Public Policies that Hurt the Urban Core

by Barbara Lukermann, Thomas F. Luce, Jr., and Herbert Mohring

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Economic and social conditions in the core urban areas of the Twin Cities have become an increasing concern to Minnesotans in recent years. The 1990 Census revealed a set of disturbing patterns in the evolution of the two core cities and their inner ring suburbs: spiraling poverty (especially among school-age children), large increases in single-headed households, and relatively slow growth in real family income. To the surprise and consternation of many public officials, these changes were proportionately greater in many inner ring suburbs than in Minneapolis and St. Paul. A diverse group of inner suburbs (including Bloomington, Fridley, New Brighton, St. Louis Park, Golden Valley, Richfield, West St. Paul, and South St. Paul) showed unsettling trends in some or all of these dimensions. A correlate of the change was a change in the distribution of people of color. As in most metropolitan areas across the United States, increased poverty among people of color has resulted in more racial division and higher tensions between races.

The Minnesota State Legislature responded to these patterns in a variety of ways. The Metropolitan Council in particular was the target of several pieces of legislation mandating more intensive study of the trends and how to reverse or stabilize them. The council was required, for instance, to implement a comprehensive study of ways to stabilize the development
of the urban core or fully developed part of the region (see Map 1). Another bill, sponsored by Myron Orfield in the House and Ted Mondale in the Senate, required the council to subcontract with the University of Minnesota for a study of the pricing policies of the Metropolitan Waste Control Commission and other regional policies that might have important implications for the development of the urban core. This mandate resulted in three studies that were conducted through CURA. The results of these studies are presented here in capsule form.

**Pricing of Regional Sewer Services**

The Metropolitan Waste Control Commission (MWCC) collects and treats most of the waste water generated in the Twin Cities metropolitan area before it is discharged into area rivers. To do this, it operates nine waste water treatment plants and more than 600 miles of interceptors—large pipes that collect the sewage from local collection systems operated by each municipality. It finances these operations by charging each municipality for the collection and treatment of the waste water that it contributes to the regional system.

The current fee structure charges all communities the same amount for each gallon of household generated waste water. The uniform fee is charged even though the cost of providing services varies across the region. Costs vary because of both natural and economic factors. Differences in terrain, in soil, in suitability of potential sites for treatment plants, and in the capacity of local rivers to receive waste without ecological damage, all affect the cost of sewer services.

Economies of scale also generate cost differences. Large pipes can transport waste at a lower cost per gallon than smaller pipes. Large plants can treat waste at a lower cost per gallon than small plants. Thus it costs less to serve consumers who live in densely populated areas than consumers who live in more rural and sparsely populated areas. And it costs less to serve consumers close to rivers or close to sites where relatively large plants can be built.

Finally, differences in cost can arise from prior policy decisions about where to locate pipes and plants. Natural and economic factors limit pipe and plant locations to some extent but there is always some discretion allowed in these decisions. Historical factors, such as growth patterns, also affect choices and the costs involved.

What all of this means is that the costs of serving different parts of the region can vary significantly. If the fees that consumers pay for MWCC services do not reflect these cost variations, then the fee structure is inefficient and will probably be inequitable as well. Inefficiency results from the fact that the fees do not provide people (and businesses) with the right incentives about where to locate. Locating in high cost places is not discouraged. Locating in low cost places is not encouraged. Over the long run, therefore, the total cost of providing services to a given number of consumers becomes higher than is necessary. Inequities are likely because the parts of the region that are the least expensive to serve—densely populated areas near large rivers—are also the parts of the region with the lowest incomes and most social and economic problems.

The study of the Metropolitan Waste Control Commission's pricing policy estimated the pattern of costs for conveying and treating waste water from the communities in the MWCC service area, nearly one hundred municipalities. The findings showed that variations across the region in the costs of providing services are significant. Costs range from just over $100 per household per year in the lowest cost parts of the region to more than $250 per household per year in the highest cost place.

It is clear that using a uniform fee in this kind of cost environment is inefficient. However, the study concludes that decisions about where to locate would probably not be much different if people were faced with a proper fee for their sewer services. MWCC costs are simply not great enough in the majority of places compared to total housing costs to be a major factor in a household's location decision.

However, the study comes to stronger conclusions on the issue of equity in the current fee structure for regional sewer service. On average, the MWCC's uniform fee clearly subsidizes higher income consumers in the outer parts of the region (particularly in the affluent southern and western municipalities) at the expense of lower income consumers in the urban core (largely in Minneapolis and St. Paul). Table 1 shows the subsidy patterns across the different parts of the region that would exist if the MWCC charged a uniform fee that covered its full costs. The estimated drain of money from the urban core would be more than $6 million per year, with Minneapolis and St. Paul consumers alone contributing more than $5.5 million of that figure. Money in these amounts is small rel-

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* Cover photo: Uniform fees for sewer service mean that people living in the urban core, often the poorest citizens, are subsidizing those who live in the developing parts of the Twin Cities. Here a new interceptor is being installed in Blaine, a developing area to the north of the Twin Cities.

* The current uniform fee does not cover all of the costs associated with providing MWCC services. The subsidy figures therefore overstate somewhat the actual subsidies that are occurring with the current system.
Table 1. Annual Costs and Subsidies for Regional Sewer Service under a Uniform Fee Covering Full Costs

<table>
<thead>
<tr>
<th></th>
<th>Costs per Household</th>
<th>Total</th>
<th>Subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Subsidy</td>
<td>Subsidy</td>
</tr>
<tr>
<td>Urban Core (fully developed area on the map)</td>
<td>$113</td>
<td>-$10</td>
<td>-$6,316,000</td>
</tr>
<tr>
<td>Outer Suburbs (developing area on the map)</td>
<td>136</td>
<td>13</td>
<td>4,772,000</td>
</tr>
<tr>
<td>Freestanding Small Cities</td>
<td>169</td>
<td>47</td>
<td>1,544,000</td>
</tr>
</tbody>
</table>

Paying for Highway Service

The Twin Cities and other metropolitan areas appear less and less willing to respond to the continuing growth in automobile traffic by increasing their road capacity. The result has been significant increases in congestion on the region’s highways. Economists have long argued that the solution to the congestion problem in urban transportation systems is congestion pricing.

The conceptual underpinnings of the argument involve one of the most commonly used economic justifications for public intervention into private markets or private behavior—the existence of externalities. The externality in this case is that drivers not only experience road congestion, they also contribute to it. This means that one driver’s decisions generate costs (in time lost) for other drivers. Since individual drivers using non-tolled roads do not pay the full costs associated with their automobile usage, in economic terms they over consume. Congestion pricing is a toll system designed to make each driver pay an amount equal to the value of the time lost by others as a result of the congestion caused by that driver’s use of the road. Such a toll would induce drivers to change their behavior in ways that would reduce the need for further road construction and result in more efficient use of the roadways already available.

The study of regional highway service examined the arguments for congestion pricing, evaluated the technology of congestion pricing, and measured the costs of congestion in the Twin Cities metropolitan area.

Technological advances in electronics and miniaturization mean that low-cost, reliable, nearly cheat-proof technologies are (or shortly will be) available that enable vehicles to be assessed tolls without toll booths or traffic flow obstructions of any sort. Charging tolls no longer means that drivers must queue up at a booth. The technology also means that tolls can vary with the time of day.
these costs is that during the morning rush hour, each automobile northbound on I-35W between I-494 and I-94 imposes time costs (from its contribution to congestion) on other drivers of 43 cents for each mile travelled.* A peak-hour toll of 43 cents per mile—the amount needed to make drivers face the full cost associated with their decision to use I-35W at that time of day—would clearly induce many drivers to change their behavior to avoid the toll. They might travel at a different time of day or use public transportation if it is available. Businesses would feel pressure to use flex hour arrangements so that employees have greater capacity to avoid this substantial cost. These behavior changes would change the timing and severity of the congestion. Just how sensitive travel decisions are to tolls is very difficult to determine. However, using plausible assumptions, the study shows that the ideal northbound morning toll on I-35W would be about 15 cents per mile and that this would reduce total use of the road at that time by 20-25 percent.

The study also shows that a toll system of this sort would generate substantial revenues. For instance, tolls on all congested roads would generate more than $300,000 during the peak hour of each weekday morning rush. Revenues of these magnitudes imply significant costs for the region's drivers, of course. Table 2 shows the tolls that drivers would face on five of the heaviest traveled links in the region during the morning peak if congestion pricing were implemented. Estimates are included of the decline in usage that would result from the collection of the tolls.

As with sewers, the major beneficiaries of the subsidies that are implicit in present road use prices are suburban residents. Eliminating this subsidy for suburban commuters into the central cities would increase the demand for mass transit service and would reduce rush hour travel on the area's most congested roads. This, in turn, would reduce pressures to demolish central city dwellings and businesses in order to expand freeway capacity.

**Expansion of Commerce and Industry**

Land in commercial and industrial use in the metropolitan area increased from 59,550 acres to 73,920 acres between 1980 and 1990. Over 9,000 of the more than 14,000 acres involved in this expansion were in the developing area (see Map 1). The rural area turned about 3,700 acres into commercial and industrial uses, while in the fully developed area, or urban core, only 1,400 acres were added to the commercial and industrial base, and in the inner cities themselves (Minneapolis and St. Paul) just 100 acres were added. Increases in commerce and industry mean increases in jobs and growth for the economy. The study of where businesses choose to locate is also the study of where new jobs are being created.

Businesses move to sites that give them accessibility to materials, labor, and markets. They look for efficiency in delivering their service or product. This means low costs. "Quality of life" and convenience for the chief executive officer are also becoming significant factors in choosing a location or in relocating a business.

The current economic environment includes an office market that has been seriously overbuilt. Many large commercial projects in the central business districts and along major freeways are now valued well below their outstanding debt. The economy is growing at a relatively slow rate in manufacturing and is overbuilt in speculative industrial and warehouse facilities. Jobs are being dispersed outside the core urban area, following population, purchasing power, site availability, excellent urban infrastructure, and lower development costs.

The study explored several variables likely to influence the choice of a business site in the metropolitan area. These variables were mapped to show how they affected the location of businesses in the fully developed area, the developing areas, and the rural areas of the Twin Cities. The variables mapped were changes in acreage in commercial and industrial use, the dollar value of new construction, local tax rates, tax base sharing, and environmental liabili-

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*The work assumes that drivers value their time at $10/hour, a reasonable value based on research into the question.
Table 2. Equilibrium Tolls and Estimated Changes in Highway Use that Would Result for Selected Twin Cities Highway Links

<table>
<thead>
<tr>
<th>Highway Link</th>
<th>Miles</th>
<th>Daily Toll</th>
<th>Percent Decline in Usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>I-35W: I-35E to I-494</td>
<td>8.0</td>
<td>$1.37</td>
<td>23</td>
</tr>
<tr>
<td>I-94: I-394 to I-35W</td>
<td>1.9</td>
<td>0.32</td>
<td>22</td>
</tr>
<tr>
<td>I-35E: I-694 to I-94</td>
<td>7.2</td>
<td>1.13</td>
<td>20</td>
</tr>
<tr>
<td>I-35W: I-494 to I-94</td>
<td>8.6</td>
<td>1.22</td>
<td>18</td>
</tr>
<tr>
<td>I-394: I-494 to I-94</td>
<td>8.5</td>
<td>1.25</td>
<td>21</td>
</tr>
</tbody>
</table>

Table 3. Environmentally Contaminated Sites in the Metropolitan Area*

<table>
<thead>
<tr>
<th></th>
<th>Total Number of Sites</th>
<th>Number of Sites per Municipal Civil Division</th>
<th>Total Square Miles</th>
<th>Sites per Square Mile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Cities Total**</td>
<td>184</td>
<td>92</td>
<td>103</td>
<td>1.8</td>
</tr>
<tr>
<td>Minneapolis</td>
<td>101</td>
<td>101</td>
<td>53</td>
<td>1.9</td>
</tr>
<tr>
<td>St. Paul</td>
<td>83</td>
<td>83</td>
<td>51</td>
<td>1.6</td>
</tr>
<tr>
<td>Developed Suburbs**</td>
<td>152</td>
<td>6</td>
<td>163</td>
<td>0.9</td>
</tr>
<tr>
<td>Developing Area</td>
<td>323</td>
<td>5</td>
<td>766</td>
<td>0.4</td>
</tr>
<tr>
<td>Rural Total</td>
<td>179</td>
<td>2</td>
<td>1,730</td>
<td>0.1</td>
</tr>
<tr>
<td>Townships</td>
<td>86</td>
<td>1</td>
<td>1,660</td>
<td>0.1</td>
</tr>
<tr>
<td>Small Cities</td>
<td>93</td>
<td>2</td>
<td>70</td>
<td>1.3</td>
</tr>
<tr>
<td>Grand Total</td>
<td>838</td>
<td>4</td>
<td>2,762</td>
<td>0.3</td>
</tr>
</tbody>
</table>

* Numbers may not add because of rounding.
** The central cities and developed suburbs constitute the urban core.
Data from the Minnesota Pollution Control Agency, November 1992.

On the edge of the metropolitan area land for industrial development is readily available and free of the problems of contamination that can escalate development costs. The site advertised here is in Chaska, southwest of the central cities.

If one factor had to be selected as having the greatest impact on controlling the location of business development within the urban core, it would be environmental liability. Federal Superfund legislation* has significantly expanded liability for the costs of clean-up, making lenders and potential buyers of contaminated sites extremely nervous. Clean-up costs can be tremendous and time delays further add to development costs. The Minnesota Pollution Control Agency is known to be relatively prompt in saying no, but slow to say yes for a permit to proceed.

The two central cities and the fully developed first ring suburbs are at a significant economic disadvantage, as measured by the number of contaminated sites per municipality (MCD—municipal civil division) and by the number of sites per square mile (Table 3). Jim Moore at the Minneapolis Community Development Agency estimates that the city has spent $20 million over the past five years in cleaning up sites—money that could well have been spent on other pressing economic development efforts. St. Paul is similarly constrained by the environmental liability issues associated with industrial land development. Map 2 may be viewed as an environmental risk zoning map. It shows that the central cities are the riskiest places to locate.

Three case studies were used to examine the process by which businesses decide where to locate and to further evaluate whether the urban core is at a disadvantage in competing for commercial and industrial expansion. The cases were:

1. the decision of Health Partners (the parent company of Group Health) to consolidate and relocate its headquarters from the central cities to the I-494 corridor in Bloomington;

2. the decision of three companies to locate in industrial/business parks in northern Chaska, on the fringe of the developing area of the Twin Cities;

3. and the decision of First Bank Systems to consolidate and relocate its back office activities to Energy Park in St. Paul, on a site that had been contaminated by prior industrial use.

Interviews with the stakeholders in these companies showed that a number of factors were considered before their location decisions were made. General factors that were important included: transportation and communication technologies; environmental regulations and the financial liability rules associated with the Superfund; public incentives and subsidies, especially tax increment financing and tax exempt bonding; the attitudes of lending institutions; site and community amenities; land availability and local zoning; and local and state taxes.

Most of these factors work to the disadvantage of sites in the urban core. Transportation and communication improvements decrease the value of a central location close to other firms. The bulk of environmentally contaminated sites affected by the SuperFUND liability rules are in Minneapolis and St. Paul. A survey for the St. Paul Port Authority in 1991 identified only seventeen available industrial sites in St. Paul, thirteen contaminated and all but two smaller than 6.5 acres. Core urban areas are less able in general to offer fiscal incentives because of other pressures on their budgets. When they can use tax increment financing, the subsidy must often be devoted to removing some disadvantage of the urban site—such as environmental contamination—rather than to writing down land costs. Areas in the urban core contain fewer sites with the highly valued amenity of open space. And finally, taxes are generally higher in the core areas.

The study highlighted six conclusions.

1. Where the region places and how it prices its infrastructure will have a significant impact on the market. These investments and programs to facilitate recycling of our older industrial and commercial districts are levers to manipulate the market.

2. The challenge is to allocate more resources to cope with the process of aging, changing technologies and obsolete investments in the core of the region. The existing tools of tax increment financing, fiscal disparities, and tax-free bonding are insufficient to balance the higher costs in the core. In particular, existing tools are totally inadequate to redevelop contaminated sites.

3. Lending institutions are key players in achieving the goals of maintaining vitality in the inner parts of the region. New policies are needed to balance the higher risks in the core perceived by these institutions.

4. Current over-building in the office and speculative light industrial market gives the region a breathing space to develop new policies to assist reinvestment in the core. These can be instituted without necessarily constraining investments in outer areas.

5. The ability to provide on-site and "free" parking for employees favors suburban locations over many older commercial and industrial districts. The solution may either rest in subsidizing parking in the older areas or allocating parking costs to employees where on-site parking is available to lessen the impact of this factor on location decisions.

6. Political fragmentation and increased reliance on local property taxes to finance services contribute to the problems of recycling the fully built areas. Partial sharing of the commercial/industrial tax base (through the Tax Disparities Program) is a very positive step toward equalizing resources, but is clearly inadequate to counterbalance the ever present advantages of sites on the fringe in a region already well-provided with highways, sewers, and natural amenities.

Conclusions

Although the three studies examined disparate aspects of regional public policy, there are patterns across the work that are worth noting. First and foremost, the studies show a set of public policies that work to the disadvantage of the inner parts of the region in one way or another. For instance, the MWCC's uniform fee results in subsidies from the core to outer parts of the region and liability rules associated with contaminated sites clearly work to the disadvantage of inner areas. Although it is more difficult to nail down the spatial distribution of the costs and benefits of the metropolitan highway system, it is very likely that current policy encourages sprawl and makes many suburban locations more desirable than they would be if drivers were paying the full costs associated with their automobile usage.

Second, two of the three pieces examine policies that seem to reflect a very real reluctance by either public agencies or voters to make the consumers of public services or resources face the full cost associated with their behavior. The findings imply that the MWCC undercharges all of its clients on average and subsidizes specific consumers even more and that peak-hour highway users pay substantially less than the total costs associated with their transportation choices. Yet policy makers in both of these areas have repeatedly expressed grave reservations about increasing the fees charged for the use of these services. When viewed in the context of the third study, which concluded that the placement and pricing of infrastructure have significant impacts on the market, this implies that the region still has a ways to go before significant impediments to redevelopment of the urban core are eliminated.

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Hispanic Students: Adjusting Dreams to Reality
by Dario Menanteau-Horta

The Hispanic population is one of the largest minority groups in the state and is growing at a very fast rate. The 1990 Census showed that there are almost 54,000 Hispanics in Minnesota, a large jump over the 32,000 counted here in 1980. The Spanish Speaking Affairs Council says the number is consistently higher than that reflected in the census, and estimates today’s population at 70,000. This number continues to grow as Hispanics migrate from Texas, Mexico, and Central and South America. In addition, there is a significant influx during the summer months, when up to 18,000 agricultural migrant workers move into the state each year.

The Hispanic community in Minnesota is a young population. Their median age is twenty-two years, about a decade younger than the median for non-Hispanics. And according to the 1990 Census, 44 percent of Minnesota Hispanics are eighteen or younger. There are about 16,000 school age children, ages five through eighteen.

Hispanics in Minnesota face problems similar to those faced by Hispanics in the rest of the country, including relatively low median family incomes, high unemployment levels, and lower levels of educational achievement than other groups in the state. Between 1985 and 1990, the median family income for Hispanics in Minnesota increased only 6.9 percent, compared to 12.3 percent for the non-Hispanic population. As of 1990, Hispanic unemployment was 10.4 percent, compared to 5.2 percent for non-Hispanics. In 1987, the dropout rate for Hispanic students in grades seven through twelve in Minnesota was 9.3 percent, compared to 3.1 percent for non-Hispanic students. The same year, only a little more than 70 percent of Hispanics graduated from high school, compared to more than 90 percent of non-Hispanics.

Despite the relatively large high school drop out rate, the Hispanic population as a whole tends to value education and to see it as a key to social and economic mobility. While the older generation is underrepresented in high paying occupations, they impress upon their children the importance of education as a way to advance, as a vehicle for obtaining a career with high rewards. This can be heard in the Hispanic community from both parents and from the community’s leaders. For instance, a father who came here from Central America five years ago told this author, “The Hispanic must give serious consideration to the education of their children if they want to participate in the benefits of all Americans.” Similarly, a Mexican-American mother said, “Our older generations did not have the opportunity to become educated, but our family is doing the best to provide a good education to our children.”

The large high school drop out rate of Hispanics is especially disturbing in light of this kind of sentiment, and it behooves us to get a clearer understanding of the variety of factors that influence Hispanics’ educational realities.

Unfortunately, very little social science research exists on the Hispanic population in Minnesota, or in the nation, for that matter. The Hispanic leadership has expressed a desire for more information on how the educational system serves Hispanic youth, and particularly how families, given their emphasis on the value of education, influence the aspirations of Hispanic youth. A previous study conducted in the Center for Rural Sociology at the University of Minnesota indicates that there is a positive relationship between the socioeconomic status of families and the educational and occupational hopes and plans of their children. In other words, the structure of opportunity—the presence or the lack of opportunities—influences the choices students make. However, this research was conducted with graduating high school seniors in the state as a whole, and Hispanic youth were not well represented in the study. As a result, this exploratory study was initiated to examine how the family situation of Hispanic students and various elements of Hispanic social structure influence the student’s hopes, dreams, and plans.

A fourteen-page questionnaire was mailed to 300 Hispanic students across the state, including graduating high school seniors, vocational technical students, and students at the University of Minnesota. Although the resulting study sample was small—there were 126 responses and often only about 70 responses on any given question—the study does give some preliminary information about how family situations and social factors may influence