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CITY PAGES

THE MOST OVER-BUILT CITY IN AMERICA

By Dick Dahl

THE FIRST public showings of Studio X's short film *Shinders to Shinders* this past weekend at 7th and Hennepin were strange little events. The film folks hung and tethered a white sheet across the big billboard with the Kent Cigarettes ad — the one with the jock lighting up after a presumably tough and victorious game — and set up the projector kitty-corner from the billboard.

What a great idea. The film, billed as a "surreal portrait of Hennepin Avenue," was shown atop the bustling block and thoroughfare upon which it was based. While the dancers in the film portrayed the movements of the Hennepin Avenue stereotypes (the pimp, the hooker, the junkie, the pinball/ video game wizard), the real thing was going on down the street. Right in front of McDonald's was the ever-present knot of young black men, always wound up tight and always watching. For something. Inside McDonald's sat a worn-faced young white man in a Styx t-shirt. He was eating a hamburger and drinking coffee. There was an urgent tapping at the window. Another wayward-looking young white man on the street was beckoning angrily for the hamburger eater, apparently a partner of some kind, to join him outside. For something. You could hear him through the glass, above the expectant white noise of the avenue traffic: "Finish the goddam hamburger!" In the next moment the window-tapper was gone. So were the blacks. One policeman sauntered past, then another. In a minute the young searchers were back, like roadside birds settling back to eat after a truck has passed. Just as the film portrayed. Another young black man, toting a box on his shoulder and dancing down the sidewalk to its

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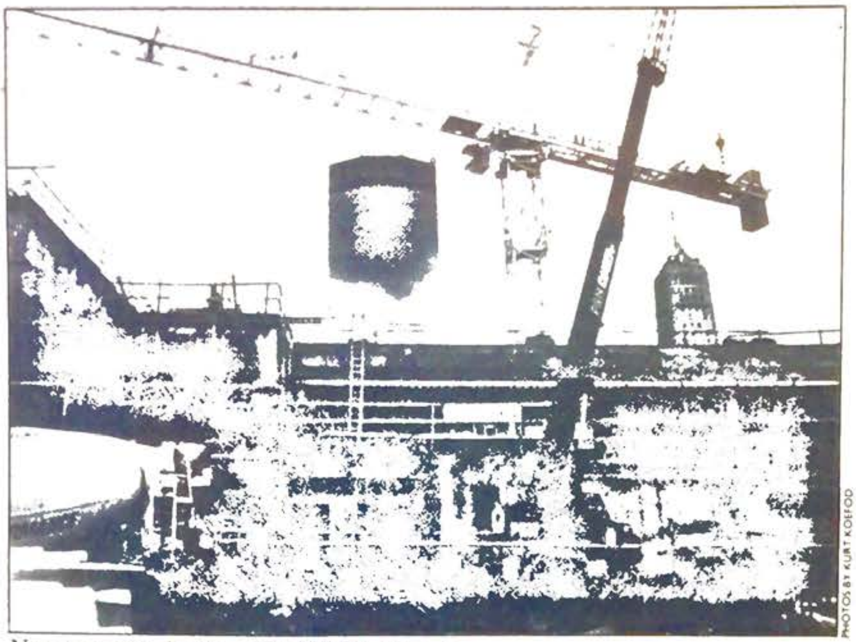

PHOTOS BY KURT KOEFOD

New construction downtown: The Mill City is booming

Echoes from Boom Town

By Dick Dahl

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rhythms, walked by. It seemed to anger the young white, who screwed his face into a mask of contempt and began mimicking the dance with intended clumsiness. He stopped and looked back inside at his partner who was sipping coffee and in no hurry to return to the street. The man tapped again on the window, beckoning. It made no sense at all.

A little farther down the sidewalk a tall Christian man in a tie and long-sleeved white shirt had set up an easel, and was using colored marker pens to make his point: The passersby can only be saved from damnation if they give themselves up to Jesus. He smiled as he told his Biblical tale even though he took abuse from a couple of people in the small crowd — too small for significant soul-saving this particular Saturday night because of the big attraction over at the 7th Street intersection. Yet, on the other side of the street there was very little traffic at all. That is the side of the street fronted by the cold, barren exterior of City Center. Somehow, when you do Hennepin Avenue these days, it just doesn't enter your mind to walk on that side of the street. It's too stark. It's more attractive to walk on the other side with its little dangers.

Easterners still say that the great industrial cities of their region have nothing to compare with Hennepin's curious distinction: It combines urban sleaze with the smalltown Midwestern notion of "dragging Main." And even that activity isn't what it used to be, ever since they made Hennepin a one-way for purposes (the city engineer claims) of reducing air pollution. Driving Hennepin on a temperate Friday or Saturday night used to be a greater thrill than it is now. It was an act of casting yourself into a grand game of chance: the traffic crept along, bumper to bumper, and you would wait to see what manner of fun or craziness or fear would settle adjacent to you in the next logjam a half block farther down. People exchanged joints, flasks, invitations to parties.

No doubt city officials saw the immorality going on and made up the part about air pollution. They probably figured that Hennepin Avenue, with all its emphasis on sex and drugs, is something Minneapolis with its prestigious Quality of Life index can do without. They started referring to it in terms like "entertainment district" (as though that's all it really is) and brought in a consultant who designed a plan that, supposedly, would encase the unique human pulse of Hennepin Avenue beneath a spanking-new veneer of spiffy new storefronts and metal trees.

And of course, before that they came up with the idea for City Center and plans to use a development scheme known as tax-increment financing to get it off the ground. Just what is tax-increment financing? OK, here it is in a nutshell: tax-increment financing is a means by which the city uses its power of eminent domain to buy land and clear it for development — which can cost a lot of money and piss off many people, witness Calhoun Square and Boisclair. The city then sells bonds to cover its costs and sits down with the lender to set up a bond repayment schedule with the going interest rate, of course, figured in. It then freezes the taxable value of the property at its previous value — the last one prior to the new development. Those bonds are then paid off by . . . the developer taking advantage of the city's efforts? Nope. They're paid off by the property taxes from the added "increment" of value, now that the property has been developed into something more valuable. In other words, the bonds are paid, indirectly, by you and me. By taxpayers who enjoy none of the benefits of the added tax base during the life of the bonds, while the new building and its people need the usual public services, thereby placing an even greater strain on the tax base not within tax-increment districts. Not only that, but the frozen taxable value would probably have increased had it been left alone. There are no two ways about it: tax-increment is a public subsidy to private developers. Taxpayers, for instance, may not know it but they are providing a nice parking lot for Radisson owner Curt Carlson, a man who is known as a millionaire.

There is a counterargument, of course. The city says that if this front-end effort were not made, the development wouldn't occur and all the city's taxpayers wouldn't enjoy the benefits of an expanded tax base down the road when the bonds are paid off. And if it were not for tax-increment financing, they say, the glorious Minneapolis building boom would not be what it is. The assumption is that all of this is for the good of everyone.

And even though most people seem to think City Center is pretty ugly, city-government types are pointing to it and its reported high occupancy figures (Target and International Multifoods will be taking up most of the building) as proof that tax-increment financing can be a wildly effective development tool. As Minneapolis Community Development Agency (MCDA) Chairman Steve Keefe says, City Center is "so successful, it's causing a spinoff effect." A spinoff effect of significant proportions, much of it aided likewise by tax-increment assistance. If all the new construction that is proposed for the next few years actually occurs, the city skyline will be markedly different by the end of the decade.

BUT *WHY* IN this time of high interest rates and general economic lethargy is downtown Minneapolis booming? Why are so many new office buildings on line for construction when right now, in downtown Minneapolis, there is supposedly a substantial amount of unleased office space with more coming onto the market? When the conditions are forcing IDS to *drop* its rental rate?

When you ask around, you find out that many people are wondering what's going on. Minneapolis architect Howard Goltz, board member of the Minnesota Society of the American Institute of Architects, is one of them. "What I hear from the architectural grapevine is that there's one million square feet of unleased rental space," he says. "There is a *phenomenal* amount of building going on and there is a phenomenal amount of office space available." Will all the tenants be moving in from the suburbs? His firm, Klapste Goltz Associates, Inc., is not involved in any downtown projects, he says, but in the suburbs "we drive around and we're seeing a lot of 'for rent,' 'for lease' and 'for sale' signs."

Jim Kramer, executive director of the Society, says he thinks "the jury is out" on whether Minneapolis is overbuilding, but also wonders where the tenants will be coming from. He says the office buildings on the I-494 strip now have 20-percent vacancy rates. And Bruce Wright, managing editor of *Architecture Minnesota* says that the answer you get to the question of whether Minneapolis is overbuilding depends on whom you talk to. "If the economy weren't in the condition it's in, it would be another story," he says. "But the last two years things have been pretty stagnant. I would say yes. My tendency is to say yes, it is being overbuilt."

Even Keefe, the chairman of the agency in charge of developing Minneapolis, is wondering. "I'm a little nervous about the office space," he says. "There's a lotta stuff going up." MCDA, he says, has formed a committee to look into it.

And now that businesses on the south end of the Nicollet Mall are vacating the premises for the commercial space at City Center, the city council is nervous about that part of downtown as well. Although Keefe says that tax-increment financing has accomplished its purpose on the south side of Hennepin Avenue, he indicates the Nicollet Mall might be an exception. He says that Minneapolis is near the top of the list for several "prestigious national retailers" such as Saks Fifth Avenue, but that they need large storefronts.

There really are different ways of looking at downtown Minneapolis' office vacancy situation and extrapolate from it. According to a real-estate source who requested anonymity, the downtown vacancy rate as of June (the last time from which figures are available) was five percent, a figure that "doesn't take into account new buildings that are not on line yet." Last December, the vacancy rate was 4 percent, and in June 1981 it was 3 percent. But back in December, 1980, it was at 5 percent after downtown added 1.1 million square feet to the market, showing downtown really has shown the ability to sop up demand. On the other hand, suburban vacancy rates are very high right now — 11 percent for all Minneapolis suburbs combined and, reportedly, closer to 20 percent on the I-494 "strip" — so you wonder where all the new downtown tenants are going to be coming from. Other states?

"What I would expect is that the vacancy rate will continue to increase this year with it falling off in 1983," said the real-estate source. "In 1985-86 the next big jump of projects will be coming on line. Then I expect it to jump again, through 1987.

"We can continue to see a good absorption rate downtown. All of the space is going to be taken up," the source says.

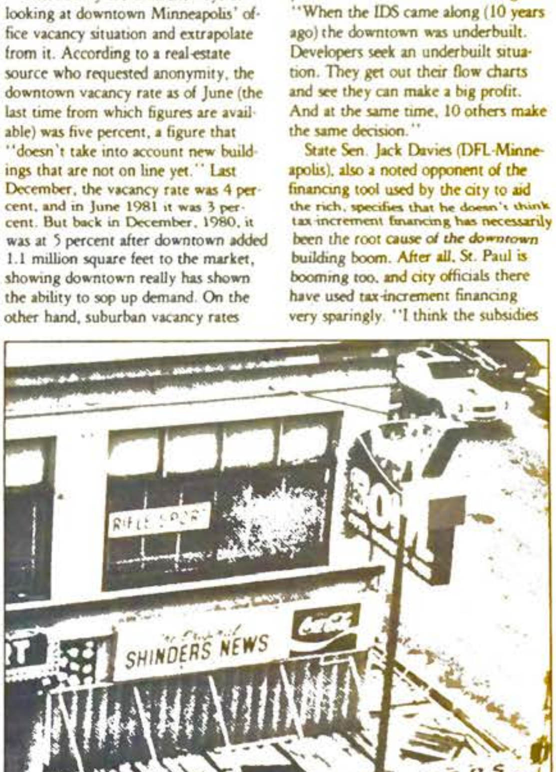
Why is it booming?

"There's been a pent-up demand for new space. There has been no significant development for the last eight years. A number of developers saw the market and made the jump at the same time."

It's kind of odd the way developers work. When there's the hint of a market, they all seem to arrive at once as though they all scanned the same computer printouts. (That's why one stretch of highway in St. Cloud has every conceivable fast-food franchise available in Minnesota.)

"It's not uncommon to go from an underbuilt situation to an overbuilt one," says Dan Cohen, a former city-council member and planning-commission chairman who is an outspoken opponent of tax-increment financing. "When the IDS came along (10 years ago) the downtown was underbuilt. Developers seek an underbuilt situation. They get out their flow charts and see they can make a big profit. And at the same time, 10 others make the same decision."

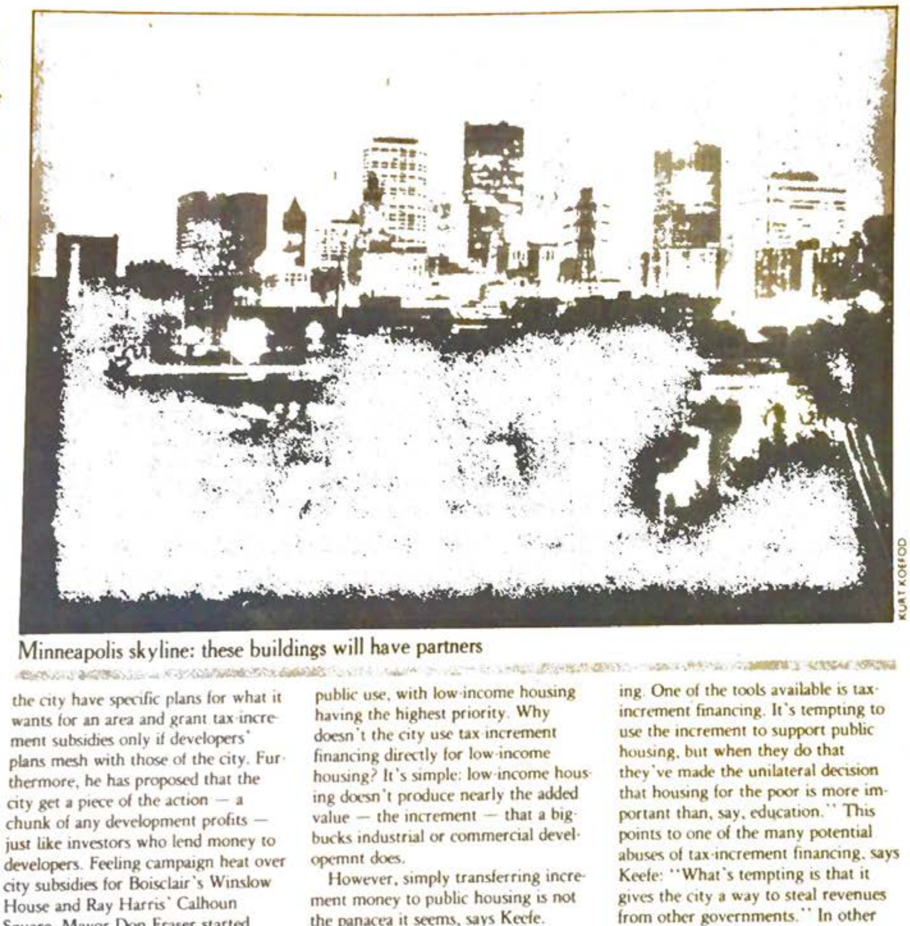
State Sen. Jack Davies (DFL-Minneapolis), also a noted opponent of the financing tool used by the city to aid the rich, specifies that he doesn't think tax-increment financing has necessarily been the root cause of *the downtown* building boom. After all, St. Paul is booming too, and city officials there have used tax-increment financing very sparingly. "I think the subsidies



Corner of 'Block E': are its days numbered?

have very little to do with increasing the market,'' Davies says. ''You have demand for X number of hotel rooms, X number of men's stores, X number of office space. The subsidies can move it around, but it can't increase the demand very much. Oh, because there's some free money it might tend to be overbuilt a little. But my argument is that you don't accomplish anything (with tax-increment financing) but play favorites.''

The argument you always hear about tax-increment financing is the ''but-for'' argument. ''But for tax-increment finance the development wouldn't have occurred,'' is the supporters' cry. The trouble, as both they and opponents like Cohen and Davies concede, is that you never ever know whether that's true. This year, in Minneapolis, $13.5 million in increment tax money will be used to pay for private development costs. In coming years, the figure will be higher and higher — to the extent that by 1990 in Minneapolis the total could be about $50 million, according to Davies. Cohen and Davies echo the same belief: if there's sufficient demand for something, the entrepreneurs will be on the scene trying to meet it. The only thing tax-increment financing provides is more tax-increment financing. ''It gives one business a substantial advantage over its competitors. It causes a domino effect. It's bad economics and it's bad government,'' Davies claims.



Minneapolis skyline: these buildings will have partners

KURT KOEFOD

KEEFE ADMITS that the city has misused tax-increment financing and that its application to Carlson for his new hotel is ''one of the most questionable uses'' the development tool has had. As early as a year ago he was proposing that the city change the way it made its deals with developers. He suggests that the city have specific plans for what it wants for an area and grant tax-increment subsidies only if developers' plans mesh with those of the city. Furthermore, he has proposed that the city get a piece of the action — a chunk of any development profits — just like investors who lend money to developers. Feeling campaign heat over city subsidies for Boisclair's Winslow House and Ray Harris' Calhoun Square, Mayor Don Fraser started talking about a requirement that developers reimburse the city for their subsidy and that the money be used for public use, with low-income housing having the highest priority. Why doesn't the city use tax-increment financing directly for low-income housing? It's simple: low-income housing doesn't produce nearly the added value — the increment — that a big-bucks industrial or commercial developemnt does.

However, simply transferring increment money to public housing is not the panacea it seems, says Keefe. ''There is very strong pressure from public policy makers that we should do all we can to push low-income housing. One of the tools available is tax-increment financing. It's tempting to use the increment to support public housing, but when they do that they've made the unilateral decision that housing for the poor is more important than, say, education.'' This points to one of the many potential abuses of tax-increment financing, says Keefe: ''What's tempting is that it gives the city a way to steal revenues from other governments.'' In other words, money diverted to housing could be used by the school district.

The other potential abuse that bothers Keefe is that if lots of cities are providing subsidies to developers, it affects the price of development everywhere and the net effect, from the cities' standpoint, is zero. That's another way of saying that taxpayers are subsidizing corporations. Yet, even the detractors of tax-increment financing say there are times when its use is warranted. Even Cohen and Davies say that the shopping center being constructed on Franklin Avenue with the aid of tax-increment and federal funds is a good example. The area is rundown with high unemployment and fits the definition of a blighted area. Originally, back in the 1960s, this was what tax-increment was designed for. But somewhere along the way Minneapolis and many other cities rationalized that by simply pumping up the city's overall tax base that everyone would benefit — even the poor folks. This was an early version of the sort of ''trickle-down'' thinking that brought us Ronald Reagan. The trouble is, the city's development policies and Reagan's corporate tax-cut philosophy have only demonstrated that the rich get richer.

With all the talk about changing the city's tax-increment policy by the MCDA, Fraser and the city council in the last year, there seems to be a recognition that this is close to the case. And it may be that the realization is inspired by more than political heat. In March, 1981, the Midwest Research Institute compiled a report for the St. Paul Port Authority on that agency's economic impact on the City of St. Paul. One section of the report has some interesting figures on the different ways that Minneapolis and St. Paul have used tax-increment financing and how it has affected the cities' economic health. The figures show that the value of St. Paul's commercial-

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