

Citizens League
545 Mobil Oil Building
Minneapolis, Minnesota 55402

Minutes of Meeting

FISCAL DISPARITIES COMMITTEE

Thursday, March 28, 1968 - 6:30 p.m.

St. Paul Public Library

PRESENT: Earl F. Colborn, Jr., Chairman, Arch Berreman, Dr. Frank Boddy, John Costello, Mrs. Nicholas Duff, Vincent C. Dworak, Richard J. FitzGerald, Julian Garzon, Loren Gross, Rep. George F. Humphrey, Neil Kurlander, Dr. Leland C. Lehman, Dennis Mathisen, Gordon Moe, Mrs. Vernon Olsen, Thomas E. Rohricht, Arne Schoeller, Thomas Vasaly, Norman Werner, Ted Kolderie (staff), Paul Gilje (staff) and Irma Sletten (staff).

Speakers: Larry Laukka, William Koniariski, and Bernard F. Schneider. Guest: Robert J. Dolan.

1. The meeting was called to order at 6:40 p.m. by Chairman Colborn. It was announced that next week the committee will not hold a regular meeting but will meet with the Metropolitan Development Guide Committee of the Citizens League at 6:30 p.m. on Thursday, April 4, at the auditorium of Northern States Power Company, to hear a presentation by Kurt Bauer, executive director of the Southeastern Wisconsin Regional Planning Commission, the Milwaukee metropolitan area.

The following week, Thursday, April 11, we will meet in Minneapolis with Superintendent John B. Davis of the Minneapolis School Board.

Minutes of the meeting of March 14 were approved as mailed, and minutes of the meeting of March 21 were distributed.

2. The presentation by Larry Laukka -- The chairman introduced Mr. Larry Laukka, who is vice president and marketing manager of Pentom, Inc., a homebuilding company in the Twin Cities area. Mr. Laukka also is chairman of the Metropolitan Housing Council, an organization of homebuilders and apartment builders in the Twin Cities area. Mr. Laukka recently was named sales manager of the year by the National Association of Homebuilders. The reason for his appearance tonight is to discuss with us the impact of the local property tax in stimulating local units of government to make certain development decisions. In his remarks Mr. Laukka made the following points:
 - Housing demand -- Based on the 1960 census it was predicted that between 1960 and 1965 there would be an annual demand of new housing quarters in the Twin Cities of about 14,216 per year for the five-year period. Actually the metropolitan area built more than this, at a rate of 14,894 units per year during this period. This represented an over-reaction to the need for new housing, with the result that in the first half of the decade we over-built by about 4%. The demand for the second half of the decade was determined to be about 15,812 units per year, but, because only 22,000 units totally were built in 1965 and 1966, we now are experiencing somewhat of an excess demand to what is

being provided. We built about 16,000 units in 1967, or right on target. But we will have to build about 15,000 a year in 1968 and 1969, plus another 9,000 to make up for the backlog, or a total of about 39,000 new dwellings before the end of this decade in the Twin Cities area.

Mr. Laukka discussed the distribution of the demand for these 39,000 units. They will be divided between the rental market, that is, new apartments, and the new single-family dwelling market.

Rental market: About 58% of the demand for rental units will be for units that can rent for less than \$160 a month. He broke this down as follows: Between \$80 and \$99 a month, 18% of the demand for rental units; between \$100 and \$124 a month, 24% of the demand; and between \$125 and \$159, 16% of the demand, or a total of 58% of the demand for new rental units will be under \$160.

New homes: About 3% would be no more than \$12,500 sale price. About 16% between \$12,500 and \$15,000. And about 20% from \$15,000 to \$17,500. Or a total of 38% who cannot afford to buy a new home in excess of a value of \$17,500.

- . The implications of the above figures are simply that we are today finding very few new rental units that go for less than \$124 a month. Furthermore we cannot find very many new homebuilders that are building homes for less than \$20,000 selling price, and virtually none are in any of the categories of this 38% demand.
- . Pentom believes that because of the substantial demand for new housing in this lower income area if possible they should concentrate their effort in these areas. The company believes it is in the shelter business for wherever the demand is. The realistic fact of the situation is that we are slipping behind this lower income area market and based on present trends the demand will not be met in this area.
- . He discussed the fact that his company now is involved in building dwellings in some 18 communities in the suburbs of the Twin Cities area. The company has been thwarted in almost every instance where it has attempted to propose dwellings that would fit within this category. By and large, a lower limit of about \$22,000 is being established for new houses by the individual municipalities. There is a tremendous effort being exerted by the governing bodies of these various units to keep out the lower valued housing.

The major reason for this action is simply the impact of the property tax. Local municipal governments, feeling the increase in taxes because of schools, believe that if they can hold the value of housing at an artificial high level they can effectively slow down the growth rate and keep out the rapid increase in school population. Unfortunately, there is sort of a mushrooming effect to this whole situation. A community which is able to get a favorable tax base and few homes wants to protect this situation. They become comfortable in their present situation, and don't want anything to rock the boat, so to speak. Municipalities have become more restrictive even within the past 30 days. One community in north Hennepin County passed an ordinance increasing the square footage of the lots. Another community in northern Dakota County is considering increasing the minimum house size beyond the figure already present.

There appears to be no question that actions of municipalities to artificially place a minimum value on housing in a community are illegal, but no builder is going to challenge the action of the municipality in court, because the builder has to get along with the municipality anyway.

- . Building codes -- There are some 18 different building codes present in the 18 municipalities that Pentom builds in. The company does not build in the central cities because, among other things, the building code restrictions are very high. He said it is commonly known that it costs 15% more to build an equivalent dwelling in St. Paul because of code restrictions.
- . With many of the close-in municipalities rejecting residential development because they don't want people and instead zone for commercial and industrial, we find that the big builders are having to go out farther and farther, sometimes to townships where farmers want to sell their land and the township board won't be inclined to turn him down. This is a ridiculous situation when there are thousands and thousands of acres that should be developed between this area and the built-up portion of the metropolitan area.
- . Summing up his comments thus far, he said that it is clear we are losing the battle to provide the housing where the demand is under the present tax structure with the municipal governments making the decisions they are. It will be extremely difficult to have any form of orderly development of the Twin Cities metropolitan area. Whatever happens, someone is going to get hurt. The persons who would have lived in the 39,000 new units for low-income persons will be housed somewhere, probably in the central cities or in some of the older dwellings. We find that there is a very high occupancy rate in rental dwellings and a very quick turnover.
- . Mobile homes -- Pentom has been investigating various alternatives to provide the lower income demand. It has found that it is possible to develop mobile homes that are esthetically good and will not mar the landscape. The record of the mobile home industry to date by and large is atrocious. The mobile home industry has not done at all what it could in making its housing respectable. It has left behind too frequently just a mutilated landscape. Pentom has received permission to build a 500-unit mobile home park in East Oakdale which is east of St. Paul. This will be an effort to bring in a mobile home which will not have aluminum siding but which will have a wood siding that, hopefully, will make it look just like a regular house, except that the wheels will remain on, of course. Then there will be extensive landscaping so that the development will not be displeasing. Of course, it is very difficult to obtain the permission from local units of government to put in such developments. Nevertheless, because they are manufactured in such a way, the mobile homes can be built for a very low price and low enough to meet the housing demand where it is.
- . We must face the fact in the homebuilding industry that the day of the cookie cutter developer is gone. That is, we no longer will see a situation in which a large tract of land is taken and arbitrarily divided into equal size parcels in a grid pattern. Environmental design is becoming more and more a factor. We will have higher densities in certain parts of the area. People are becoming more and more choosy as to what kind of housing they want.

- There are three major obstacles to providing the demand for new housing that will exist in the lower income areas. First, and most important, is the property tax consideration, which encourages local municipal governments to not allow lower income housing. Second is the whole matter of esthetics and the reluctance of localities to allow such developments as mobile home parks. Third is the fact that unions are very strong in the building industry and it is very difficult to build certain housing because of their presence. We could bring in a pre-manufactured mobile home to the Twin Cities area, but we could not place it on a foundation, even though it would be absolutely safe, because the local unions would not allow a home which was not produced by one of their local unions to be put on the foundation. Pentom has talked with the housing authority in Minneapolis and St. Paul about providing some lower income housing in the central cities. Things go along all right for a while, but then the people involved become reluctant because they are not so sure how these unions will react to certain changes. So thus far Pentom has not been able to satisfactorily work out something for low-income housing in the central cities.

In an aside to his general comments, Mr. Laukka talked about the responsibility of the suburban areas to pay their fair share of services in the inner city. He deplored the fact that central cities are deteriorating from the inside and that their school systems are not as good. He said the suburban residents take advantage of the central city services, but then go out to their suburbs to pay their own taxes. He said it is a community-wide responsibility to see that we maintain the strength of the central city.

3. During the question and answer session with Mr. Laukka the following points were made:
 - He said that he is not sure where the low-income housing demand is being met since the new dwellings cannot be built in this income area. If we look at rental vacancy rates we find that vacancy rates are very low and used properties are turning at a rapid pace. I think we might find that many people are forestalling buying and are renting. The rental market is building more and more two-bedroom units. But generally it's just very hard to identify where the lower-income family is finding its housing.
 - Discussing further the lower-income properties, Mr. Laukka said that a builder today cannot build apartments that will rent for \$80 to \$99 a month without some sort of public housing assistance. Also, it is almost impossible to build in the \$100 to \$124 rental market. Today about the only place you can build is between \$125 and up, at the very minimum, and even that is increasing very fast. We had costs increase in the building industry of 7% last year and expect 7% increase again this year.
 - In terms of the impact of rental units on school enrollments, he said that a study was conducted in Bloomington last year which indicated that generally apartment buildings are good for the tax base, because before children reach school age the parents generally are moving out of rental dwellings and into houses. However we can predict that this might change if the housing market becomes as restricted as it appears it will. This might then have some impact on the school enrollment situation in apartments.
 - In terms of the developments in the far outlying areas of the Twin Cities area Mr. Laukka said he is not sure where all of this is taking place. Companies

like Capp Homes, which build prefabricated houses, are now building most of the outlying housing for lower-income people.

- . It is not possible, with the building codes as they are today, for a home-builder in the Twin Cities area to build a house for \$12,500. It is not possible, either, to build in the \$12,500 to \$15,000 bracket. There is one builder today who is in the \$15,000 to \$17,500 bracket, but this will not last very long. You can build a 720-square-foot, two-bedroom, 1½ bath mobile home for about \$7,000. This can be expanded to some 1200 square feet and sell for about \$12,000. Generally, if you were to build a regular home having 1200 square feet it would cost about \$24,000. It appears that you can build mobile home units for about \$10 a square foot, whereas it costs about \$20 a square foot to build a regular house in the Twin Cities area today.
 - . One intriguing possibility for meeting the demand for new housing is the condominium. The condominium is a situation in which a person owns the apartment where he lives. It is possible with this situation to provide for home ownership in the area of \$10,000. It is generally felt that home ownership is the key to maintaining quality housing.
 - . One committee member asked Mr. Laukka about the possibility of new innovations in plastics and other materials for dwellings. Mr. Laukka said that these possibilities are very real, but that we've got the outdated building restrictions to deal with.
 - . In terms of the cost of a \$25,000 home in the suburbs, on the average the costs of the land plus the utilities, including water, sewer and streets, is about \$5,000 per lot, leaving about \$20,000 for the house itself.
 - . He said that currently his company is in a dispute with a suburb over the charges for utilities. The plan of Pentom is to provide a planned unit development on some 60 acres of land. The dwellings will be concentrated in one portion of the area in the form of townhouses. This will cut the overall water and sewer costs to about one third. The municipality, however, wants to charge the developer for what water and sewer would cost to put all the trunks and laterals throughout the 60 acres. He said that the municipality knows that's illegal, and so does the builder, but the builder is afraid to challenge it because it has to continue to do business with the municipality.
 - . He said that currently on the staff of the Pentom Company is a professional landscape architect and a staff architect.
 - . In terms of new innovations in housing we find that in California many things are happening. Probably some day we will catch up with what they are doing out there. For example, one of the developments involves building a house on the entire lot, with the open space within the house.
4. The chairman introduced the other speakers for the evening--William Koniarski, Chairman of the Scott County Board of Commissioners, and Bernard Schneider, member of the Carver County Board, who discussed with the committee the property tax situation in their counties and the policy decisions made in connection therewith.

Mr. Koniarski's comments -- Basically, Scott County has been a rural county. Its northern portions, particularly around Shakopee and Spring Lake, have been

increasing in population, but the southern part of the county has been rural and probably will remain that way for some time to come. We have seen the assessed valuation and population increase at approximately the same rate over the last 25 years. There has been a very marked increase in the employment of residents of Scott County in non-agricultural positions. In 1950 only 3,669 people were in non-agricultural jobs. In 1960 this had increased to 5,614 people, or 78% of the total work force in Scott County, and by 1967 8,000 people in Scott County were employed in non-agricultural jobs, or about 85% of the total.

Mr. Schneider's comments -- Carver County has been essentially the same as Scott County, except that Scott has had much more industrial growth than has Carver. The American Crystal Sugar Company at Chaska, and a few creameries, have been the major industries of Carver County. Some of the creameries, though, have closed up in recent years.

A few years ago, residents of Carver County became very concerned when the Hennepin County Park Reserve District purchased some 2800 acres in Laketown Township. The township lost a significant amount of its total tax base as a result. In terms of the needs of Carver County for parks, he said, we could probably take care of the needs of the residents of Carver County alone by probably no more than about 600 acres. Carver County residents have become more concerned about removal of park land from the tax rolls with the proposal for the Carver State Park along the Minnesota River, which would take another 12,000 acres off the tax rolls in Carver County, plus about 6,000 acres in Scott County. The Carver County Board, however, was not too concerned about the Carver State Park proposal, because much of this land for the park was subject to flooding and the assessed valuation was not very high. It was expected that the increased business in the county would more than offset the loss of tax base from this park. However, because of the strong feelings against acquisition of park land in Carver County, the county went to the Legislature and got approval in a bill whereby park purchases cannot be obtained in the county by another agency without the approval of the County Board.

Carver County received a federal planning grant of \$40,000 two months ago, which will be used now to develop a plan for the entire county. In terms of county-owned park land, the county owns about 15 acres on Lake Waconia now. The county is looking at its own responsibility for park land to the county residents and also its responsibility to the metropolitan area. One of the questions being asked is whether they should be reimbursed for the loss of tax valuation when property is taken off the tax rolls. In terms of loss to Carver County government, since 1965 the Carver County loss in revenue has been about \$25,000 because of the removal of the park land from the tax rolls.

5. During the question and answer session with Mr. Koniarski and Mr. Schneider, the following points were made:
 - . Mr. Schneider referred briefly to the new planned community of Jonathan, which will be located in the city of Chaska. He said that generally one of the problems that Carver County has encountered in getting good development is the fact that it does not have any good highways. Highway 5 which goes through the county is not an all-weather road, and you need an all-weather road for industry to come in. We hope that Highway 5 will be expanded to a nine-ton road all the way to Norwood.

- . There was a question raised as to whether the plan for a state park in the Carver area was now dead. Mr. Schneider said that he understands that a higher priority will be given to some sort of a horse-trail park that will run from Fort Snelling to LeSueur. It is not clear whether this will totally replace the Carver State Park proposal. One thing that Carver County is most interested in in any sort of state park in this area is that its access to sand and gravel in the area will be protected.
- . Mr. Koniarski was asked about the impact of the fact that industrial base is located in a part of Scott County and thereby accessible only to the needs of certain school districts and communities. He replied that he personally believes that it would be very desirable to have a county-wide school district rather than more than one school district. This is, of course, a very hot issue in Scott County, because the mill rate in some portions of the county is very low now. But he believes that one portion of the county should not get greater benefits simply because it happens to have some industry and another portion does not.
- . Asked about the prospects for an electric power plant in Scott County, Mr. Koniarski stated that he understands that Northern States Power Company intends to build a major power plant that would have about \$15 million worth of assessed valuation for the county, which is about the assessed valuation of the entire county right now. The power plant would be located in the Jordan School District, which has about 834 students right now. He said he is aware of proposals that have been made to remove power plants from the property tax rolls and distribute their revenues on a gross earnings basis throughout the state. From a purely selfish standpoint he would like to keep the property tax revenue from the power plant in Scott County, unless there is some reimbursement for the other plants throughout the area. He questioned whether Scott County should be the first one to share a major facility like this. He generally indicated he would not be opposed to some form of equalization, but he just doesn't want to have his county give away everything.
- . Mr. Koniarski reflected on the rapid urbanization which has taken place. Some 30 years ago, electricity was uncommon in rural Scott County, and it has been only within the past 11 years that Mr. Koniarski himself has had a phone at his farm. And now we find that the Scott County Board is involved in a number of endeavors because of urbanization.
- . In terms of future industrial development of Scott County, Mr. Koniarski said that one of the important factors will be the construction of a bridge between Hennepin and Scott counties. If this happens you will really see Scott County boom, he said.
- . It was pointed out that Scott County has some of the great natural resources in the Twin Cities area in terms of its lakes and wooded areas, which would be ideal for metropolitan park purposes. Mr. Koniarski was asked what the reaction of residents would be if proposals were made to take about 4,000 acres in Scott County for metropolitan park purposes. He said we can expect that there would be adverse reaction from the residents. He said that currently the Scott County Board is in the process of negotiating for some park land around a lake. It has been encountering some difficulties in arriving at a reasonable purchase price, because when the seller of the land found out the county wanted it for a park, she immediately increased the price to \$4,000 an acre.

He said that some land is now going for \$2,000 an acre in Scott County, but that in some portions, particularly in the southern part of the county, agricultural land is going for \$300 an acre. Some question was raised, but not resolved, as to whether Scott County has the power to condemn land for park purposes.

- . In terms of the value of homes in Carver County, Mr. Schneider said that generally they average about \$22,000 to \$30,000. In Chaska, dwellings are valued about \$18,000 to \$20,000, and prices are going up. Both Carver County and Scott County have large acreage restrictions for lots that are not served by municipal water and sewer. Mr. Koniarski said that homes in Scott County generally now are being built between \$18,000 and \$35,000. Scott County has not had any major developers like Vern Donnay or Orin Thompson. Scott County requires that at least 2½ acres be used for a dwelling in an unincorporated area, and that there be at least a 300-foot frontage.
 - . Asked if there is any place where persons who can afford housing valued between \$12,000 and \$18,000 can live, Mr. Koniarski said that there is one community in Scott County that is becoming a regular welfare community, because of low rent. You can rent a home there for about \$35 to \$40 a month. They are older homes. People are coming in from all over the state. Taxes are high here. The school tax is exceptionally high. Many businesses are closed, and we find that this community is just causing many welfare problems for Scott County.
 - . Mr. Schneider said that one of the answers to low construction costs for housing are trailer parks.
6. A question was addressed to Mr. Laukka about whether he personally has any recommendation for changes in the tax system so that the housing market can be met as we need it today. He said that he has some personal thoughts that do not represent any position of his company. He believes that you can make a very good case for equalization of the industrial tax base. Whether this should be on a county-wide, metropolitan or state basis, he is not sure, but he would prefer to think in terms of a seven-county metropolitan equalization. Of course, if you equalize the industrial tax base, something would have to go hand in hand, because many communities would not want to have industry then. There would have to be devices maintained to assure that you could not rule out industry in a community. Mr. Koniarski responded that he fears loss of local control in local units of government. Mr. Schneider said that he can see objections arising to industry if the incentive to attract industry disappears.
7. Mr. Colborn thanked Mr. Laukka, Mr. Schneider and Mr. Koniarski for a most interesting evening, and adjourned the meeting at 8:55 p.m.

Paul Gilje
Staff