



MAY 2018



MICHIGAN FUTURE INC.

A Catalyst for Prosperity

# REGIONAL COLLABORATION MATTERS

How Metro Minneapolis has forged one of the wealthiest and most livable metropolitan areas in the United States

Funded By: Skillman Foundation, Hudson-Weber Foundation, Frey Foundation, Charles Stewart Mott Foundation, Ralph C. Wilson, Jr. Foundation

## MICHIGAN FUTURE, INC BOARD OF DIRECTORS

Tonya Allen (Chair)  
President and CEO  
Skillman Foundation

Sandy Baruah (Treasurer)  
President and CEO  
Detroit Regional Chamber

Melanca Clark  
President & CEO  
Hudson-Webber Foundation

Lou Glazer (Secretary)  
President  
Michigan Future, Inc.

Paul Hillegonds  
President  
Michigan Health Endowment Fund

Dale Robertson  
President & CEO  
Grand Rapids Public Museum

Kathleen M. Wilbur  
Executive Vice President for  
Government and External Relations  
Michigan State University

Steven M. Wilson  
President  
Frey Foundation

## ADVISORY COMMITTEE

David Egner  
President and CEO  
Ralph C. Wilson, Jr. Foundation

## STAFF

Patrick Cooney  
Policy Associate

Sarah Szurpicki  
Policy Associat



# TABLE OF CONTENTS

Introduction.....	4
Economy.....	5
Regionalism.....	9
The Metropolitan Council.....	10
Fiscal Disparities.....	12
Talent.....	13
Placemaking.....	16
Welcoming.....	19
Transit.....	22
Business Leadership.....	25
Schools.....	27
State policies.....	30
Conclusion.....	32



## Minneapolis: a region that works

Last year we published our first-ever state policy recommendations. Our motivation for doing so is a sense of urgency that across the political spectrum we need a different set of policy options. Ideas not about how we can turn the clock back and make the old economy work again, but rather ideas about how we can position all Michiganders for economic success in an economy being constantly altered by smarter and smarter machines taking over work traditionally done by humans.

We are committed to the goal of re-creating a high prosperity Michigan. We believe the goal of state economic policy should be raising household income for all Michiganders. High prosperity is different from the most often used measure for economic success, low unemployment. It is being a place with a broad middle class where wages and benefits allow one to pay the bills, save for retirement and the kids' education and pass on a better opportunity to the next generation.

For years we have used Minnesota as a comparison state, because it is the Great Lakes state (taking weather and the excuse that Michigan can't be like the coasts off the table) that has enjoyed the best economic outcomes, by far. We began our policy work with a case study of Minnesota.

We asked Rick Haglund to do this initial case study. For decades, Rick was one of the best journalists—if not the best—covering the Michigan economy. He brings a deep understanding of how state economies work and the role policy plays in shaping the economy.

That report proved so successful that we asked Rick to follow it up with a case study of the policies that have made metro Minneapolis the most successful region in the Great Lakes. The difference in economic outcomes between Minnesota and Michigan can largely be explained by the superior performance of metro Minneapolis compared to metro Detroit and metro Grand Rapids.

Metro Minneapolis is 12th in per capita income among the 53 regions with a population of 1 million or more, best in the Great Lakes states. Metro Detroit is 30th, metro Grand Rapids 38th.

In addition to exploring the Twin Cities' approach to taxation and spending, education, placemaking and being welcoming to all—the topics we have identified for years as critical to economic well-being—we asked Rick to explore two additional topics.

First, regionalism in metro Minneapolis. For years, Minneapolis' approach to regionalism—particularly tax-base sharing—has been viewed as a major ingredient in that region's economic success.

And second, business leadership. The Twin Cities also has a national reputation for big company CEO leadership on issues beyond the typical business-friendly agenda. We wanted to learn much more about that.

We are excited about the report Rick has produced. Our hope is that it will expand the conversation in Michigan and its regions about what economic policy should be to return Michigan to prosperity in an economy being transformed by globalization and technology.

Metro Minneapolis, as you will see, has taken a different path to prosperity. At the very least, we hope Michiganders are open to exploring whether that path might work for us as well.

**Lou Glazer**  
President, Michigan Future, Inc.



## INTRODUCTION

It might not be as hip as Denver or Austin, Texas. It's not as techy as San Francisco. And it's not as sophisticated as New York City. But metropolitan Minneapolis, the nation's 16th largest metro with 3.6 million residents, is considered by many to be one of the best places to live in the country.

Why should we in Michigan care? Our state's metro areas, including Detroit and Grand Rapids, are striving to achieve many of the results that metro Minneapolis has accomplished. Michigan's business, governmental and community leaders talk almost daily about the need to improve education, build transit, revitalize urban neighborhoods and produce higher-paying jobs. Metro Minneapolis offers a roadmap to get there.

The Twin Cities rank at or near the top among the nation's large metro areas in a variety of livability measures, including per capita income, educational attainment, transit, quality of government services, and amenities such as parks and bike trails.


Although it's one of the wealthiest and most livable large metro areas in the country, metro Minneapolis

didn't attain that status overnight. A decades-long focus on investment in education, transit, parks, cultural amenities and environmental protection were key ingredients in producing vibrant core cities and strong surrounding suburbs.

Progressive business leaders who believe the region's vitality is dependent on far more than the bottom lines of their own companies also have contributed to the well-being of the Twin Cities. They're engaged in a variety of crucial work, including trying to narrow racial achievement gaps and boost workforce development.

State policies, many of them dating back some 50 years, have allowed metro Minneapolis to build a regional approach to governing that provides efficient, cost-effective services such as transit and wastewater treatment.

What the Twin Cities have accomplished hasn't been easy or without controversy. But the results are impressive and serve as a model for Rust Belt communities that must shift to a knowledge-economy focus to remain economically viable.



The Twin Cities **rank at or near the top among the nation's large metro areas in a variety of livability measures**, including per capita income, educational attainment, transit, quality of government services, and amenities such as parks and bike trails.

## ECONOMY

Examine a variety of income, education attainment and economic output data, and you'll likely conclude that metro Minneapolis is almost the perfect example of what economists call a "Goldilocks economy," one that's not too cold, not hot, but just about right.

And remarkably, it's been that way for decades. A rich mix of ingredients in the region's economic "porridge" has insulated Minneapolis-St. Paul from big economic swings and made it one of the wealthiest metro areas in the country.

Median household income in the Twin Cities of \$73,231 was the seventh highest among the 53 metro areas with a population of 1 million or more in 2016, according to American Community Survey figures (Detroit ranked 38th and Grand Rapids 29th).

Unemployment hasn't reached double-digit levels in at least the past three decades. The highest annual jobless rate since 1990 in metro Minneapolis was 7.7 percent in 2009 at the depth of the national Great Recession. Just 3.3 percent of the Twin Cities' workforce was unemployed in February 2018, the eighth-lowest jobless rate among the 50 largest metro areas in the country (Metro Detroit, with a jobless rate of 4.6 percent, ranked 39th).

High incomes, a strong labor market and a booming economy often translate to expensive housing. But metro Minneapolis is among the more affordable large metros in the country.

The median price of a single-family home in the Twin Cities was \$252,100 in 2017, according to the National Association of Realtors. That was slightly above the median U.S. metro area price of \$248,800.

The reasons for the Twin Cities' relatively affordable housing aren't entirely clear, said Laura Kalambokidis, Minnesota's state economist. One reason is that metro Minneapolis has grown more slowly than some other wealthy metros, she said.

"Our attraction as a great place to live came later," Kalambokidis said. "Minneapolis didn't boom as early as some other places. It's an asset for us now, but a potential challenge in the future."

Others cite the metro area's tax-base sharing program that spreads development and evens property values across communities (See the regionalism section of this report).

Economists attribute much of the metro area's economic vitality to its diverse mix of industries, including food processing, health care, medical device manufacturing and financial services, and to its highly educated workforce.

"It's very clear that the quality of our workforce is a key element in our success," said Art Rolnick, a senior fellow at the University of Minnesota's Humphrey School of Public Affairs and a former economist at the Minneapolis Federal Reserve. "It's been a big payoff in this economy."

A roster of highly educated, mostly home-grown workers and managers is a major reason why Minnesota hosts the largest number of Fortune 500 companies per capita in the country, said Myles Shaver, a management professor in the University of Minnesota's Carlson School of Management. And most don't leave.

"Metro Minneapolis doesn't attract people well," he said, citing a climate he says many equate with the Arctic. "But it's been able to build a strong workforce because it retains so many talented people. Retention rates here are extreme."

Minnesota was home to 18 Fortune 500 corporate headquarters in 2017, most of them clustered in metro Minneapolis and almost all of them founded there.

Since 1955, 60 different Minnesota companies have graced the state's Fortune 500 list. Only one of those companies moved to the state from somewhere else.

"All the others have grown into Fortune 500 companies," said Shaver, who's working on a book about why Minnesota has been able to produce so many successful large companies. Most of those no longer on the Fortune 500 list merged with other companies, he said.

## Chart I

Minnesota is home to 18 Fortune 500 companies, the most per capita of any state in 2017. All but one—Hormel Foods—are located in metro Minneapolis.

RANK	COMPANY	REVENUE
6	United Healthcare Group	\$184.8 billion
38	Target	\$69.5 billion
72	Best Buy	\$39.4 billion
93	CHS (farm supplies)	\$30.3 billion
94	3M	\$30.1 billion
125	U.S. Bancorp	\$22.7 billion
158	Supervalu (grocer)	\$17.5 billion
165	General Mills	\$16.6 billion
209	Land O'Lakes	\$13.23 billion
211	Ecolab (water and hygiene products)	\$13.15 billion
212	C.H. Robinson Worldwide (logistics)	\$13.1 billion
239	Ameriprise Financial	\$11.7 billion
256	Xcel Energy	\$11.1 billion
295	Hormel Foods	\$9.5 billion
316	Thrivent Financial for Lutherans	\$8.8 billion
377	Mosaic (fertilizers)	\$7.2 billion
434	St. Jude Medical	\$6.0 billion
466	Patterson (medical supplies)	\$5.6 billion

Small companies that have grown into large ones are an important factor in the wealth of the Twin Cities region because big companies generally offer higher wages and better benefits, Shaver said.

Paced by metro Minneapolis, the state's largest metro area, Minnesota also has long ranked as one of the top knowledge economies in the country.

The Washington, D.C.-based Information Technology and Innovation Foundation ranked Minnesota 12th in its 2017 State New Economy Index, which uses 25 indicators to measure how well state economies are "knowledge-based, globalized, entrepreneurial, IT-driven, and innovation-oriented."

Minnesota, the highest-ranked Midwest state in the index, has never fallen below 14th in the nearly 20 years ITIF has periodically produced the report. Michigan ranked 15th in 2017, up from 34th in 1999.

Minnesota ranked eighth in the number of knowledge jobs, fifth in the percentage of jobs held by managers, professionals and technicians, fourth in higher-wage business service jobs and eighth in workforce education.

It fell below its overall 14th rank in such areas as foreign direct investment, business churn and initial public offerings. But ITIF President Robert Atkinson cited the Twin Cities as being among the nation's "innovative hot spots."

And while the conventional wisdom is that low taxes are key to economic growth, metro Minneapolis—and the rest of the state—has taken the opposite approach.

Twin Cities' residents and businesses pay some of the highest taxes in the country. Minnesota regularly ranks as among the worst states in the Tax Foundation's Business Tax Climate Index, which includes corporate, personal income, sales, unemployment insurance and property taxes.

Minnesota ranks 46th in the Tax Foundation's 2018 study in which a lower number indicates a better rank.

Gov. Mark Dayton and the then-Democratic controlled Legislature raised taxes on the wealthy in 2013, boosting the top individual rate on its progressive income tax system from 7.85 percent to 9.85 percent.

On top of state taxes, Twin Cities' residents pay additional special levies to support regional government (the Metropolitan Council), public transit and other amenities, such as parks.

Rolnick said he doesn't think economic growth is necessarily predicated on low or high taxes. It's how the money is spent.

"If you're investing well, you get great infrastructure and great education," he said. "That's what you need for a thriving economy."

As is the case in most places, metro Minneapolis businesses like to complain that taxes are too high.

In its recent annual benchmarking report, the Minnesota Chamber of Commerce said the state and metro area's tax climate "threatens our other competitive advantages." The chamber has called for lower tax rates and a simplified tax structure.

And while the conventional wisdom is that low taxes are key to economic growth, **metro Minneapolis—and the rest of the state—has taken the opposite approach.**





But Rolnick, who favors low business taxes, said Twin Cities businesses have generally been supportive of spending on education, transit, parks and other investments that put metro Minneapolis at the top of many “best places to live” rankings.

“We’re getting a good return on investment,” Rolnick said. “And a lot of credit goes to a business community that has pushed for those investments.”

All of this doesn’t mean the Twin Cities’ economic future is assured. Many community leaders fear rising home prices and a potential shortage of apartments could harm the metro area’s reputation for affordable housing.

As in many other places, businesses and economic developers worry about a looming shortage of talent. Aaron Sojourner, a University of Minnesota management professor, recently told the Minneapolis Star-Tribune that unemployment is so low the state is “down to the hardest cases of the unemployed.”

“We’re still growing and adding jobs, but that’s slowing due to the retirements of baby boomers,” said Kalambokidis, the state economist.

Business leaders fret that the Republican-controlled Legislature’s hostility to transit, and Minneapolis’s \$15 minimum wage, which will be phased in through 2024, could kill the metro area’s economic momentum.

St. Paul Mayor Melvin Carter, who was elected as the city’s first black mayor in 2017, has proposed a \$15 minimum wage there. Carter said boosting the minimum wage is needed to reduce economic inequality.

Business organizations have lined up against the proposed wage hike. But if history is a guide, business, government and community leaders will continue working together for the metro area’s benefit. A diverse economy and a highly educated workforce are key ingredients in a sound economy. The Twin Cities have nurtured those prized qualities for decades.

## REGIONALISM

Regional collaboration, an elusive goal in many metropolitan areas, is on steroids in the Twin Cities.

The seven-county Minneapolis metro area has been providing key governmental services, including waste-water treatment and transit, regionally for decades through what experts say is a unique entity called the Metropolitan Council.

Unlike most regional planning agencies around the country that are organized as councils of local governments, the Met Council, as it's known locally, has 17 members who are all appointed by the governor under state law. It is "more powerful and influential than any similar body in the United States," said Minn-Post, a nonprofit news organization in Minneapolis.

Another unique aspect of regional collaboration in the Twin Cities region is a tax-base-sharing program known as Fiscal Disparities that requires nearly 200 local entities to share a portion of property tax dollars generated by industrial and commercial growth in the metro area.

The program redistributes hundreds of millions of dollars a year among communities, schools and special taxing districts in an effort to even the tax burden across the metro area, reduce competition among communities for commercial and industrial development, and ease pressure to develop land better suited for recreation and open space.

"For the vast majority of (metro Minneapolis communities), the sharing program has meant lower taxes and better services," Bruce Katz and Elizabeth Kneebone of the Brookings Institution wrote in 2015.

The Brookings researchers said a Fiscal Disparities-type program could be a solution to "governmental fragmentation" across many suburban communities, like troubled Ferguson, Mo., that are experiencing increased poverty, crime and racial tensions.

"Many suburban communities dealing with rising poverty and new populations are ill-equipped to

address growing and changing needs," Katz and Kneebone wrote. "That's particularly true in places like Ferguson, where population and jobs have declined over the years."

The Met Council and Fiscal Disparities are seen as national models of regional cooperation and key elements in making metro Minneapolis one of the most livable regions of the country.

That's not to say they have avoided controversy. They haven't. Critics have long complained the Met Council, which levies a tax to support its work and has veto power over local development plans, is too powerful and lacks accountability to the region's residents.

And wealthy suburbs occasionally gripe they are forced to share too much of their tax base with less prosperous communities under Fiscal Disparities. Although state-enabling legislation was passed in 1971, court challenges delayed implementation of Fiscal Disparities until 1975.

But studies have concluded that the Met Council and Fiscal Disparities are effectively carrying out their missions. Various reforms have been proposed over the years, but no substantial changes have occurred.

A 2016 study of the Met Council by the Citizens League, a policy research group in St. Paul, urged the council to work more vigorously toward reducing concentrations of poverty in the region. It also recommended a variety of governance changes, including a return to four-year, fixed terms for members and including more input from local elected officials in member selection.

But the study said the Met Council's core functions "are still considered to be critical to the current and future success of the region—and to Minnesota. It has helped promote more efficient land use, modernize the region's transit and wastewater systems, improve water quality and preserve vital open space for future generations."

## The Metropolitan Council

Regional planning agencies similar to the Met Council popped up across the country in the 1960s in response to the federal government's requirement that planning be done on a regional basis in order to receive federal highway funds.

But some serious problems in the Twin Cities region in the 1960s prompted state officials to look at creating a governmental unit that would go well beyond planning and provide services on a regional basis:

- Backyard septic tanks, widespread in many suburban communities, were failing. And inadequately treated wastewater from aging sewer plants was being discharged into lakes, streams and rivers.
- A privately operated bus system in the Twin Cities was on the brink of collapse because of declining ridership, rising fares and an aging bus fleet.
- Rapid growth was gobbling up pristine natural areas that many wanted to see preserved as parks and open space.
- Competition for development among local communities was intensifying, leaving some losing communities without enough tax revenue to fund essential services.

In 1967, Republican Gov. Harold LeVander signed legislation passed by the Republican-controlled Minnesota Legislature creating the Met Council.

In appointing the council's first members, LeVander said the Met Council "was conceived with the idea that we will be faced with more and more problems that will pay no heed to the boundary lines which mark the end of one community in this metropolitan area and the beginning of another."

Over time, the Met Council took on responsibility for operating the regional sewer and transit systems and administering federal low-income housing vouchers. It also has purchased tens of millions of dollars worth of parkland and open spaces for a regional park system, created in 1974, that now includes 53 parks and 340 miles of interconnected trails.

Based in St. Paul, the Met Council has grown from a handful of planners to a staff of 4,200 and a \$1.1 billion annual budget. If the Met Council were a state department, it would be the third-largest, said former Chairman Adam Duininck, who led the council from 2015 to 2017.

While the Met Council receives a lot of national attention for its unique makeup and powers, the council's long-range planning responsibility is equally important.

State law requires the Met Council to update a regional plan every 10 years, covering transit, water resources, regional parks and housing policy.

Its current 197-page planning document, Thrive MSP 2040, is designed to improve outcomes in five areas: stewardship, prosperity, equity, livability and sustainability.

Duininck said he was particularly focused on equity because of the large income disparity between whites and minorities in the region. That emphasis has continued under current Chairwoman Alene Tchourumoff.

In 2016, 20.1 percent of people of color in metro Minneapolis lived in poverty compared to 5.3 percent of non-Hispanic whites, according to the American Community Survey. That ranks metro Minneapolis second lowest for non-Hispanic whites among 53 metro areas with a population of 1 million or more, but 32nd for people of color. In metro Detroit the comparable rates were 10 percent and 24.6 percent, and in metro Grand Rapids the poverty rates were 8.2 percent and 22.8 percent.

The gap between poverty rates in Minneapolis greatly concerns leaders in Minneapolis. "If the gap persists, we're not going to be seen as a vibrant, livable region," Duininck said. The gap in metro Detroit and metro Grand Rapids is about the same.

Among other things, Thrive MSP 2040 proposes more housing, transportation and other investments be directed to high-poverty areas in the metro area.



A Met Council program called Community Choice provides low-income families who receive federal housing vouchers with counseling and financial assistance to help them find housing in “opportunity-rich neighborhoods,” specifically those with high-performing schools and low poverty.

The Met Council’s annual budget is funded through a mix of government appropriations and charges for services. Thirty-nine percent of its 2018 budget comes from state revenues, including \$268 million in motor vehicle sales taxes and \$139 million from the state general fund for transit.

Another 37 percent of Met Council revenues comes from service charges, primarily sewer and transit. The federal government funds another 9 percent of the organization’s budget. Eight percent of the council’s revenues are generated from a small regional property tax levy. The rest comes from other miscellaneous revenues and the council’s reserve fund.

The Met Council receives about 2 percent of all property tax revenues paid by metro area residents.

By law, the council’s 17 members are appointed by the governor from 16 districts of equal population in the metro area, plus the organization’s chair.

Council members served fixed, four-year, staggered terms until 1994, when the Legislature merged regional sewer and transit agencies into the Met Council. Lawmakers also decided council members should serve at the pleasure of the governor to make them more accountable to the state, which created the council.

Local officials have long pushed for the local election of Met Council members. But council officials say having members appointed by the governor gives the council a broader view and makes it less susceptible to parochial interests.

“Some say it has too much power, some say not enough,” Duinick said. “Ultimately, it’s the Legislature that says when we can and can’t do. We follow that closely.”

Duinick also cites the Met Council’s ability to provide regional services efficiently and at a lower cost than in other areas of the country as one of its selling points. The council operates eight wastewater treatment plants serving the seven-county metro area.

For example, in 2014 the Twin Cities had the seventh-lowest average retail sewer rates among 25 large metro areas (there was no data provided for Detroit) reporting rates to the National Association of Clean Water Agencies in the latest available data.

Households in metro Minneapolis paid an average of \$242 a year in retail sewer charges. That compared to \$244 a year in Chicago, \$492 in Milwaukee and \$527 in Columbus, Ohio. Local communities in metro Minneapolis operate their own water systems.

“From an operational standpoint, we function with a public-sector purpose and a private-sector efficiency,” Duinick said.



## Fiscal Disparities

In the late 1960s, concerns were growing about widening disparities in local tax bases among various municipalities in the metro Minneapolis area.

A 1969 report by the Citizens League, entitled “Breaking the Tyranny of the Local Property Tax,” concluded that communities were paying widely different tax rates for a similar level of services. It also found that a growing number of communities with low tax bases were struggling to fund those services.

In response, the state Legislature in 1971 passed the Charles R. Weaver Metropolitan Revenue Distribution Act, named for a suburban Republican Minneapolis lawmaker who authored the law. It’s now known simply as Fiscal Disparities.

(A second, but much smaller, Fiscal Disparities program was started in northern Minnesota’s Iron Range in 1996.)

Here’s how it works:

Forty percent of the increase in commercial, industrial and public utility property values in the seven-county region since the base year of 1971 goes into an area-wide pool. The tax base in that pool includes new construction and inflationary increases in existing property values.

Tax base from the pool is distributed to communities through an index that compares each community’s market value per capita to the average market value per capita for all communities in the seven counties.

Cities that have less market value per capita than the region’s average receive a relatively larger distribution from the pool than cities with a greater market value than average. An area-wide tax rate is levied on the pool’s tax base.

As of 2016, 33 percent of the total commercial, industrial and public utility tax base in the region was in the shared pool. Communities, schools and other taxing units shared \$561 million in taxes generated from the pool in 2016, according to the Met Council.

“It is a remarkable program in the amount of tax base that gets shared,” said Gary Carlson intergovernmental relations director at the League of Minneapolis Cities. “It’s managed to survive changes in the political winds and vacillating control of the Legislature.”

Minneapolis and St. Paul historically have received more tax base than they’ve given up. But in recent years, Minneapolis has become a net donor because of the city’s growing economy.

While Fiscal Disparities hasn’t eliminated the gap between communities with the highest and lowest commercial and industrial tax base, the program has greatly narrowed it.

In 2016, there was a 5-to-1 ratio between communities with the most and least commercial and industrial tax base per person. Without Fiscal Disparities, that ratio would have been 12-to-1, according to the Met Council.

“More communities gain tax base (99 net recipients) than lose tax base (80 net contributors). For net recipients, the distribution from the shared pool of tax base exceeds the contribution to the shared pool,” the Met Council said.

The result has been overall lower taxes in many communities. A 2012 study commissioned by the Minnesota Department of Revenue found that nearly 80 percent of the region’s 186 municipalities would have needed to raise taxes in 2011 to maintain their level of services that year.

“The program ensures that all residents enjoy a minimum standard of service for important local services, like public safety,” University of Minnesota professors Myron Orfield and Nicholas Wallace wrote in a 2007 study of Fiscal Disparities.

“By reducing the need for local governments to ‘steal’ revenue-generating land uses from each other, such policies allow them to engage in more thoughtful and beneficial land-use planning,” Orfield and Wallace wrote.

Orfield, who has extensively studied Fiscal Disparities, acknowledged that regional cooperation “is not an easy proposition. But if a region is faced with growing educational and economic disparity, there are two viable options: either allow the disparity to deepen, or work to find solutions that can benefit all.”



## TALENT

Some regions of the country compete for jobs and investment by cutting taxes and easing regulations on business. Others tout a low cost of living, nonunion labor and plenty of warm sunshine to lure workers and businesses.

In Minneapolis and St. Paul, talent development has long been the key ingredient in growing a metro economy that is one of the most vibrant in the country.

“For us, it’s about a highly educated workforce that is well aligned with our industry sectors,” said Peter Frosch, vice president of strategic partnerships at Greater MSP, a regional economic development group formed in 2011 by the Itasca Project, a group of local business leaders.

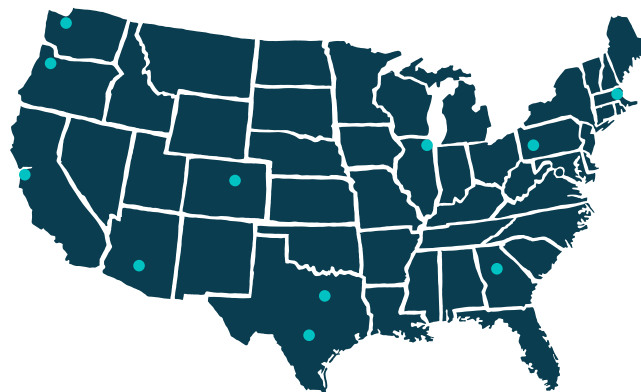
Metro Minneapolis is a brainy place. It ranked sixth among the nation’s 53 metro areas with a population over 1 million in the percentage of working-age adults with at least an associate degree (54.2 percent) in 2016, according to the American Community Survey.

Grand Rapids ranked 34th with 42.9 percent of metro area residents age 25 to 64 having at least an associate degree. Metro Detroit ranked 40th with 41.7 percent of working-age adults with at least an associate degree.

Metro Minneapolis’ young adults are even smarter, with 58.2 percent of those age 25 to 34 holding an associate degree or above in 2016. That was the ninth-highest percentage among the 53 largest metros in the country. The comparable percentages were 45.8 percent in metro Grand Rapids and 42.8 percent in metro Detroit.

Not only are Twin Cities adults more educated, they are more likely to be working, or unemployed and seeking employment, than people in other major metro areas. Greater MSP’s 2017 regional indicators dashboard shows Minneapolis-St. Paul’s labor force participation rate of 72.1 percent topped 11 other metros it considers to be its top competitors.

## Chart 2



ATLANTA	DALLAS-FORT WORTH	PORTLAND
AUSTIN, TEXAS	DENVER	SAN FRANCISCO
BOSTON	PHOENIX	SEATTLE
CHICAGO	PITTSBURGH	

Greater MSP, a regional economic development agency in metro Minneapolis, annually benchmarks the Twin Cities region against these metros in the areas of economic performance, education, infrastructure, business vitality, environment, livability and talent:

Many attribute high education attainment to high incomes in the Twin Cities. Median household income in metro Minneapolis is \$73,231, the fourth-highest income among peer metros. And 67.8 percent of the region's jobs were considered "family sustaining," according to the Greater MSP dashboard, ranking it fourth in its competitor group.

The Twin Cities didn't get smart overnight. Frosch described the effort as a mix of private and public sector efforts to create knowledge jobs and boost the educational level of its workforce.

"The demand from the economy was part of it," Frosch said. "Industry here developed a lot of intensive knowledge work post-World War II, and that grew and grew and grew."

The headquarters of major corporations in the Twin Cities—such as General Mills, Target and U.S. Bancorp—expanded, creating thousands of business and professional services jobs, including managers, marketers, accountants and lawyers.

Art Rolnick, a former Minneapolis Federal Reserve economist, said a Federal Reserve study of Minnesota's economy from the 1920s to 2000 showed that the state lagged the nation in a variety of measures, including per capita income and economic output, until the 1950s.

But that began to change as the state boosted education spending in the 1950s, he said. As workers in Metro Minneapolis and the rest of the state elevated their education levels, businesses began bringing more high-paying jobs to Minnesota.

The Twin Cities became a center of supercomputing in the late 1950s (The CDC 6600, introduced in 1964 by Control Data Corp. in suburban Minneapolis, is considered the world's first supercomputer). But as the computer industry gradually moved west to Silicon Valley, local computing engineers, scientists and others shifted to the growing medical device industry.

"By 2000, we had one of the most educated workforces in the country," Rolnick said. "We argued that was causal to our strong economy."


But metro Minneapolis now has an economy that could soon produce more good jobs than there are people to fill them. In 2014, Greater MSP estimated that 100,000 jobs in the region could go unfilled by 2020 unless it can attract more people into the labor market.

Part of the problem is that the Twin Cities' ability to attract talent lags its success in retaining it.

Metro Minneapolis ranked first in 2015 in retaining those with a bachelor's degree or higher among the nation's 25 largest metros, according to an analysis of census data by University of Minnesota management professor Myles Shaver. But the Twin Cities ranked 19th in attracting them.

Shaver attributed that, in part, to a lack of awareness of the region's quality of life and its reputation for frigid winters.

"My own sense is that the region is unknown to a lot of people, and to the extent that they know about it, they think it's the North Pole," he said.



Median household income in metro Minneapolis is \$73,231, **the fourth-highest income among peer metros.** And 67.8 percent of the region's jobs were considered "family sustaining," according to the Greater MSP dashboard, ranking it fourth in its competitor group.

Greater MSP has undertaken a variety of efforts to lure new talent from around the globe to the region and make them feel welcome. But business leaders say metro area employers also must focus on closing the gap in labor force participation between whites and people of color who are already here, something not often emphasized in traditional economic development efforts.

“There are not a lot of good near-term solutions to growing our workforce,” said Frosch of Greater MSP. “The best near-term solution we have is inclusion. We need to find a way really fast to develop breakthrough strategies that help us better utilize the people already have here.”

The Itasca Project, a group of metro Minneapolis corporate chiefs and the parent organization of Greater MSP, sponsors an ongoing training effort to help employers understand the importance of inclusive workforces and set goals for bringing more people of color into their companies.

In 2015, Greater MSP created “Make It. MSP” bringing together 150 businesses and community and organizations to help welcome and acclimate newcomers, especially minorities, to the region.

“This has to be a place where they can stay and thrive,” Frosch said.

Business leaders say embracing diversity is imperative because the minority population is expected to grow at a much faster rate than the white population in metro Minneapolis.

The portion of minorities age 25 to 64 in the Twin Cities region is expected to nearly double, from 22 percent of the total working-age population in 2010 to 43 percent by 2040, according to census data analyzed by the Itasca Project. The overall working-age population is expected to decline in that time period.

Minorities work at a higher rate in metro Minneapolis than in many other metros (in 2016 75.0 percent of minorities aged 25 to 64 in Minneapolis were employed). But there was a 9.5-percentage-point employment rate gap between non-Hispanic whites and people of color in 2016. Since 84.4 percent of non-Hispanic whites aged 25 to 64 were already employed, the highest rate among the 53 largest metro areas, any gains in the employment- to-population ratio in Minneapolis will have to come from increasing employment among people of color.

In metro Detroit only 65.0 percent of minorities aged 25 to 64 were employed in 2016, while in metro Grand Rapids 73.4 percent of minorities aged 25 to 64 were employed. Among non-Hispanic whites aged 25 to 64, the employment-to-population ratio was 75.0 percent in Detroit, the same as among minorities in Minneapolis, and 78.0 percent in Grand Rapids.

In the Detroit metro area, there is clearly lots of room to grow the employment to population ratio among both the minority and non-Hispanic white working age population. In Minneapolis, much of the employment gains must come from the minority populations. Grand Rapids falls between these two extremes.



## PLACEMAKING

When Bart Carrigan moved from East Lansing to Minneapolis to manage his Michigan-based employer's newly opened restaurant, he was struck by the city's many amenities.

"I love the environment, and there are a ton of outdoor activities all year round," he said about a metro area that celebrates its cold winters. "The city is really good about taking care of the streets and it's easy to get around on public transit."

And for those who don't like to brave the cold, the Twin Cities have nearly 15 miles of indoor skyways that connect downtown buildings and attractions.

"One of the things I really enjoy is the food scene here," Carrigan said. "And there are lots of trails. You can hike around all the lakes. There's a lot more green space here than in a lot of large cities."

Carrigan, 31, is far from alone in his assessment of the Twin Cities' livability. Minneapolis and St. Paul regularly appear at or near the top of "best cities to live" lists. Much of that is due to a demand by residents here for high quality parks and trails, a clean environment, cultural amenities—collectively known as placemaking—and a commitment to pay for them.

The Twin Cities have built park systems that are second to none among large American cities. The Minneapolis Park and Recreation Board is a semi-autonomous body governed by nine voter-elected commissioners and receives city funding. The unusual arrangement was created by an act of the state legislature 135 years ago.

Business leaders in Minneapolis back then were frustrated with the lack of support for city parks and appealed to the legislature, said Tom Evers, executive director of the Minneapolis Park Foundation, which raises private funds to support the parks. The legislature allowed for the creation of a nine-member board to operate the parks.

St. Paul has a traditional parks department inside city government. The two cities combined have more than 10,000 acres of parkland that includes parks, trails, golf courses, recreation centers and playgrounds. About 15 percent of the two cities' land mass is dedicated parkland, among the highest of the nation's largest cities.

They and other metro Minneapolis communities also receive millions of dollars a year in state and regional park funds distributed through the Metropolitan Council, a regional government agency, to help acquire new parkland and fund operations.

Since 1974, the Met Council has awarded more than \$625 million for parkland acquisition and development, and for projects such as environmental education to local parks systems in metro Minneapolis.

State funding comes mainly from a 2008 voter-passed amendment to Minnesota's constitution, known as the Legacy Funds, that raised the sales tax by three-eighths of 1 percent to protect the environment, support arts and culture, and fund parks and trail projects. The tax expires in 2034.

Thirty years before that, Minnesotans passed another constitutional amendment that created the Environment and Natural Resources Trust Fund that supports various projects related to the environment, fish, wildlife and other natural resources. The fund captures 40 percent of net state lottery revenues, guaranteed through 2024, and accepts private donations.

Since 2010 the two funds have distributed more than \$2.5 billion for projects designed to protect and enhance the environment, build parks and bolster arts and culture.



About **15 percent** of the **two cities' land mass** is dedicated parkland, among the highest of the nation's largest cities.

“These historic decisions are a testament to Minnesota’s commitment to fund parks and protect the environment,” Evers said.

Minneapolis and St. Paul have been ranked as having the best park systems among the 100 largest cities in the country by the Trust for Public Land, which helps cities create and finance parks. Minneapolis and St. Paul were ranked first and second, respectively, by the organization in 2016 and 2017. Detroit ranked 75th in the 2017 study.

“You can’t have a great city without a great park system,” said Adrian Benepe, senior vice president of The Trust for Public Land.

And despite their long, frigid winters, the Twin Cities are known for being among the most bike-friendly cities in the country.

Minneapolis leads the nation’s 50 largest cities in the number of bike lanes and paths—5.8 miles per square mile—and the number of regular commuters, according to 2014 census data analyzed by the Minneapolis Star-Tribune. Four percent of regular commuters travel to work on bicycles, while 13.6 percent of Twin Cities’ residents occasionally commute by bike.

The metro area’s commitment to bike-friendliness goes back decades. The Grand Rounds National Scenic Byway, built in the 1930s as a Civilian Conservation Corps project in Minneapolis, includes 51 miles of bike trails.

In the 1990s and 2000s, Minneapolis financed the conversion of abandoned rail lines into a bike path network that connects the outer city to downtown. St. Paul has made similar investments in bike trails and dedicated bike lanes on city streets.

Minneapolis took a huge step toward increasing its biking infrastructure in 2015 when the city council approved spending about \$3 million to build 30 miles of protected bike lanes on city streets by 2020.

The Twin Cities have added more than 100 miles of bike lanes and trails since 2011. They plan to spend nearly \$400 million for future biking infrastructure, according to the Star Tribune.

While supporters praise the investment as making cycling safer and combating climate change, many motorists say more bike lanes are crimping available parking and making streets more congested.

But the Twin Cities are committed to adding bike lanes and trails as part of their placemaking efforts, and serve the needs of the growing bike-riding community.

“We have a complete streets policy that’s making a huge difference here,” said Minneapolis City Council President Lisa Bender, a cofounder of the Minneapolis Bicycle Coalition.

“Complete streets” calls for streets to be designed to safely accommodate all users, including pedestrians, bicyclists, motorists and transit riders.

Bender also is one of the leading advocates in the city for increased residential density, which attracts young talent, and leads to investment in transit, bars, restaurants, retail shops and other businesses.

“One of the big things we did was eliminate the parking requirement for residential buildings under 50 units,” she said. “That allows for more land that is available for housing.”

For larger projects, developers are only required to provide a half of a parking space per unit if their residential buildings are a quarter-mile from a high-frequency bus stop or a half-mile from a rail transit stop.

That new requirement has resulted in market-rate residential projects being built in the city for the first time in a decade, Bender said.

Minneapolis officials also are considering what’s being called a historic rewrite of zoning rules to allow for the construction of four-unit residential buildings anywhere in the city. Fourplexes are prohibited on about two-thirds of the city’s land area.



Supporters say allowing fourplexes would help the city become more economically integrated and would provide new housing options to an increasing number of single people and smaller families.

St. Paul also is planning for more housing density, particularly near transit corridors, to accommodate what the Metropolitan Council predicts will be 30,000 new residents in the city between 2020 and 2040.

But as with an increase of biking lanes on city streets, there's been a backlash against increased density in the Twin Cities. Some say increased density from proposed large residential projects will ruin the character of small neighborhoods, increase traffic and threaten natural resources.

Despite the pushback, density is increasing throughout metro Minneapolis as old commercial and industrial buildings are replaced with new residences to accommodate population growth.

Minneapolis added 37,374 new residents between 2010 and 2016, a 9.8 percent increase, according to population estimates by the Met Council using American Community Survey data. St. Paul grew by

19,374 people, a 6.8 percent increase. The seven-county metro area added 191,628 new residents, a 6.7 percent increase.

The Star Tribune reported that Minneapolis' population growth in that period was the largest since the 1920s, when the city added 83,774 people. St. Paul's population growth from 2010 to 2016 was the fastest since the 1940s.

A 2017 study of census data by Jed Kolko, chief economist at Indeed.com, a job search engine, and senior fellow at the Turner Center for Housing Innovation at the University of California-Berkeley, found that metro Minneapolis was one of just 10 large metro areas in the country where residential density increased between 2010 and 2016.

Carrigan, the Michigan native who now manages the Minneapolis HopCat restaurant, says the Twin Cities' vibrancy, activities and transit system that ties together the metro area will likely keep him there for the foreseeable future.

"Absolutely," he said.



## WELCOMING

The Twin Cities have a long-held reputation for welcoming just about anyone.

Minneapolis is home to the largest Somali community in the United States, having resettled thousands of refugees since the Somali civil war in 1991. And Minnesota has the highest number of refugees per capita in the country. They've come from dozens of countries and many have settled in Minneapolis and St. Paul.

While the Twin Cities don't consider themselves sanctuary cities, officials of the two cities have said they welcome anyone, regardless of legal status. Minneapolis and St. Paul in the early 2000s passed "separation ordinances" that prohibit their police departments from enforcing federal immigration laws.

The ordinances also prohibit other city employees from demanding proof of citizenship from residents in order to receive services.

Lesbian, gay, bisexual and transgender people also have found a hospitable home in the Twin Cities.

Minneapolis and St. Paul each earned perfect scores for laws, policies and practices that offer equal protection for LGBTQ people in the Human Rights Campaign Foundation's 2017 Municipal Equality Index.

"A lot of local city councils in the region have passed no-hate ordinances," said Marissa Luna, a 28-year-old Saginaw native and Michigan State University graduate who moved to the Twin Cities in 2017. "That's something young people want to see more of. This area is a model for other places."

And when Minnesota became among the first states to legalize same-sex marriage in 2013, then-Mayor R.T. Rybak started an ad campaign to urge same-sex couples to get married in his city in an effort to boost tourism revenue.

"Highly skilled workers select where to live based on several factors, including culture and amenities as well as politics and ideology," urban studies expert Richard Florida wrote in the Human Rights Campaign Foundation report. "Among these considerations is how welcoming a community is to residents and visitors of every walk of life.

"Cities with LGBTQ-inclusive laws, policies and services are more likely to attract new residents, visitors and enterprises, resulting in a higher quality of life and a stronger sense of community," he said.

Some say the metro area's culture of acceptance stems at least in part from its Scandinavian heritage, which values egalitarianism.

But not everyone feels equal in the Twin Cities.

The percentage of people of color in metro Minneapolis living below the poverty line is more than three times higher than whites, according to Minnesota Compass, a research organization.

While the Twin Cities attract people of color at a high rate, too many of them don't feel valued, business and community leaders say.

Even some of the most educated people of color in metro Minneapolis say the lack of diversity and cultural awareness in this largely white region are making them consider leaving the Twin Cities.

A 2017 survey of 1,200 professionals of color by Greater MSP, a regional economic development organization, found that 22 percent of those 30 years and under were planning to leave within five years, the potential loss of a key segment of the highly desired millennial generation.

The survey results were a cold splash of water in the face of business organizations such as Greater MSP and the Itasca Project, a group of the Twin Cities' leading chief executive officers.

Business leaders say the Twin Cities must do a better job of making minority residents feel welcome in a metro area that is more than 70 percent white. “It’s not just a social imperative, it’s an economic imperative,” said Michael Langley, Greater MSP’s CEO.

In contrast, becoming more welcoming and promoting racial equity have not been top priorities of Michigan business and political leaders, who tend to focus on business climate issues such as taxes and regulations.

A 2017 Metropolitan Council forecast predicted that metro Minneapolis will add 211,000 new jobs between 2020 and 2040. But the working age population (those age 25 to 64) of non-Hispanic whites is expected to decline by 137,000 in the same period.

The number of working age people of color is expected to grow by 324,000 between 2020 and 2040. Two out of every five residents in metro Minneapolis will be people of color, the Met Council predicted.

Business, government economic development groups are undertaking a variety of initiatives to better connect the growing number minority residents to the workplace and communities.

Greater MSP hosts quarterly social events for young professionals of color at corporations throughout the Twin Cities to help them make personal, professional and community connections.

The Itasca Project took an in-depth look at racial disparities in the workplace in 2015 and found wide gaps in employment, education and wages between white residents and people of color.

The study made a series of recommendations to its members, which include some of the Twin Cities’ largest employers, to try narrow that gap.

It has asked CEOs to make a personal commitment to become more “culturally competent,” set goals for improving diversity and inclusiveness in their workplaces, and monitor progress. CEOs also should make the case for a diverse and inclusive workforce to other business executives outside their companies.


“No matter where your organization is on its growth path, the steps you take today to close racial employment gaps will determine how your company performs in the workforce of tomorrow,” the study said.

Even the Minneapolis Federal Reserve Bank has taken the unusual step, for a central bank, of tackling racial and income disparities.

Minneapolis Federal Reserve President Neel Kashkari in 2017 created the Opportunity and Inclusive Growth Institute, a research group that will study the causes of racial and income gaps, and make policy recommendations to reduce them.

Kashkari, a Republican who was named Minneapolis Fed president in 2016 after a failed bid to become California’s governor, said he was surprised after arriving in Minneapolis that “our region and Minnesota in particular have some of the worst racial and economic disparities in the country,” despite having one of the best-performing economies in the nation.

But the reasons for those gaps aren’t clear, he said, hence the need for the research institute, which will have a nationwide focus.



“No matter where your organization is on its growth path, **the steps you take today to close racial employment gaps will determine how your company performs** in the workforce of tomorrow,” the study said.

“We aren’t going to find a silver bullet in six months or a year,” Kashkari said. “But we need to ramp up our efforts, in partnership with leading researchers around the country.”

Twin Cities’ officials also are tackling the issue of affordable housing, which is vexing cities across the country.

The Minneapolis City Council is considering the adoption of “inclusionary zoning” that would require or encourage developers of large residential buildings to set aside about 20 percent of new apartments for low-income people paying below-market rents.

And the Met Council’s Livable Communities program is providing millions of dollars in grant funding to local communities for affordable housing initiatives. Those initiatives include reclaiming brownfield sites, and development that connects different land uses and transportation.

Since the state legislature created the program in 1995, the Met Council has awarded nearly \$350 million in grants for more than 975 projects. The Council said those grants are expected over time to leverage “billions of dollars in private and other public investments.”

Racial equity in the region’s parks, particularly in Minneapolis city parks, is another hot-button welcoming issue that local and regional officials are addressing.

Civil rights leaders have complained for years that minority populations have been short-changed from a lack of funding, access and minority staffing of the city’s neighborhood parks in minority neighborhoods.

The city’s semi-autonomous parks board has responded in a number of ways, including a staff shake-up and the enactment in 2016 of a 20-year neighborhood park funding plan that will spend an additional \$11 million a year on repairs and upgrades. The plan gives spending priorities to parks that lack racial and income equity.

Regionally, the Met Council has developed an “equity toolkit” in which metro Minneapolis parks seeking grants from the council must answer a series of questions about how those grants will encourage greater park use by people of color and other underserved populations.

“This is probably one of the leading challenges facing our cities,” said Tom Evers, executive director of the Minneapolis Parks Foundation. “How are we making investments to promote equity?”





## TRANSIT

Metro Minneapolis features one of the best transit operations in the country, a system known as Metro Transit that provides more than 80 million rides a year using buses, trains and vans.

But transit in the Twin Cities is about more than getting people to where they want or need to go. Many, led by business leaders, see transit as a crucial element in maintaining and growing the metro area's economic vitality.

"Our Twin Cities members know that transit options are needed to ease congestion, free up the movement of freight, help get employees and customers to their doors, and attract the workforce they need today and tomorrow," Minnesota Chamber of Commerce President Doug Loon wrote in a 2016 op-ed in the Minneapolis Star-Tribune.

Nearly \$2 billion in federal, state and local funds have been spent over the past several decades to construct two urban light rail lines and a suburban commuter line. Metro Transit is planning to spend billions for third light-rail line and extensions of existing lines. The transit agency is a unit of the Met Council.

The Itasca Project, a powerful group of corporate chief executive officers in metro Minneapolis, conducted a study in 2012 that estimated a fully built-out transit system envisioned by local planners could give employers access to tens of thousands of new workers who lack adequate transportation.

As part of the study, a discussion about transit was held with human resources executives from Target, United Healthcare, US Bancorp and others major local corporations. Those executives said questions about the availability of public transit came up in almost every conversation with potential new hires.

The quality of public transportation in the Twin Cities is an important element of daily life for Luna, the 28-year-old Saginaw native who moved to Minneapolis in 2017.

"You don't have to have a car to live here. In Michigan, it's hard to get around anywhere if you don't have a car," she said. "Minnesota invests in public goods, which is really important to young people who have a lot of student loan debt. Buying things like cars is not feasible."

Billions of dollars worth of new construction has sprung up along the Twin Cities' rail lines and planned extensions, according to figures from the Metropolitan Council.

That system consists of Metro Transit fixed-route and rapid-transit buses, two light rail lines and a commuter rail line; Transit Link dial-a-ride service; and Metro Mobility, a federally mandated transit service for those with disabilities.

The 2018 Met Council report found there was \$8.4 billion in the reported value of new commercial and residential development along the region's two light-rail lines and planned extensions—a \$1.6 billion increase from the previous year.

Of that, \$5.8 billion has been invested in new apartments and commercial projects near the popular 11-mile-long Green Line, which opened in 2014 and connects downtown Minneapolis to downtown St. Paul. Half of that investment has occurred outside of downtown Minneapolis, the Met Council said.

More than \$1 billion in development projects have been announced, are under construction or have been built near the proposed Southwest Light Rail Transit project, which isn't scheduled to open until 2023.

Like most major metropolitan areas, buses have plied the streets of the Twin Cities for decades. But the addition of light rail as a transit option is relatively new. The first rail line, the 12-mile-long Blue Line, connects downtown Minneapolis with the Mall of America, the Minneapolis-St. Paul International Airport and Target Field, home to the Minnesota Twins baseball team.



As in many other metro areas, transit ridership figures have been slipping in the Twin Cities. But ridership on the Blue and Green lines rose 4 percent in 2017, while ridership on the Northstar Line jumped 12 percent.

It took more than 40 years of planning, delays and fighting in the state Legislature over funding before the Blue Line carried its first passenger in 2004. The line cost \$715 million to build, with \$414 million coming from the federal government. The rest was financed through state general obligation and highway bonds, and local funds.

Since then, the Green Line and the Northstar Line, a 40-mile-long commuter rail line that connects the northwest suburbs to downtown Minneapolis, have been built. Metro Transit also operates two rapid bus lines in the Twin Cities and is constructing a third line. Ten more are planned.

The Northstar Line, a rail commuter service that opened in 2009, cost \$320 million to build. Of that total, the federal government appropriated \$161.9 million, while the state kicked in another \$98.6 million. Three county regional rail authorities paid \$34.8 million while the Met Council provided \$5.9 million. The Minnesota Twins paid the final \$2.6 million.

Metro Transit's Green Line cost \$957 million, including state and federal funding, and took eight years to build. The project was dogged by controversy, including lawsuits against the project by Minnesota Public Radio and the University of Minnesota.

The suit by MPR, which was dismissed, complained that vibrations from vehicles crossing the tracks next to its studios could disrupt broadcasts. Likewise, the university feared vibrations from trains running through its campus could disrupt sensitive lab work.

The Met Council settled that lawsuit by installing systems that reduced train vibrations and paying more than \$25 million to relocate labs and research facilities.

Several additional stations were added to the original plan, after those living in minority and low-income communities protested that the transit line was bypassing them.

Not everyone is happy. Some complain the trains are too slow. And many are upset over fare increases in 2017 for the system's trains and buses. The Met Council boosted bus and rail fare by 25 cents to offset rising operational costs and declining revenues from the state motor vehicle sales tax, a primary source of transit funding. It was the first transit fare increase since 2008.

But Metro Transit is considered to be one of the best-managed transit systems in the country. It was named "system of the year" in 2016 by the American Public Transit Association. Metro Transit was praised for growing ridership over time, expanding access and improving safety.

Metro Transit riders took 81.1 million trips on the system's buses and trains in 2017, down 3.8 percent from a record 85.7 million trips in 2015. The decline echoed national trends in transit ridership.

Public transit ridership in metro Minneapolis was more than double transit ridership in metro Detroit in 2016. Although metro Detroit's population exceeds that of metro Minneapolis by about 800,000, the Detroit region lacks a comprehensive transit system.

Funding for the operation and expansion of transit in the Twin Cities has often been hard fought. A regional five-county transit board that had funded nearly \$1 billion in transit projects with a quarter-cent transit tax and \$20 motor vehicle tax disbanded in 2017.

The board dissolved after one suburban county announced plans to leave the group and the legislature decided not to fund several planned expansion projects.

But three suburban counties are continuing the quarter-cent transit sales tax and \$20 vehicle tax to fund transit. Hennepin and Ramsey counties—home to Minneapolis and St. Paul, respectively—raised their transit tax to a half-cent. In essence, the local counties will take on a larger share of transit infrastructure funding.

The Met Council is working on two major light-rail projects in the belief that the region's vitality depends on widespread, efficient public transit.



A 13-mile-long extension of the Blue Line will extend service from downtown Minneapolis north to suburban Brooklyn Park at a projected cost of \$1.5 billion. The line, which has broad citizen and political support, is expected to open in 2022.

That stands in contrast to the controversial Southwest Light Rail Transit line, which would extend the Green Line from downtown Minneapolis through several suburbs to Eden Prairie.

The proposed 14.5-mile line has a projected cost of \$1.9 billion. Construction of the line depends on federal funding that is expected to pay for half the cost of the project. The rest would come from local governments and the Met Council.

The state Legislature rejected a proposal to pay 10 percent of the cost. And several Republican lawmakers have asked Transportation Secretary Elaine Chao to reject federal funding for the rail line.

But Met Council Chairwoman Alene Tchourumoff said the proposed line is needed to meet future transit needs of the metro area. The seven-county area is expected to add nearly 600,000 people by 2040, according to Met Council estimates.

“This is a critical infrastructure project for our Twin Cities region and state, connecting people of all incomes with jobs across the region,” she said. “The future vitality of our region depends on the build-out of a robust transit system.”

## BUSINESS LEADERSHIP

Most, if not all, major metropolitan areas have business organizations that promote the economic well-being of their regions.

But the Itasca Project serving Minnesota's Twin Cities is different from just about any such organization in the country. This group of more than 60 corporate chief executive officers and community leaders spends little time on traditional business concerns, such as tax rates and government regulations.

Instead, they take on more controversial and complex issues, such as how to bring more minorities—the Twin Cities are home to Hmong, Somali, Cambodian and other minority populations—into the economic mainstream.

Itasca describes itself as a business-executive-led organization that demands consideration for “all other perspectives” and takes a long-term view, “peering decades into the future rather than just the next legislative session.” It prioritizes “regional vitality over business self-interest” and is willing to “take on issues that are inherently difficult to resolve.”

Itasca's business leaders also aren't afraid to push for a tax increase to pay for improved infrastructure—making Minneapolis-St. Paul, already considered one of the most vibrant metropolitan areas in country, even better.

It did just that in 2008 after then-Gov. Tim Pawlenty vetoed a tax hike to fund road repair and public transportation. Itasca's business leaders called Republican legislators and convinced them to vote with Democrats in overriding the Republican governor's veto.

Itasca also conducted a study in 2012 that found 70 percent of Minnesota's jobs by 2018 will require education beyond high school and used the study to push lawmakers to increase higher education funding.

“Our overall mission is to raise economic competitiveness, improve the quality of life and expand prosperity for everyone,” said Justin Freiberg, a McKinsey & Co. executive who manages the Itasca Project.

Itasca's leaders periodically assess whether they're adhering to that mission and, if not, whether they should “close up shop,” he said. “We're constantly asking that question.”

The Itasca Project was created in 2003 in response to a growing worry by business leaders that the region was losing its economic vitality. Minnesota's share of initial public offerings and venture capital was slipping, as was its reputation for being a strong research-and-development hub.

An attempt by then-University of Minnesota President Mark Yudof to create an organization of more than 1,200 community leaders to address those and other problems failed. Participants “barely agreed on the shape of the table let alone a path to revitalize our competitiveness,” according to an Itasca history.

Rip Rapson, then the president of the McKnight Foundation (he's now the president of the Kresge Foundation in Troy), convened a breakfast meeting of a small group of business leaders “who by now were convinced that something had to be done,” according to the history.

The Itasca Project eventually emerged from that meeting as a virtual organization with no full-time staff or offices. It receives operational and research support from McKinsey, one of the top management-consulting firms in the world, and outside financial support from several local foundations.

Itasca prides itself on developing solutions to social and economic problems that are based on deep research and hard data.

Minneapolis and St. Paul have long been populated with progressive business leaders, including those at 3M, General Mills, Target, Cargill, Pillsbury, United Healthcare and others, who take a keen interest in the overall health of the region that continues today. The Itasca Project takes its name from Itasca State Park at the headwaters of the Mississippi River, where the region's business leaders met annually in the 1950s and 1960s to discuss critical issues.

Itasca's 60-plus leaders meet about a half-dozen times a year to direct the organization's work in sessions facilitated by the Wilder Foundation, a nonprofit health and human services organization in St. Paul.

But Itasca's ground-level work is conducted in weekly Friday morning meetings by about a dozen CEOs who "go deep" to understand problems and propose solutions, Freiberg said. Most of its work has focused on talent development and improving the region's transportation infrastructure.

"What separates us from other organizations is that we engage in short-term, deep initiatives that are fact-based and led by top-line CEOs," he said. Once a project is completed, it is either handed off to another organization for implementation or to one created by Itasca.

One example is Greater MSP, a regional economic development agency formed by Itasca to promote business and talent growth in the Twin Cities as the metropolitan area emerged from the Great Recession. Local corporations and units of government fund greater MSP.

"As we came out of the recession, we asked, 'How do we get stronger?' There was no unified organization marketing the region," Freiberg said. "How do we build an organization that attracts talent?"

The Twin Cities are noted for their highly educated workers who drive one of the highest-performing economies in the country. Over 80 percent of metro Minneapolis residents between the ages of 25 and 64 years are employed, giving the region the highest employment-to-population ratio among the 53 largest metro areas in the country.

Like other economic development agencies, Greater MSP tries to lure talent from other places around the country. But it and Itasca believe that the real solution to meeting the region's talent needs lies in providing more economic opportunity for minorities and attracting more international immigrants.

"We're a historically white state that's growing slowly," Freiberg said. "We have pools of potential talent we're not fully utilizing. And there are systemic barriers excluding that talent."

An Itasca task force brought together private sector and nonprofit leaders to identify specific, short-term steps employers can take to close employment gaps between whites and people of color. Itasca and the Wilder Foundation also are working with about 100 CEOs and senior corporate leaders to help them develop more diverse, inclusive workforces.

Itasca and other economic development organizations also say the Twin Cities will need to increase international immigration in order to meet the region's future workforce needs.

A recent study by the University of Minnesota's Office of University Economic Development found that the state will need to more than quadruple the number of immigrants projected to arrive in the state through 2045, even if Minnesota's labor force grows no more than 0.5 percent annually. That's because of retiring baby boomers and slowing birth rates.

One advantage the Twin Cities have over other metropolitan areas in attracting those immigrants is the region's long history of being welcoming to all people.

"That goes back decades," Langley said. "We understand that as a region, we need to be a very welcoming place for international immigrants."



## SCHOOLS

High school graduates in Minnesota are among the most prepared for college in the nation.

Minnesota's class of 2017 posted an overall composite score of 21.5 in the ACT test, the highest among 17 states in which 100 percent of students took the college entrance exam.

The state has long been a leader in ACT test scores, an achievement many attribute to an emphasis on education by state government in the 1970s that led to increased spending and a major shift in school funding from local property taxes to state support.

Three-quarters of Minnesota high school graduates who entered a four-year university in 2010 graduated by 2016, the fourth-highest six-year graduation rate in the country, according to the National Student Clearinghouse Research Center.

But the state is grappling with a yawning educational achievement gap between white students and those of color, particularly in its urban school systems. While racial gaps are common in many states and large cities, Minnesota has been singled out as being one of the most racially unequal places in the country.

A 2017 study by the website 24/7 Wall Street found that Minnesota was the second-most racially unequal state in the country, behind Wisconsin. The study, which received national attention, measured racial gaps in population, income, employment, home ownership and incarceration.

While the Twin Cities and the rest of the state are predominantly white, their populations are becoming increasingly diverse, particularly among those of school age.

The number of students of color in Minnesota has nearly doubled in the past 15 years, as has the number of schools where minority students make up 90 percent of the enrollment, according to an analysis by the St. Paul Pioneer Press. Eight-six percent of those schools are located in metro Minneapolis.

Minority students, many of whom are poorer than whites or have recently emigrated from other countries, also lag in educational performance and attainment.

While 70.1 percent of white students in metro Minneapolis met the state's third-grade reading standards in 2016, just 38 percent of third-graders of color were considered proficient in reading, according to Minnesota Department of Education data compiled by Minnesota Compass, a research group.

Gaps between whites and those of color persist throughout K-12 education. While 86.7 percent of white students in the Twin Cities graduated on time, just 69.6 percent of students of color did so.

Experts attribute much of the education performance gap to a variety of factors, including disparities in poverty, income, home ownership rates and connections to adults in communities where students live.

Although elementary school test scores have been flat in the Twin Cities since 2013, according to Minnesota Compass, some see it as progress because of the growth of poorer minority students entering the schools.

"No big city district in America can claim to be fixing the disparity" between white students and those of color, said Dane Smith, the former president of Growth & Justice, a public policy research group in St. Paul.

Minnesota is not a particularly high-spending state in education, but devotes a larger share of its state budget to education than most states.

Education spending in Minnesota averaged \$11,949 in 2015, the 18th highest expenditure among the states, according to a 2017 Census Bureau report analyzed by the Minneapolis Star-Tribune.

Minnesota spent \$557 per student more than the national average. It ranked sixth among the states with 65.6 percent of school funding coming from state sources.



The state is spending \$12,254 per student in the current academic year, according to the Minnesota Department of Education. Minneapolis Public Schools is spending \$15,987 per student while St. Paul Public Schools is spending \$15,507 per student.

Minnesota provides substantial funding to provide additional educational support for students in high-poverty schools. Those with the most low-income students in Minneapolis and St. Paul received about \$3,000 per student above the basic education grant of \$6,312 in the 2017-2018 school year, according to the Minnesota House of Representatives Research Department.

The state has pioneered a number of educational trends, including charter schools and pre-kindergarten education. Minnesota passed the nation's first charter school law in 1991. Today about 54,000 students, mainly in the Twin Cities metro area, attend charter schools. That's about 6 percent of the state's total school enrollment.

While Minnesota's charter schools tout a number of innovations, such as implementing personalized learning methods and teacher-run schools, they've been criticized for uneven performance and a failure to close racial achievement gaps.

Minneapolis Federal Reserve President Neel Kashkari has said Minnesota has too many bad charter schools and he wants them closed. At the same time, many of the state's best-performing charter schools have room for more students, Kashkari said in October 2017.

"The low average results of Minnesota's charters are masking the remarkable performance of its good charters, leading to confusion among parents on where to send their kids," he said.

But many parents have been dissatisfied with the performance of urban public schools, as well. About a third of school-age students in Minneapolis attend charter schools or public schools in other districts, according to an analysis by the Star Tribune.

While the fleeing of urban schools has been characterized as accelerating white flight, about 25 percent of black students in the Twin Cities attend charter schools or public schools outside their home district, according to the Star Tribune's analysis of state education data. That's up from 6 percent in the 1999-2000 school year.

In 1998, Minnesota passed a statewide open enrollment law that is considered one of the most liberal in the country and generally requires school districts to accept students from other districts if they have room.

School districts aren't required to accept students expelled for assaults, drug, or gun-related offenses. Per-pupil funding from the state follows students to their new schools.

Closing the educational performance and achievement gaps between white students and those of color starts with a goal. By 2020, Minnesota wants 90 percent of its students to graduate from high school on time and with no demographic group graduating at less than an 85 percent rate.

Starting in 2018, any high school in the state with a low graduation rate receives assistance from one of six Minnesota Regional Centers of Excellence. The centers offer a variety of help, including need assessment, strengthening of leadership teams and developing continuous improvement plans.

"This is a huge step forward in our efforts to address equitable outcomes for our high school students," said state Education Commissioner Brenda Cassellius.

Educators and local government officials are promoting a variety of efforts to boost educational achievement and reduce performance disparities between white students and those of color.

Gov. Mark Dayton, who leaves office at the end of 2018, has pushed for universal pre-kindergarten education in the state, but hasn't accomplished that goal. Since the start of his administration in 2011, the state has spent more than \$300 million on pre-school education. Dayton is seeking an additional \$57 million in the next two-year budget.

Minnesota funds school-based pre-K and provides scholarships for private preschool programs. The spending serves 22,500 students, including more than 6,000 students in free programs in more than 100 local school districts.

In an attempt to boost academic performance in Minneapolis Public Schools, Superintendent Ed Graff has issued new reading instruction materials in pre-K through fifth grade, “the first consistent set of books and reading lessons the district has had in almost a decade,” according to the Star Tribune.

State officials also are working to reduce wide disparities in discipline among white students, students of color and those with disabilities as a way of improving educational outcomes for minority groups.

A 2018 study by the Minnesota Department of Human Rights found that students of color were twice as likely to be suspended and expelled than white students in the 2015-2016 school year. Students with disabilities also were twice as likely to be suspended or expelled than those without disabilities.

Black students, who make up 41 percent of Minneapolis Public Schools’ student population, received 76 percent of the suspensions and expulsions. Discipline disparities exist in nearly every school district and charter school in the state, according to the study.

“Studies have proven that higher rates of school suspensions and expulsions among students of color

and students with disabilities can have lasting negative impacts in their lives and education,” said Human Rights Commissioner Kevin Lindsey.

The Department of Human Rights in late 2017 cited 43 districts for discipline disparities and is working with them to develop corrective actions. School districts that don’t make progress in reducing discipline disparities could face lawsuits by the department.

But the move has been controversial, with some educators saying the department’s action is undermining their authority to ensure classroom safety.

One idea for encouraging more students to aspire to college was floated by St. Paul Mayor Melvin Carter, who became the city’s first black mayor in 2018. Carter has proposed giving every baby born in the city \$50 to start a college savings account. The money would come from businesses and philanthropies, but the idea has yet to be implemented.

The University of Minnesota also is engaged in trying to reduce educational disparities. It has more than 130 experts working with families and communities on issues that include child development, hunger, poverty, health and housing.

“As this state becomes increasingly more diverse, this is a (preschool to 12th grade) issue, a higher ed issue and, in the end, an issue for the future prosperity and vitality of Minnesota,” said University of Minnesota President Eric Kaler.

By 2020, Minnesota wants **90 percent of its students to graduate from high school on time** and with no demographic group graduating at less than an 85 percent rate.





## STATE POLICIES

Metropolitan Minneapolis has become one of the most vibrant, livable large metros in the country. But it's not all due to the efforts of local business, government and community leaders.

State laws and policies over the past five decades have played a significant role in the growing prosperity of the Twin Cities.

In 1971, Democratic Gov. Wendell Anderson and a Republican-controlled Legislature hammered out a series of tax and governance reforms that became known as the “Minnesota Miracle” and landed Anderson on the cover of Time magazine.

After months of contentious bargaining, Anderson and lawmakers agreed on a tax bill that shifted much of the responsibility for financing Minnesota’s schools to the state, created Local Government Aid (known as revenue sharing in Michigan) and trimmed property taxes.

(A similar change in state financing of schools occurred in Michigan nearly a quarter-century later.)

To pay for it all, Minnesota boosted the sales tax, personal and business income taxes, and liquor and cigarette taxes by \$580 million, or about \$3.5 billion in today’s dollars. Income tax rates alone were raised an average of 22 percent, according to the Minnesota Center for Fiscal Excellence.

Another part of the governance overall created a tax-base-sharing program called Fiscal Disparities and the Metropolitan Council, a regional government agency. Those programs are detailed above in the regionalism section of this report.

One enduring legacy of the “Minnesota Miracle” is the Metropolitan Council, a regional government agency that operates transit lines and wastewater treatment plants, funds parks and administers federal housing grants. (The regionalism section of this report provides detailed descriptions of Fiscal Disparities and the Metropolitan Council, and their impact on the region.)

State law also allows for five counties in the Twin Cities region to collect a sales tax to help pay for public transit. Hennepin and Ramsey counties, home to Minneapolis and St. Paul respectively, assess a 0.5 percent sales tax for transit. Three surrounding suburban counties assess a 0.25 percent sales tax.

Minneapolis and St. Paul collectively receive 27 percent of the state’s \$534.4 million in Local Government Aid in 2018. Michigan, which has nearly double Minnesota’s population, has appropriated \$628 million in revenue sharing with its cities for 2018.



A 2008 voter-passed amendment to Minnesota's constitution that funds environmental initiatives, as well as arts, culture, parks and trail projects, is seen as having a significant impact on livability in the Twin Cities. Minneapolis and St. Paul's parks systems have long been regarded as among the best in the country. Minnesota residents voted to raise the sales tax by three-eighths of 1 percent to fund the projects. (See the placemaking section of this report.)

Patricia Nauman, executive director of Metro Cities, formerly known as the Association of Metropolitan Municipalities, said a 1995 state law that created the Livable Communities program has helped the Twin Cities clean up brownfields and encourage development of affordable housing. (See the regionalism section of this report for more details.)

But Nauman said a growing urban-rural divide in Minnesota threatens some state programs and funding that have helped the Twin Cities become so economically prosperous.

Republicans, who took control the Legislature in 2016, have long called for stripping many of the powers of the Met Council or abolishing it. And state lawmakers have become more resistant to funding transit in the Twin Cities.

Keith Downey, a former state Republican Party chairman and a candidate for governor in 2018, has called for ending state funding to Minneapolis, St. Paul and other cities that limit cooperation with federal immigration authorities.

"It's a challenge," Nauman said. "It seems to be centered on a perception that the metro area has what it needs, so more resources should be funneled to Greater Minnesota," the area of the state outside of the Twin Cities region.

That view stands in stark contrast to state government leaders in the 1970s, many of them Republicans, who believed that the economic prosperity of the entire state depended on the health of the Twin Cities region.

"We don't want to kill the golden goose," Nauman said.



## CONCLUSION

Metropolitan Minneapolis is among the nation's most prosperous and livable metros. That standing is largely a testament to investments in education, infrastructure, environmental protection and enhancement, and regional collaboration.

The Twin Cities' diverse, high-wage economy and business leaders willing to tackle tough issues that go beyond tax cuts and business regulation also have played a major role in the metro area's prosperity.

Those leaders and others are continuing that work in what many say is the biggest threat to the Twin Cities' economic and moral future—unacceptable racial disparities in education, housing and jobs.

But overall, the Twin Cities appear well positioned to continue prospering in an increasingly knowledge-based economy. This report offers lessons for Michigan metros that are struggling to prosper as their manufacturing-based economies continue to erode.







MICHIGAN FUTURE INC.

A Catalyst for Prosperity