



Minnesota Journal

Nonprofit hospitals need profit.—Page 1.

A publication of the Citizens League

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Volume 8, Number 15
June 25, 1991

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Property taxes also increased for the average-priced homes in non-metropolitan communities, although the increase was less than in the metro area. Twenty-four communities had tax increases; only one experienced a decrease. The median increase was 8.6 percent, or \$36.

by Jody A. Hauer

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low value of the average home in Virginia and the advantage provided by the taconite credit.

Cities with the highest taxes in 1991 on their average-priced

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Nonprofit hospitals need 'profit' to stay alive

by Vic Ellison

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In a report published this spring, entitled "Why hospitals need profit margins," the St. Paul-based Council of Hospital Corporations argues that area hospitals require a positive margin of at least 4 percent annually to maintain financial

health and meet community needs. Without that "profit" to reinvest in personnel, equipment and technology, the Twin Cities nonprofit hospital industry is in danger of losing its well-deserved reputation as a national leader in providing quality medical care.

As the report notes, the term "non-profit" is a misnomer. Not-for-profit hospitals need to maintain

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Public sector can use factory quality approach

by John Kostouros

Al Shanker, one of the most outspoken critics of America's schools, describes them as factories, designed not to educate but to control teachers as well as students, and to turn out robot-like graduates ready to follow the boss's orders without questioning.

Just about everyone agrees with Shanker, president of the American Federation of Teachers, that what America will need in the 1990s and beyond is just the opposite: teachers who operate as innovative professionals and students who can reason, think for themselves and solve problems.

So why should anyone look to the factory floor for insights into how to improve our schools? Because some of those factory floors are operating under a set of principles that could make schools more productive, more humane and more stimulating environments for

children and teachers.

The principles, often referred to as Total Quality Management, include methods for clarifying organization purpose, for identifying and removing barriers to excellence, and for including line workers in key operating decisions.

The TQM principles were developed in the United States but ignored here until the Japanese used them to raise the quality of their manufacturing. Several American companies began using TQM principles in the 1980s, most notably Ford Motor Co., which in the process overtook General Motors as the most successful U.S. car company. Locally, several companies have adopted the principles, including large ones like Tennant Co. and smaller ones like MGK

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A major education-policy foothold

The least-publicized important story of this last legislative session was the effort to authorize the charter-schools movement.

By session's end, Section 3 of the education bill became official, though it limits such schools to a maximum of eight in the entire state (and no more than two in any district), puts licensed teachers in the dominant role in applying for a charter and constituting a governing board, and requires permission from an existing school board.

But don't concentrate on the restrictions, which were negotiated in the conference committee to keep the authorization language alive. What matters is that these are schools to break the rules. They are designed as deregulated environments where results matter more than rules. They are, as it's now said, "outcome-based."

However modest it may appear, this is a major policy foothold. It is the essential companion to choice that the Citizens League has been promoting since the 1988 task force chaired by John Rollwagen. Too often choice has been waved like a flag of liberation, promising everything to everybody. Choice—as a policy tool—is really quite limited if there aren't enough choices.

Who could blame minorities—when choice legislation passed—for feeling that this was a tool to deepen the advantages that affluent, privileged people already have? Existing schools with reputations for higher quality were always someplace else, usually at the end of a long bus ride.

The essence of the charter-school idea is the permission to create more schools of high quality where they're needed and wanted; to make a market of the thirst for improvement; to let public resources reward the initiative that creates schools that people aren't assigned to, but choose. Schools that have to do what they promise or the parents and kids won't come back. Schools that parents on waiting lists have been waiting for.

In mid-June about 40 people gathered in late afternoon in a room at the Humphrey Institute. They were frustrated but dedicated teachers, a principal ready to leave the safety of the system for the uncertainties of helping to birth a

Free Estimate

by Curtis W. Johnson

chartered school, a superintendent who said his board is ready to help teachers who want to form these schools, an attorney who spread early confidence that technical barriers are not insurmountable; a marketing expert who encouraged the group to think like entrepreneurs, and the director of a major program with resources to apply to new ventures—a roomful of people who want to start schools and people who want to help them.

There was the subtle current of electric expectations—the fears and uncertainties stirring around in a mixture of visions and promise. It is the stuff of which movements are made.

Becky Kelso, DFL-Shakopee, one

of the four legislators who carried this issue heroically through the session, reminded the group that the charter-school provision "passed by an absolute hair."

Indeed, so fierce was the opposition, principally from teacher unions, that the chairman of the school-aids committee of the House actually voted against the education bill when it was reported out of conference committee. So did 59 of his colleagues, all risking the possibility of a special session. Vows about repealing it all next session were heard.

My guess is, that by time the 1992 session rolls around, this policy will have a vocal constituency. There may be by that time another kind of waiting list—scores of charter applications pending, demanding that the Legislature take the limits off innovation.

The Minnesota Journal

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State prisons and jails are full

From Sentencing and Correctional Policies, Office of the Legislative Auditor, June 1991.

Although Minnesota's incarceration rate remains one of the lowest in the country, the state's prisons and jails are full despite the beds that have been added during the past 10 years. State expenditures for corrections have been growing, and county spending has increased even more rapidly...

Part of the observed increase in the incarcerated population is the result of increased law-enforcement activities, especially crackdowns on crimes related to alcohol and drug abuse...A major change affecting the jails has been the greater use of jail time as a sanction, particularly for DWI offenses...

Conditions of probation have become tougher. As a result, there are more offenders in prison and jail because they have violated the terms of their probations...State legislative changes made during the 1980s, particularly those involving criminal sanctions, have directly increased correctional populations...

Alternatives to incarceration may enable the state to reach multiple correctional goals and do so in an economical way...(Alternatives

could be expanded significantly in Minnesota...

Minnesota does not use its jails and prisons efficiently. For example, many new prison commitments are short-termers and probation violators, not dangerous criminals. Similarly, jails are used largely for punishment of offenders who do not pose serious threats to public safety...State funding for the

Community Corrections Act has not kept pace with the additional correctional expenditures borne by the counties...

At a minimum, the Legislature should reassess and clarify the goals of Minnesota's overall correctional policy and determine how community corrections fits into it.

Cocaine deaths decline

From Drug Abuse Trends in the Minneapolis/St. Paul Metropolitan Area, Minnesota Department of Human Services, June 1991.

In 1990, the Hennepin County Medical Examiner reported 19 cocaine-related deaths (compared to 38 in 1989). Seven of the 19 decedents (37 percent) were infant or stillborn cases...In the first four months of (1991), there were nine cocaine-related deaths...Hospital emergency room mentions of cocaine continue to decline in number...Cocaine-treatment admission data from 11 metro-area residential programs also reveal downward trends in 1990.

The estimated number of emergency-room mentions of marijuana

na continues to decline. In the last quarter of 1990, 26 percent of the CD assessments had marijuana use as a presenting problem, compared with 41 percent during the same period in 1989...

The Hennepin County Medical Examiner reported 144 alcohol-related deaths in 1990...The Ramsey County Medical Examiner reported 42 alcohol-involved deaths in 1990...From 1988 to 1990, an increasingly larger percentage of treatment admissions involve an alcohol-only diagnosis (from 33 to 47 percent of treatment admissions). Even excluding admissions with an alcohol-only diagnosis, alcohol is still the most widely abused substance among drug-abuse treatment admissions.

High court asked to unravel issue of veto validity

DFL legislative leaders asked the State Supreme Court to determine the validity of 14 bills vetoed by Gov. Carlson that they said were not returned to the Legislature within the constitutional time limit.

Among the bills vetoed by Gov. Carlson that would become law if the vetoes are held invalid is one that would prohibit an employer from hiring permanent replacements for striking employees. Another is the legislative redistricting bill.

Sen. Steven Morse, DFL-Dakota, said another veto—of a bill that would extend the moratorium on use of a dairy hormone that increases milk production—also is invalid because it was returned to the House rather than to the Senate, where it originated.

Gov. Carlson also vetoed the health-insurance bill that would have started the state on a course aimed at providing coverage for the uninsured. He said the bill was a “cruel hoax.”

Gov. Carlson used line-item vetoes to cut \$115 million from state spending—most of it in educational programs. In all, the governor vetoed 27 bills and used the line-item veto on 16 spending measures for what observers said was a record 43 vetoes. The previous record was held by Gov. Al Quie over four years. Carlson is in his first year in office.

United States Satellite Broadcasting Inc., St. Paul, said it will join with Hughes Communications Inc., Los Angeles, to develop a communications satellite system that can deliver more than 100 television channels to customers. President Stanley S. Hubbard said

the system will make the Twin Cities an important broadcasting center.

Metropolitan Airports Commission announced a plan under which as many as 20,000 homeowners would be bought out or receive home soundproofing under a noise-abatement plan expected to cost \$60 million to \$100 million.

Tuition at the University of Minnesota would rise 12 percent, or about \$300, under a plan submitted to the Board of Regents by President Nils Hasselmo. **The state's** 16 private colleges and universities said their tuition will rise an average of 7.3 percent, or \$730, next year, the smallest increase in 15 years.

Minnesota eighth-graders ranked higher than national averages and just under the top four states in mathematics performance in tests administered in 37 states.

The U.S. Supreme Court will look at St. Paul's hate-crime law that bans cross-burning and similar public displays. The Minnesota Supreme Court held that the ordinance was not unconstitutional. The case involves a 17-year-old St. Paul youth accused of lighting a cross on the lawn of a black family.

The State Court of Appeals overturned a Winona bookstore manager's conviction on a charge of distributing obscene material on

grounds that the state law is unconstitutional and vague.

An agreement between State Human Rights Commissioner Frank Gallegos and St. Paul's Firefighters Union could lead to the hiring of women as firefighters. Atty. Gen. Hubert Humphrey said, however, the agreement fails to resolve critical issues.

Fares for disabled riders of Metro Mobility will double starting July 1.

The Washington County Board voted to build a \$24.3 million, 192-bed jail. **Brown County's** Jail Advisory Committee recommended that the county build a 40-bed jail for \$2.5 million.

Curman L. Gaines, 52, was named superintendent of St. Paul schools. An associate superintendent in charge of finance since 1987 and an employee of the school system since 1970, Gaines will be St. Paul's first black superintendent. **Lois Schmidt**, executive director of the Countryside Council in Marshall resigned to work with the Marshall Area United Way. **Little Falls** Mayor Pat Spence will resign in October to move to southeast Minnesota. **Alan J. Frederickson**, New Hope, was appointed head of the State Office of drug Policy. **Elton Kuderer**, Fairmont, was elected chairman of the University Board of Regents.

Northern States Power Co.

dropped plans to burn PCBs at its Minnesota Valley power plant at Granite Falls.

Minnesota Pollution Control Agency fined Fergus Falls \$291,000 for past violations at its garbage incinerator. **Officials** of the Quadrant waste-to-energy burner near Perham asked the Otter Tail County Board for assistance because of financial problems created by the decision to stop burning medical waste.

Olmsted County Board denied a permit to build a 500-foot radio tower in Kalmar Township.

Crow Wing County Board approved a plan of MacMillan Bloedel Ltd. for creating a new wetland in compensation for draining a wetland to build a wood-products manufacturing facility.

Worthington City Council passed an ordinance banning recyclables, yard waste and construction materials from garbage.

Marvin Windows, Warroad, said it will build a 40,000-square-foot plant in Fargo to manufacture window parts. **Reinhart Foods Inc.** announced plans for a major expansion of its Marshall distribution center.

Minnesota Power is planning a \$9.5 million project in International Falls to improve a link with Ontario Hydro.

Prairie Lakes Detention Center, the first five-county cooperative facility of its kind in the state, opens July 1.

Johnson leaving

Curtis W. Johnson, executive director of the Citizens League and publisher of the *Minnesota Journal*, said he will leave the organization later this year to become executive editor of the Peirce Report, a new national newsletter sponsored by the National Civic League and dealing with state and local government. Carl (Buzz) Cummins, president of the Citizens League, is leading a search committee seeking a replacement.

Making healthful choices easy

From Toward Healthy Communities—Healthy People, Report of the Commissioner's Task Force on Health Promotion, Minnesota Department of Health, January 1991.

Public policy can provide people with opportunities for health or it can create barriers to achieving health, and it is critical in shaping supportive environments... (To build healthy public policy): Develop and promote policies and incentives that decrease the use and abuse of tobacco products, alcohol

and other harmful drugs; promote and assure the availability of healthy food choices to all citizens; ...promote regular physical activity for all citizens.

An important key to maintaining behavior change in the long term is creating an environment that encourages and supports healthy behavior—an environment that makes the healthy choice the easy choice. (To create supportive environments): Develop and promote programs to create environ-

ments, especially in worksites and schools, that support health... Provide training that enables adult and peer influencers of youth to implement programs to reduce the use and abuse of tobacco, alcohol, and other harmful drugs...

To empower individuals: Develop population-wide campaigns that promote healthy decisions and behaviors... promote physical activity for all ages... and promote healthy eating patterns for all ages.

Tax

Continued from Page 1

homes in the metro area are (school district is listed in parentheses):

North Oaks (621) \$5,177; **Wayzata (284)** \$4,516; **Deephaven (276)** \$4,093; **Orono (278)** \$4,061; and **Shorewood (276)** \$3,368.

Metropolitan communities with the lowest taxes on their average-priced homes in 1991 are:

Linwood Township (831) \$555; **East Bethel (15)** \$611; **St. Paul Park (833)** \$699; **Columbia Heights (13)** \$714; and **South St. Paul (6)** \$716.

To provide a city-by-city comparison of taxes on similarly priced homes, the Citizens League analysis also included tax estimates on a hypothetical home that would sell for \$90,000. The selling price is adjusted to reflect local assessment practices.

In the metropolitan area, taxes on homes that sell for \$90,000 ranged from a high of \$1,258 in White Bear Lake to a low of \$837 in West St. Paul. As a percent of the \$90,000 selling price, the range was from 1.4 percent to .93 percent. The median tax on these hypothetical homes was \$1,046, or 1.16 percent of the \$90,000 selling price.

Cities with the highest estimated taxes in 1991 on a home that sells for \$90,000 in the metro area are (school district is listed in parentheses):

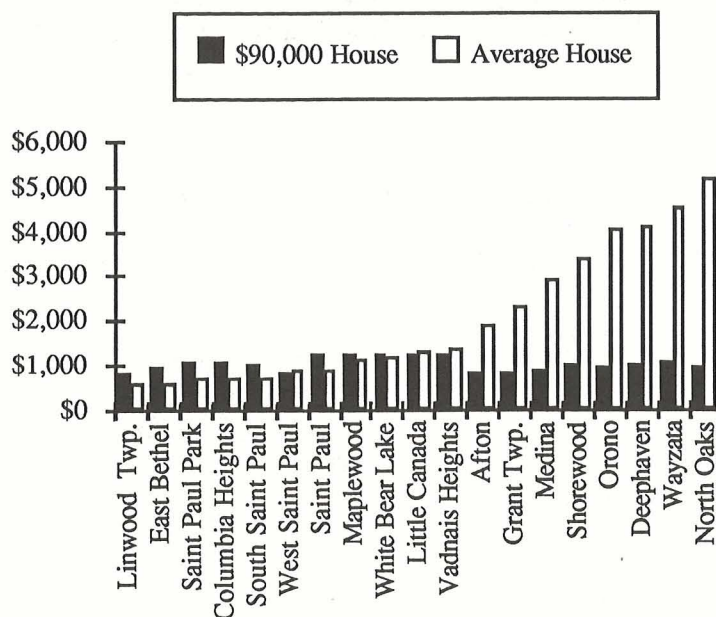
White Bear Lake (624) \$1,258; **Little Canada (623)** \$1,256; **St. Paul (625)** \$1,244; **Vadnais Heights (624)** \$1,233; and **Maplewood (622)** \$1,218.

Cities with the lowest estimated taxes on a home that sells for \$90,000 are:

West St. Paul (197) \$837; **Afton (834)** \$839; **Grant Township (832)** \$847; **Linwood Township (831)** \$849; and **Medina (278)** \$854.

If a different hypothetical home were analyzed, the results could

1991 Homestead Taxes for Select Cities



also differ. This is because some communities have many homes that are similar in value to the hypothetical house value, while others have few.

The tax estimates on the hypothetical home assume the homeowner applies for the special targeted property-tax refund available from the state for owners with large annual tax increases. However, it assumes homeowners did not receive a special targeted refund in 1990; if they had, the refund this year could be bigger.

Part of the tax increases around the state can be explained by increases in the value of property. In all but nine of the metropolitan communities, the value of the average-priced homes on the tax rolls (known as the "estimated market value" for tax purposes) increased. The mean value increased from one-tenth of 1 percent in Coon Rapids to more than 17 percent in Wayzata, according to data from the Minnesota Department of Revenue. The median increase was 3.5 percent.

In those few metropolitan communities that experienced reductions in the value of average-valued homes, the median decrease was 5.9 percent.

The nonmetropolitan cities pro-

duced the same pattern, although the median increase in value of typical homes was somewhat smaller than in the Twin Cities region. Twenty-three of the 25 cities had increases in the average estimated market value of homes, with a median increase of 2.3 percent.

On the average, residential property makes up less than half of a community's overall tax base, with other types of property, such as commercial-industrial property, making up the balance. However, the ratio of residential property to other property types varies tremendously. In the metro area this year, residential property (including apartments of three or fewer units) ranges from 16 percent of Oak Park Heights' total taxable property value to more than 90 percent of Minnetonka's. For the metropolitan cities, residential property represents a median 45.6 percent of taxable property value.

Tax increases are also partially explained by increases in the tax rates set by local units of government. In 1991 in the metro area, all but three communities had increases in their cumulative tax rate. This is the combined tax rate set by schools, cities, counties and miscellaneous taxing jurisdictions, such as a hospital district. The increase ranged from less than a

tenth of 1 percent to more than 40 percent.

Typically, the tax rate for schools in the metro area makes up half the cumulative rate. The county tax rate averages 28 percent of the total, cities 17 percent and miscellaneous jurisdictions 4 percent.

The proportionate tax burden of the different levels of government varies from community to community. For instance, taxes set by cities in Ramsey County account for about 15 percent of the total tax rate on the average, while cities in Dakota County account for about 22 percent of the cumulative tax rate.

Outside the metropolitan area, schools account for less of the total rate than in the metro—41 compared with 50 percent—while the counties' and cities' taxes make up a larger share of the total.

Many areas have voted to add to their tax bills by approving levy referenda requested by their school districts. Eighty-three of the 95 metropolitan communities are in school districts with approved referenda; only 12 are not. The additional tax rate represented by the referenda ranges from 3.368 to 27.357 percentage points, with a median of 13.999 points.

Factors other than property values and tax rates affect whether taxes go up or down. For instance, changes in the amount of aid the state provides to local governments will affect how much a city must collect from taxes. For metropolitan city budgets, property taxes actually account for less than one-third of total revenues. Property-tax revenues in 1989 ranged from 65 percent of the total revenues in North Oaks to 8.5 percent of total revenues in White Bear Township. The median was 25 percent.

In the 25 cities outside the metro area, property taxes typically represented even less of total revenues than in the metro area; the median was 17 percent of total revenues.

The study on which this article is based is available for \$10 for Citizens League members and \$15 nonmembers. Order copies by calling the League office, 612/338-0791.

Here's how property taxes are calculated for 1991

Four key elements make up the property-tax calculation: the *estimated market value* of the home, its *tax capacity*, the *tax rates*, and state-paid *property-tax relief*.

Estimated Market Value—Local assessors determine a value for each home for tax purposes. The estimate is based on assessors' judgment of what the home would sell for in an arm's-length transaction.

Tax Capacity—The tax capacity reflects how much of a property's estimated market value is subject to taxation. The Legislature has determined that certain property should have more of its value taxed than other property. Therefore, less of a home's value is actually taxable than that of a commercial-industrial property, for example.

The amount of value that is taxable is determined by the class rates set by the Legislature. One percent of the first \$68,000 of a home's es-

timated market value is taxable. For home values between \$68,000 and \$110,000, the class rate is 2 percent. Any home value over \$110,000 has a 3 percent class rate.

Thus, the tax capacity on a home with an estimated market value of \$85,000 would be \$1,020, as follows:

Step one: $\$68,000 \times .01 = \680 .

Step two: $\$17,000 \times .02 = \340 .

Step three: $\$680 + \$340 = \$1,020$.

Tax-Capacity Rates—Formerly known as mill rates, the tax-capacity rates indicate how much local units of government decided to tax the property in their boundaries. The rate is the result of dividing the amount local governments need to raise by their tax base. For every \$100 of tax capacity, a 50 percent tax rate would raise \$50; a 100 percent tax rate would raise \$100.

For the example of the \$85,000 house, assume the total tax rate is 101.255 percent—inclusive of tax rates for the school, city, county and miscellaneous jurisdictions. The tax rate is multiplied by the home's tax capacity to produce the gross tax.

$\$1,020 \times 101.255 \text{ percent} = \$1,033 = \text{gross tax}$.

State-paid property tax relief—The state uses money from its income and sales tax collections to pay a portion of all homeowners' tax bills. The relief comes in several forms. (A taconite homestead credit is available for homeowners in certain northern Minnesota cities.)

First, the state pays aid to local government. This money is intended to reduce the amount local governments must collect through property taxes.

Second, the class rates for home-

stead property reflect a form of state assistance to the homeowner.

Third, the state has property-tax refunds. Homeowners must apply for these refunds; they are not automatically included on the tax statement. One is the "circuit-breaker" program available to homeowners with high property-tax bills relative to their income. A form of this refund is also available to renters.

The second refund is called the special targeted property-tax refund. It is available to all homeowners, regardless of income. It goes to owners whose tax bills increased at least 10 percent and more than \$40 since last year. The refund will pay 75 percent of the first \$250 of the increase over the qualifying level. It will pay 90 percent of a tax increase above \$250. The refund is not available to those whose tax bills increased because of physical improvements to the property.

Gov. Carlson's vetoes draw editorial praise

New Ulm Journal said (June 5) of Gov. Carlson's line-item appropriations vetoes, "Bully for Carlson! For too long, Minnesota's Legislature and governor have paid lip service to fiscal responsibility and cutting back on spending."

Pioneer Press said (June 6) Gov. Carlson's "forceful use of the veto to trim state spending sends a welcome signal that it is no longer business as usual at the State Capitol."

Red Wing Republican Eagle said (June 5) Gov. Carlson, with his vetoes, "has sent a wake-up call to all Minnesotans. This tax-spend cycle must stop."

Duluth News-Tribune said (June 7) the line-item veto is a bad practice. "When executives become legislators, when they can in effect rewrite legislation, the balance (between the executive and legislative branches) is disturbed."

St. Thomas Times said (June 3) DFL leaders ought to be counting their legislative victories "rather than whining about what amounts to a minor political setback" in the vetoes imposed by Gov. Carlson.

On Balance

Minnesota editorial writers wax eloquent with polished phrases.

Brainerd Dispatch said (June 7) Gov. Carlson and the Legislature will "have to find a consensus that will cool the rancor" if they want to keep the current standoff from lasting another three years. It added, "The governor seems to be on the right track..." **Rochester Post-Bulletin** said (June 12) the more responsible leaders of both parties should quickly find a way to resolve the dispute over whether some of Carlson's vetoes are invalid.

Star Tribune asked (June 12), regarding the issue of whether the vetoes are valid, "On this one, go with the governor." It added, "Enough of this Mickey Mouse silliness from the Legislature."

Rochester Post-Bulletin said (June 6), "Someone needs to be a watchdog; someone needs to challenge comfortable assumptions; someone needs to make the process less automatic and more accountable."

That appears to be what Carlson is trying to do."

Star Tribune said (June 5) Gov. Carlson's veto of the health-care access bill is "disappointing—but redeeming." It said the bill had a "glaring gap" between what it promised and what the state could afford. It said the Legislature should try again next year.

News-Tribune said (June 6) the vetoed health-care bill would either have deluded Minnesotans into thinking health-care access was being dealt with or, if taken seriously, would have bankrupted the state.

Mankato Free Press praised (June 5) Gov. Carlson's veto of the health-care bill. It said the measure would have created a program that would have "grown to giant proportions in the future with no plan for how the state would pay for it."

West Central Tribune said (June

5) the veto of the health-care bill "probably will work out for the best in the long run—unless the issue disappears into the political quagmire."

Mankato Free Press said (June 4) money spent on hopeless medical treatment, whether funded by private insurance or public money, "reduces the amount of resources available to care for others who can be helped." And it asked, relative to the case of Helga Wanglie, comatose more than a year, "Can a patient's family demand extraordinary medical care that is hopeless?"

Brainerd Dispatch criticized (May 30) Gov. Carlson's veto of the workers' compensation measure. It added that "people are starting to think Arne Carlson is coming off as an arrogant know-it-all. That's precisely the sort of attitude that doomed Rudy Perpich."

New Ulm Journal said (May 30), "We would have preferred that Carlson sign the (workers' compensation) bill with the understanding that it would provide a base for more comprehensive reform next year."

Quality

Continued from Page 1

(McLaughlin, Gormley & King Co.)

The public sector has only just begun to investigate TQM, however, largely because most government officials and educators believe they have little to learn from business. They reason that, while businesses are about quality control, profits, suppliers and customers, public agencies and schools are about service delivery.

But a few public officials and educators are beginning to see that public agencies and schools do have customers (students and parents, welfare recipients, the taxpayer, etc.), suppliers (elementary schools for high schools, for instance; the company that sells the county its forms or its cars or some of its services, etc.) And, at least in education, the need to improve product quality (higher skill levels for graduates) is very much on the table.

A public high school, Mt. Edgecumbe, in Sitka, Alaska, has been using TQM principles for three years. Several staff members and students from Mt. Edgecumbe were in Minneapolis recently to talk about their experience. What participants in the conference heard about was not a school without problems or with 100 percent success with its students, but a school that is building the principle of continuous improvement, student and teacher empowerment and excellence into its everyday operations—and getting better results in the process.

The staff and a group of students talked about using TQM methods, which rely heavily on statistical analysis of work processes, to identify barriers to excellence. Once they identify the barriers, staff members and students jointly develop ways to eliminate them. The process reflects TQM's emphasis on vertically integrated teams and the belief that the people closest to the work know the most about it.

Students are included in many important decisions at the school. In addition, teachers work cooperatively to develop courses that interrelate (rather than exist in isolation, as is now the case in most high schools), and administrators work more as facilitators than bosses.

If that sounds more democratic than the way schools are normally run, that's because it is. It's often messy and time-consuming, but it is also producing results, reducing such problems as absenteeism and tardiness, and increasing student achievement and post-graduation success rates.

So what exactly are these TQM principles? They include, among other things, the idea that the way an organization is run to a large extent determines the attitudes and motivational levels of workers. Ask most education administrators to identify the biggest barrier to improving schools, and they will answer the poor attitudes of teachers and students. TQM suggests that those poor attitudes are the result rather than the cause of the problems.

TQM stresses clarity of purpose, the "What are we here for?" question. If more public administrators asked that question, they would find that the people in their organizations usually lack any kind of outcomes-oriented mission. "We're here because the city council/legislature/county board wanted a program on this issue," is the answer you will get most of the time. TQM says that workers who lack a clear purpose rarely produce an excellent result or enjoy a positive attitude toward their jobs.

While TQM is long on statistical analysis, it includes many simple ways of accumulating and displaying those statistics. You don't need a PhD in statistics to practice TQM. You will need a calculator and probably a computer, though. At Mt. Edgecumbe, students often collect and analyze data.

David Langford, a teacher at Mt. Edgecumbe and the school's continuous-improvement process coordinator, said, "One of the main things we're missing in education is a cohesive management system that makes sense. Every school district that I have worked for has operated completely on gut reaction, rather than on real evidence."

Administrators and teachers too often make decisions based on what they think is happening, rather than on evidence about what is actually happening and why, said Langford, and they are often wrong, or at least incomplete in their analysis. "It's the way superintendents have been taught to do it, it's the way they assess the situation. The same with school boards



"OK, class, pay attention and repeat after me...total quality management, total quality management..."

and principals."

What TQM offers, Langford said, is a strategy for gathering convincing evidence about how the organization is doing compared with its stated purpose, then pairing that knowledge with insight into how people learn, why they resist change, and which approaches are most likely to encourage people to work together and set high standards of performance.

TQM preaches that workers want to do a good job and that the system in which they work usually gets in their way. This is exactly the opposite of what most managers have been taught. At the heart of most American management is the belief that workers must be monitored, then prodded and manipulated into doing their work.

Not surprisingly, workers have come to view managers with suspicion and fear. A basic TQM principle calls for abandoning fear-based management strategies and turning managers (and teachers) into coaches, facilitators and leaders.

TQM posits that the road to excellence leads over a path of worker involvement in small improvements in day-to-day operations. Anyone who looks to TQM for a quick way to improve organizations is in for a disappointment. A TQM project may take on something as large as clarifying the organization's mission, but it will also tackle things as modest as the cleanliness of the bathroom, the timing of lunch or the wording in job titles.

TQM has as its goal continuous improvement, rather than excellent results, in the belief that an or-

ganization dedicated to and organized for continuous improvement will produce excellent results.

Oregon State University is using TQM to address quality deficiencies. University of Minnesota President Nils Hasselmo is a convert. Three U of M pilot projects are in their first year. Hasselmo, who credits TQM principles for the dramatic improvement in the University's fine arts program at its Duluth campus, says he hopes TQM will "spread out in concentric circles throughout the University."

Hutchinson Technical College has adopted TQM principles under President Dick Lennes in an effort to upgrade the quality of the school's offerings and to improve graduates' chances for job success.

Jim Buckman, director of the Minnesota Council on Quality, which focused in its early years on promoting TQM principles within the business community, reports the Council is now working with several school districts around the state.

Critics disparage TQM as a cult or just another management fad. But anyone who examines the process will find that TQM is hardly a fad. It's a revolution, a radically different way of operating organizations that can lead to more productive and more satisfied workers, better products and services—public and private—and less costly operations.

John Kostouros is a Minneapolis public issues analyst. He is former editor of CityBusiness and a former reporter and editorial writer for the Star Tribune.

Hospital

Continued from Page 1

positive bottom lines just as much as their for-profit counterparts. The distinction lies in how any excess revenues are used. While for-profit institutions are obligated to provide a reasonable return on investment to shareholders, nonprofits are obliged only to maintain themselves so that future generations will also have access to care. The "shareholder," if you will, is the community.

In exchange for tax-exempt status, nonprofits are expected to provide benefits to the community that profit-motivated corporations would likely shun. Last year, for example, Minnesota's hospitals provided \$87 million in free medical care to people who could not or would not pay for those services. That is a 17 percent increase in unsponsored care from the previous year and a 55 percent increase since 1985. Free care now totals 2.3 percent of gross patient revenues, and 16 of the 20 hospitals that deliver the most charity care are located in the Twin Cities.

Community care is only one of many community services that are funded by these "profits." Community health education, prenatal classes for expectant parents, 24-hour-a-day emergency rooms and ambulance services—all are unprofitable but necessary services that nonprofit hospitals supply their communities.

Nonprofit hospitals finance those free and reduced-cost services by building their costs into the fees they charge paying consumers. Unfortunately, the ability to finance those costs has diminished considerably in recent years, particularly in the Twin Cities.

To understand the financial pressures that hospitals are under, a little history is in order.

For decades, hospitals and physicians fared quite well. Using the "cost-plus" method of reimbursement, health-care providers charged patients and their insurance companies what it cost them to supply that care and tacked on a reasonable rate of return.

That changed in 1983, when the federal government radically altered the way it pays hospitals for treating Medicare patients (which accounts for approximately 40

percent of all hospital business). The government began setting a flat reimbursement rate per procedure.

Even then, hospitals might have adjusted if congressional Medicare appropriations had kept pace with increases in hospital costs. Instead, federal budget constraints have resulted in reimbursements rising only about half as fast as costs.

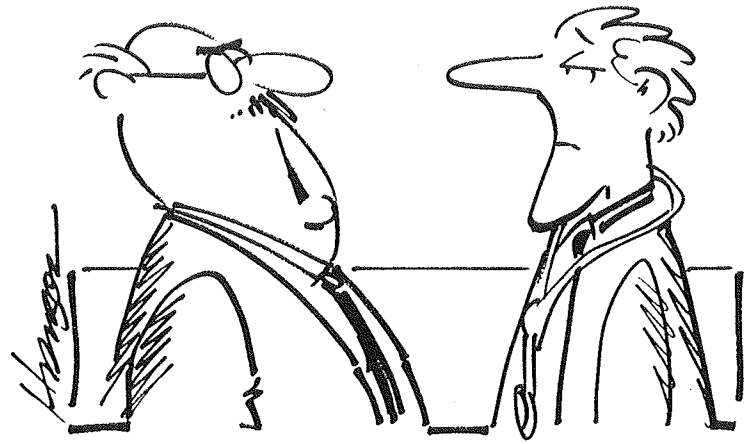
Elsewhere in the U.S., the Medicare shortfall was passed on in the form of higher rates to private-sector insurers. But in the highly competitive Twin Cities marketplace, where almost 50 percent of the population is enrolled in a managed-care health plan, that financing method was next to impossible. Indeed, the discounts health plans demanded of hospitals and physicians often exceeded the underfunding paid by Medicare.

The fact that both public and private health-care purchasers balk at paying a share of these "community" health-care expenditures is a clear demonstration of the schizophrenia that exists when it comes to health care today. Everyone, it seems, wants universal access to health care for all citizens, first-dollar medical coverage and the latest in medical technology. But those same people are also complaining loudly about the rising cost of medical care and resisting taking more personal responsibility of leading healthier lifestyles.

The 4 percent threshold isn't a number arbitrarily picked out of the air. It is a percentage established by the financial community to determine credit worthiness. Much as home-mortgage lenders set payment-to-income ratios, commercial lenders want to make sure businesses are good credit risks. And for hospitals, it has been determined a 4 percent margin is an appropriate amount.

The best way to explain the need for excess revenues is to outline a "what-if" scenario: What if a hospital over a period of five or more years fails to meet its minimum financial targets? Let's consider the situation of "Acme Hospital."

Acme is a 380-bed hospital in a middle-class section of Metro City. Its patient-payment base is 45 percent public (Medicare and Medicaid), 40 percent private (dominated by four major health plans) and 15 percent self-pay (of which one-third is indigent care



"Let me just say, Doctor, calling this hospital a nonprofit institution is a gross overstatement of our solvency..."

and uncollectible).

Annual patient revenues this year will be \$237 million, up from \$225 million the previous year. Expenses have equaled patient revenues each of the last three years, giving Acme little financial flexibility. What problems does this create?

- There is a shortage of qualified RNs and LPNs. Because Acme doesn't have the money to match the 8 percent raises that hospitals in other parts of the country are giving their nurses, the shortage will worsen.

- Radiologists on staff at Acme request that the hospital modernize its cancer center by purchasing a dual-energy linear accelerator, the latest technology for treating cancerous tumors. The multi-million-dollar piece of equipment isn't in the budget, so the board of directors turns them down. Patients needing such specialized care will have to travel 200 miles to the nearest accelerator.

- Acme desperately needs to rebuild the "old wing" at the hospital, which is used for mental-health services and chemical-dependency treatment, two of the hospital's most lucrative programs. It goes into the bond market for building capital, but because the hospital's financial performance is below standard, it must pay a higher interest rate, making it even more difficult to make ends meet.

- For years, the Ladies' Auxiliary at Acme has sponsored an annual fund drive to help pay prenatal and perinatal medical bills for uninsured pregnant women and their newborns. This year, the Auxiliary decides to dedicate the \$150,000 it raises to replace a leaky roof in the day-surgery unit—an expense that

would normally be absorbed by the general operating budget.

As you can see, lack of available resources can lead directly to an inability for hospitals to reinvest in personnel, technology, equipment, infrastructure and community services. A comparable situation would be that of a farmer feeding his seed corn to his hogs rather than planting it in the field, accomplishing short-term gain by long-term loss.

Some people may argue that Acme Hospital should be allowed to die, believing that more efficient and effective hospitals will rise up to take its place. That argument might be persuasive, except for one fact: Acme isn't the exception, it's the rule. For every financially healthy hospital, there are several Acmes. In fact, in the Twin Cities in 1989, only eight of CHC's 22 acute-care hospitals reached that 4 percent threshold. Eight of the remaining 14 hospitals had positive margins of less than 4 percent, while the other six actually lost money.

Despite these financial problems, area hospitals continue to deliver exceptional medical care. Twin Citians can be proud of the health-care delivery system that has developed in this region. It is the envy of the nation. But they must understand that, like any resource, it needs to be nurtured. Not allowing nonprofit hospitals to make a reasonable return on their investment, which can be plowed back into improved patient care, may look like a short-term gain. But in the end, it is a losing strategy.

Vic Ellison is public affairs vice president for the Council of Hospital Corporations, an association of 25 hospitals in the seven-county metro area.)

Fiscal-disparities law survives with changes

The 1991 Legislature made a number of small changes to the fiscal-disparities law without altering its fundamental nature.

Opponents have said the law, which provides for a regionwide sharing of 40 percent of the growth in commercial-industrial tax base since 1970, unfairly grants additional tax base to some communities that actively zone out C-I development. One 1991 change gives the Metropolitan Council authority to decide whether to exclude from the program certain communities that do not permit C-I development.

The new law requires the use of sales ratios to adjust for differences in assessment practices that may lead to unfair contributions by communities with low assessments. Another change removes the exemption that allows South St. Paul to receive a distribution from the pool without making a contribution.

The distribution of the pooled tax base changes in two ways. First, personal property, such as mobile homes and utility lines, will be included in the definition of "fiscal capacity" used in the distribution formula. Second, the bill removes the so-called "factor of two," which guaranteed that certain cities received a minimum distribution. —Jody A. Hauer.

The University of Minnesota is examining whether it should establish its own group for employee health insurance, separate from the State of Minnesota group. About 17,000 University employees plus their dependents and

Take Note

What we found in the Minnesota public-policy lint trap.

retirees are now part of the state's group.

The analysis was initiated by the late Gus Donhowe while he was the University's senior vice president for finance and operations. Consideration of the switch was delayed after Donhowe's death last winter, so the University will stay in the state group for at least the 1992 plan year.

TPF&C, the national benefits consulting firm, has been working with the University to examine whether the University can develop plans and provider networks that will improve its current offerings without additional costs. One of the University's goals in creating its own group plans would be to make the University Hospital and Clinic an important part of the provider network, or at least to remove any obstacles that now deter University employees from using the University Hospital. —Allan Baumgarten.

The obituary on Al Illies listed his long civic service in Minnetonka as school board member and as mayor. It failed to mention his role in the creation of the Metropolitan Council and his famous remark to a Senate committee one night late in the 1967 legislative debate. Al was speaking for the League of Metropolitan Municipalities on Sen. Gordon Rosenmeier's bill that would have set up the Council as an agency of state government.

"Members of the committee," he said, "we look on metropolitan government as local government." —Ted Kolderie.

A recent state study says: "In direct response to heightened public concern about crime, virtually everyone with criminal justice responsibilities has adopted a more punitive stance."

Tell that to the citizens of Crow Wing county, where Jack Graham, elected county attorney last fall, has declined to prosecute alleged felons so consistently that they're thinking of closing the jail annex—because it's empty.

Graham has generated some notoriety for refusing to follow up on child-abuse claims, but he's applying his philosophy with equal fervor to drug use and bad-check writing. Now that we're all conditioned not to believe the promises of politicians at election time, along comes this guy to show us how much consternation can come from doing exactly what he promised. Graham believes that law enforcement has been way too aggressive. —Curt Johnson.

"Consolidation" seems to be the new magic solution as public budgets get squeezed between rising costs and the political resistance to higher taxes. Fewer and

larger school districts. Fewer and larger systems of higher education. Fewer and larger local governments, as in Ramsey County. The hope is that larger units will achieve economies of scale; that mergers will make services more efficient. The fear is that size will breed even higher costs. —T.K.

Consolidation clearly did work in one nongovernmental area: hospitals. A decade ago, a direct, governmental effort to reduce the Twin Cities area's oversupply of acute-care beds failed. The Lutheran governor came to the defense of Mount Sinai Hospital and the Jewish senator came to the defense of Lutheran Deaconess Hospital, and that was the end of the Metropolitan Health Board's proposal.

That was regarded by some as a defeat for reform. But the larger organizations that took over those hospitals faced up to the reality of their costs in a competitive hospital market and took them out of the acute-care business. Sometimes indirect strategies work better for government. —T.K.

One of our regular readers points out, as she puts it, the "nicest print in years." The June 10 issue of EQB Monitor (from the Minnesota Environmental Quality Board) carries an update on the expansion of a major poultry facility near Hawley. It cites "the construction of one barn that will house 100,000 pullets and three barns that will each house 100,000 lawyers." —C.J.

A bunch of officials

From Population Notes, *Minnesota state demographer, May 1991.*

Minnesota elects more officials than most states...In 1987, Minnesota elected 18,887 officials to rank eighth in the nation...

In Minnesota, only 23.7 percent of elected officials live in metropolitan areas. Within Minnesota metropolitan statistical areas (MSAs), 18.2 officials are elected for each 10,000 people, but outside MSAs, 76.2 officials are elected for every 10,000 people, or more than four times as many...

The number of elected officials in Minnesota has declined by 28 percent since 1967. In 1967, Minnesota ranked third in the nation with 26,290 elected officials...Most of the decline came through consolidation of small independent school districts...

More Minnesota elected officials are white (99.6 percent) than in the nation (97.5 percent). Minnesota also has a higher proportion of male local officials (83.5 percent) than the nation (80 percent).

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Citizens League Matters

June 25, 1991

News for Citizens League Members

Welcome new members

- Frederick W. Capshaw
- Richard Larson
- Genevieve Ryan
- William Stein
- Robbie Wigley

Welcome back members

- Patricia Baker
- Joseph Beaton
- John Burdick
- Robert Carlson
- Leonard Carpenter
- Burton Cohen
- Rusty Cohen
- Daniel Elazar
- David Grube
- Peter Hayden
- Carl Johnson
- Grace Lindley
- Joseph McCarthy
- Virginia Myers
- Thomas Owens
- Ember Reichgott
- Donald Savelkoul
- Daniel Shuster
- Marjorie Sibley
- Mark Westman
- Canny Wright

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Johnson will leave by the end of 1991

Begins new venture with national journal on government affairs

Curtis Johnson, executive director of the Citizens League since 1981, will leave the League at the end of this year.

Johnson will become executive editor of the *Peirce Report*, a new national newsletter on state and local government sponsored by the National Civic League and published by Neal Peirce, nationally syndicated columnist on urban affairs.

The process to replace Johnson is already underway. Carl "Buzz" Cummins, president of the Citizens League, has appointed a search committee of past League officers to recruit a new executive director. He expects the Board will appoint a new executive director by late fall.

Besides Cummins, the search committee includes Becky



Malkerson, Peter Heegaard, Tom Swain, Karen Himle, Ann Duff, Jean King and Ronnie Brooks.

During his tenure at the League, Johnson oversaw many policy recommendations from League study committees make their mark in the public policy arena. For example, the League was at the

forefront in supporting Minnesota's school choice programs. The Legislature enacted many League ideas for changing the state's property tax system and local governments' development subsidies.

It was under Johnson's leadership that the Citizens League acquired the *Minnesota Journal* in 1984.

Johnson has become a visible spokesman for the League. He has been a regular guest on public television and a contributor to local newspapers. He chaired a task force on plastic packaging and Gov. Perpich's Select Committee on Packaging and the Environment; he served on Gov. Perpich's group on education reform. Before joining the League, Johnson was president of community colleges in Minneapolis, Inver Grove Heights and Hibbing.

Program committee offers three study topics to League Board

The League's Program Committee will propose three studies for 1991-92 at the Board of Directors June 27 meeting. The topics are: Organization of Local Government Services; School Desegregation in the 1990s: A Collision of Community Values; and Growth in the Metropolitan Region: How Will it Be Governed and Served?

The committee, chaired by Milda Hedblom and Jan Hively, revised

its topic selection criteria and applied them to a long list of possible topics. Those criteria included consideration of how study topics can advance other strategic goals of the League, such as providing broad opportunities for participation, building links with minority communities, and conducting research on topics of interest to current or potential funders.

Expanded property tax report available

This year the Citizens League is expanding its property tax analysis on homesteads to include new data and graphic presentations.

The expanded report includes estimates of property taxes on a variety of homes, five year trends of tax changes, the share residential property is of each community's tax base, and more. Copies may be purchased for \$10 by members and \$15 for non-members. To order, call 338-0791.

League teams up to seek Council candidates

Group gives input to appointment process for vacant position

Filling the Metropolitan Council seat vacated by Dottie Rietow has taken on an added dimension. Representatives of the Citizens League, the Association of Metropolitan Municipalities and the Council of Metropolitan Area Leagues of Women Voters joined together to assist in the appointment of well-qualified people to the Metropolitan Council.

This group met several times over the spring to develop criteria for measuring the qualifications of candidates for

Metropolitan Council seats. The statutes regarding Council member qualifications require only that candidates be knowledgeable about metropolitan and urban affairs.

Statutes require only that candidates be knowledgeable about metropolitan and urban affairs.

Members of the group also decided they would participate in the process for seeking qualified nominees. Consequently, the group monitored the public hearing held by the governor's nominating committee at which seven

people described why they'd be good members of the Council. Following that, the group members met to apply the criteria they developed to the candidates. The group then made a joint recommendation to the governor's nominating committee.

The organizations hope to enhance the process for selecting Metropolitan Council candidates.

We'll report in the future on whether the group was successful in this round.

Intern at League for summer

Sally R. Burnett, a junior at Colgate University in New York and a native of Edina, is working at the Citizens League office from June through August of this year. While at the League, Burnett will primarily assist a new study committee, to begin later this summer, on barriers to seeking elective office.

Burnett has already compiled crucial background information on the use of term limitations for elected officials around the country. She will also help research the campaign finance systems in



Minnesota and other states.

Burnett's major studies at Colgate University are in sociology, with interests in geology and Italian. She will spend half of her next college year studying in Rome. Burnett intends to graduate in the spring of 1993.

Her summer in Minnesota is divided between interning at the League

and working a second job to provide an income. Her other interests include skiing, sailing, snorkeling, and Italian culture.

Minnesota Journal needs financial help

The League is turning to its members in a special appeal to continue financing the *Minnesota Journal* through the end of the year.

Although a special committee headed by Kent Eklund is analyzing how to finance the *Journal* for the long term, the League has a short term financing gap to fill. In the past, foundation grants provided the majority of the financing for the *Journal's* direct costs. However, this support is ending.

To continue publishing the *Journal* through this year, the League is mailing a request to all members to contribute \$2⁵⁰ towards the *Journal's* production. Members will receive a letter with the request in the latter part of June.

The League asks all members to help support the *Minnesota Journal* by returning a contribution.

Mind-Openers please crowds

An average of 65 people attended each of the 33 Mind-Opener meetings this year pushing the total attendance close to 2,200 people for the second consecutive year.

While all of the meetings were well-attended and had thoughtful presentations, two series in particular stand out. In November an average of 83 people, a Mind-Opener record, turned out for the series, *Minnesota's State and Local Fiscal System*, a topic which subsequently became the major issue in the 1991 Legislative session. And nearly 500 people attended the six meetings in a series on *Health Care Issues*.

The next *Matters* will carry a recap of the 1990-91 season.

Please vote

Citizens League members are reminded to use the ballots mailed to them and vote for eight members to the Board of Directors.

Ballots must be returned to the Citizens League office by *Thursday, June 27*. The elections committee will count the ballots on *Friday, June 28th*.