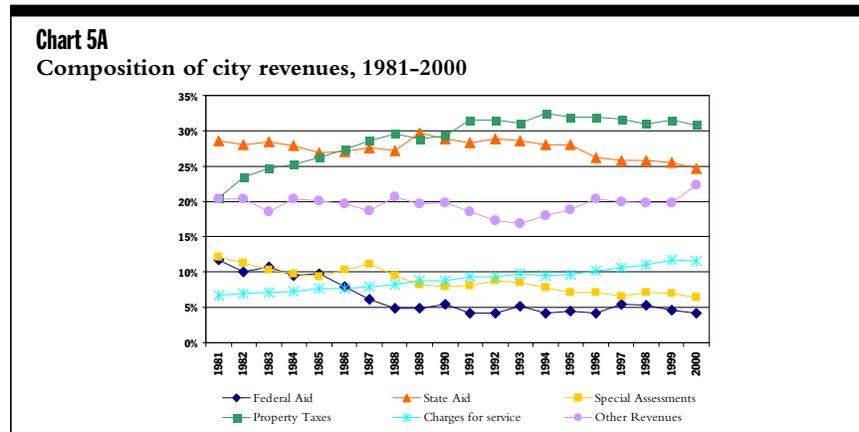
The following description of how city revenue sources have changed over time will put cities' difficult budget situation in context.

City revenues: A brief history

Minnesota's state and local government finances have been intertwined since the fiscal reforms begun in the late 1960s and culminating in 1971, known as the Minnesota Miracle. The Minnesota Miracle created a public finance system of centralized revenue collection and decentralized service delivery. Changes enacted as part of the Minnesota Miracle resulted in more public dollars raised at the state level and more state revenues were shared with local governments through intergovernmental transfers, in large part to reduce reliance on the property tax. At that time, the state initiated its first sales tax, eliminated many local government revenue sources, imposed property tax levy limits on local governments, and created a complex system of intergovernmental aids.

Since 1980, however, the composition of city revenues has changed as the state and federal governments have moved away from revenue sharing and cities have been forced to rely more on own-source revenues. Chart 5A

“Cities are facing their most challenging budget situation in years. A decade of economic expansion came to an end in early 2001. Since then, the recession has dampened many city revenue sources, including building permit fees, interest earnings, and local sales, lodging, food, and liquor taxes.”



“General-purpose aid, through a program known as Local Government Aid (LGA), is the largest source of state revenues to cities. This program is allocated based on measures of need and ability to pay, resulting in significant differences in the amount received by different cities.”

shows the change in city revenues from 1981 to 2000, the most recent year for which data are available. Over this 20-year period, city revenues have grown 16 percent after adjusting for inflation and population growth.

Federal aids and grants. Federal revenues declined from 11.7 percent to 4.2 percent of city revenues between 1981 and 2000. In actual dollars, the amount is relatively flat. But after adjusting for inflation and population growth, 2000 federal revenues have about 41 percent of the buying power of 1981 federal revenues. At the same time, federal revenues have also shifted from general purpose to categorical or block grant programs with more limited purposes. One cause of these trends is the elimination of the general revenue sharing program in 1986. This program constituted 22.5 percent of federal revenues for cities in 1981.

The largest federal program, the Community Development Block Grant program (CDBG), has grown modestly but has not kept up with inflation and population growth. In addition, CDBG dollars are spread more thinly because more cities now meet the population threshold for automatic distribution. For example, in 1981, the three first class cities received 70 percent of Minnesota’s CDBG dollars, but in 2000, they received only 48 percent of the total.

State aids and grants. The state provides general-purpose aid, categorical aids like transportation and police training aids, and grant dollars for specific purposes to cities. General-purpose aid, through a program known as Local Government Aid (LGA), is the largest source of state revenues to cities. This program is allocated based on measures of need and ability to pay, resulting in significant differences in the amount received by different cities.

State revenues to cities declined from 28.6 percent to 24.7 percent of total city revenues from 1981 to 2000. State revenues to cities have increased in total dollars since 1981, but have declined slightly after adjusting for inflation and population growth. State revenue sharing, a key tenet of the Minnesota Miracle, peaked in 1989 as a percent of city revenue and in real dollars per capita. Since 1989, state aids have been cut several times (1989, 1990, 1995, 2001), and in most other years grew more slowly than inflation and population growth.

“State revenues to cities have increased in total dollars since 1981, but have declined slightly after adjusting for inflation and population growth.”

Special assessments. Special assessments are charges against property for public improvements that directly benefit the assessed property. Major infrastructure projects, such as streets, sidewalks, and storm sewers, are often paid partly or wholly through special assessments. Special assessments have declined from 12.1 percent to 6.4 percent of city revenues from 1981 to 2000.

Special assessments are limited to the amount the improvement increases the value of the assessed property. The decline in special assessments can be attributed to several court decisions that have made this benefits test increasingly stringentⁱⁱ. It has become harder for cities to assess the full cost of projects to the benefiting properties, especially for reconstruction of existing infrastructure. Cities must use general revenue sources like property taxes or sewer and water fees to pay a greater share of these projects. On the other hand, special assessments often can recoup most of the project costs for new developments, and these costs are often built into the purchase price of the new house.

Property tax. The property tax has become the largest source of city revenue, increasing from 20.5 percent to 30.8 percent of total revenues. Property taxes have increased 74 percent in real dollars per capita. Most of the growth occurred in the 1980s, while property taxes have been relatively flat in the 1990s. As the cities' only source of general tax revenue, property taxes often must fill the void when other revenues decline.

This increase has occurred even though the state has imposed levy limits on cities in five of the past six and in 24 of the past 30 years. Levy limits have generally allowed levy increases for inflation and population growth and to replace cuts in state aid. Debt levies have been exempt from levy limits. In addition, in most years, smaller cities have been exempt from levy limits. Under levy limits, many city officials feel compelled to levy to their allowed limit for fear that the Legislature will further restrict their levy authority in the future. This "use it or lose it" dilemma suggests that in some cities levy limits can result in higher, rather than lower, property taxes. While individual cities' reactions to levy limits have been quite varied, analysis done by the Minnesota House Research Department found no conclusive evidence that, in aggregate, levy increases were greater or smaller under levy limitsⁱⁱⁱ.

Charges for service. There is a growing desire among citizens for government to more closely align the costs and benefits of government services. While this notion has troubling equity implications if applied to general public goods like police and fire protection, it has led many cities to look to fees for services where direct beneficiaries can be identified such as building inspections, sewer and water access charges, and facility rentals.

Direct charges for services, including license and permit fees, have increased from 6.8 percent to 11.6 percent of city revenues. This growth can be attributed to both expanding the use of fees to more services and to increases in existing fees. Although the data are not completely comparable, the broad areas that appear to have the largest fee increases include public safety, recreation, and licensing^{iv}.

Some cities have increased rates on existing fees. These cities have done careful analyses of all the city costs associated with fee-supported services, only to discover their fees needed to be increased to recoup the true cost of providing the services. Increasing these fees means other revenues like property taxes and state aids are no longer being used to subsidize the fee-supported service.

Other revenues. Other city revenues have increased from 20.4 percent to 22.3 percent of city revenues. Within this category, local sales taxes, lodging taxes, and miscellaneous revenues have increased, interest earnings and local intergovernmental transfers have decreased, and utility franchises and fines have remained flat as a percent of city revenues.

Recent history

The aforementioned trends in city revenue are the result of many federal, state, and local policy decisions. The 2001 omnibus tax act, part of Gov. Ventura's "Big Plan" initiative, continued many of these trends. The Big Plan made many complex and interrelated changes to the state and local finance system with the goals of clarifying responsibility for funding local services and increasing accountability for taxing and spending decisions. Some of these changes are described in the following text.

"As the cities' only source of general tax revenue, property taxes often must fill the void when other revenues decline."

"Direct charges for services, including license and permit fees, have increased from 6.8 percent to 11.6 percent of city revenues. This growth can be attributed to both expanding the use of fees to more services and to increases in existing fees."

“One of the goals of the Big Plan was to make cities more reliant on the property tax and less reliant on state revenues.”

State aid to cities. One of the goals of the Big Plan was to make cities more reliant on the property tax and less reliant on state revenues. To that end, general-purpose aid to cities was cut by almost 10 percent. But the cut was by no means uniformly shared among cities. In fact, 464 cities lost \$88 million in aid while 390 cities gained \$40 million in aid. The cities that gained the most aid were generally those that were already very dependent upon state aid, while those that lost the most aid generally relied much less on state aid than property taxes.

Why increase aids to some cities when the goal was to reduce city reliance on state aids? Because the Big Plan had other goals as well, including providing generally uniform tax relief to taxpayers across the state. But higher property values in suburban areas had resulted in those taxpayers paying more taxes under the old school formula. The components of the Big Plan that eliminated the general education levy and reduced transit levies provided more relief to metropolitan suburban taxpayers than to those in greater Minnesota and the central cities. Taking state aid away from suburban cities and increasing it for other cities helped to balance the net relief to taxpayers. But it also increased the disparity in the distribution of state aid to cities (see Table 5B).

Table 5B

General state aid	Number of cities	Cumulative population	Percent of all cities' population
Less than \$10 per capita 2001	8	4,711	0.1%
Less than \$10 per capita 2002	90	954,543	24.3%
More than \$300 per capita 2001	123	252,166	6.4%
More than \$300 per capita 2002	138	460,369	11.7%

“Following adoption of the 2001 tax bill, property taxes went down 9 percent statewide, with a 9.4 percent reduction in greater Minnesota and an 8.7 percent reduction in the seven-county metro area.”

Property tax relief. Following adoption of the 2001 tax bill, property taxes went down 9 percent statewide, with a 9.4 percent reduction in greater Minnesota and an 8.7 percent reduction in the seven-county metro area^v. State officials had projected even larger decreases, but decisions by local officials and even the voters themselves (i.e., through school levy referenda) reduced the savings to taxpayers.

Analysis from a simulation by Steve Hinze of the House of Representatives Research Department estimated the impact of the 2001 tax act on property taxes separate from local levy decisions. His analysis found that 2002 property taxes were 16.4 percent lower statewide than they would have been without the tax bill, with an 18.4 percent reduction in greater Minnesota and a 15.4 percent reduction in the seven-county metro area^{vi}. The analysis found that the Big Plan provided relatively uniform relief to each type of property and to broad geographic areas in aggregate. But relief was less uniform from city to city or from taxpayer to taxpayer.

One reason for differentials in tax relief was decisions by local governments and voters to increase their levies above the amount necessary to replace lost state aid. These increases lowered the property tax reductions cited above.

A second reason for varying tax relief was that the Big Plan provided reductions through a variety of policy changes, including school levy reductions, the imposition of a state property tax on business and cabin property, changes in aid to local governments, transit levy reductions, and

class rate changes. These changes had varying impacts on different types of property (e.g., businesses, homesteads, agricultural land, etc.), on different levels of local government, and on different regions of the state. For example, business property generally received less relief than homestead property, so a city with more business property would experience a smaller percentage reduction in taxes paid than a city with mostly homestead property.

Table 5C shows the net change in property taxes paid by all property within each city cluster. Much of the variation can be attributed to variations in tax base makeup or changes in state aid to cities. For example, those clusters with higher proportions of commercial/industrial property—like greater Minnesota sub-regional centers and metro diversified cities—generally received less total relief. Similarly, the metro high-income cluster, which has a preponderance of higher-valued homes and little business property, received the most relief. The regional centers led greater Minnesota in relief mostly because many of these cities received large increases in state aid.

Table 5C
2002 property tax reduction by city cluster

City Cluster	City aid change: dollars per capita	Commercial/ Industrial MV: dollars per capita	Property tax change
High-Income Cities	-10	7,248	-6.9%
Low-Income Rural Cities	+19	2,880	-7.4%
Moderate Growth Cities	+1	4,146	-7.3%
Major Cities	+19	8,402	-7.3%
Regional Centers	+49	7,075	-13.4%
Sub-Regional Centers	-2	12,366	-2.9%
Small Cities	-12	3,113	-2.3%
Established Cities	+15	3,443	-10.1%
Urban Fringe	-19	5,998	-9.6%
<i>Greater Minnesota Total</i>	<i>+18</i>	<i>3,894</i>	<i>-8.8%</i>
Diversified Cities	-51	20,043	-5.6%
Extremely High Growth Cities	-29	5,423	-8.2%
High Growth Cities	-36	7,904	-9.7%
High Income Cities	-42	2,570	-19.4%
Large Cities	-40	16,247	-9.5%
Old Cities	-50	7,901	-2.7%
Smaller Cities	-35	5,058	-7.9%
Central Cities	+7	10,772	-6.9%
<i>Metro Total</i>	<i>-28</i>	<i>8,085</i>	<i>-8.2%</i>
All cities	-12	4569	-8.3%

“The Big Plan reduced TIF district revenues by an average of 30 percent by eliminating the general education levy, which had previously been included in TIF revenues, and reducing property tax class rates.”

Tax increment financing. The Big Plan also reduced the effectiveness of tax increment financing (TIF) as a redevelopment tool. The Big Plan reduced TIF district revenues by an average of 30 percent by eliminating the general education levy, which had previously been included in TIF revenues, and reducing property tax class rates. The new state tax on business and cabin property is not captured by TIF districts.

Many existing TIF districts will no longer generate enough revenues to pay for improvements already made in the district. The Legislature recognized this impact and appropriated more than \$200 million over four years

“Levy limits for 2003 are even more restrictive than 2002 levy limits due to an extremely low allowance for inflation (0.75 percent) that belies real cost increases faced by cities for health insurance and other personnel-related expenses, public safety needs, and replacing aging infrastructure.”

“It is important to remember that many citizens benefit from LGA, which was developed to ensure Minnesota residents have access to basic services, such as streets, police, fire, and emergency services, regardless of the community in which they live.”

to assist districts that have deficits due to the Big Plan. Unfortunately, the 2002 Legislature eliminated the TIF deficit grant pool to help cover the state budget deficit. Many projects with deficits will now have to be subsidized by other TIF districts, by city property taxes or other general fund revenues.

The changes also mean TIF will be a less effective tool into the future. TIF will generate less revenue and, therefore, will be used for smaller projects or for projects with additional sources of revenue. Many city officials and project developers are also more wary of using TIF, fearing that future legislative actions may further reduce TIF’s effectiveness and cause more financial difficulties.

Levy limits. Finally, the Big Plan reinstated levy limits on cities over 2,500 population after a one-year hiatus. The levy limits allowed cities that lost state aid to replace that aid in 2002 with local property taxes. Conversely, many cities with large state aid increases were forced by levy limits to reduce their property tax levies. Levy limits for 2003 are even more restrictive than 2002 levy limits due to an extremely low allowance for inflation (0.75 percent) that belies real cost increases faced by cities for health insurance and other personnel-related expenses, public safety needs, and replacing aging infrastructure.

The state budget deficit

The Big Plan was enacted in 2001 when the state had a budget surplus. Since then, things have dramatically changed. Like the state, many cities’ own-source revenues, such as building permits, interest earnings, and sales, food and lodging taxes, are down due to the flagging economy.

The official forecast released on Dec. 4, 2002, predicted a \$356 million deficit for the state’s general fund for the remainder of the current fiscal year that ends June 30, 2003, and a \$4.2 billion deficit for the upcoming two-year budget cycle. This deficit represents about 14 percent of the state’s general fund budget.

There is growing concern cities will be expected to share the state’s pain through reductions in state aid payments—both local government aid (LGA) and the market value homestead credit reimbursement (a program that reimburses local governments for state-granted reductions on homestead property tax bills). At the time this report was written, reductions in the December 2002 payments as well as payments in 2003 and beyond were under consideration.

It is important to remember that many citizens benefit from LGA, which was developed to ensure Minnesota residents have access to basic services, such as streets, police, fire, and emergency services, regardless of the community in which they live. In very basic terms, the LGA program provides greater support to communities with the least ability to pay for those services through the property tax.

An across-the-board cut to city aids will not produce one simple, predictable result because there are myriad variables affecting cities’ fiscal health. The proportion of a city’s budget that comes from state aid payments, the amount of unrestricted reserves available, and its flexibility with other revenue sources will determine how quickly a city must react and, ultimately, how quickly it must make service cuts or delay or cancel projects.

For many cities, cuts to these aid programs could create immediate budget problems. Some cities heavily dependent on LGA are already in a cash-flow crunch. An aid cut could force them into a cycle of short-term debt to cover operating expenses, which would mean extra interest payments for taxpayers and could have ramifications on cities' credit ratings.

There are some cities that have some flexibility to absorb or delay the impacts of aid cuts by using reserves. But it is important to recognize that city reserves serve multiple purposes, so they may not be available to cover aid reductions. For example, state aid and property taxes—cities' two largest revenue sources—are distributed twice a year. Cities need reserves for cash flow needs between these aid and property tax payments. Many cities also have dedicated parts of their reserves to capital improvements or other major projects. By depleting reserves, these projects will be delayed and grow in cost.

Cities only have access to one general tax—the property tax. But any redress for aid reductions through a levy increase will not solve short-term budget problems because cities' next opportunity to increase levies is in December 2003, and those levies won't be paid to cities until June and December of 2004. And this assumes the state does not enact onerous levy limits that would prohibit cities from increasing their property tax levies. Contrast cities' position with the state, which could increase its revenues almost immediately if it were to increase the state sales or income tax rates.

Policy implications for cities and the state

The Minnesota Miracle created a public finance system of centralized revenue collection and decentralized service delivery. While the state has recently taken on greater responsibility for school funding, cities have become more reliant on property taxes and fees and less reliant on state and federal dollars over the past 20 years. In an effort to equalize tax relief across the state, the Big Plan of 2001 increased state aid for many cities while slashing it for others. Today almost a million Minnesotans live in cities that receive virtually no general state aid, and are therefore funding city services almost exclusively from local sources. This calls into question the relevance of the Minnesota Miracle for those cities today.

The 2001 changes also highlight a fundamental challenge to the state aid system. While it is clear many cities rely on state aid to pay for services, the fundamental purpose of state aid to cities is less clear. Is it general revenue sharing and property tax relief as envisioned by the Minnesota Miracle? Is it tax base equalization that should focus aid to property-poor communities? Should the program compensate for special needs like aging infrastructure, non-resident users of city services, or tax-exempt property? Should it help pay for services mandated by the state? At various times in its 30-year history, LGA has been ascribed all these goals and others.

Another important policy question is whether and how cities should diversify their revenues. Property taxes are unpopular and state aid is declining, but demands for city services are not abating. Should cities continue to look towards fees and other user charges to fund services? Should cities be given authority to impose local sales or income taxes as cities in many other states are given? These options raise important equity issues because fees do not reflect ability to pay, and the sales tax base is even more unequal across the state than the property tax base.

“For many cities, cuts to these aid programs could create immediate budget problems.”

“Today almost a million Minnesotans live in cities that receive virtually no general state aid, and are therefore funding city services almost exclusively from local sources. This calls into question the relevance of the Minnesota Miracle for those cities today.”

“With the tax changes of 2001 and the current state budget deficit, Minnesota’s system of state and local finances may be at a crossroads.”

Another issue is to what extent changing the aid programs or cutting them to help solve the state budget shortfall will undermine the relative equity of tax relief achieved by the 2001 Big Plan. Remember that changes in the distribution of state aids to cities were an important instrument in balancing tax relief geographically.

How cities fund services to citizens has evolved over time and will continue to evolve. With the tax changes of 2001 and the current state budget deficit, Minnesota’s system of state and local finances may be at a crossroads.

Endnotes

- ⁱ Total state transfers to cities in calendar year 2000 were about \$912 million. Total state general fund revenues for fiscal year 2001 (July 1, 2000 to June 30, 2001) were \$12,359 million. Note that some of the aids and grants to cities, such as transportation aids, come from state funds other than the general fund.
- ⁱⁱ See especially *Buettner v. City of St. Cloud*, 277 N.W.2d 199 (Minn. 1979).
- ⁱⁱⁱ “County and city levy limits” memorandum, Pat Dalton, Minnesota House of Representatives Research Department, March 1, 1999.
- ^{iv} Fee data from 1981 are not completely comparable to 2000—there were no detailed fee data by category for cities under 2,500 population in 1981. In addition, the categories of fees changed slightly between 1981 and 2000.
- ^v House Research Simulation Report: Property Tax #2A7, August 15, 2002.
- ^{vi} House Research Simulation Report: Property Tax #2A6, May 9, 2002.

Appendix: Clustering Minnesota cities

The *State of the Cities Report 2003* analyzes trends in demographics, housing, development, transportation, and municipal finances, and outlines policy implications for Minnesota cities. But without a classification scheme, it is hard to draw any “meaningful” conclusions for different cities. Grouping cities by size or location alone cannot provide satisfactory results for the analysis because of the diversity of cities in the same region or of the same scale. The hierarchical cluster method, which is based on multiple demographic and financial characteristics, reorganizes the 853 cities into relatively homogeneous groups.

The House Research Department conducted such cluster analyses for Minnesota cities in 1988 and 1996ⁱ. This report, by applying the cluster method to the updated 2000 Census data and 2002 municipal tax data, reorganizes the 853 cities into alike groups. As in the original House Research analyses, the 853 cities are segregated into seven-county metro and non-metro cities. More than a dozen variables were tested and scores of combinations of these variables were analyzed. A few combinations yielded useful clusters that “make sense.” The model selected for this report is based on four criteria variables similar to those used by Pat Dalton in her 1996 House Research Department report. The four criteria variables are:

- 2000 Census population
- Population growth between 1990 and 2000
- Median household income in 1999
- Per capita commercial/industrial property market value in 2002

The population variable approximates both city size and demand for city services by residents. The growth rate reflects the changing character of the city and may signal extraordinary service demands in rapidly growing or declining cities. Household income represents residents’ ability to pay for services and may identify low-income populations with unique service needs. Commercial/industrial property market value approximates the level of economic activity in the city and the city’s role in its region. It also represents service demand beyond that included in the population variable, including service demands from businesses and service demands from non-residents who come into the city to work or patronize businesses.

Predetermined clusters, outliers, and adjustment

Two groups of cities were predetermined prior to applying the cluster methodology. Minneapolis and St. Paul were classified as “metro central cities” for their extremely large populations and their unique roles in the regional economy. Cities in greater Minnesota with populations less than 500 were grouped as “small rural cities.” The population size of these very small cities generally determines their economic role and the demand for and ability to provide public services. Most cities in the group share similar characteristics in variables besides population size.

Three cities are excluded before running cluster analysis because of their extremely high population growth. They are Rogers (413 percent) in the metro area, and Pleasant Lake (530 percent) and St. Michael (263 percent) in greater Minnesota.

The population and growth rates of three greater Minnesota cities—Appleton, Moose Lake, and Sandstone—are distorted by the dramatic change in a large institutionalized population. Their population growth rates are adjusted to reflect the change in their non-institutionalized population only. Some other cities that have a large share of institutionalized population, like Bayport, were left unadjusted because the institutionalized population has little impact on the city’s growth rate.

Descriptive characteristics for city clusters

Besides the homogeneity in the four criteria variables used in the cluster analysis, cities in the same category also share similar patterns in some other variables that are highly correlated with one or more criteria variables. Table A1 summarizes each cluster’s characteristics in the four criteria and in selected descriptive variables by classifying the z-scores of cluster means into five scalesⁱⁱ.

Take “metro high growth cities” as an example. Table A1 shows that in general, cities in this group have the following characteristics compared to an average metro city: medium size, high growth rate, above average

Table A1
Descriptive variables
for city clusters

	Population size	Population growth rate 1990–2000	1999 median household income	Per capita commercial/industrial market value in 2002	Percentage of people over 65 years old	Median age	Percentage of people that are racial/ethnic minorities	Homeownership	Percentage of people over 25 years old with at least a bachelor’s degree	Poverty rate	Percentage of housing units built in 1990–2000
Metropolitan Clusters											
Central Cities	H*	L	L*	H	M	L*	H*	L*	M	H*	L*
Large Cities	H	M	M	H*	L	M	H	M	H	L	M
Old Cities	M	L	L	M	H	M	H	L*	L	H	L
Diversified Cities	M	L	L	H*	H*	H	M	L	M	M	L
Extremely High Growth Cities	M	H*	M	L	L	L	L	H	L	L	H*
High Growth Cities	M	H	H	M	L	L	L	H	M	L	H
High Income Cities	L	L	H*	L	L	H*	L	H*	H*	L	L
Smaller Cities	L	L	L	L	H	M	M	L	L	H	L
Greater Minnesota Clusters											
Major Cities	H*	M	H	H*	L	L*	H	L*	H*	H	H
Regional Centers	H*	M	H	H	L	L	H	L*	H*	M	M
Sub-Regional Centers	M	M	L	H*	H	M	H	L*	H	H	H
Urban Fringe	H	H*	H*	H	L*	L*	L	H	H	L	H*
High Income Cities	H	H	H*	H	L*	L	L	H	H*	L	H*
Moderate Growth Cities	M	H	H	M	L	L	M	M	H	L	H
Established Cities	M	M	H	M	M	L	M	L	H	L	M
Low Income Rural Cities	M	M	L	L	H	H	M	L	M	L	L
Small Rural Cities	L	M	L	L	M	M	M	H	L	M	L

Notes: Variables that are not specified years and sources are 2000 Census data

ⁱⁱ The five scales are classified by z-scores, which measure how many standard deviations the cluster mean is from the regional mean (either 7-county metro or Greater Minnesota unweighted average).

H* (Extremely High): the cluster mean is more than +1.00 SD from the regional mean

H (High): the cluster mean is between +0.20 SD and +1.00 SD from the regional mean

M (Medium): the cluster mean is between –0.20 SD and +0.20 SD from the regional mean

L (Low): the cluster mean is between –1.00 SD and –0.20 SD from the regional mean

L* (Extremely Low): the cluster mean is more than –1.00 SD from the regional mean

median household income, average commercial/industrial market value per capita, low proportion of elderly people, low median age, below average percentage of minority population, high housing ownership, average share of people with bachelor's degree, below average unemployment rate, long commute time, low poverty rate, and high proportion of housing built in the last 10 years.

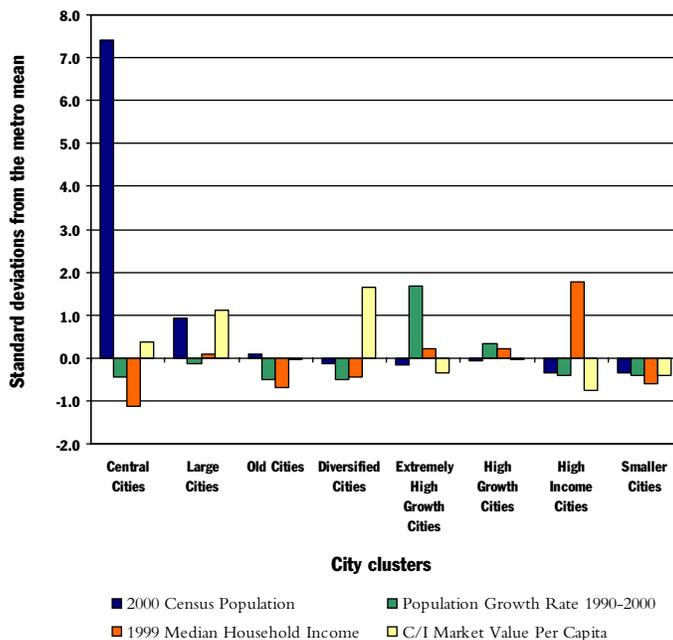
Metropolitan city clusters

There are eight city clusters for the seven-county metropolitan area. Table A2 shows the criteria variable profiles for each cluster. Chart A3 shows the graph of the standardized cluster profile.

Table A2
Cluster profiles for metropolitan cities

Cluster Name	2000 Census Population	Population Growth Rate 1990-2000	1999 Median Household Income	C/I Market Value Per Capita	No. of Cities in the Cluster
Central Cities	334,885	4.7	\$38,374	\$10,772	2
Large Cities	58,192	20.1	65,710	16,247	12
Old Cities	22,396	1.3	47,924	7,901	13
Diversified Cities	12,834	1.6	53,498	20,043	15
Extremely High Growth Cities	11,558	107.7	67,979	5,423	17
High Growth Cities	16,086	42.1	67,959	7,904	18
High Income Cities	2,910	6.7	102,990	2,570	20
Smaller Cities	3,836	5.8	50,003	5,058	41
Metro Unweighted Average	18452	26.0	63536	8,085	138
Metro Standard Deviation	42670	48.6	22449	7,304	

Chart A3
Cluster profile for metropolitan cities



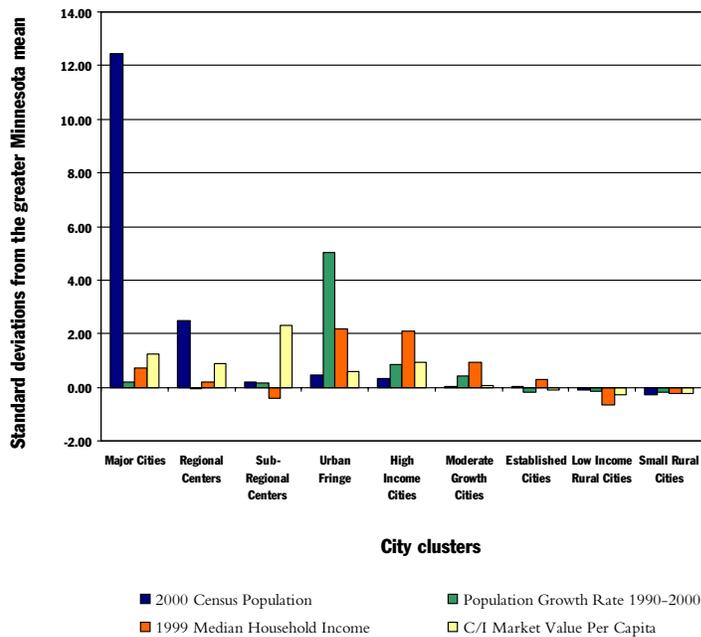
Greater Minnesota city clusters

There are nine clusters for the Minnesota cities outside of the seven-county metro area. Variable profiles for the clusters of these cities are given in Table A4. Chart A5 provides the bar graph of the standardized cluster profiles.

Table A4
Cluster profiles for greater Minnesota cities

Cluster Name	Population		1999 Median Household Income	C/I Market Value Per Capita	No. of Cities in the Cluster
	2000 Census Population	Growth Rate 1990-2000			
Major Cities	77,277	14.7	\$40,067	\$8,402	3
Regional Centers	16,977	6.2	35,768	7,075	22
Sub-Regional Centers	3,165	13.0	30,374	12,366	27
Urban Fringe	4,578	174.1	52,563	5,998	10
High Income Cities	3,956	36.1	51,934	7,248	25
Moderate Growth Cities	2,140	22.0	42,031	4,146	60
Established Cities	2,015	2.2	36,314	3,443	107
Low Income Rural Cities	1,197	2.6	28,117	2,880	102
Small Rural Cities	214	1.7	31,858	3,113	359
GM Unweighted Average	1,928	7.9	33,935	3,894	715
Standard Deviation	6,050	33.2	8,535	3,665	

Chart A5
Cluster profile for greater Minnesota cities



Minnesota cities by cluster**Metro Central Cities**

Minneapolis
St Paul

Metro Large Cities

Apple Valley
Blaine
Bloomington
Brooklyn Park
Burnsville
Coon Rapids
Eagan
Eden Prairie
Edina
Maple Grove
Minnetonka
Plymouth

Metro Old Cities

Anoka
Brooklyn Center
Columbia Heights
Crystal
Hastings
Hopkins
New Brighton
New Hope
Richfield
Shoreview
South St Paul
West St Paul
White Bear Lake

Metro Diversified

Arden Hills
Coates
Forest Lake
Fridley
Gem Lake
Golden Valley
Lilydale
Long Lake
Maple Plain
Maplewood
Oak Park Heights
Osseo
Roseville
St Louis Park
Wayzata

Metro Extremely High Growth

Andover
Carver
Centerville
Cologne
Elko
Farmington
Greenfield
Lakeville
Lino Lakes
New Market
Rogers
Savage
St Bonifacius
St Francis
Victoria
Waconia
Woodbury

Metro High Growth

Champlin
Chanhausen
Chaska
Cottage Grove
East Bethel
Ham Lake
Hugo
Inver Grove Heights
Mahtomedi
Medina
Mendota Heights
Oak Grove
Oakdale
Prior Lake
Ramsey
Rosemount
Shakopee
Vadnais Heights

Metro High Income

Afton
Birchwood
Corcoran
Deephaven
Dellwood
Grant
Greenwood
Independence
Lake Elmo
Lakeland
Lakeland Shore
Minnetonka Beach
Minnetrista
North Oaks

Orono
Pine Springs
Shorewood
Sunfish Lake
Tonka Bay
Woodland

Metro Smaller Cities

Bayport
Belle Plaine
Bethel
Circle Pines
Dayton
Excelsior
Falcon Heights
Hamburg
Hampton
Hilltop
Jordan
Lake St Croix Beach
Landfall
Lauderdale
Lexington
Little Canada
Loretto
Marine on St Croix
Mayer
Medicine Lake
Mendota
Miesville
Mound
Mounds View
New Germany
New Prague
New Trier
Newport
North St Paul
Norwood Young America
Randolph
Robbinsdale
Spring Lake Park
Spring Park
St Anthony Village
St Marys Point
St Paul Park
Stillwater
Vermillion
Watertown
Willernie

Greater Minnesota Major Cities

Duluth
Rochester
St Cloud

Minnesota cities by cluster, *continued***Greater Minnesota
Regional Centers**

Albert Lea
Austin
Bemidji
Brainerd
Cloquet
Fairmont
Faribault
Fergus Falls
Hibbing
Hutchinson
Little Falls
Mankato
Marshall
Moorhead
New Ulm
Northfield
Owatonna
Red Wing
Virginia
Willmar
Winona
Worthington

**Greater Minnesota
Sub-Regional Centers**

Aitkin
Alexandria
Appleton
Baudette
Baxter
Cambridge
Deerwood
Detroit Lakes
Grand Marais
Grand Rapids
Hinckley
International Falls
Long Prairie
Mahnomen
Mora
Motley
Park Rapids
Pequot Lakes
Perham
Pine City
Pine River
Princeton
Roseau
Spicer
Waite Park
Walker
Warroad

**Greater Minnesota
Urban Fringe**

Albertville
Becker
Big Lake
Breezy Point
Isanti
North Branch
Rockville
Sartell
St Michael
Zimmerman

**Greater Minnesota
High Income**

Avon
Buffalo
Byron
Cannon Falls
Clearwater
Courtland
Crosslake
Delano
Dundas
East Gull Lake
Elk River
Hanover
Hermantown
La Prairie
Mantorville
Medford
Monticello
Nisswa
North Mankato
Oronoco
Otsego
Rice
Sauk Rapids
St Augusta
St Stephen
Wyoming

**Greater Minnesota
Moderate Growth**

Annandale
Brownsville
Buffalo Lake
Center City
Chatfield
Chisago City
Cohasset
Cokato

Cold Spring
Cottonwood
Dassel
Dodge Center
Emily
Eyota
Foley
Gaylord
Glencoe
Glyndon
Goodhue
Goodview
Harris
Henderson
Holdingford
Howard Lake
Isle
Kasson
Kenyon
La Crescent
Lake City
Lake Shore
Le Center
Le Sueur
Lester Prairie
Lewiston
Lindstrom
Lonsdale
Madison Lake
Maple Lake
Nicollet
Pine Island
Plainview
Redwood Falls
Richmond
Rockford
Rush City
Rushford
Sandstone
Sauk Centre
St Charles
St Clair
St Joseph
Stacy
Stewartville
Stockton
Taylors Falls
Wanamingo
Waverly
Winsted
Zumbrota

Minnesota cities by cluster, *continued*

Greater Minnesota Established		Greater Minnesota Low Income Rural
Adrian	Lafayette	Ada
Albany	Lake Crystal	Adams
Alden	Lamberton	Aurora
Amboy	Lanesboro	Babbitt
Argyle	Litchfield	Bagley
Arlington	Littlefork	Barnum
Atwater	Luverne	Battle Lake
Balaton	Lyle	Belgrade
Barnesville	Madelia	Benson
Bird Island	Mapleton	Biwabik
Blooming Prairie	Mazeppa	Blackduck
Blue Earth	Melrose	Bovey
Braham	Minneota	Browerville
Breckenridge	Minnesota Lake	Browns Valley
Brewster	Montevideo	Brownsdale
Brooten	Montgomery	Buhl
Brownton	Montrose	Butterfield
Caledonia	Morris	Canby
Clara City	Morristown	Carlton
Claremont	Mountain Iron	Cass Lake
Clarks Grove	New London	Chisholm
Cleveland	New Richland	Clarissa
Coleraine	Olivia	Clarkfield
Crookston	Paynesville	Clearbrook
Danube	Pennock	Cook
Dawson	Pipestone	Cosmos
Dilworth	Preston	Crosby
Eagle Lake	Proctor	Deer River
East Grand Forks	Raymond	Eagle Bend
Edgerton	Renville	Eden Valley
Elbow Lake	Rock Creek	Ellsworth
Elgin	Rollingstone	Elmore
Ellendale	Royalton	Ely
Gibbon	Rushford Village	Evansville
Gilbert	Scanlon	Eveleth
Glenville	Silver Bay	Fairfax
Glenwood	Silver Lake	Fertile
Good Thunder	Slayton	Floodwood
Grand Meadow	Sleepy Eye	Fosston
Granite Falls	Spring Valley	Frazee
Hallock	St James	Fulda
Hancock	St Peter	Graceville
Harmony	Stewart	Greenbush
Hawley	Thief River Falls	Grove City
Hayfield	Two Harbors	Halstad
Hector	Wabasha	Hendricks
Hoyt Lakes	Wabasso	Henning
Jackson	Warren	Heron Lake
Janesville	Waseca	Hills
Kandiyohi	Waterville	Hoffman
Kasota	Welcome	Hokah
Kimball	West Concord	Houston
	Windom	Ivanhoe
	Winnebago	
	Winthrop	

Minnesota cities by cluster, *continued*

Freeport	Kensington	New Munich
Frost	Kent	Newfolden
Funkley	Kerrick	Nielsville
Garfield	Kettle River	Nimrod
Garrison	Kilkenny	Norcross
Garvin	Kinbrae	Northome
Gary	Kingston	Northrop
Geneva	Kinney	Odessa
Genola	La Porte	Odin
Georgetown	La Salle	Ogema
Ghent	Lake Bronson	Ogilvie
Gilman	Lake Henry	Okabena
Gonvick	Lake Lillian	Oklee
Goodridge	Lake Wilson	Ormsby
Granada	Lancaster	Orr
Grasston	Lastrup	Oslo
Green Isle	Lengby	Ostrander
Greenwald	Leonard	Ottertail
Grey Eagle	Leonidas	Palisade
Grygla	Lewisville	Pease
Gully	Lismore	Pemberton
Hackensack	Long Beach	Perley
Hadley	Longville	Peterson
Halma	Louisburg	Pillager
Hammond	Lowry	Plato
Hanley Falls	Lucan	Plummer
Hanska	Lynd	Porter
Harding	Magnolia	Prinsburg
Hardwick	Manchester	Quamba
Hartland	Manhattan Beach	Racine
Hatfield	Mapleview	Ranier
Hayward	Marietta	Regal
Hazel Run	Maynard	Remer
Heidelberg	Mc Grath	Revere
Hendrum	Mc Gregor	Richville
Henriette	Mc Kinley	Riverton
Herman	Meadowlands	Ronneby
Hewitt	Meire Grove	Roosevelt
Hill City	Mentor	Roscoe
Hillman	Middle River	Rose Creek
Hitterdal	Milan	Rothsay
Holland	Millerville	Round Lake
Hollandale	Millville	Rushmore
Holloway	Milroy	Russell
Holt	Miltona	Ruthton
Humboldt	Minneiska	Rutledge
Ihlen	Minnesota City	Sabin
Iona	Mizpah	Sanborn
Iron Junction	Morton	Sargeant
Ironton	Murdock	Seaforth
Jeffers	Myrtle	Sedan
Jenkins	Nashua	Shafer
Johnson	Nassau	Shelly
Kelliher	Nelson	Shevlin
Kellogg	Nerstrand	Skyline
Kennedy	Nevis	Sobieski
Kenneth	New Auburn	Solway

Minnesota cities by cluster, *continued*

South Haven	Vergas
Spring Hill	Vernon Center
Squaw Lake	Vesta
St Anthony	Viking
St Hilaire	Villard
St Leo	Vining
St Martin	Wahkon
St Rosa	Waldorf
St Vincent	Walters
Steen	Waltham
Storden	Wanda
Strandquist	Warba
Strathcona	Watson
Sturgeon Lake	Waubun
Sunburg	Wendell
Swanville	West Union
Taconite	Westport
Tamarack	Whalan
Taopi	Wilder
Taunton	Williams
Tenney	Willow River
Tenstrike	Wilmont
Thomson	Wilton
Tintah	Winger
Tower	Winton
Trail	Wolf Lake
Trommald	Wolverton
Trosky	Wood Lake
Turtle River	Woodstock
Twin Lakes	Wrenshall
Underwood	Wright
Upsala	Wykoff
Urbank	Zemple
Utica	Zumbro Falls

Endnotes

- ⁱ Pat Dalton, Legislative Analyst, provided both background information on her work on the 1996 House Research Department report and generous help to this analysis.
- ⁱⁱ Z-score measures how many standard deviations the cluster mean is from the regional mean; that is, how much the cluster's average characteristics differ from the average for the entire metro area or for greater Minnesota.

State of the Cities Report 2003



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