

A R E P O R T
to the
F I F T Y -- F O U R T H L E G I S L A T I V E A S S E M B L Y

S P E C I A L S E S S I O N

October 30, 1967

concerning

1967-69 GENERAL FUND BUDGET REDUCTIONS

Recommended by

THE HONORABLE TOM McCALL
Governor of Oregon

Submitted by

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October 23, 1967
Salem, Oregon

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INTRODUCTION

The actual effect of Governor McCall's package for balancing the 1967-69 General Fund budget is a requirement for net reductions amounting to \$32,607,894. The required reductions are in line with revised revenue estimates which, excluding a newly-proposed \$7,350,000 bond proceeds transfer, are down by \$32,281,000 from those used by the Regular Session in arriving at the approved budget. The difference, \$326,894, represents a decline of \$196,525 in the beginning balance available on July 1, 1967, plus \$130,369 which the Governor recommends be added to the June 30, 1969, ending balance available for carryover into 1969-71. The desirability of increasing the June 30, 1969, balance may be seen by comparing the nearly \$22 million with which the state started the current biennium to the \$946,584 balance projected by the Regular Session for carryover into 1969-71.

In outline, the General Fund support reductions included in the Governor's package are as follows:

1. One-year elimination of inventory tax relief appropriation		\$ 6,252,000
2. Bond borrowing for Higher Education Capital Construction		12,527,054
3. Bond borrowing for community college buildings (technically a Department of Education operating budget item)	\$ 3,388,290	
4. Reduction to agency General Fund budgets by applying cutbacks usually ranging from 2-1/2% to 4-1/2%	10,968,696	
5. Increase Emergency Fund by Net Operating budget decreases	<u>(1,000,000)</u>	13,356,986
6. Capital Construction projects reduced or refinanced		<u>471,854</u>
Net Total Decrease in General Fund Financing		<u>\$32,607,894</u>

The net decrease figure of \$32,607,894 shown in the chart above represents an expenditure reduction of \$25,257,894 plus a special reimbursement of \$7,350,000 carried as a new General Fund revenue item which will be derived from Higher Education Article XI-G bond borrowings in February 1968. This latter item of revenue reimbursement will be discussed in some detail in the section of this report on Expanded Use of Bond Borrowing.

The following schedule, which generally follows the format used in the Governor's presentation, reconciles the 1967-69 General Fund budget approved by the Regular Session with the reduced budget as recommended by the Governor:

Brief Summary of Governor McCall's Reduced General Fund Budget
1967-69

	<u>Budget Per 1967 Regular Session</u>	<u>McCall Revised Budget</u>	<u>Differences</u>
<u>Subject to Executive Control</u>			
<u>(Part 1)</u>			
Operating Budgets (including community college building moneys)	\$348,751,228	\$335,186,972	-\$13,564,256 ^{3/}
Capital Construction:			
Higher Education Buildings	15,142,554	9,965,500 ^{1/}	- 5,177,054 ^{3/}
Other Capital Construction	<u>2,859,812</u>	<u>2,387,958</u>	<u>- 471,854</u>
Total Part 1	\$366,753,594	\$347,540,430	-\$19,213,164
 <u>Not Subject to Executive Control</u>			
<u>(Part 2)</u>			
Property Tax Relief:			
General Property Tax Relief	\$ 20,000,000	\$ 20,000,000	\$ -
Senior Citizens	4,390,000	4,390,000	-
Inventory Tax	<u>11,366,000</u>	<u>5,114,000</u>	<u>- 6,252,000</u>
Subtotal--Tax Relief	<u>\$ 35,756,000</u>	<u>\$ 29,504,000</u>	<u>-\$ 6,252,000</u>
Operating Budgets and Basic School Support	<u>\$185,643,822</u>	<u>\$185,851,092</u>	<u>+\$ 207,270^{2/}</u>
Total Part 2	<u>\$221,399,822</u>	<u>\$215,355,092</u>	<u>-\$ 6,044,730</u>
 TOTALS	 <u>\$588,153,416</u>	 <u>\$562,895,522</u>	 <u>-\$25,257,894</u>
Equivalent Effect of Transferring \$7,350,000 XI-G bond proceeds to General Fund as a revenue item		 <u>- 7,350,000</u>	 <u>- 7,350,000^{3/}</u>
Reduced McCall General Fund Budget shown comparable to 1967-69 Regular Session Budget		 <u>\$555,545,522</u>	 <u>-\$32,607,894</u>

^{1/} Includes XI-G bonded debt service \$1,250,000, Mental Retarded facility state matching of \$1,365,500, and \$7,350,000 which is to be reimbursed by proceeds of sale of XI-G bonds which are presently authorized and which will be sold in February 1968.

^{2/} \$207,270 increase is net of \$1,000,000 increase proposed to Emergency Fund less budget reductions to agencies of \$792,730.

^{3/} Total of \$15,915,344 educational facilities are transferred from General Fund to bond borrowing, as follows:

Community colleges included in Department of Education budget	\$ 3,388,290
Higher Education, removed from General Fund support	5,177,054
Higher Education, remaining as General Fund items, but offset by payment of bond proceeds into General Fund as a revenue items	<u>7,350,000</u>
Total use of bonds to reduce deficit	<u>\$15,915,344</u>

No reductions are proposed to the \$155,216,960 Basic School Support appropriation, and general property tax relief appropriations also are exempted from being cut back. The Governor's recommendations do not include budgets supported from Other Funds since no possible relief will accrue to the General Fund from such adjustments. Somewhat inexplicably, the over-all adjustments do not include agencies or units such as the Department of General Services, Civil Service Commission, Division of Audits, and Data Processing Unit of the Department of Finance which are supported by fees or charges to all agencies, including those supported from General Fund appropriations. Also excluded are revenue producing agencies such as the Liquor Commission, where agency operating costs represent a reduction to General Fund revenue. Budget curtailments in the agencies cited might have been considered as a means of spreading necessary reductions more broadly and with less impact upon those others which are directly supported from the General Fund.

Later in our report, preceding our budget analysis, we have included a detailed schedule in which the Governor's recommendations are reorganized to conform to the Ways and Means Subcommittee assignments during the Regular Session. That schedule will show agency approved budgets, recommended or suggested cuts, and the approximate percentage of reduction applied in each case.

In preparing our report, note has been taken of the strong arguments which exist in support of a Legislature adopting the recommendations of the Governor without a detailed or extensive review. When budgetary adjustments are relatively small, the continuous influence of the executive branch over budgetary matters lends great weight to the adoption of the Governor's proposed revisions. By continual updating of revenue estimates, the Governor largely determines whether further revision of a budget is needed or not. The Governor's supervision of budget execution, aided by allotment reports and controls, permit him to identify and accomplish whatever minor adjustments are required to assure budgetary balance. If needed, the Governor's authority to accomplish non-selective budget reductions without a call of the Legislature is available. And finally, the influence of the Governor to obtain coordination and assistance between agencies serves as a non-budgetary means of dealing with budgetary problems.

Where legislative policy is materially affected, however, it becomes more important that the Legislature make its own review and arrive at its own policy decisions. Such matters as the recommendation for temporary reduction of inventory tax relief financing, and expanded use of bond borrowing for educational facilities construction qualify as important financial policy issues. In the area of operating budget recommendations, new program eliminations, changes in emphasis and certain proposals to continue programs without reduction may represent examples of policy issues of sufficient weight to warrant legislative examination.

In our analysis of the Governor's total package, an effort is made to place emphasis upon the more important policy implications, and wherever possible, to draw attention to possible alternatives to the Governor's recommendations. In line with this set of objectives, separate sections are presented upon Expanded Use of Bond Borrowing, General Fund Property Tax Relief Revision, Surplus Veterans Loan Earnings as a Possible Alternative Revenue Source, Analysis of Governor McCall's Operating Budget Reductions, and Analysis of Capital Construction Proposals. The Analysis of Operating Budget Reductions is organized according to Ways and Means Subcommittee functions, and brief schedules are included as required to bring the entire package into a format which will, hopefully, be more familiar and useful to the Ways and Means Committee operation.

EXPANDED USE OF BOND BORROWING

A substantial part of the Governor's proposal for reducing General Fund outlays rests upon expansion of bond borrowing for construction of educational facilities. The plan includes a transfer to bonding of presently authorized 1967-69 General Fund building projects in the amount of \$12,527,054 for Higher Education and \$3,388,290 for community colleges, releasing a total of \$15,915,344. As can be seen, essentially one-half of the \$32.6 million General Fund cutback set forth in the Governor's total budget revision package represents a substitution of borrowed moneys in place of current general revenues.

The schedule below presents in summary form the existing and proposed plans for financing educational facilities construction in 1967-69.

Summary of
1967-69 Education Capital Construction Financing Source Changes

<u>Financing Source</u>	<u>As Presently Authorized</u>	<u>As Proposed by Governor</u>	<u>Difference Increase (Decrease)</u>
General Fund Chapters 404, 433 & 456	\$21,535,554	\$ 5,620,210	\$(15,915,344)
Art. XI-G Bond Borrowing	10,891,000	34,133,511 ^{1/}	+23,242,511
Art. XI-F(1) Bond Borrowing	7,050,000	7,050,000	-
Art. XI-F(1)(A) Bond Borrowing	7,327,167 ^{1/}	- ^{2/}	(7,327,167)
Building Use Credits	250,000	250,000	-
Restoration Fund Recovery	167,104	167,104	-
Federal Grants	<u>19,774,175</u>	<u>19,774,175</u>	<u>-</u>
 Totals and Net Change	 <u>\$66,995,000</u>	 <u>\$66,995,000</u>	 <u>\$ -</u>

^{1/} Subject to possible increase of \$3,670,000 for OSU Administration Building if acceptable design plan is presented and approval by the Emergency Board is given.

^{2/} The Governor proposes submitting XI-G bond authority increases to a vote in May, 1968, covering all 1967-69 increased bond borrowing requirement. Submission of a modified XI-F(1)(A) bond authorization amendment to provide future bonding capacity for community college construction is proposed for November, 1968. If the XI-G increase is defeated in May, the Governor proposes to rely upon the capacity submitted under the XI-F(1)(A) proposal in November to handle educational building requirements.

If adopted, the Governor's recommendation for expanded reliance upon borrowed money in 1967-69 will represent a major change in the financial policy of Oregon in those areas supported from general state revenues. The Governor's proposals for expansion of borrowing capacity at the May and November 1968 elections make it clear that he advocates even greater dependence upon bond borrowings for construction of educational facilities in the future.

The executive timetable provides for submitting a constitutional amendment to the people of Oregon at the May, 1968 Primary Election authorizing a bonding capacity of \$50 million in place of the present \$25 million limit for Higher Education, and \$10 million in place of the present \$5 million for community colleges, both under Article XI-G of the Oregon Constitution. Article XI-G permits issuance of general obligation bonds, and provides for payment of principal and interest from either legislative appropriations or a state property tax levy if the appropriations are absent or inadequate.

At the November, 1968 General Election, it is proposed to submit to the voters of Oregon, in place of the amendment proposed in House Joint Resolution 58 adopted by the 1967 Regular Session, a constitutional amendment to be known as Part 2, Article XI-F(1), authorizing the issuance of bonds repayable from "revenues, gifts, grants and building fees" up to the true cash value limitation of three-fourths of one percent already included in Article XI-F(1) for the purpose of financing construction of education and general buildings by the State System of Higher Education. A separate one-fourth of one percent limitation, which would be entirely new, is proposed to finance construction of facilities, including education and general buildings, for community colleges. Insofar as higher education facilities are concerned, the Governor's proposal is the same as that contained in HJR 58; however, the new proposal relating to community colleges will generate borrowing capacity of at least \$43 million in 1969-71 in addition to the \$10 million under Article XI-G, which was mentioned previously.

The Governor recommends use of XI-F(1), Part 2, capacity as an alternative means of financing needed educational facilities during 1967-69 if the proposed increases to Article XI-G limitations are turned down by the voters in May, 1968. If the XI-G increases to \$50 million and \$10 million are approved, however, the broadened and expanded authority requested under proposed Article XI-F(1), Part 2, will not be used until 1969-71. It should be noted, however, that the proposals for Article XI-F(1), Part 2, include the requirement that education and general buildings built from such borrowed proceeds be self-liquidating. Because education and general facilities normally do not afford any significant opportunity for production of rents, fees or other direct income, the use of such borrowed moneys for buildings of this kind is severely limited by the existing revenue generating capacity of dormitories, student unions, building fees and gifts. Dormitory and other auxiliary enterprise revenues can be expanded to useful levels only by increasing charges to users, which has the effect of increasing the cost of attending college. Building fees can be expanded only at the expense of institutional revenues, thereby placing relatively greater demands upon General Fund appropriations in Higher Education or upon state aid and local property taxes in the community colleges. As a result, practical pressures against increasing student payments and tax revenue contributions combine to limit the usefulness of the XI-F(1), Part 2, financing alternative. It should be noted, however, that limitation upon Higher Education building fees is eliminated in the event that the proposed amendment to Article XI-G is not approved by the voters. This implies that tuition and fee increases are likely to follow at the state colleges and universities if XI-G borrowing capacity is not increased.

One rather confusing but necessary feature of the Governor's plan for financing educational buildings involves the temporary retention of \$7,350,000 of General Fund support in the Higher Education building program to insure continued activity in the planning and construction of facilities during 1967-68. Under the Governor's plan to transfer \$12,527,054 in Higher Education building projects to borrowed

moneys, there is great concern that the sudden removal of General Fund support in that amount would temporarily halt planning, advertising for bids and letting contracts until such time as the expansion of XI-G bonding authority is increased and bonds are sold. Geared to the May, 1968 Primary Election, it appears likely that planning and construction starts would be halted until the Fall of 1968, for a delay of many months in needed buildings and at a substantial penalty in dollars due to the continuing rise in building costs.

Consequently, to keep the 1967-69 building program on schedule and to avoid the delay of construction starts during the good weather in Summer, 1968, the Governor proposes to reduce General Fund support to the Higher Education construction program by only \$5,177,054 instead of the \$12,527,054 which we have referred to previously. The difference, \$7,350,000, is to be reimbursed to the General Fund as a revenue item immediately upon sale of XI-G bonds under presently existing statutory authority in February, 1968. From a time standpoint, such a continuation of General Fund support in the amount of \$7,350,000 will avoid delaying progress past the February and May dates, but at the same time, effectively shifts the \$7,350,000 part of the construction program support from the General Fund to bond borrowings. The combined General Fund withdrawal from Higher Education buildings in 1967-69 remains at \$12,527,054, but with \$5,177,054 representing a reduction to the appropriation and the \$7,350,000 representing a repayment to the General Fund as a revenue item from XI-G bond borrowings.

The necessity to look upon the \$7,350,000 General Fund revenue item to be paid from borrowed funds as a part of the plan to arrive at a balanced General Fund budget prevents the Governor from showing all of the \$32.6 million needed on the expenditure side of the financial picture. Thus, \$25,257,894 is shown as the grand total of expenditure reductions, to which must be added the \$7,350,000 special General Fund revenue item to be paid from bond borrowings. Together, the two amounts shown equal \$32,607,894, which is the package total reduction to the General Fund.

Because bond borrowing will tend to permanently commit the state to an important change in policy, it may be useful to examine some of the advantages and disadvantages of borrowing in certain kinds of circumstances.

The most significant theoretical consequence of borrowing is a gain in time. Borrowed money is made available, projects are completed and costs are amortized over at least a part of the useful life of the asset thusly acquired. The utility or even the necessity of borrowing is fairly obvious where great capital projects are desired at costs far in excess of the ability of current revenues to finance. A closely related situation might be one where revenues are temporarily but substantially depressed at a time when the need for facilities is especially great. Borrowing in each of these situations tends to match up money with current expenditure requirements in a way which may otherwise be impossible.

A policy of borrowing for capital construction purposes is often advocated as being advantageous under much more "normal" conditions. The arguments advanced in behalf of borrowing under such situations of relative normalcy usually reflect a strongly activist philosophy or approach to government. Actual arguments favoring indebtedness in government bear a strong resemblance to the reasons commonly used in support of consumer credit.

Proponents of borrowing point to the values which are to be gained through construction of modern, adequate facilities as needs arise, permitting the use and enjoyment of such structures considerably in advance of the time possible under pay-as-you-go financing. Such a viewpoint stresses nullification of the added costs of borrowing which results from the payment of principal and interest with dollars which are "cheaper" than those borrowed. Reading the other side of the inflationary coin, those who would borrow take note of the savings on construction costs which occur when a structure is built early at lower prices. These circumstances, say the advocates of borrowing, permit modernization and upgrading in government without undue burdens on taxpayers, and, especially in the case of educational facilities, borrowing matches payments to the period and the individuals most benefited by the assets acquired from borrowed capital.

Arguments in opposition to borrowing for capital additions in the public sector ordinarily reflect a more conservative attitude toward the role and size of government. Pay-as-you-go advocates can be expected to emphasize that borrowing is very difficult to discipline and, once started, nearly impossible to stop. A serious disadvantage, in this view, is the manner in which borrowing precommits future revenues to projects which may, and in some cases certainly will, seem poor choices at the time the future revenues are finally realized. Even those who are not opposed to borrowing per se are apt to point out that a consistent policy of borrowing may not gain even the "one-shot" time advantage claimed by its proponents if borrowing is used as an expediency or as a substitute for adequate revenue solutions.

This last cautionary argument about borrowing may be a fairly serious one under the present facts. If borrowing is used merely to replace current revenue dollars in Capital Construction budgets which are then shifted to support desired operating budget levels, there is a danger that borrowed moneys are being used only to continue levels of construction formerly financed on a pay-as-you-go basis, but with the cost of interest added on representing a net loss. Such a practice is the equivalent of deficit spending for operating purposes.

The Governor's proposal to shift \$15.9 million for educational facilities from General Fund current revenues to XI-G bond borrowing during 1967-69 must be considered in the light of deficit spending for operating purposes. Although such a shift may be unavoidable if other acceptable alternatives cannot be found, it may be useful to emphasize that the XI-G bond part of the Governor's recommendation is founded upon immediate financial necessity and not upon the better reasoned contentions which may be advanced in support of expanded borrowing.

The proposals relating to increased borrowing capacity under XI-F(1), Part 2, are, perhaps, another matter. Community colleges, still in a stage of initial capital development, may qualify as an appropriate object for borrowing. The construction program in higher education may also be determined an appropriate area for sustained borrowing. The situation in higher education, of course, presents greater difficulties in evaluating whether borrowed money represents a step forward in the building program or an alternative way of sustaining operating budget levels. It may be advisable, however, not to place too many expectations upon the XI-F(1), Part 2, proposal, particularly where community colleges are concerned, since the self-liquidating requirement which it contains may tend to sharply limit use of such bond proceeds for education and general purpose buildings. Such authority may, however, provide institutions with the ability to threaten tuition and fee increases if building funds are not provided by other means.

Taken together, the Governor's recommendations for increased bonding capacity will total some \$73 million. Neither that gross increase nor the probable actual 1967-69 borrowing increase of less than \$30 million should be expected to affect Oregon's AA rating by the national investment services. Present indications in the money market are, however, that the immediate future will be an extremely unfavorable time to increase indebtedness. Although a federal tax increase may soften interest rates on municipal obligations somewhat, issues with a 15-year maturity can be expected to sell at 4% to 4-1/4%, and longer maturities at even higher rates. While these high interest costs may be mitigated to some extent by future opportunities for refunding, there is little optimism about any material easing in the money market until defense spending and business credit demands slacken.

Because of the high interest cost and because it uses borrowed funds to bolster operating budget levels rather than increasing capital construction efforts, the Governor's recommendations relative to Article XI-G should be examined very closely and weighed carefully against possible alternatives.

GENERAL FUND PROPERTY TAX RELIEF REVISION

The property tax relief programs initially adopted for the 1965-67 biennium were continued in 1967-69. The General Fund appropriations together with the estimated distribution of 50% of cigarette tax revenue provide total direct property tax relief of \$47,519,000. This amount is segregated as follows:

1967-69 General Fund Appropriations:	
General (continuing appropriation ORS 310.725)	\$20,000,000
Inventory Tax Relief	11,366,000
Senior Citizens Tax Relief	<u>4,390,000</u>
Total Appropriations	\$35,756,000
Other Funds:	
Cigarette Tax Revenues (50%) - Estimated	<u>11,763,000</u>
Total	<u>\$47,519,000</u>

The 1967-68 property tax relief distributions which will be made on or before November 15, 1967, are:

Direct Property Tax Relief:	
Continuing Appropriation (General Fund)	\$10,000,000
Cigarette Tax Revenues (50%)	5,462,995
Inventory Tax Relief (General Fund)	5,114,000
Senior Citizens Tax Relief - Estimated (General Fund)	<u>2,090,000</u>
Total	<u>\$22,666,995</u>

The Governor has not recommended any reduction in the 1967-68 amounts, recognizing that county assessors have computed their 1967 tax levy rates based upon the above level of property tax relief.

The budget adopted by the 54th Legislative Assembly provided for the following amounts of property tax relief in 1968-69:

Direct Property Tax Relief:	
Continuing Appropriation (General Fund)	\$10,000,000
Cigarette Tax Revenues (50%) - Estimated	6,300,000
Inventory Tax Relief (General Fund)	6,252,000
Senior Citizens Tax Relief (General Fund)	<u>2,300,000</u>
Total	<u>\$24,852,000</u>

The Governor recommends that the General Fund support for inventory tax relief be discontinued for 1968-69 only, thereby making \$6,252,000 available to offset a portion of the General Fund deficit. The Governor, however, recommends that the inventory tax relief program as set forth in ORS 310.045 be continued. That statute states as its intent the reduction of ad valorem taxes levied on inventories

by 10% in 1966, with the tax reduction to be increased each year by an additional 10% until 1970 when the rate of reduction will be 50%. The appropriation for 1968 of \$6,252,000 would provide relief of approximately 24.2% rather than 30%, as the appropriation was reduced in order to develop a balanced budget for 1967-69. Discontinuing General Fund support of the program for 1968-69 will result in a shift of the tax burden to other types of property. In 1968-69 this will result in an estimated additional property tax of \$.40 for each \$1,000 of true cash value of taxable property in Oregon. The Governor's proposal continues tax relief on inventories at the expense of other property taxpayers.

These are other alternatives relating to property tax relief which may be considered, including:

1. Discontinuation of the inventory tax relief program.

This would also make the 1968-69 inventory tax relief appropriation of \$6,252,000 available to offset a portion of the deficit, but rather than to shift the burden to other classes of property, inventories would be taxed at 100% of value.

2. Repeal of the \$10,000,000 continuing appropriation for direct property tax relief making that amount available to offset a part of the deficit.

This would result in an increase in 1968-69 property tax levies of approximately \$.60 for each \$1,000 of true cash value.

3. Transfer of the 50% of cigarette tax revenues presently dedicated to property tax relief to the General Fund.

This would make an estimated \$6,300,000 available to offset a portion of the deficit and would result in an increase in property tax rates of approximately \$.40 for each \$1,000 of true cash value.

4. Discontinuation of General Fund support for the Senior Citizens Tax Relief Program or complete repeal of the program.

Discontinuation of General Fund support would result in the burden being shifted to other classes of property which would result in an increase in 1968-69 tax rates of approximately \$.15 for each \$1,000 of true cash value. Repeal of the program would make those individuals who are over 65 and who have annual household income of \$2,500 or less who are now receiving property tax relief under this program liable for all property taxes levied on their homestead. In view of the amount of money that it would make available, \$2,090,000, this possibility does not seem to warrant serious consideration.

SURPLUS VETERANS LOAN EARNINGS AS A POSSIBLE ALTERNATIVE REVENUE SOURCE

Although it was not recommended by the Governor, the Legislature might consider the transfer of part of the surplus moneys in the Oregon War Veterans' Bond Sinking Fund to the General Fund to offset a portion of the anticipated General Fund deficit. The Attorney General in an Opinion dated February 6, 1963, stated that if the Legislature deems that there is a surplus of earnings in the Department of Veterans' Affairs Sinking Fund, it may transfer the surplus to the General Fund for general governmental purposes. At June 30, 1967, there was \$21.6 million of accumulated earnings in the Oregon War Veterans' Bond Sinking Fund. During the 1966-67 fiscal year the accumulated earnings increased \$2.9 million.

One possibility would be to establish a reserve in the War Veterans' Bond Sinking Fund equal to a percentage of the outstanding loans as of the end of each fiscal year. Provision could be made for the transfer from the Sinking Fund to the General Fund of the accumulated earnings in excess of such reserve requirements. Further provision could be made that in the event that the balance in the reserve account at the end of the fiscal year was less than the percentage requirement the General Fund would replenish or stand as surety to the Sinking Fund in an amount sufficient to re-establish the reserve at the predetermined percentage.

If a reserve was established as of June 30, equal to 3% of outstanding loans as of that date, an immediate transfer of \$12 million could be made from the Sinking Fund to the General Fund. This procedure would continue to provide additional security for the repayment of the outstanding indebtedness of the Department of Veterans' Affairs and at the same time permit withdrawal of excess accumulated earnings for general governmental purposes.

The maintenance of a 3% accumulation of surplus in the Sinking Fund would be conservative as compared to the reserve presently being maintained by state banks. The State Banking Department informs us that the average reserve maintained by such banks at the present time is 1.2%. It is to be pointed out that loans by state banks cover all types of loans, and at the present time real estate loans are less subject to losses than are other types. It therefore appears that the accumulated earnings of the Fund in excess of 3% can be deemed a surplus of earnings available for transfer to the General Fund in accordance with the Attorney General's Opinion.

Another possibility would be to transfer from the Sinking Fund to the General Fund \$6,519,980 which represents the liability of the General Fund for the redemption of Veterans' Compensation Bonds for the 1967-69 biennial period. Such a transfer can be justified upon the principle that proceeds from the sale of bonds were utilized to pay a bonus to veterans who were eligible for participation under the Veterans' Home Loan Act. Earnings from loans to veterans could be regarded as repayments from the class benefited by bonus payments to the State of Oregon for its investment.

There also appears to be justification for the transfer of surplus moneys from the Oregon War Veterans' Bond Sinking Fund to the General Fund for general governmental purposes, upon the theory that such accumulated earnings have resulted from

the issuance of general obligation bonds of the State of Oregon to finance the loan program. Because these bonds were general obligations of the State of Oregon, they sold at interest rates substantially below that obtainable on revenue bonds dependent upon the security of veterans' mortgages and loan payments.

Actually, as indicated by conservative banking practice, it is feasible to consider a retained surplus as low as 1-1/2%. At a retained surplus of 2% of outstanding loans, some \$15 million can be immediately available to the General Fund. Future earnings may be regarded as a continuing General Fund revenue source. The size of such future earnings available would depend upon the value of outstanding loans, the cost of borrowing and the operating efficiency of the Department of Veterans' Affairs. It is conservatively estimated that at least \$1-1/2 million in earnings would be available at the close of 1967-68 and again at the end of 1968-69, bringing maximum available revenue from this source during the 1967-69 biennium to \$18 million.

If the alternative discussed in this section is adopted in some form, certain consequences may be expected. First, the Department of Veterans' Affairs will be forced to sell additional bonds to replace the distributed surplus. Replacement of owned capital with borrowed moneys will reduce the net income of the loan program by the cost of the interest payable on such amounts. Another possible consequence is a small increase in the rate of interest on bonds sold in the future. At present, bonds for veterans' loans are secured by the full faith and credit of the State of Oregon, by the security of mortgage notes and contracts received on loans to veterans, and by the existence of surplus earnings of some \$21.6 million. Reduction of the surplus will have the effect of placing the loan bonds in a slightly less favorable security position which will be reflected in the sale price.

Adoption of a plan to transfer veterans' loan surplus earnings may possibly precipitate some criticism from private lending institutions that the State of Oregon is entering the business of lending for profit. Actually, there would be no change in the position of the state in the lending business; however, there is perhaps some likelihood that the state may become dependent upon the loan earnings for continuing revenue purposes. But, it should be noted that any tendency of the state to increase income from lending also tends to destroy the competitive advantage on interest charges of which private lenders complain. In view of the current level of interest rates, the Legislature may wish to consider at some point the advisability of increasing the interest rate on veterans' loans to conform more closely to today's financial realities.

The fact that an earned surplus on veterans' loans is in existence fairly implies that it will be disposed of ultimately in some manner. If allowed to remain available for loans, the size of the surplus can be expected to increase at an accelerating rate. The reasons for allowing the loan surplus to accumulate indefinitely and the plan for ultimate disposition of the surplus moneys are policy questions which possibly should be considered by the Legislature regardless of the immediate decision.

ANALYSIS OF GOVERNOR McCALL'S RECOMMENDED OPERATING BUDGET REDUCTIONS

In this Section of our report, there are included relatively brief but detailed analytical comments for each General Fund budget affected. Comments are also included for certain Other Funds agencies where such an operating budget may have impact upon General Fund revenue or expenditures by General Fund agencies.

The organization of this Section follows Subcommittee assignments of budgets to the Ways and Means Committee as they existed during the Regular Session.

Although every effort has been made in the short time available to present as much factual material relating to the proposed reductions as possible, it should be stressed that the plans presented by agencies change day by day. As recently as Thursday, October 19, there were agency administrators and program heads who had not made plans to accomplish the final recommended reductions. Accordingly, specific indications of exact position cuts and program changes in some situations may ultimately prove to be different as administrators explore real alternative opportunities in the light of the Governor's increased reductions.

While the arguments in favor of accepting the Governor's recommendations are strong and numerous, the analytical comments included in this report will indicate both agreements and some alternative possibilities for consideration. In many cases possible further reductions are identified. In other cases, the proportion or balance of the Governor's recommendations are opened to possible question and review. The effort has been to open some of the more readily identifiable policy issues to quick view, hopefully to aid and speed the work of the Ways and Means Committee.

The form of the budget reductions incorporated in the Governor's bills proposed for introduction at the Special Session is essentially the same as that used in 1963. A limitation upon General Fund expenditures is imposed within the original appropriation. Also, as in 1963, the Emergency Board is empowered to restore reduced limitations up to the limit of the original appropriation. Taken almost verbatim from the 1963 Act is the special power conferred upon the Governor to uniformly reduce agency budgets, including Basic School Support, in the event of further revenue declines.

Function and Agency	Chap. No.	1967-69		Governor's Reductions		Revised Appropriation
		Appropriation		Percent	Amount	
<u>PUBLIC SAFETY & COMMERCE</u>						
Commerce, Department of	401	\$ 2,116,541		4.5	\$ 95,244	\$ 2,021,297
Control, Board of:						
Corrections Division	564					
Administration		661,044		3.5	23,137	637,907
Non-Inst. Supervision		225,000		-	50,000	175,000
Special Payments		125,000		-	-	125,000
Institutions		17,985,244		2.5	449,632	17,535,612
Emergency Board:						
Youth Care Centers	557	75,000		-	75,000	-
Emerg. Services, Dept. of	400	99,941		-	-	99,941
Military Department:	163					
Administration		2,558,448		4.5	115,130	2,443,318
Reimb. by Fed. Govt.		271,550		-	-	271,550
Parole & Prob., Bd. of	560	2,208,036		3.5	77,281	2,130,755
Police, State:	101					
Non-Reimb. Expenditures		1,654,514		3.5	57,908	1,596,606
Other		12,577,228		-	-	12,577,228
Police Standards & Trg.	75	<u>13,569</u>		4.5	<u>611</u>	<u>12,958</u>
TOTAL PUBLIC SAFETY & COMMERCE		<u>\$ 40,571,115</u>			<u>\$ 943,943</u>	<u>\$ 39,627,172</u>
<u>NATURAL RESOURCES & TRANSPORTATION</u>						
Agriculture, Dept. of	134	\$ 3,676,600		4.5	\$ 165,447	\$ 3,511,153
Emergency Board:						
Sea Grant College	557	500,000		25.0	125,000	375,000
Engineer, State:						
Administration	41	1,473,987		3.5	51,591	1,422,396
Ground Water Survey	209	14,000		4.5	630	13,370
Fish Commission	402	2,516,905		4.5	113,261	2,403,644
Forestry, Department of:						
Administration	42	3,726,938		4.5	167,712	3,559,226
Rehab. Bond Sinking	ORS					
Fund Requirements	530.290	1,427,569		-	-	1,427,569
Geology & Mineral Ind.	119	576,755		4.5	25,954	550,801
Higher Education, Dept. of:						
Agricultural Research	530	6,993,946		4.5	314,728	6,679,218
Federal Coop. Ext.	530	5,139,460		3.5	179,881	4,959,579
Federal Coop. Ext.	ORS					
	566.240	164,000		3.5	5,740	158,260
Forest Research Lab.	530	474,578		4.5	21,356	453,222
Natural Res., Comm. on	88	52,653		4.5	2,369	50,284
Port Authorities Comm.	516	80,309		4.5	3,614	76,695
Public Utilities Comm.	164	98,570		4.5	4,436	94,134
Rogue River Coord. Board	307	750		4.5	34	716
Soil & Water Cons. Comm.	16	97,243		4.5	4,376	92,867
Water Resources Board:	91					
Administration		591,480		4.5	26,617	564,863
Ultimate Needs Study		422,388		-	-	422,388
Northwest Basin Comm.		-		-	(10,000)	10,000
TOTAL NATURAL RESOURCES & TRANSPORTATION		<u>\$ 28,028,131</u>			<u>\$ 1,202,746</u>	<u>\$ 26,825,385</u>

<u>Function and Agency</u>	<u>Chap. No.</u>	<u>1967-69 Appropriation</u>	<u>Governor's Reduction Percent</u>	<u>Amount</u>	<u>Revised Appropriation</u>
<u>LABOR & GENERAL GOVERNMENT</u>					
Capitol Planning Comm.	9	\$ 5,214	4.5	\$ 235	\$ 4,979
Circuit & District Court					
Judges	555	3,462,961	-	-	3,462,961
Compensation Department	506	6,556	-	-	6,556
Criminal Law Rev. Comm.	573	40,000	4.5	1,800	38,200
District Attorneys & Deputy Dist. Attorneys	556	1,486,196	-	-	1,486,196
Emergency Board:	557				
Expenses		8,000	4.5	360	7,640
Salary Adj. Fund		1,500,000	3.5	52,500	1,447,500
Regular Emergency Fund		2,000,000	-	(1,000,000)	3,000,000
Executive Department	190	514,488	4.5	23,152	491,336
Finance, Department of:	566				
Program Reductions					
Central Acctg. System		486,811	-	251,107	235,704
ADP Systems Division		346,457	-	37,190	309,267
Other Programs		1,041,458	4.5	46,866	994,592
General Services, Dept. of:					
Administration	565	211,952	4.5	9,538	202,414
Arrest & Return of Fugitives	565	140,000	-	-	140,000
Interstate Coop. Comm.	510	138,750	-	24,750	114,000
Investment Council	335	200,515	4.5	9,023	191,492
Judges' Retirement Fund	ORS				
	1.360	371,037	-	79,200	291,837
Judicial Council	511	59,594	4.5	2,682	56,912
Justice Department	177	1,160,375	4.5	52,217	1,108,158
Labor, Bureau of	512	1,760,367	3.5	61,613	1,698,754
Labor-Management Rel. Bd.	513	12,630	4.5	568	12,062
Legislative Assembly:					
54th Assembly	337	848,000	-	-	848,000
55th Assembly					
Preliminary Expenses	337	75,000	-	25,000	50,000
Estimated Costs	-	1,250,000	-	-	1,250,000
Amortiz. Capitol Bldg.					
Elev. & Air Cond.	337	40,082	-	-	40,082
Legislative Counsel Com.	403	340,247	4.5	15,311	324,936
Legislative Fiscal Comm.	120	333,775	4.5	15,020	318,755
Legislative Tax Study Comm.	120	13,650	4.5	614	13,036
Mid-Willamette Valley					
Council of Governments	3	3,949	4.5	178	3,771
Multistate Tax Commission	242	5,000	-	-	5,000
Portland Metro. Study Comm.	13	123,791	4.5	5,571	118,220
Public Defender	45	170,624	4.5	7,678	162,946
Secretary of State	518	3,029,669	4.5	136,335	2,893,334
Supreme Court:	563				
Salaries & OPE of Justices		319,050	-	-	319,050
Other		876,511	4.5	39,443	837,068

<u>Function and Agency</u>	<u>Chap. No.</u>	<u>1967-69 Appropriation</u>	<u>Governor's Reductions</u>		<u>Revised Appropriation</u>
			<u>Percent</u>	<u>Amount</u>	
Tax Commission	76	\$ 11,482,708	4.5	\$ 516,722	\$ 10,965,986
Tax Court	102	132,163	4.5	5,947	126,216
Temporary Governor	ORS				
	292.325	3,325	-	-	3,325
Minor Court Rules Comm.	519	650	4.5	29	621
Treasurer, State	520	1,007,085	4.5	45,319	961,766
Uniform State Laws	4	4,514	4.5	203	4,311
Workmen's Comp. Board	92	<u>7,000</u>	-	<u>-</u>	<u>7,000</u>
TOTAL LABOR & GENERAL GOVERNMENT		<u>\$ 35,020,154</u>		<u>\$ 466,171</u>	<u>\$ 34,553,983</u>
<u>CAPITAL CONSTRUCTION</u>					
Control, Board of	224	\$ 2,419,692	-	\$ 331,834	\$ 2,087,858
Education, Department of:					
Community Colleges	433	6,393,000	-	3,388,290	3,004,710
Finance, Department of	566	90,000	-	10,000	80,000
Fish Commission:					
Alsea Hatchery	402	57,000	-	27,900	29,100
Elk River Hatchery	360	191,000	-	-	191,000
Higher Education, Dept. of					
General	404	12,047,054)			
Portland State College)			
Land Acquisition	404	480,000)			
Medical School--Mental)			
Retardation Center	456	1,008,743)	-	5,177,054	8,715,500
University of Oregon--)			
Clinical Service Bldg.)			
for Mental Retardation	456	356,757)			
Series XI-G Bonds--					
Debt Requirements	404	1,250,000	-	-	1,250,000
Military Department	163	<u>102,120</u>	-	<u>102,120</u>	<u>-</u>
TOTAL CAPITAL CONSTRUCTION		<u>\$ 24,395,366</u>		<u>\$ 9,037,198</u>	<u>\$ 15,358,168</u>
<u>PROPERTY TAX RELIEF</u>					
General	ORS				
	310.725	\$ 20,000,000	-	\$ -	\$ 20,000,000
Inventory	521	11,366,000	-	6,252,000	5,114,000
Senior Citizens	521	<u>4,390,000</u>	-	<u>-</u>	<u>4,390,000</u>
TOTAL PROPERTY TAX RELIEF		<u>\$ 35,756,000</u>		<u>\$ 6,252,000</u>	<u>\$ 29,504,000</u>
TOTALS		<u>\$588,153,416</u>		<u>\$25,257,894</u>	<u>\$562,895,522</u>

Education

OREGON STATE SCHOOL FOR THE BLIND

Existing Appropriation	\$923,251
Governor's Recommended Reduction	\$ 23,078

The Governor's recommended reduction for this agency represents 2-1/2% of its General Fund appropriation. There has been a significant decrease in the average daily population of the Oregon State School for the Blind, from 110 estimated in the 1967-69 budget to a current estimate of 90. Consequently, the proposed reduction reflects this downward change in ADP. There are reductions in inventories of dormitory and household supplies and kitchen and dining room supplies; a downward recomputation of purchases of various supplies per student; two positions are vacated, a Cook 1 and an Institutional Worker; and some capital outlay items are eliminated. These reductions total \$23,918; however, two unbudgeted portable dishwashers are scheduled to be purchased at a cost of \$840, bringing the total reduction to \$23,078.

The plan evolved by the Blind School for serving a reduced population makes it possible to reduce staff by the two positions noted above without substantially changing the level of services. The institution has a new policy of sending students home for week-ends, where it is possible to do so. For those students remaining, foods are prepared and transferred on Friday evening to the dormitories. Two portable dishwashers will be purchased so that the students may wash the dishes in the dormitories. By this means, the cook and institutional worker positions can be eliminated for the week-end periods.

The adopted budget for the Oregon State School for the Blind provided a student-staff ratio of 7.4 to 1 in the Physical Care program and a student-teacher ratio of 6.77 to 1 in 1967-68 and 6.38 to 1 in 1968-69. The student-teacher ratio was an improvement over the preceding biennium due to the addition of two teacher positions, one to be added in 1967-68 and another in 1968-69. The reduction plan contemplates no reduction in staff in these two programs and, therefore, with a lower average daily population, a resulting student-staff ratio is provided at 6.1 to 1 in the Physical Care program, and a student-teacher ratio of 5.54 in 1967-68 and 5.22 in 1968-69. Because of the lower enrollment, there can be further reductions of one Institutional Worker position in the Physical Care program and one teacher in 1968-69 without lowering the level of care provided in the adopted budget.

Actually, the reduction of an Institutional Worker position will result in a student-staff ratio of 6.6 as compared to the budgeted ratio of 7.4. If the additional teacher position for 1968-69 were eliminated, the student-teacher ratio will remain at 5.54, which is still a better ratio than in the adopted budget. The elimination of these two positions will produce additional General Fund savings of \$10,820.

One of the factors in the reduced population in the Oregon State School for the Blind is tuition students from Alaska who are no longer sent here. The reason for this is that the tuition has increased from \$295 per month to \$536 per month. In the original budget, Miscellaneous Receipts were estimated at \$47,529, of which \$20,520 was to come from out-of-state students. It now appears that only one out-of-state student will be present, at \$134 per week, or \$9,648 for the biennium. Thus, there is a loss in Miscellaneous Receipts revenue of \$10,872. This loss can be made up by the elimination of the two positions mentioned, the Institutional

Worker and the teacher. Approval of the Governor's recommended reduction, plus elimination of the indicated positions, will accomplish the necessary adjustment. Another alternative to cover Miscellaneous Receipts loss would be elimination of the boys' dormitory at \$13,500. This was proposed by the institution if the budget reduction was in the 4% range. The dormitory might also be considered as an additional reduction.

It appears that the 2-1/2% allotment reduction for the Oregon State School for the Blind will not pose any great difficulty due to the reduced average daily population.

OREGON STATE SCHOOL FOR THE DEAF

Existing Appropriation	\$2,277,304
Governor's Recommended Reduction	\$ 56,933

The plan of the agency for reduced expenditures for the 2-1/2% reduction at Oregon State School for the Deaf includes: deferral of a teacher and dormitory counselor positions in the second year of the biennium, holding open a vacant maintenance repairman position, laying off some 36 service personnel during the Christmas vacation, reducing the summer cleaning program, deferring return of staff in the second year of the biennium until shortly before start of classes, reducing the time of a part-time teacher, realizing approximately \$10,000 in salary savings above the budgeted amounts, and increasing Miscellaneous Receipts revenues by \$4,800.

A significant factor in the program of the Oregon State School for the Deaf is that the average daily population is considerably underrealized from the estimate in the budget. The 1967-69 budget was based upon 304 average daily population for the first year of the biennium and 308 for the second year. It now appears that the first year average daily population will be 278, and the second year 289. Significant savings can thus be realized, which are not presently reflected in the reduction plan of the institution. Approximately \$10,000 can be reduced from food and from other supply items. In addition, a reduction of one counselor for the remainder of the current year and the second year, and a further reduction of two additional teachers during the second year would produce additional savings of approximately \$21,000. In both instances, the staff-student ratios would not be lower than those upon which the 1967-69 budget was approved, due to the drop in average daily population. If these additional amounts were to be reduced from the agency's budget, the over-all reduction would amount to approximately 3-3/4% rather than the Governor's recommended 2-1/2% of the General Fund appropriation.

However, some of the planned reductions by the agency appear to be questionable. It is doubtful that the amount anticipated from laying off service personnel during the Christmas holidays will be realized. Many employees have vacation time available to them which they may utilize during this lay-off. A proposed reduction of the cleaning program may not be desirable.

It was pointed out during the Regular Session hearings that the maintenance program for the institution is threadbare at best. It would be possible to apply a 3% reduction at this institution and at the same time maintain current staffing levels, not reduce the summer cleaning program, nor lay off staff during the Christmas holidays.

DEPARTMENT OF EDUCATION

Existing Appropriation \$24,764,373
 Governor's Recommended Reduction \$ 889,041

There are three general areas of reduction in the Department of Education budget: the administrative functioning of the Department, the special education programs in school districts partly financed by the state, and the state's share of the operating expenses of the community colleges. The reductions for these three areas are shown in the following schedule:

<u>Program</u>	<u>Budgeted Amount</u>	<u>Reduction</u>	<u>Reduction Amount</u>
Administration	\$ 3,018,455	4-1/2%	\$135,830
Special Programs	6,764,377	3-1/2%	236,753
Community College			
Operating Expense	14,755,941	3-1/2%	516,458
Series XI-G Bond Debt Service	<u>225,600</u>	-	<u>-</u>
	\$24,764,373		\$889,041

Administration

The Department of Education has a complicated financing arrangement, due to the many federal programs administered. Some federal programs are 100% financed, others are on a 50-50, 90-10, or 75-25 basis. In making General Fund reductions, it is important to consider these ratios so that the loss of federal moneys will be minimized or avoided. The reduction of \$135,830 will come largely from the personal services category. Making up this loss will not be too difficult for the department; it has already identified position vacancies that, if continued for the balance of the biennium, will result in savings of approximately \$190,000. It will not be desirable to hold these vacancies open that long, however, because of the program impact. Ten of the identified vacancies are professional positions and five are clerical positions. One of the clerical positions is a secretary who serves four professionals, leaving these staff persons without essential secretarial assistance.

The financial situation of the Department of Education is aggravated by the fact that there was a 4-3/4% vacancy experience factor built into its adopted budget, which amounts to approximately \$127,000. Thus, while the Governor's recommended reduction is \$135,830, the combination of vacancy experience and reduction amounts to \$262,733 out of its total administration budget of \$3,018,455. There will be an additional loss of federal funds of \$44,553, due to the necessity of holding open vacant positions that are partially financed from federal moneys.

If all known vacancies, including expected retirements and resignations, materialize, approximately \$203,000 can be identified as reduction amounts. In addition, the Department must reduce its budget by another \$59,000, most of which will have to come from forced vacancies, or vacancies that cannot now be anticipated.

Special Programs

The special programs of the Department of Education consist of state aid to school districts for various purposes. The programs that are affected and the amounts of the reductions are as follows:

<u>Program</u>	<u>Budgeted Amount</u>	<u>Rate of Reduction</u>	<u>Reduction Amount</u>
Mentally Retarded Children	\$2,373,156	3-1/2%	\$ 83,060
Handicapped Children	3,325,000	3-1/2%	116,375
State Tax Exempt Property	220,000	3-1/2%	7,700
Exclusive Federal Jurisdiction	19,000	3-1/2%	665
Able and Gifted Children	32,000	3-1/2%	1,120
Vocational Education, High School	250,000	3-1/2%	8,750
Operation of Schools	488,831	3-1/2%	17,109
Aid to Individuals	<u>56,390</u>	3-1/2%	<u>1,974</u>
	\$6,764,377		\$236,753

The reduction in the Aid to Mentally Retarded Children program will create difficulty inasmuch as the number of special classes for mentally retarded children is greater than anticipated for the 1967-68 year. If this continues for the 1968-69 year, the reduction will require a lower rate of reimbursement than that authorized by statute. The effect on the Handicapped Child program has not yet been assessed, but it is known that payments are made to a sufficiently large enough number of school districts to make the impact of the reductions less noticeable than would be the case if the entire amount were to be withdrawn from a single program or district. A new federal program for handicapped children may be forthcoming to finance programs where no state funds are available.

The reductions for the State Tax Exempt program and the Exclusive Federal Jurisdiction programs will not be felt until the beginning of 1969, since the districts that apply for this money do so on a reimbursable basis. At this time it is impossible to say whether or not the enrollment at the schools that ordinarily qualify will be such that all of the appropriation will be needed at 100% reimbursement rates. There is a strong possibility that the \$19,000 appropriated for Exclusive Federal Jurisdiction may not be needed. The only school district qualifying at the present time is Salem; a survey is being made by the Salem School District to determine if it is eligible for Public Law 874 moneys, which is a federal program similar to the state Exclusive Federal Jurisdiction program. If the district qualifies under Public Law 874, it will not receive the state moneys.

The amount appropriated for the Able and Gifted program was based upon the number of school districts presently participating. However, the expected reimbursement requests will be less than anticipated and therefore no proration is required. In the Operation of Schools, the reduction of \$17,109 will apply to the Children's Farm Home, the Wynne Watts School, and the Boys and Girls White Shield Home. On a pro rata basis, the reduction would be applied 50%, 35%, and 15% to the schools named, respectively. The reduction for vocational education in high schools should not have any great effect inasmuch as the state appropriation of \$250,000 is mixed with federal moneys of approximately \$2.6 million, so that the impact of an \$8,750 reduction is quite small to the receiving districts.

A summary view of the impact of the Governor's recommended reduction for the Department of Education indicates that the administration of the Department will be the hardest hit, and that the program effects will result in vacancies in positions that will remain open for a large part of the remainder of the biennium; but that the impact on the state aid program to school districts for various special programs will not be as great because the amounts to be reduced will be spread out among many participating districts, and because of the continuing availability of federal funds.

Community Colleges

The Governor's recommended reduction for Community Colleges operating expenses is \$516,458. (There is a reduction of \$3,882,290 for capital construction in Community Colleges, but this is proposed to be shifted to a bonding program, as indicated in the section under Capital Construction.) As explained in the Governor's proposal, the operating expense reduction will be applied to the second year of the biennium. The reasoning is that budgets for the first year are already in effect and the Community Colleges could plan their second year program more accurately with a foreknowledge of the amounts from the state that will be available to them. This reasoning overlooks the fact that payments to Community Colleges are on a reimbursable basis and will not be complete for the first year until the fall of 1968. If enrollments for the first year in the over-all are less than anticipated, some of the reduction can be made up in the first year. If, however, enrollments are greater than anticipated, the impact will then be even more severe during the second year. The apparent plan for allocating the reduction to the various institutions is to prorate the total \$516,458 according to the percentage that each institution's appropriation bears to the total appropriation for the 1967-69 biennium.

The most recent estimate of community college enrollments for the 1967-68 year, based on fall term experience, indicates that there will be 88 FTE students less than budgeted, taking the Emergency Board reservation into account, or some \$40,000 less than budgeted for the first year of the biennium.

If enrollments are underrealized for the second year of the biennium in the same proportion as in the first, according to the latest estimate of the first year, the amount required under the adopted budget will be lower by another \$50,000. In other words, the Governor's recommended reduction may turn out to be not 3-1/2%, but something less than 3%. The ability of the individual community colleges to absorb this reduction must be evaluated in the light of their own taxing resources, operating efficiencies, or other revenue sources, but the impact probably will not be so severe as to cause any great curtailment of operation.

DEPARTMENT OF EDUCATION--DISADVANTAGED CHILDREN	
Existing Appropriation	\$1,250,000
Governor's Recommended Reduction	\$ 43,750

The 54th Legislature appropriated \$1,250,000 to the Department of Education, for distribution to school districts with an average daily membership of 50,000 or more (in effect, the Portland School District) for providing special classes and equipment for disadvantaged children. Since this is a direct service the reduction is 3-1/2%, or \$43,750. The Governor's recommendation appears to be appropriate.

EDUCATIONAL COORDINATING COUNCIL

Existing Appropriation	\$37,926
Governor's Recommended Reduction	\$ 1,707

The Governor's recommended reduction of \$1,707, or 4-1/2% of the appropriation, will be applied to the services and supplies category. This agency has a total General Fund appropriation of \$37,926, but receives a much larger amount from various federal sources. The Governor's recommended amount appears to be appropriate under the circumstances. While the reduction will not result in any loss of staff, it will require stringent spending control of the remaining services and supplies moneys.

EMERGENCY BOARD--COMMUNITY COLLEGE ENROLLMENTS

Existing Appropriation	\$710,325
Governor's Assumed Reduction	\$ 24,861

The Governor assumes a 3-1/2% reduction to this earmarked item in the Emergency Fund. The amount is equal to distributions of community college support funds representing 5% of total enrollments. Enrollment estimates for each eligible school were understated by 5% with this subfund standing as the means of accomplishing appropriate adjustments after enrollments are known.

The Governor's assumption relative to a reduction also assumes that the subfund will remain available in the net amount and for the purpose originally intended.

EMERGENCY BOARD--HIGHER EDUCATION ENROLLMENTS

Existing Appropriation	\$3,150,000
Governor's Assumed Reduction	\$ 110,250

The Governor assumes a 3-1/2% reduction is available from this subfund which is intended for use, as needed, in the second year of the current biennium depending upon realization of enrollments by the State System of Higher Education.

The Board of Higher Education has included the \$3,150,000 subfund in its biennial budget to which the 3-1/2% reduction has been uniformly applied. Such inclusion presumes the availability of the Emergency Fund subitem in advance of enrollment realization and in advance of final action by the Special Session.

EXECUTIVE DEPARTMENT--COUNCIL ON AGING

Existing Appropriation	\$20,000
Governor's Recommended Reduction	-

The Governor's recommendation, which seems appropriate, is that there be no reduction because of the high ratio (9 to 1) of federal funds involved. A reduction of 3-1/2% from the General Fund appropriation will result in savings of only \$700, and a loss to the agency of \$6,300 from federal funds.

DEPARTMENT OF HIGHER EDUCATION--INSTRUCTION, RELATED RESEARCH AND GENERAL SERVICES PROGRAM

Existing Appropriation \$98,318,368
 Governor's Recommended Reduction \$ 3,441,143

The Governor's recommended reduction for the Instruction, Related Research and General Services program is 3-1/2%. The General Fund appropriation for 1967-69 was \$98,318,368. To this amount, however, should be added \$3,150,000, which was included in the Emergency Fund with the understanding that it represents 10% of the 1968-69 appropriation for the instructional functions, to be allocated on the basis of enrollments for the second year of the biennium. Also, the appropriation for the Instruction, Related Research and General Services program of the University of Oregon Medical School and the University of Oregon Dental School was made a separate item of appropriation:

Instruction, Related Research, General Services Program-- all institutions except UOMS and UODS	\$ 88,499,910*
Instruction, Related Research, General Services Program-- UOMS and UODS	9,818,458*
Emergency Board Reserve	<u>3,150,000</u>
Total General Fund Appropriation - Instruction, Related Research and General Services Program	\$101,468,368
Percent Reduction	<u>x 3.5</u>
Amount of Reduction	\$ 3,551,393

* Amounts reflect Emergency Board transfer of \$298,898, August 25, 1967.

Although the total budget of the Board of Higher Education is on a biennial basis, the Board customarily prepares an annual budget, since its workload is largely dependent upon the number of students enrolling each year. Normal Board practice is to expend its total budget at the rate of 48% the first year and 52% the second year. For the 1967-68 fiscal year, the Instruction, Related Research and General Services budget for all institutions except the University of Oregon Medical School and University of Oregon Dental School was based on expending 47.9% the first year; for the University of Oregon Medical School and University of Oregon Dental School the rate of expenditure the first year was planned to be 48.6%. Upon receipt of instructions from the Department of Finance to hold first year expenditures to 47%, the Board then adopted a 1967-68 budget which maintained that percentage and resulted in a "postponement" of \$1,242,126 for the seven institutions, and \$190,120 for UOMS and UODS. The summary below indicates how the reductions for the 1967-68 year are to be met and the tentative reduction schedule for 1968-69. The first year's reduction has been approved by the Board of Higher Education. Since, however, it was considered to be a "postponement" rather than a reduction, the second year reductions, which have not yet been before the Board, may be revised. It is to be noted that the first year reductions in the seven institutions represent .9% and in the UOMS and UODS 1.6%, below the normal expenditure level.

For the second year of the biennium, the reduction for the seven institutions is \$1,965,621, and for the UOMS and UODS \$153,526. The biennial reduction totals are thus, \$3,207,747 for the seven institutions, and \$343,646 for the UOMS and

UODS, or \$3,551,393 for the entire Instruction, Related Research and General Services Program. These cuts represent 3-1/2% of the total General Fund appropriation of \$101,468,368, including the Emergency Fund amount of \$3,150,000.

Tentative Schedule of Reductions
Department of Higher Education

	Board Approved Reductions <u>1967-68</u>	Tentative Reductions <u>1968-69</u>	<u>1967-69</u>
<u>Instruction, Related Research and General Services Program--Seven Institutions</u>			
Reduce Board's Reserve	\$ 182,562	\$ 182,562	\$ 365,124
Reduce Travel 10%	39,297	40,235	79,532
Reduce Equipment 7-1/2%	113,870	121,473	235,343
Reduce Residence Hall Counselors	68,296	157,802	226,098
Defer Ernst & Ernst Report	31,000	31,000	62,000
Reallocate Incidental Fee	57,990	61,990	119,980
Defer Academic Appointments	186,611	1,506,190	1,692,801
OPE	-	64,067	64,067
Use of Balance Forward	-	200,000	200,000
Non-recurring Equipment, PSC, SOC	562,500	(399,698)	162,802
	<u>\$1,242,126</u>	<u>\$1,965,621</u>	<u>\$3,207,747</u>
<u>Instruction, Related Research and General Services Program--UOMS</u>			
Reduce Board's Reserve	\$ 59,410	\$ 59,410	\$ 118,820
Equipment Deferral	20,000	10,000	30,000
Defer Academic Appointments	30,000	-	30,000
Reduce Classified Staff	27,997	5,998	33,995
Unknown Reductions	-	35,460	35,460
	<u>\$ 137,407</u>	<u>\$ 110,868</u>	<u>\$ 248,275</u>
<u>Instruction, Related Research and General Services Program--UODS</u>			
Equipment Deferral	\$ 10,000	\$ 5,506	\$ 15,506
Reduce Maintenance of Buildings	15,000	8,260	23,260
Reduce Services and Supplies	18,000	9,912	27,912
Reduce Classified Staff	9,713	5,348	15,061
Unknown Reductions	-	13,632	13,632
	<u>\$ 52,713</u>	<u>\$ 42,658</u>	<u>\$ 95,371</u>
Total UOMS, UODS	<u>\$ 190,120</u>	<u>\$ 153,526</u>	<u>\$ 343,646</u>
Total Instruction, Related Research and General Services Program	\$1,432,246	\$2,119,147	\$3,551,393

Almost half of the reduction for the first year of the biennium was made by reducing non-recurring equipment in Portland State College and Southern Oregon College, that is, "C" budget equipment items, in the Libraries and Museums and Instruction and Related Research functions of these two institutions. However, the second year plan indicates a desire not to reduce by this large amount; thus, the second year column shows restoration of approximately \$400,000 in non-recurring equipment for these two institutions. The next largest reduction in 1967-68 occurs in academic staff appointment deferrals, which now appears not to have caused any great difficulty due to a slight decrease in enrollment for 1967-68 below the budget estimate. The other reductions for the first year are of the type agencies normally utilize when revenues fall short of expectations.

During the second year of the biennium, approximately three-fourths of the tentative reduction for the seven institutions will be effected through deferral of academic staff. Further, approximately half of the biennial reduction will be made through this source. A slightly smaller enrollment for the biennium is expected to make up part of the reduction, approximately \$200,000, so that the actual deferral of academic appointments because of budget reductions will probably come closer to 40% of the total reduction, or \$1.3 million. In order to achieve this savings, approximately 100 positions will be required to remain vacant in the second year. A reduction of 100 academic positions in 1968-69 will result in a student-teacher ratio of 17.8 as compared to a budgeted student-teacher ratio of 17.11. (A student-teacher ratio of 18.32 was achieved in 1965-66, and 17.36 in the last fiscal year, 1966-67.) The student-teacher ratio estimate of 17.8 is based upon a straight line projection of enrollments in 1968-69 over the current, that is, Fall 1967-68 enrollments, and a projection of the average salary for all academic staff at the six institutions for 1968-69, including other payroll expenses. It does not take into consideration any cost-per-student savings that may result from reduced enrollments, or from reductions of services and supplies and equipment items relating to staff positions, or reduced student fee revenues. Beyond the 3-1/2%, each 1/2% reduction would result in an additional General Fund savings of approximately \$450,000, and a further widening of the student-teacher ratio.

In the University of Oregon Medical School, more than half of the reduction will come from the Board's reserve, indicating that program will not immediately suffer from this amount. Two academic positions will be deferred. The Legislature authorized seven new positions for the University of Oregon Medical School; therefore, five new positions still remain.

The reductions for the University of Oregon Dental School are in equipment, maintenance, services and supplies and classified staff, totaling \$104,434. These reductions are not expected to have serious impact on the instructional program.

The Unknown Amounts shown in the schedule represent dollar amounts resulting from late application of an additional 1/2%, since the schedule was originally prepared on the basis of a 3% reduction and the agency has not yet determine how the additional reductions are to be accomplished.

It should be noted that in the appropriation bill for the Department of Higher Education for 1967-69, separate limitations were set forth for the administrative, instructional, and other functions of the Instruction, Related Research and General Services Program. In the Governor's recommended reduction a uniform 3-1/2% is applied to the Instruction, Related Research and General Services Program, while in other budgets, for example the Department of Education, 4-1/2% is applied to the administrative functions, while 3-1/2% is applied to operations providing direct services. A similar approach could be taken with the Department of Higher Education, with a resulting additional reduction of approximately \$335,000. This would have significant program effects, because the administrative functions received little or no increases in the 1967-69 budget, even though additional workloads were anticipated. Some increases in the physical plant and maintenance functions of the Higher Education budget were approved, however, by the 1967 Regular Session.

DEPARTMENT OF HIGHER EDUCATION--STUDENT LOANS

Existing Appropriation	\$554,944
Governor's Recommended Reduction	\$ -

No reduction is applied by the Governor since each dollar of General Fund money generates \$9 from the Federal Government for student loans. The Governor's recommendation is considered to be appropriate.

DEPARTMENT OF HIGHER EDUCATION--INFANT DEATHS INVESTIGATION

Existing Appropriation	\$25,000
Governor's Recommended Reduction	\$ 1,125

The General Fund appropriation of \$25,000 for this program was based upon a loosely constructed budget, since there was no previous experience in this area that could be utilized. The Governor's recommended reduction of 4-1/2% is not expected to cause any material change to the program.

OREGON HISTORICAL SOCIETY

Existing Appropriation	\$350,000
Governor's Recommended Reduction	\$ 15,750

The Governor has applied a 4-1/2% reduction to this agency. The General Fund appropriation for the Oregon Historical Society is considered a general grant-in-aid, not relating to or expressly supporting specific budget items. Because of this initial approach, it may seem appropriate, in the face of smaller resources than anticipated, to apply the reduction as a lesser amount of grant-in-aid, without regard to specific budgetary impacts on the program of the Society.

OREGON STATE LIBRARY

Existing Appropriation	\$1,062,017
Governor's Recommended Reduction	\$ 37,171

The Governor's recommended reduction for the Oregon State Library is 3-1/2%. The adopted General Fund budget amounted to \$1,062,017, within a total budget of \$2,996,117. The difference represented federal funds of \$1,934,100, of which \$1,130,816 is for special payments to local libraries for construction, while \$795,684 is used for the operation of the Oregon State Library, including providing field services to local libraries and making special payments to local libraries for purchase of library materials, staff training, etc.

The General Fund portion of the Oregon State Library budget included 100% state financing of the State Archives and library services to the blind, and 50% of the cost of administering the local construction program; 10% of the Library Services program was completely financed from the General Fund, while the remaining 90% was financed with state and federal moneys at approximately 50% from each source. The other program, Field Services, was financed approximately 40-60 by state and federal moneys, respectively.

In order to qualify for federal funds, the matchable programs of the Oregon State Library were required to receive a General Fund appropriation equal to the General Fund expenditures of the second prior year. The greater amount of General Fund expenditures during this "base" year were in the Library Services program. By the introduction of federal financing, approximately 50% of the Library Services program was financed by federal funds, where previously it had been financed largely from state sources, thus permitting the expansion of the Field Services Division program. The Field Services Division became, in effect, the repository for the General Fund appropriation required for matching purposes, but not necessary for operation of the Library Services program. The General Fund portion of the Field Services Division budget is used to pay for administrative costs and to supplement federal moneys available as special payments to local library facilities.

It has recently been learned that in providing the match moneys from state sources, in order to receive the maximum amount of federal funds, local expenditures for library services may be included with the state appropriation as a part of the state's matching requirement. On the basis of preliminary information at this time, it appears that local planned expenditures will be greater than anticipated and, thus, the General Fund portion of the library services budget necessary to meet the federal match moneys may be reduced. The exact amount of the General Fund reduction possibility is not known at this time but will be available during the Special Session.

The Oregon State Library has reduced its expenditures by \$37,171, representing 3-1/2% of its General Fund appropriation. It has chosen to make this reduction in two ways: (1) local expenditures known at this time can be used as federal match moneys and, therefore, the General Fund portion can be eliminated; and (2) there has been a reduction in Personal Services for the Field Services Division, made possible by vacancies in established positions.

At the present time, there are five professional librarian positions vacant in the Oregon State Library, and four more will be vacant in the Spring of 1968 because of retirements. The agency is having a very difficult time recruiting to fill the vacancies, both existing and upcoming, and, therefore, a considerable amount of salary savings can be anticipated. This may amount to as much as \$100,000 during the biennium. At the same time, there is a possibility that the entire librarian series of positions may be restructured through the Civil Service Commission, largely because of the recruitment difficulty, possibly resulting in higher salary structures and requiring additional funds. Even so, the amount of potential salary savings is significant. Thus, it is entirely possible that the General Fund portion of the budget can be reduced further without endangering the program of the Oregon State Library, since the amount of the increased local expenditures can be used to match federal funds. If this occurs, care should be taken by the Legislature to see that the reductions do not affect the number of authorized positions. Strong measures will have to be taken in the future in order to recruit qualified staff persons for this agency.

STATE SCHOLARSHIP COMMISSION

Existing Appropriation \$452,814
 Governor's Recommended Reduction \$ 16,908

There are three classifications of expenditures in the State Scholarship Commission budget, each of which is reduced in the Governor's recommendation:

<u>Program</u>	<u>Budgeted Amount</u>	<u>Rate of Reduction</u>	<u>Reduction Amount</u>
Administration	\$ 67,934	4-1/2%	\$ 3,057
Cash Awards	346,880	3-1/2%	12,141
Administration of Guaranteed Loans	38,000	4-1/2%	<u>1,710</u>
			\$16,908

All of the reduction in the administration part of the budget is in Services and Supplies. In the cash awards program, the reduction of \$12,141 results in the elimination of approximately 30 cash awards, at an average amount of \$395 each.

The guaranteed student loan program received a General Fund appropriation of \$38,000, with the understanding that an additional \$12,000 would be available from a charge made against loans processed. There was no previous budgetary experience upon which to evaluate the \$50,000 administrative expense. Indications from the first three months of operation are that for the first year of the biennium, at least, the cost of administration will be lower than anticipated, and there will be some additional revenue from interest earnings that can be used for administrative costs. The effect of both these factors is such that approximately \$5,000 can be reduced from the General Fund appropriation for administration of the guaranteed student loan program beyond the amount recommended by the Governor, without impairing the services provided. This additional saving can either be an additional General Fund reduction, or the amount of the cash awards reduction might be lessened by that amount. This latter course will be more consistent with the Governor's recommendation for the student loan program in the Department of Higher Education budget, which received no reduction at all.

TEXTBOOK COMMISSION

Existing Appropriation \$16,000
 Governor's Recommended Reduction \$ 720

The General Fund appropriation made to the Textbook Commission by the 1967 Legislature was the first direct appropriation made, other than an amount of \$500 traditionally appropriated to the Department of Education for token payment to the Textbook Commissioners. In making the \$16,000 appropriation, it was anticipated that some professional services would still be available from the Department of Education, but that the clerical staff was to be financed from the General Fund appropriation. The reduction of \$720 will probably not impair the service level of this agency because of its ability to rely upon the Department of Education and because a clear-cut service level has not yet been demonstrated.

Public Health and Social Services

COMMISSION FOR THE BLIND

Existing Appropriation	\$487,887
Governor's Recommended Reduction	\$ 20,571

The Governor's recommended reduction constitutes an over-all 4.22% reduction and was arrived at by applying a 3-1/2% reduction factor to Special Payments and a 4-1/2% reduction factor to administrative activities of the Commission. It appears the Commission for the Blind can absorb the recommended reduction without realizing any negative program impact.

The Commission now has two new partially General Fund financed positions vacant because of recruiting difficulties. Full biennium deferral of these positions will result in approximately \$15,000 General Fund savings in the current budget. A more significant area of possible General Fund savings, however, is in Special Payments budgeted for medical case services. A total of \$85,550 General Fund is now budgeted to provide medical diagnostic and treatment case services for the Commission for the Blind clients. Based upon the actual expenditure experience of the three-month period ending September 30, 1967, it appears that as little as \$20,000 might be needed for this purpose during the entire biennium. These underrealized expenditures evidently are a result of the Medicare and Medicaid programs providing medical services for Blind Commission clients that previously had been provided for in the Blind Commission budget. The Legislature may wish to consider a greater reduction in this appropriation than that recommended by the Governor because of these underrealized case service expenditures.

BOARD OF CONTROL--ADMINISTRATION

Existing Appropriation	\$1,593,169
Governor's Recommended Reduction	\$ 71,693

The Governor's recommended reduction is 4-1/2% of the existing appropriation. The Office of the Secretary of the Board of Control can absorb this reduction by deferring the filling of existing vacant positions and by deferring completion of the East Salem sewer construction project. Deferral of the \$27,500 sewer construction project will result in the postponement of the acceptance of the responsibility for maintenance of the sewer system by the City of Salem. Delay in filling existing vacant positions will set back planned improvement of services provided the institutions by the Board's administrative staff.

Significant improvements in the administrative staff and the central research program of the Board of Control were approved by the 1967 Legislature, and after consideration of the current General Fund financial position a reconsideration of the need for these improvements may be indicated. Approximately \$75,000 of the moneys now provided for research may be considered for reduction in addition to the reduction recommended by the Governor, the result of which will be that the central research program would continue during 1967-69 at the approximate level realized during 1965-67. Similarly, a further reduction of approximately \$30,000 will more closely reflect savings that can be realized if it appears advisable to keep vacant throughout the biennium the 5-1/2 administrative positions that were unfilled late in September.

BOARD OF CONTROL--TUBERCULOSIS HOSPITAL MAINTENANCE

Existing Appropriation	\$70,000
Governor's Recommended Reduction	\$ -

The Governor recommends no reduction from the existing General Fund appropriation for the maintenance of the vacant Oregon State Tuberculosis Hospital buildings. Transfer of all tuberculosis patients from the Oregon State Tuberculosis Hospital in Salem to the University Tuberculosis Hospital in Portland has been completed and the Board of Control is now considering disposal of the unneeded property. The existing appropriation provides moneys for maintenance of the buildings for only the first fiscal year of the current biennium, since it was hoped the property could be disposed of prior to July 1, 1968. The Board of Control has retained the services of Sexton and Company of Portland, property management consultants, to recommend possible uses of the Hospital property, and it is understood the consulting firm has recommended that the buildings not be heated during the seven winter months as had been anticipated in the current budget. It is believed no serious detrimental effects to the buildings will result from lack of heat, and the savings realized will permit the existing appropriation to be reduced by approximately \$19,000.

BOARD OF CONTROL--MENTAL HEALTH DIVISION

Administration and Special Payments

Existing Appropriation	\$3,424,362
Governor's Recommended Reduction	\$ 119,856

The Governor's recommended reduction was arrived at by applying a 3-1/2% factor to the existing appropriations for both administration of the Mental Health Division and the state share of the community mental health clinic program. The recommended reduction of \$28,095 in administration can be realized by delays in filling six currently vacant positions and should result in no major program curtailment. The recommended reduction of \$91,761 in the appropriation for the state share of the community mental health clinic program can be absorbed by curtailing the program expansion planned for the second year of the current biennium.

Hospitals and Training Centers

Existing Appropriation	\$41,683,480
Governor's Recommended Reduction	\$ 1,042,091

The Governor's recommended reduction was arrived at by applying a blanket reduction of 2-1/2% to the budget for each of the five institutions in the Mental Health Division. This blanket reduction approach neither takes into consideration the differences between realized workload and budgeted workload that are apparent in the institutions to date, nor does it take into consideration the varying program improvements in the institution budgets. While it would be desirable to adjust the recommended reductions for each institution to reflect most recent workload experience, such adjustment by the Legislature is not actually necessary since transfers between the institutional appropriations to reflect workload changes can easily be made by the Emergency Board during the biennium. The failure of the Governor to vary the reductions recommended for institutions to reflect varying program improvements is a policy matter the Legislature may wish to consider.

It appears that Mental Health Division institutions can absorb an over-all 2-1/2% reduction in appropriation by exercising tight administrative controls over vacant positions and supporting expenditures. The institutions have already taken action to hold both existing and new positions vacant in response to the reduced first year allotments approved by the Department of Finance and continuation of current controls will produce the level of savings recommended by the Governor. The recommended reduction will cause a genuine but subtle deterioration of services received by patients at the institutions, but from the standpoint of the over-all operation and effectiveness of the institutions of the Mental Health Division such deterioration will be almost unnoticeable.

The Legislature may wish to consider as a basic policy matter the over-all level of reduction recommended for mental health institutions. These institutions use a significant portion of the total General Fund budget of the state, and if the Legislature wishes to finance a greater proportion of the anticipated deficit from operating budgets than that recommended by the Governor, increased reductions in institution budgets might be considered. There seems little question but that a reduction significantly greater than the 2-1/2% recommended by the Governor will cause a noticeable retrenchment in institution programs from that realized during 1966-67, since some reductions in existing ward and treatment staffs would be necessary. In this regard, it should be noted that improvements in patient-to-staff ratios in all institutions have been realized during the past few biennial periods, and a moderate retrenchment would not represent a total reversal of the program improvements realized in recent years.

The Legislature, if it determines that the recommended over-all 2-1/2% reduction in institutions is appropriate, may wish to consider additional reductions of specific program improvements in approved budgets. Some program improvements, such as the residency program at Dammasch Hospital, and the increased laundry staff at Eastern Oregon Hospital, were considered critically needed by the Board of Control and were immediately implemented. Other program improvements have not been implemented as yet, and two that the Legislature may wish to reconsider are the improved ward staffing at Columbia Park Hospital and the expansion of mentally retarded capacity at Eastern Oregon Hospital.

Ward staffing at Columbia Park Hospital has, in recent years, been at a smaller proportion of AAMD recommended staffing levels than at Fairview Hospital and Eastern Oregon Hospital. Twenty-four new psychiatric aides are budgeted on a phase-in basis for the current biennium to bring Columbia Park Hospital to approximately the same level of AAMD staffing as at Fairview and Eastern Oregon Hospitals. The Legislature may wish to consider deferral of one-half of the increased ward staff at Columbia Park and thereby increase the savings from Mental Health Division budgets by an amount up to \$115,000.

The Legislature may wish to consider the possibility of deferring the construction project now budgeted for Eastern Oregon State Hospital to remodel two 47-bed wards for the care of mentally retarded patients. Postponement of this project would save approximately \$280,000 in the 1967-69 Capital Construction appropriation, and would also make it possible to reduce the operating appropriation for Eastern Oregon Hospital by approximately \$240,000. Deferral of these two additional mentally retarded wards will cause an increase in the waiting list for admission to Fairview Hospital.

If the Legislature chooses not to entirely defer this expansion in service for mentally retarded patients, it may still be possible to increase the reduction in the operating appropriation for Eastern Oregon State Hospital. It is understood that if one new ward were to be activated in October 1968 and the second new ward activated in February 1969, it will be possible to end the current biennium with no waiting list for Fairview Hospital. Such an activation schedule would produce savings from the existing Eastern Oregon State Hospital appropriation of approximately \$100,000.

Children's Psychiatric Care

Existing Appropriation	\$200,000
Governor's Recommended Reduction	\$ 50,000

The Governor's recommendation is a 25% reduction from the existing appropriation and results from a delay in implementation of contracts for the purchase of care for children from private psychiatric hospitals. This appropriation evolved from the Board of Control's recommendation to build a children's psychiatric unit on the grounds at Oregon State Hospital. The existing appropriation includes moneys for a project director to administer the program on a pilot project basis and to prepare a report on the effectiveness of the purchase of care approach to the 55th Legislative Assembly. The existing appropriation did not provide sufficient moneys to purchase psychiatric care for all children within the state who had need of such care.

The Legislature may wish to consider reducing the existing appropriation by any amount up to \$150,000. Reducing the appropriation by \$150,000 will probably mean that no purchase of care for psychiatric children can be made during the current biennium; however, the bill establishing the program makes partial implementation possible out of any savings realized within institutional budgets. It is also possible that a special grant from the Federal Government or some private source may be received to begin the actual purchase of care under the program during the current biennium. Leaving \$50,000 in the appropriation would provide moneys to finance the project director and secretary that are already on the job through the current biennium. Planning for the eventual implementation of the program and the preparation of a report for the 55th Legislative Assembly could be accomplished during the current biennium. Such a report will have limited value if it does not include experience with actual purchase of care results.

Trainable Mentally Retarded Project

Existing Appropriation	\$47,100
Governor's Recommended Reduction	\$ -

This special trainable mentally retarded project in Clackamas County is a continuation of a pilot project authorized during the 1965-67 biennium. An appropriation to continue the project was made late in the 1967 Legislative Session when it became apparent it was impossible to finance the life span plan for trainable mentally retarded persons included within Senate Bill 41. The use of General Fund moneys to continue a special project serving a small clientele from a single part of the state is subject to some question and the Legislature may wish to consider eliminating this appropriation. There seems little question, however, that this project is providing some needed services for the involved trainable mentally retarded children, and the Legislature may wish to continue the project with the expectation that at some time in the future a community based statewide program for the trainable mentally retarded will be requested. There seems little question but that any significant decrease in the existing appropriation will cause termination of the project.

EMERGENCY BOARD--KIDNEY ASSOCIATION OF OREGON

Existing Appropriation	\$150,000
Governor's Assumed Reduction	\$ 5,250

The Governor's recommended reduction is 3-1/2% of the existing General Fund appropriation. The appropriation for the Kidney Association was intended to assist the Association during its first two years of operation. The Association is now functioning in a limited fashion and is organizing its first private fund raising campaign. The recommended reduction probably will not result in any significant program curtailment by the Association. The \$150,000 state appropriation was an arbitrary amount that was known to be less than the total cost of caring for all kidney sufferers who could benefit from dialysis treatment. The Kidney Association, therefore, accepts responsibility for only those numbers of patients for which adequate financing is available. The recommended reduction from the General Fund appropriation is roughly equivalent to the cost of four months care of a dialysis patient in his first year of treatment.

STATE BOARD OF HEALTH--ADMINISTRATION

Existing Appropriation	\$4,556,160
Governor's Recommended Reduction	\$ 205,027

The Governor's recommended reduction is 4-1/2% of the existing appropriation for the administration of the State Board of Health. Included within the recommended reduction is \$2,376 (4-1/2%) of the appropriation for reimbursement to counties for autopsy costs.

The Board of Health receives significant federal financing of its programs and the Board may transfer some positions and other costs now financed by the General Fund to federal moneys. The result of such transfers will be to reduce program elements such as staff training and local health services that would have been financed by the federal moneys. The Board may also hold selected General Fund positions vacant and defer equipment purchases to realize other savings. There are limited General Fund program improvements budgeted for 1967-69, except in the area of air and water pollution control where improvements are greater. There seems little question that a significant portion of any reduction will have to be realized by deferring some of the improvements in these pollution control activities.

On September 12, 1967, only 14 of 24 new pollution control positions were filled, and it appears probable the recommended reductions will cause no obvious deterioration of the Board's programs from that realized during 1966-67 but that the level of enforcement in pollution control will be less than that anticipated in the budget.

The program effect of reducing the General Fund appropriation for reimbursing counties for autopsies will be to reduce the proportion of the total cost of autopsies being reimbursed by the state, without reducing the number of autopsies performed. The statutes require the Board of Health to control its reimbursements for autopsies to stay within existing appropriations, and reduction in the existing appropriation will require counties to finance a greater share of autopsy costs than would have been realized under the existing appropriation.

STATE BOARD OF HEALTH--REGIONAL AIR QUALITY CONTROL DISTRICTS

Existing Appropriation	\$95,888
Governor's Recommended Reduction	\$ 3,357

The Governor's recommended reduction is 3-1/2% of the existing General Fund appropriation for grants in aid to regional air quality control districts. There will apparently be no detrimental program impact caused by this recommended reduction. The existing appropriation provides for grants in aid to the three regional air quality control districts expected to be formed during the current biennium. To date only the Mid-Willamette Valley Air Pollution Control District has applied for approval to the Sanitary Authority. It is expected that the Multnomah County and Lane County districts will apply for grants, but the delay in the formation of these districts reduces the demand for state grants in aid during the remainder of the current biennium.

DEPARTMENT OF HIGHER EDUCATION--CRIPPLED CHILDREN'S DIVISION

Existing Appropriation	\$2,099,114
Governor's Recommended Reduction	\$ 52,479

The Governor's recommended reduction is 2-1/2% of the existing General Fund appropriation for the Crippled Children's Division. The recommended reduction will require deferral for at least one year in filling three new secretarial positions approved in the budget to establish regional offices for the Crippled Children's Division. Deferral of expansion of these services will, however, finance only part of the recommended reduction. It is understood that the balance of the reduction, perhaps \$35,000, will be financed by controlling the number of crippled children receiving rehabilitative medical treatments.

DEPARTMENT OF HIGHER EDUCATION--TEACHING HOSPITALS AND CLINICS

Existing Appropriation	\$9,767,879
Governor's Recommended Reduction	\$ 244,197

The Governor's recommended reduction is 2-1/2% of the existing appropriation. The effect of this recommended reduction will be to continue to keep idle during the biennium the 17 beds vacated by the teaching hospital on July 1, 1967, to stay within the reduced 1967-68 fiscal year allotment of the Department of Finance. Having these 17 beds vacant makes it possible to keep 12.5 nursing positions unfilled and to realize savings in central services and maintenance expenditures.

The primary program impact of reducing the number of beds available for patient care at the teaching hospital is to reduce the amount and variety of teaching material available for the training of medical students, interns, residents and paramedical personnel. There is also a secondary effect of reducing the number of hospital beds providing high quality medical care.

There appears little question that any reduction from the existing appropriation will require vacating some number of patient beds at the teaching hospital for some period of time during the current biennium, and there appears to be some question that all patient beds could be kept filled throughout the current biennium even if no reduction in the existing appropriation is made.

Supervisory nurses at the teaching hospital did not receive a salary increase when their subordinates received salary increases on February 1, 1967. The supervisory nurses now have a request before the Civil Service Commission for salary increases for all nurses and it is possible the Civil Service Commission will grant some increases. The cost of approving the request of the supervisory nurses would be approximately \$240,000 at the teaching hospital and approximately \$1,000,000 for all state agencies.

It should also be noted that private hospital professional nurses in the Portland area will receive a \$25 per month salary increase on January 1, 1968. Based upon past experience, it will be concluded that state nurses' salaries in the Portland area must be increased on January 1, 1968, to attract and retain adequate numbers of professional nurses for the state's Portland area hospitals. The 18-months cost to the teaching hospital for a \$25 nurses' salary increase would be approximately \$100,000, and there are no moneys available within the existing teaching hospital appropriation to finance such increased costs.

STATE PUBLIC WELFARE COMMISSION

Existing Appropriation	\$58,475,360
Governor's Recommended Reduction	\$ 768,775

The Governor's recommended reduction was arrived at by applying a 3-1/2% reduction factor to the administrative costs of county public welfare offices, applying a 4-1/2% reduction factor to administrative costs of the State Public Welfare Commission offices and reducing the appropriation for Medical Assistance for Aged Psychiatric and Tubercular Patients by \$224,948 to reflect revised estimates of payments to be made by the Welfare Commission to the Board of Control. The Governor recommends no reduction in cash assistance payments, medical assistance payments or in administrative costs of the surplus foods program.

The Governor's recommendations concerning this agency apparently reflect the concern that recent welfare caseloads are exceeding budget estimates sufficiently to cause serious overexpenditure of the existing General Fund budget. A September 12, 1967, Welfare Commission staff analysis indicates that the approved 1967-69 budget will be overexpended by \$10,768,603 (\$5,646,143 federal funds, \$3,735,855 State General Fund and \$1,386,605 county funds). This tendency to overexpend is caused primarily by overrealized caseloads in the General Assistance, Foster Care and Aid to Families with Dependent Children programs and by increased utilization in the physicians services, hospital care and drug object classifications in the Medical Assistance program. Anticipated overexpenditures in the Old Age Assistance program are offset by anticipated underexpenditures in the Aid to Disabled program.

The State Public Welfare Commission has not yet developed final plans to stay within the existing appropriation. State and county public welfare commission staffs, however, are now considering various actions that can be taken to reduce General Fund expenditures during the current biennium. Actions that are being considered include:

- Reduction of special need allowances within cash grants.
- Discontinuation of supplements to Unemployment Compensation benefits.
- Discontinuation of supplements to Industrial Accident benefits.
- Reinstatement of a 60-day waiting period before placing a family on AFDC.
- Redefinition of "unemployment" to limit eligibility for the AFDC-UN program.
- Suspension for the three summer months of the AFDC-UN program.
- Constriction of eligibility requirements and reduction of benefits for the General Assistance program.
- Reduction of medical benefits under the General Assistance program.
- Limitation of Foster Care program to budget available by county.
- Elimination of over the counter drugs from the Medical Assistance program with the expectation that recipients would purchase these drugs from cash grants.
- Imposition of a ratable reduction on some or all of the cash grant programs. (Presumably, ratable reductions would be used to make up the difference between what could be saved by specific actions described above and available appropriations.)

The State Public Welfare Commission has the authority to reduce assistance benefits to the extent necessary to stay within the available General Fund appropriation. Hopefully, Oregon's economy is now recovering somewhat from the downturn that has caused underrealized General Fund revenue and overrealized welfare caseloads, but unless a dramatic upturn in the economy causes a quick reversal of current welfare caseload trends it appears likely the Welfare Commission will have to reduce by some extent the levels of assistance approved by the last Legislature and realized during the last biennium. Of course, an obvious alternative to reducing welfare benefits is to provide additional General Fund financing.

The Welfare Commission will have developed its planning by the time of the Special Session so that possible areas of assistance reduction to produce the necessary savings can be presented. The Welfare Commission will also have developed preliminary estimates of the possible impact on state welfare expenditures of the Social Security Amendments of 1967 (HR 12080) now being considered by Congress. This federal legislation has passed the House of Representatives and is now being considered in the United States Senate. As passed by the House of Representatives, HR 12080 increases Social Security benefits by 12-1/2% and makes various changes in the public assistance programs. An increase in Social Security benefits tends to reduce State Welfare expenditures and the liberalization of federal participation in child welfare activities included in the House of Representatives version of the bill would also tend to reduce State General Fund expenditures. It would be inappropriate to speculate now about the final form and fiscal impact of this federal legislation, but it appears that some net General Fund relief will be realized. This relief and an upturn in Oregon's economy may result in a situation that will require less drastic reductions in assistance benefits than now seems likely.

The Governor's recommended reduction in administrative expenditures appears reasonable. The Welfare Commission can realize the recommended savings from the approved budget by increasing caseloads of caseworkers and reducing the central state services to county welfare departments.

The recommended reduction in Medical Assistance for Aged Psychiatric and Tubercular Patients reflects revised estimates of the payments the Welfare Commission will make to the Board of Control and not a change in the program approved by the 1967 Legislature. The expected reduced payments represent a General Fund revenue loss of \$492,983 (\$268,035 in federal funds and \$224,948 in General Fund moneys).

PUBLIC WELFARE COMMISSION--ORPHANS, FOUNDLINGS AND WAYWARD GIRLS

Existing Appropriation	\$2,144,290
Governor's Recommended Reduction	\$ 77,113

The Governor's recommended reduction was arrived at by applying a 3-1/2% reduction factor to the separate appropriations for State Aid and Purchase of Care and by reducing the General Fund portion of the special Child Care Study by \$2,500.

Apparently the reduction in the General Fund portion of the special Child Care Study can be absorbed without significant impact, since the \$2,500 recommended for reduction was an amount scheduled for contingencies. The Legislature, however, may wish to reconsider the need for this special study in the light of reduced General Fund revenues. Elimination of the entire study will save \$12,500.

The application of a 3-1/2% reduction factor to the Purchase of Care portion of this program appears reasonable under circumstances of a financial emergency. The Legislature may wish to consider, however, the possibility of not reducing the appropriation for State Aid as recommended by the Governor and to increase the reduction in the appropriation for Purchase of Care to \$74,613. Expenditures in the Purchase of Care program are more easily controlled than are expenditures in the State Aid program, and, for the first time, prorated payments in the State Aid program are required by the appropriation act if the appropriation proves insufficient to pay the state aid rates specified in ORS 418.420.

STATE SANITARY AUTHORITY--GRANTS FOR CONSTRUCTION OF LOCAL SEWAGE FACILITIES

Existing Appropriation	\$3,000,000
Governor's Recommended Reduction	\$ -

The Governor recommends no reduction from the existing General Fund appropriation for the new program of providing state grants of 25% of the costs of construction of certain local sewage treatment facilities in cases where federal grants of at least 50% of the costs of such construction are received. Under this new program local communities finance no more than 25% of construction costs. Without this new state grant program, the federal participation is approximately 30% of construction costs and local participation is approximately 70%.

The existing appropriation of \$3 million is apparently inadequate to finance the state's share of all projects desired by local communities during the current biennium. The requirement for state funds, however, is also contingent upon federal funds being available to finance at least 50% of the costs of these construction projects. The 1967-68 federal appropriation for this program has not as yet been passed by Congress. The House of Representatives has passed an appropriation bill for this first fiscal year that would provide \$2,294,200 in federal moneys to Oregon, but the Senate has tentatively raised the federal appropriation so that approximately \$2,347,000 would be available for Oregon projects. The substantive federal legislation establishing this program provides significantly increased appropriation authorizations in successive fiscal years, so it appears probable the 1968-69 federal appropriation for the program will be greater than the 1967-68 appropriation.

The State Sanitary Authority has placed on a priority list projects with a cumulative state cost of \$2,568,363 and a cumulative federal cost of \$4,538,038. When the level of federal appropriation for the 1967-68 fiscal year now being considered by Congress is considered along with the probability that federal appropriations for the second fiscal year of the current biennium will exceed this amount, it becomes virtually certain the existing \$3 million is inadequate to match federal moneys available. Because of this it appears improbable that any reduction in the existing state appropriation can be made without negatively affecting local sewage facility construction during the current biennium.

The Legislature may wish to consider eliminating this entire appropriation on the basis that it is of lower priority than other State General Fund programs. To do so, however, will not only cause the loss of significant federal moneys available to Oregon's local communities for sewage facility construction but will also probably bring on a reduction in the total number of sewage projects during the current biennium. It appears probable local communities will avoid constructing new facilities on a 30% federal - 70% local financing basis in the expectation that the facilities can be constructed in the not too distant future on a 50% federal - 25% local - 25% state financing basis.

BOARD OF SOCIAL PROTECTION

Existing Appropriation	\$11,446
Governor's Recommended Reduction	\$ 515

The Governor's recommended reduction is 4-1/2% of the existing appropriation for the State Board of Social Protection. It appears the Board can absorb this reduction without significant program impact. The approved budget includes a significant increase over 1965-67 expenditures to finance the more complicated administrative procedures protecting the rights of persons being considered for sterilization as required by chapter 264, Oregon Laws 1965. A total of \$1,943 is included in the budget to reimburse the State Board of Health for filing services, and this anticipated interagency billing payment can be deferred if it becomes necessary.

DEPARTMENT OF VETERANS AFFAIRS

Existing Appropriation \$6,733,119
 Governor's Recommended Reductions \$ 7,480

Within the appropriation for the Department of Veterans Affairs are several categories. The reduction by the Governor is not uniform to all categories of appropriation.

	<u>Existing Appropriation</u>	<u>Percent Reduction</u>	<u>Recommended Reductions</u>
Educational Aid	\$ 207,139	3-1/2%	\$7,250
G.A.R. Cemetery	2,000	4-1/2%	90
United Spanish War Veterans	4,000	3-1/2%	140
World War II Veterans'			
Compensation Bonds--Debt			
Service	6,519,980	-	-

The Governor has recommended a reduction of 3-1/2% or \$7,250 in the appropriation for educational aid to qualified veterans. At this point in the biennial period it is difficult to estimate the amount of requests for educational aid that will be received; however, it is the belief of the Department that requests will not exceed the amount of the reduced appropriation.

The G.A.R. Cemetery is presently maintained by Multnomah County. The appropriation constitutes a contribution to assist in the maintenance. The reduction of 4-1/2% or \$90 will result in a corresponding increase in net cost to Multnomah County.

The appropriation for the United Spanish War Veterans is to assist that organization in maintaining its headquarters and holding its encampment. The recommended reduction of 3-1/2% results in a reduced contribution by the state.

The adopted budget for the 1967-69 biennial period included \$6,519,980 as the requirement for redeeming maturing World War II Veterans Compensation Bonds and interest coupons. These bonds were issued to obtain moneys to pay the veterans bonus. As recommended by the Governor, this amount cannot be reduced. The possibility of financing this cost by transferring an amount to the General Fund from the Oregon War Veterans' Bond Sinking Fund has been previously discussed under the caption "Surplus Veterans Loan Earnings as a Possible Alternative Revenue Source."

DEPARTMENT OF VOCATIONAL REHABILITATION

Existing Appropriation	\$714,214
Governor's Recommended Reduction	\$ 24,998

The Governor's recommended reduction is 3-1/2% of the existing General Fund appropriation. It appears the Department may be able to absorb this recommended reduction without significant impact on the program approved by the 1967 Legislature, and that it may be unnecessary to continue to defer filling the 13 positions vacant at the end of September.

On October 16, 1967, the Emergency Board approved an expenditure limitation increase for Federal Social Security Trust Funds used for rehabilitation for Social Security Disability beneficiaries. The approved 1967-69 General Fund budget for the Department included counseling and administrative costs for Social Security Disability beneficiaries in the Department's regular caseload. Transferring these costs to the 100% federally financed program will provide some General Fund savings.

Case service expenditures by the Workmen's Compensation Board and the State Compensation Department in the vocational rehabilitation program, however, appear to be less than the level included in the approved budget. While it is too early to accurately predict a trend, during the first three months of the biennium, the Workmen's Compensation Board and the State Compensation Department expended approximately \$36,600 for case services. The approved budget anticipated a total expenditure of \$509,000 for the biennium, or an average of \$63,625 per quarter. If the first quarter case service expenditure levels of the Workmen's Compensation Board and the State Compensation Department continue through 1967-69, total expenditures by these agencies will be approximately \$300,000. This will mean expenditures by the Workmen's Compensation Board and the State Compensation Department for case services, which are used to gain federal matching at a \$3-federal to \$1-state ratio, will be underrealized by approximately \$209,000 and that approximately \$625,000 of the budgeted federal payments to the Department of Vocational Rehabilitation for the regular rehabilitation program will be lost.

This potential reduction in Department of Vocational Rehabilitation financing represents a far more serious problem than the relatively small reduction recommended by the Governor. The possible loss of federal moneys can be prevented by increased expenditures by the Workmen's Compensation Board and the State Compensation Department or by increasing the General Fund appropriation to the Department of Vocational Rehabilitation.

The Department of Vocational Rehabilitation is now negotiating with the Workmen's Compensation Board so that Workmen's Compensation Board expenditures at its Portland Physical Rehabilitation Center can be used to gain federal matching money for the regular rehabilitation program. At the present time it appears possible the Department of Vocational Rehabilitation will find some way to finance the general level of program approved by the 1967 Legislature without requiring an increase in General Fund moneys.

Public Safety and Commerce

DEPARTMENT OF COMMERCE

Existing Appropriation	\$2,116,541
Governor's Recommended Reduction	\$ 95,244

The reduction indicated reflects a cutback of 4-1/2%. Such an adjustment is particularly difficult for the Department of Commerce which was budgeted at extremely tight levels by the Regular Session.

It appears to be the Governor's recommendation that the systems study and data processing project separately funded by the Regular Session not be disturbed. Such a policy will have the effect of requiring relatively heavy curtailments in the Divisions of Economic Development, Insurance, Corporations, and Real Estate. Economic Development will be forced to eliminate one position and make heavy cutbacks in consulting allowances, postage, publications and operating moneys.

The Insurance Division is in the somewhat curious position of cutting back on two new examiner positions and examinations expenses even though these costs are reimbursable to the General Fund as revenue. The futility of making such reductions which also curtail revenues make these recommended cutbacks appear inadvisable. It also appears that the Insurance Division Portland office may have to be closed for at least a part of the biennium.

Corporation Division expects to cut back on out-of-state travel and close its Portland office for most of the biennium. A possible alternative may be to avoid using registered mail in connection with the Assumed Business Name renewal work near the end of the biennium.

Real Estate will cut back on a field examiner position and related expense costs necessary to handle its part of the reduction.

The total effect upon the department will be one of cutting back public service levels in those activities supported by the General Fund slightly below 1965-67 capabilities, ignoring workload increases which have occurred. If fee support requirements are imposed upon Department of Finance management improvement and systems personnel working in the Department of Commerce, it will be virtually impossible to save the agency project leading toward central revenue handling and accounting and automation in the Division of Commerce. In the interests of future economies in this young agency, it may be advisable to consider concessions, if required, to avoid abandonment of the needed internal improvement work.

CORRECTIONS DIVISION

Existing Appropriation	\$18,996,288
Governor's Recommended Reduction	\$ 522,769

The net reduction rate recommended by the Governor works out to only 2-3/4% for this relatively large budget, reflecting a combination of high program priority and post-staffing requirements. The specific reduction principles applied are outlined as follows:

Corrections Division Administration:

1. \$50,000 lump sum reduction to Non-Institutional Supervision
2. Percentage reduction of 3-1/2% on the remaining balance
3. No reduction to \$125,000 Special Payments item for development of local Youth Care Centers, but see Item 4
4. Recommended lump sum elimination of \$75,000 in Emergency Fund earmarked for Youth Care Center development. (Included in Emergency Fund analysis, but mentioned here due to program relevance.)

Institutions:

Each institutional General Fund budget reduced by approximately 2-1/2%

Exact plans for accommodating the Governor's latest proposed reductions have not been finally agreed upon. These agency units have, however, presented fairly detailed general plans for dealing with reductions at several percentage levels, and earlier detailed presentations prepared for Board of Control approval demonstrate reasonable conformity to that general outline.

Institutional reductions of 2-1/2% are almost entirely handled through delays in hiring and delays in implementation. While inconvenient and temporarily restrictive, 2-1/2% reductions are rarely serious.

Cutback of the non-institutional supervision allowance of \$225,000 by \$50,000 recognizes delays and difficulties which are inherent in the program. The 3-1/2% reduction in the remaining part of Correctional Administration requires the exercise of considerable judgment to evaluate. The efficacy of new programs aimed at inmate rehabilitation may need to be weighed carefully against deep cuts in the Board of Parole and Probation. The resulting balance in the state correctional effort may need careful re-examination.

JUVENILE CORRECTIONS

MacLaren School for Boys

Existing Appropriation	\$5,798,978
Governor's Recommended Reduction	\$ 144,975

The 2-1/2% General Fund reduction at MacLaren School is virtually certain to be handled by closure of two of the small, older cottages at the School. Staff now in those cottages will be reassigned to relief duty, and present relief duty incumbents will be released. At the 2-1/2% level, it is likely that one of the two cottages may be opened during peak population periods during the Spring.

Closure of cottages will result in a crowded condition during certain parts of the year, but the newer cottages are larger and much more efficient to operate. Reduction of custodial and operational staff for small cottages appears preferable to reduction of professional staff positions in the rehabilitation programs.

There is still every reason to believe that the full budgeted average daily population of 386 will be realized and handled at MacLaren. There is a possible danger that reduction of County Youth Care Center moneys may aggravate population during 1967-69; however, MacLaren does control its parole and release actions, and thus is in a position to adjust campus populations to some degree.

One possible alternative, suggested by the Board of Control staff in recognition of disagreement surrounding the site for a new boys living facility near Tillamook, would be the closure of the Tillamook Camp altogether for the remainder of the current biennium. Such a move would permit all cottages at MacLaren School to remain open, at least for a majority of the time, and the 20 to 30 boys now at the camp would be accommodated by slight crowding. Such a move may be unavoidable for at least a part of this winter due to the lack of heating at the existing camp building. Savings will result from elimination of camp staff and special operating expenses.

If the new Tillamook building is deferred beyond 1967-69, a temporary saving of the building cost will also result. This point will be discussed briefly under Capital Construction.

Hillcrest School of Oregon

Existing Appropriation	\$2,459,674
Governor's Recommended Reduction	\$ 61,492

The Hillcrest reduction of 2-1/2% must be realized differently from the method employed at MacLaren School. Because Hillcrest is a small, perennially crowded physical plant situation, living cottage closures are not feasible.

Hillcrest proposes to realize the required reduction in spending through delays in hiring certain newly-authorized positions, elimination of the new remedial teacher approved by the Regular Session, small reductions in travel and capital outlays, and a delay in opening the two group homes approved for Portland and Eugene.

The delay in opening the two group homes will not be critically injurious, and some delay is expected in any event. The establishment of the group homes remains a prime objective of the institution, necessitated by the small physical capacity of the school. Group homes are the means of reducing average daily population to 130 on the campus, permitting relief to the over-crowded condition which continues to hamper development of sound programs for Hillcrest School inmates.

The plan referred to above consists mainly of expenditure deferrals which do not permanently reduce budget levels. If reductions to ongoing program budget levels are essential, the institution would probably elect to close its intake cottage. There is some current of thought in juvenile corrections that inmates should be assimilated directly into regular living units rather than held apart in observation for extended periods. While Corrections Division personnel appear unready to

recommend such a move at this time in the absence of financial necessity, a budgetary requirement for permanent reduction of support likely would leave intake cottage closure the least undesirable means of compliance.

ADULT CORRECTIONS

Oregon State Penitentiary

Existing Appropriation	\$5,854,919
Governor's Recommended Reduction	\$ 146,373

The 2-1/2% reduction applied to the Penitentiary will be realized through forced vacancies, primarily in the Custody program, but some also in Administration and Physical Plant. Some relatively minor delays in hiring newly-authorized positions are contemplated.

The forced vacancies in both existing and new positions are not expected to have serious implications for security, plant operation or for the treatment program over the long pull. Necessarily there will be some dislocation and inconvenience, but the prospect of a 2-1/2% cutback in an institutional budget of this size is not deeply destructive.

It should again be noted that virtually all of the adjustments proposed are temporary in nature, achieved through hiring delays and stretched out vacancies. Any lasting reduction of the institutional budget level will mean elimination of positions, and at this stage it is not possible to ascertain exactly which positions these would be. It is likely that correctional officers in the Custody program would be reduced by a few positions, but a major part of any permanent cut would inevitably wipe out some of the Treatment program improvement approved by the 1967 Regular Session. Considering the relatively thin expenditure for Treatment at the Penitentiary, it is possible that other reductions elsewhere in the Correctional budgets might be considered preferable to deep reductions in this area.

Oregon State Correctional Institution

Existing Appropriation	\$3,871,673
Governor's Recommended Reduction	\$ 96,792

As in the other correctional institutions, the modest recommended reduction of 2-1/2% can be handled mainly through a small number of deferrals in filling new positions. Deferrals of three or four vocational instructors, one educational teacher and a counselor until late in the biennium will be the major program implication of the adjustment. Elimination of student trainees under a program sponsored by WICHE is not expected to affect program.

Because of different custody staffing concepts at the Correctional Institution, it is hardly possible to realize savings through vacancies or eliminations in the Custody program. On either a temporary or a permanent basis, budgetary reductions must be focused in the Treatment program. While the Oregon State Correctional Institution Treatment program is relatively very good, any consideration of permanently reducing it possibly should be weighed against alternatives in the extensive new programs in Corrections Division Administration.

Corrections Division Administration

Existing Appropriation	\$1,011,044
Governor's Recommended Reduction	\$ 73,137

The reduction in this unit, as outlined earlier, includes a lump sum reduction of \$50,000 in the Non-institutional Supervision program and a 3-1/2% cutback applied to the administrative appropriation balance. Special payments of \$125,000 for local Youth Care Centers were untouched. The cut in Non-institutional Supervision recognizes delays and difficulties encountered in fully implementing the program, and the 3-1/2% applied on the remainder recognizes that workload and post staffing are much less critical in Administration than in the institutions where 2-1/2% was taken.

It is impossible to consider many of the adult correctional programs included in this central correctional administrative unit without also recognizing institutional program objectives and the relationship of parole and probation service to the correctional picture. Non-institutional Supervision represents a program segment closely allied to parole supervision. The personnel provided, fourteen parole officers and four clericals, originally were intended as an enrichment to the parole and probation program, partially justified by the expectation of Work Release supervision and assistance in the field. When integrated program plans involving parole services became impossible, this enrichment of the staff was placed in the Corrections Division, and permissive contractual authority running in both directions between Corrections and Board of Parole and Probation was provided.

Early negotiations suggest that only a very limited cooperation will be possible. Board of Parole may agree to contract with Corrections Division to provide supervision for work releases upon payment by Corrections Division. Any more comprehensive agreement appears somewhat remote.

In view of these circumstances, the recommended cutback of \$50,000 in this \$225,000 program appears entirely reasonable. Taken together with the 3-1/2% reduction proposed for the Board of Parole and Probation, however, the over-all capability for parole and probation supervision appears to be far short of the expectations upon which the institutional population forecasts and new correctional rehabilitation efforts were based.

The remainder of the Corrections Division Administration reduction apparently will be produced from existing vacancies in new and existing positions at the supervisory level, and, if necessary, through very slight delays in hiring personnel authorized for the new Diagnostic Center.

Important as the Adult Reception Diagnostic Center appears to be to the Corrections Division, consideration should be given to the potential effectiveness of such a facility if the parole capability necessary to permit release of rehabilitated prisoners is severely curtailed. The state's correctional program may be unnecessarily thrown out of balance if parole and probation supervision are de-emphasized at a time when strong new emphasis on rehabilitation in the institutions is continued unabated.

Halfway House programs and Work Release budgetarily appear much too small in relationship to their importance to dwell upon. Each of these two programs is

financed cooperatively with Division of Vocational Rehabilitation making heavy use of federal support.

The staff training program newly financed at a cost of approximately \$100,000 may possibly be worthy of mention. Though not lacking in importance, it may be taken into consideration that unexpected assistance appears to have been received in this area possibly from several sources. The extent of such aid, financed from federal moneys, possibly should be explored to determine the extent of any savings reasonably available as a result. The possibility of continuing federal participation should not be overlooked in this time of budgetary difficulty.

County Institution Reimbursement will be discussed in connection with the Governor's recommended elimination of \$75,000 earmarked in the Emergency Fund for matching support of local Youth Care Centers. The \$125,000 amount for this purpose remains intact in Corrections Division Administration. Reduction of state matching from \$200,000 to \$125,000 may not be entirely consistent with the 1967-69 budgeted population at MacLaren School and the long-term program in juvenile corrections. Present expectations are that the full \$200,000 can be utilized and is needed to develop alternative local care.

Emergency Board

Youth Care Centers

Existing Appropriation	\$75,000
Governor's Recommended Reduction	\$75,000

A total of \$200,000 was earmarked in 1967-69 for the development of local youth care centers, primarily for boys, as a means of dealing with youthful offenders in the community. Such local care units are intended to afford relief to state training schools, such as MacLaren School, and are a cornerstone of the movement away from the relentless growth of such centralized state facilities. The pilot program for local care was Pitchford Boys Ranch located near Roseburg.

The total financing referred to consisted of \$125,000 Special Payments appropriated to Corrections Division Administration, and an additional \$75,000 specially included in the Emergency Fund for release, if needed. Average Daily Population at MacLaren School was adjusted downward in the expectation that such local youth care units would become operational and would provide relief to the MacLaren intake during 1967-69.

At the present time, negotiations are essentially complete for continuation of an expanded program at the Pitchford Boys Ranch, and two completely new agreements are in final stages of negotiation. The first of these new agreements covers Hawthorne Manor in Corvallis, administered by Children's Farm Home but located in Corvallis. Hawthorne Manor is scheduled for eight or ten boys, and will serve Linn, Benton and Lincoln Counties. The second is a private organization, Youth Adventures, Inc., which has made an agreement with the Multnomah County Juvenile Court to handle up to nine boys at a time in an Oregon City facility. If the arrangement proves successful, plans exist for its expansion.

The present three programs appear to qualify for more than \$50,000 in 1967-68. Projected forward, these first three units are expected to utilize more than \$100,000 of the original \$200,000 during this biennium.

According to the Corrections Division Administrator, interest in local youth care projects is high, and additional agreements are expected in the months ahead. It is the Administrator's belief that the full \$200,000 can be utilized effectively.

If the Governor's proposed reduction is accomplished, it appears probable that Emergency Fund relief will be sought later in the biennium either for development of more local care agreements or to cover needs of an overrealized population at MacLaren School.

DEPARTMENT OF EMERGENCY SERVICES

Existing Appropriation	\$99,941
Governor's Recommended Reduction	\$ -

The Governor recommends no reduction for this agency, apparently on the ground that any cutback will necessitate eliminating a position, and that eliminating a position carries with it a threat of the complete withdrawal of 50% federal matching moneys.

The amount of possible savings in this agency, admittedly, is small, perhaps \$3,500 at a 3-1/2% rate of reduction. It is, however, somewhat extraordinary to afford preferential treatment to the budget of this agency, protecting it completely from the impact of declining revenues, simply because of the threat of federal inflexibility in the face of Oregon's fiscal problems. It is not clear that the service function of the Department of Emergency Services is so critical to Oregon as to warrant this agency being exempted from the temporary belt-tightening which other General Fund agencies are expected to share.

One possibility which might be considered is to reduce the agency's expenditure limitation for General Fund moneys by \$3,500 without specifying how such savings are to be realized. In this way, the agency will be faced with holding or forcing vacancies for between 12 and 18 man-months, depending on the positions affected, or possible reductions in services and supplies expenditures. A combination of forced Vacancy Experience and expense curtailment--a situation now faced by most General Fund supported state agencies--should allow operation reasonably close to the originally approved level while avoiding the alleged federal ultimatum with respect to the total of 10 positions.

Unwillingness of the Federal Government to continue participation in the face of such a small and temporary budget adjustment brought on by general fiscal necessity may reveal unusual inflexibility and possibly give some insights into the value placed on this program by the federal authorities. Emergency Board action will remain as a possible means of forestalling any abrupt collapse of the agency.

MILITARY DEPARTMENT

Existing Appropriation	\$2,829,998
Governor's Recommended Reduction	\$ 115,130

A substantial part of the Military Department activity is in the nature of caretaker of state-owned armory and military base properties. Such a role makes temporary budget reductions of \$115,130, or 4-1/2%, as recommended by the Governor, relatively painless in terms of immediate consequences. Should it be essential to do so, reductions as high as \$150,000, or nearly 6% of the agency's non-reimbursable General Fund appropriation, could be sustained without heavy damage to immediate operating effectiveness. Cutbacks above 6% rapidly increase the probability that permanent injury to state-owned buildings will occur, and virtually insure some over-all reduction in the administrative and operational capabilities.

Though its ability to defer improvements, repairs and equipment replacements in the short run may allow the Military Department to sustain higher than average budgetary reductions in 1967-69, a part of the maintenance and replacement postponements, at least, will have to be reflected in higher budgetary allowances for these purposes in subsequent biennial periods. The certainty of increased budgetary requirements in the future will be a strong argument in favor of accepting the Governor's recommended 4-1/2% adjustment.

BOARD OF PAROLE AND PROBATION

Existing Appropriation	\$2,208,036
Governor's Recommended Reduction	\$ 77,281

A 3-1/2% reduction is applied by the Governor to this agency budget, apparently on the theory that it provides a direct service to the public. Such a theory fails to recognize that the alternative to parole or probation supervision is normally incarceration at the Penitentiary or Correctional Institution, at additional taxpayer expense.

Fourteen new parole officer positions were approved in the 1967-69 budget of the Board of Parole and Probation, based entirely upon normal workload increase expectations. A reduction of \$77,281, as proposed, will mean that nearly one half of the fourteen parole officers and three new clerical positions approved to handle increased workload will not become available. Based upon such an expectation, it appears that supervision of parolees and probationers will, during 1967-69, fall to the poorest levels available in this state during the decade of the 1960's.

Consideration should be given to the proportion and balance between the parts of the total correctional program of the state which survive the Governor's recommended cutbacks. Some careful examination may be given to the utility of continuing within the Corrections Division essentially without reduction ambitious new programs aimed at full rehabilitation and early release of adult offenders from prison at the same time that the most important means of accomplishing such release is systematically curtailed. Important as the new programs in Corrections Division may be, there is danger that such programs may lead nowhere if parole capability is reduced to a point where the Parole Board is compelled to deny inmate releases for lack of supervision. Because of the relatively long training requirement for parole officers to reach journeyman levels of competency, the consequences of the proposed reduction will have continuing implications on into 1969-71.

The Ways and Means Committee may wish to review the requirements for presentence investigations and the supervision of probation and parole releases as these services affect the success of Corrections Division programs and institutional populations during 1967-69 and beyond.

DEPARTMENT OF STATE POLICE

Existing Appropriation	
(Non-reimbursable)	\$1,654,514
Governor's Recommended Reduction	\$ 57,908

The Governor's recommendation reflects a cutback of 3-1/2% on that part of the State Police budget actually supported from general state revenues. The remaining \$12.5 million, while technically General Fund, represents direct reimbursements from dedicated fund sources. Reductions in the areas supported from dedicated fund reimbursements will gain nothing in behalf of the General Fund, and so were avoided.

The two areas affected are the Criminal Division and the very small Commercial Fish Division. In the Commercial Fish Division, a newly-authorized officer will be reassigned elsewhere in the Department to hold that position vacant approximately nine months during the biennium.

In the Criminal Division, the proposed 3-1/2% reduction will translate into slightly more than three continuous vacancies in uniformed positions for the remainder of the biennium. Some small savings have been realized through vacancies already; however, three forced vacancies will represent a reduction in capability from a budgetary standpoint. In a practical sense, the reduction of General Fund support will not result in any failure to respond to criminal investigation demands placed upon the Department. Rather, officers supported from dedicated fund units, such as Traffic, Fire Marshal, and Game Divisions, will be pressed into service when immediate investigation and enforcement obligations arise. Ultimately, the reduction in service probably will be felt in these Other Funds units, though where and to what extent cannot be identified in advance.

ADVISORY BOARD ON POLICE STANDARDS AND TRAINING

Existing Appropriation	\$13,569
Governor's Recommended Reduction	\$ 611

The recommended reduction of \$611 is at the rate of 4-1/2% applied to the General Fund part of the agency support moneys. This unit has, by tradition rather than by statute, received 20% support from the General Fund, and the remaining 80% from Highway Fund balances. The proposed reduction to the General Fund part should not in any way affect the support moneys available from Highway Fund sources. The net budgetary impact of the Governor's recommendation is, for the reasons indicated above, a cutback of only 3/4ths of 1%.

Although the percentage reduction to the total budget is very slight, this small agency will experience substantial difficulty in maintaining its originally approved program objectives. The agency is faced with a hard choice of temporarily deferring addition of newly-authorized staff or of cutting back on supplies and services. A short delay in hiring appears to be the more satisfactory solution since it will permit the agency to maintain normal operating levels for a major part of the biennial period.

LIQUOR CONTROL COMMISSION

The Liquor Control Commission does not require a General Fund appropriation for the payment of administrative expense. Net proceeds from liquor sales and license revenues is used for this purpose and the remaining balance of the proceeds is then distributed, 76% to the General Fund, 14% to cities and the remaining 10% to counties. The Governor did not recommend a reduction in the amount authorized for the payment of administrative expense even though to do so would have resulted in additional revenue to the General Fund.

It is difficult to see any basic difference between the operations of the Commission and that of the State Tax Commission and other agencies which collect taxes and fees which are turned over intact to the General Fund with the agency receiving an appropriation for the payment of its administrative expenses. The Governor did recommend a reduction of 4.5% in the appropriations for these agencies.

A reduction of 4.5%, or \$410,117, in the Commission's administrative expenses during the 1967-69 biennium would result in \$311,689 additional General Fund revenue and, in addition, would increase turnovers to cities by \$57,416 and counties by \$41,012. Areas in which the Commission may find it possible to realize this reduction include, reduction of enforcement and store personnel, delay in establishing new agencies in areas now served by stores and conversion of marginal store operations to agency operations.

The Ways and Means Committee may wish to consider a further increase in liquor prices. A price increase effective January 1, 1968, of 10¢ per fifth and 5¢ per pint would increase revenues by an estimated \$1,895,000, of which the General Fund would receive \$1,440,200, cities \$265,300, and counties \$189,500.

Natural Resources and Transportation

DEPARTMENT OF AGRICULTURE

Existing Appropriation	\$3,676,600
Governor's Recommended Reduction	\$ 165,447

The Governor recommends a reduction of 4.5% of the total appropriation. Programs which will probably be affected by the reduction are ragweed control, brucellosis testing, meat inspection, animal disease control, freight rate research, and business administration, as well as payments to the Oregon State University animal diagnostic laboratory. The resulting general decrease in service levels will produce levels approximating those of 1965-67. The underfilling of positions which will be required will correspond to the situation which prevailed during 1965-67, when positions were held open to cope with underfunding of salary adjustments.

As last reported, seven positions financed wholly or in part from the General Fund were vacant. The agency is actively recruiting for one of the positions; the other six are being held open. Two of the three new General Fund positions provided for 1967-69 are already filled.

EMERGENCY BOARD - SEA GRANT COLLEGE

Existing Appropriation	\$500,000
Governor's Assumed Reduction	\$125,000

The 1967 Legislature in its Regular Session appropriated \$500,000 to the Emergency Board for allocation to the State Board of Higher Education for purposes of matching a federal grant, when it became available, for a Sea Grant College. Because of delays at the federal level, it now appears that there is no possibility of implementing this program before January 1, 1968. The Governor's recommendation assumes that since the program can be in operation no longer than three-fourths of the biennium, only three-fourths of the money appropriated will be necessary.

STATE ENGINEER

Existing Appropriation	\$1,487,987
Governor's Recommended Reduction	\$ 52,221

The Governor recommends a reduction of 3.5% of the total appropriation. The recommended reduction rate is based on judgment that the agency provides a substantial amount of direct service to the public which will not warrant the higher 4.5% reduction.

The major effect of the proposed reduction will be to require three new positions be held open, which will curtail the acceleration of the ground water investigation program and the catch-up of processing water rights applications, both of which were provided for by the 1967 Legislature at its Regular Session. Cooperative projects will also be curtailed. It will be possible, however, to maintain services at a level at least equivalent to 1965-67.

This agency has two separate appropriations: a general lump sum appropriation (Chapter 41, Oregon Laws 1967), and a special appropriation for a ground water survey in Harney County (Chapter 209, Oregon Laws 1967). It is recommended that any reductions for the agency be made wholly in the lump sum part and that no reductions be made in the special appropriation. The full amount of the special appropriation is required for contracts with the United States Geological Survey, the first of which has already been negotiated.

FISH COMMISSION

Existing Appropriation	\$2,516,905
Governor's Recommended Reduction	\$ 113,261

The Governor's recommended reduction is 4.5% of the appropriation (exclusive of capital construction which is dealt with separately). The proposed reduction will be achieved primarily by underfilling positions and deferring capital outlay. It may also be necessary to defer some low priority research projects. Although a general reduction of service level will occur, the agency's programs should not be seriously impaired.

Three new positions financed in part from the General Fund were authorized for 1967-69. Two of these are being held open at the present time; the third is not due to be filled until the last half of the biennium.

DEPARTMENT OF FORESTRY

Existing Appropriations	\$5,154,507
Governor's Recommended Reduction	\$ 167,712

The Governor recommends a reduction of 4.5% of the \$3,726,938 operating appropriation, which excludes the \$1,427,569 appropriation to the Rehabilitation Bond Sinking Fund. The proposed reduction will be accomplished by delay in filling vacancies, reducing the amount available for fire protection on private lands by 4.5% (\$22,050) and curtailing the forest protection program in the amount of approximately \$100,000. Three positions funded wholly or in part from the General Fund are being held open; five other positions are vacant but are planned to be filled.

The reduction in money available for payments of fire protection costs on private lands may be more apparent than real. Payments by the agency for this purpose are determined by the costs of the private protection associations. If the costs should exceed the amount of money available, the agency must then either absorb the additional expense from other portions of its budget or go to the Emergency Board for additional money. Because the agency lacks control over this item, it may represent an unrealistic choice for actual budget reduction.

DEPARTMENT OF GEOLOGY AND MINERAL INDUSTRIES

Existing Appropriation	\$576,755
Governor's Recommended Reduction	\$ 25,954

The Governor is recommending a reduction of 4.5% of the total appropriation. The proposed reduction will be effected by the elimination of summer and part-time help and the deferral of capital outlay. The result will be the elimination of low priority programs such as recreational geology. The agency is holding open the one new position which was authorized for 1967-69.

DEPARTMENT OF HIGHER EDUCATION - AGRICULTURAL RESEARCH

Existing Appropriation	\$6,993,946
Governor's Recommended Reduction	\$ 314,728

The Governor's recommended reduction is 4.5% of the total appropriation. The proposed reduction will be accomplished in part by reductions in services and supplies, deferring the filling of vacant positions, reducing administrative reserves, and eliminating approximately six FTE positions.

As a result of the proposed reduction, two new "C" level programs, namely nursery and ornamental crops and field burning air pollution, will be slightly curtailed, and there will be a delay in implementing the new "C" level program in agricultural production and processing wastes. There will be little or no effect on the other new programs: planning the animal disease isolation facility, construction of the seafoods laboratory at Astoria, mechanical harvesting research, cereal crop disease research, and vegetable crop production research.

The proposed underfilling of four existing positions and the elimination of approximately six FTE positions will be spread among numerous existing programs. Departments which will be affected include: agricultural economics, fisheries and wildlife, farm crops, horticulture, food science and technology, soils, agricultural engineering, botany and plant pathology, agricultural chemistry, animal science, and poultry science.

DEPARTMENT OF HIGHER EDUCATION - FEDERAL COOPERATIVE EXTENSION

Existing Appropriations	\$5,303,460
Governor's Recommended Reduction	\$ 185,621

The Governor is recommending a reduction of 3.5% of the total appropriations. A reduction rate of 3.5% was applied to this agency for the reason that it primarily is engaged in providing direct services to the public. The proposed reduction will be achieved by holding open vacant positions and by eliminating twelve positions. Positions to be eliminated include three central staff positions (information specialist, plant pathology specialist, and institutional management specialist) and nine county positions.

In considering the effect of the proposed reduction, it should be borne in mind that the Governor's 1967-69 budget and the appropriation by the 1967 Legislature in its Regular Session provided for a cut of 15 FTE positions from the 1965-67 level. This reduction was effected by eliminating seven positions from the central staff and eight positions at the county level.

DEPARTMENT OF HIGHER EDUCATION - FOREST RESEARCH LABORATORY

Existing Appropriation	\$474,578
Governor's Recommended Reduction	\$ 21,356

The Governor recommends a reduction of 4.5% of the total appropriation. The proposed reduction will be effected by deferring the purchase of equipment and remodeling to provide a new constant temperature and humidity room. There would no curtailment in program.

COMMITTEE ON NATURAL RESOURCES

Existing Appropriation	\$52,653
Governor's Recommended Reduction	\$ 2,369

The Governor is recommending a reduction of 4.5% of the total appropriation. The proposed reduction will be achieved by cutting services and supplies to approximately the 1965-67 level.

PORT AUTHORITIES COMMISSION

Existing Appropriation	\$80,309
Governor's Recommended Reduction	\$ 3,614

The Governor recommends a reduction of 4.5% of the total appropriation. One-half of the appropriation budget is for a special study by an outside consulting firm. This study is under contract and is not available for reduction. The proposed reduction, therefore, will have to come from the remainder of the appropriation and may require the Commission to accelerate its schedule so as to complete its report and close its office approximately two months earlier than was planned. The Commission expires at the end of this biennium, and its appropriation provided money for support only through March 1969.

PUBLIC UTILITY COMMISSIONER

Existing Appropriation	\$98,570
Governor's Recommended Reduction	\$ 4,436

The Governor's recommended reduction is 4.5% of the total appropriation. The sole purpose of the appropriation is the payment of expenses in representing Oregon interests before federal regulatory agencies. The effect of the reduction will be to reduce agency participation in this activity; nevertheless, the proposed reduction will allow a substantial expansion of participation above the 1965-67 level. With the proposed reduction, the appropriation will be \$94,134, or \$14,895 above the 1965-67 appropriation. After making adjustments for salary increases, the proposed appropriation would be approximately \$6,000 more than is required to meet the level of participation which existed in the last biennium. Based upon that criterion, a possible further reduction of \$6,000 can be considered.

ROGUE RIVER COORDINATING BOARD

Existing Appropriation	\$750
Governor's Recommended Reduction	\$ 34

The Governor is recommending the regular reduction of 4.5% of the appropriation. The small amount involved requires no special explanation.

SOIL AND WATER CONSERVATION COMMITTEE

Existing Appropriation	\$97,243
Governor's Recommended Reduction	\$ 4,376

The Governor is recommending the appropriation be reduced by the normal 4.5%.

The proposed reduction will require reducing travel and printing to the 1965-67 level, a decrease in the payments to soil and water conservation districts, and the lay-off or reduction to a part-time status of one clerical position for a part of the biennium.

The decrease in payments to districts will amount to about \$10 per district. The amount of \$4,855 is presently budgeted to reimburse the 59 districts for a portion of their expenses.

In addition to the proposed reduction, the agency must absorb approximately another \$1,000 for an unbudgeted salary increase for the administrative officer. The position was budgeted at range 33 but by subsequent administrative action the salary has been increased to range 34.

WATER RESOURCES BOARD

Existing Appropriation	\$1,013,868
Governor's Recommended Reduction	\$ 16,617

The Governor's recommended reduction represents 4.5% of the appropriation exclusive of money for the Ultimate Needs Study, less \$10,000 to be added for expenses of membership in the Pacific Northwest River Basin Commission. The \$10,000 membership item was referred to Legislative action during the Special Session by the Emergency Board on October 16.

Although the proposed reduction will result in some curtailment of services below the level previously authorized for 1967-69, service levels will still be considerably above the 1965-67 level. This is because the 1967 Legislature in its Regular Session appropriated approximately \$99,000 for two new programs: namely participation in the Pacific Northwest River Basin Commission, and reservoir site identification. As an alternative to the Governor's recommendations, the Legislature may wish to consider applying a 4.5% reduction rate to the agency's total appropriation, which will produce a reduction of \$46,524 instead of the \$26,617 proposed by the Governor. This can be achieved by delaying but not eliminating implementation of the reservoir site identification program and staff participation in the Pacific Northwest River Basin Commission program. Curtailment of the Ultimate Needs Study will not be required.

Twelve positions (four old, eight new) are reported as vacant. Six of the new positions are scheduled to be phased in during the last 19 months of the biennium in connection with the new program.

A separate item for legislative consideration is the Governor's recommendation that \$10,000 be added to the agency's appropriation (and therefore decreasing the reduction by that amount) for increased payments to the Pacific Northwest River Basin Commission. When the agency budget was under consideration during the Regular Session, a budget for the Commission was not yet formulated, but the Oregon share of the expenses for 1967-69 was estimated at \$20,000 annually. A Commission budget has now been adopted, and the five participating states have agreed to contribute as follows: Idaho, Montana, Oregon, and Washington, \$25,000 each; and Wyoming, \$5,000. The Emergency Board has approved payment to the Commission of \$25,000 for 1967-68.

It is suggested that the Legislature consider adding only \$5,000 to the appropriation for the state's share of the Commission's expenses for the first year and leaving for Emergency Board consideration at the proper time the question of providing \$5,000 for the second year. The Commission has adopted a budget only for the first year, and the second year requirements are not yet known. Presumably, the budget for the second year will be approximately the same as for the first year. At this point, however, it appears possible that there will be money in the Commission treasury which is unexpended at the end of the first year and which can be carried over into the second year. Such a carryover will reduce the contribution required of the states for the second year. The Commission has not yet filled all of its positions, and there is likely to be salary savings which can be carried over.

To summarize, the following are some alternatives available to the Legislature: (1) accept the Governor's recommendations without change, a net reduction of \$16,617; (2) accept the Governor's recommendation for reduction but add only \$5,000 for the Pacific Northwest River Basin Commission, a net reduction of \$21,617; (3) apply a 4.5% reduction rate to the total appropriation and accept the Governor's recommendations for the Commission, a net reduction of \$36,524; or (4) apply a 4.5% reduction to the total appropriation and add only \$5,000 for the Commission, a net reduction of \$41,524.

Labor and General Government

CAPITOL PLANNING COMMISSION

Existing Appropriation	\$5,214
Governor's Recommended Reduction	\$ 235

The Governor has recommended a reduction of 4-1/2% in the amount appropriated to the Commission. On October 16, 1967, subsequent to the preparation of the Governor's recommendations, the Emergency Board allocated \$4,089 from the Emergency Fund to the Commission. For reasons of consistency, consideration might be given to further reducing the appropriation by \$184 to reflect the 4-1/2% reduction of the Emergency Fund allocation amount.

It appears that the only way the Commission has of absorbing the proposed reduction is to reduce the number of meetings scheduled to be held.

CIRCUIT AND DISTRICT COURT JUDGES

Existing Appropriation	\$3,462,961
Governor's Assumed Reduction	\$ -

No reduction was recommended in this appropriation. The salaries and expenses of Circuit and District Court Judges are paid from this appropriation, and constitutional provisions exist which prohibit reduction of judges' salaries during their terms of office.

In reviewing the requirements for the 1967-69 biennium it was determined that the appropriation for Circuit Court Judges' salaries is \$21,000 in excess of the requirement. This was due to the appropriation being passed by the Ways and Means Committee prior to the time the Act providing for additional Circuit Court Judges obtained legislative approval. The appropriation for District Court Judges is \$52,000 short of the requirement for the biennium, which results in a net appropriation deficiency of \$31,000 for which either an Emergency Fund allocation will have to be made or the appropriation increased during the Special Session.

CIVIL SERVICE COMMISSION

The Governor has recommended no reduction in the operating budget of the Civil Service Commission. If such a reduction were made, however, it would result in decreases in Civil Service assessments on all agencies and assist General Fund agencies to meet reductions in their existing appropriations.

Since roughly 50% of the state's classified employees are financed from the General Fund, approximately 50% of a reduction in the Civil Service Commission budget will translate into savings by General Fund agencies. The application of a 4-1/2% reduction factor to the Civil Service Commission's existing expenditure limitation will result in savings of approximately \$52,000 (\$26,000 General Fund).

Imposition of such a 4-1/2% reduction will cause deferment of some improved recruitment, certification and examination capability provided by five new positions included in the current Civil Service Commission budget.

STATE COMPENSATION DEPARTMENT

Existing Appropriation	\$6,556
Governor's Assumed Reduction	\$ -

Chapter 506, Oregon Laws 1967, provides for an appropriation of \$6,556 to be transferred to the Civil Defense Injury Fund. This appropriation was made to establish a \$15,000 balance in the fund, which is equal to the maximum liability for two claims.

At the present time there is a balance in the Fund of \$16,784. It is therefore possible to reduce the appropriation by \$1,784 and still maintain a reserve in the fund equal to the maximum liability for two claims. In view of the reduced activity in civil defense, it is doubtful that there is a need for a reserve in excess of \$15,000.

CRIMINAL LAW REVISION COMMISSION

Existing Appropriation	\$40,000
Governor's Assumed Reduction	\$ 1,800

The Governor's assumed reduction represents 4-1/2% of the appropriation. The amount assumed can be achieved through savings realized from delay in hiring an executive secretary. On the other hand, the Chairman of the Commission has pointed out that the over-all effect of the reduction will be drastic, on the grounds that the existing appropriation is inadequate for the task assigned to the Commission.

As introduced, the bill creating the Commission provided an appropriation of \$51,628. This amount was changed by the Senate Judiciary Committee to \$50,000 and subsequently by the Joint Ways and Means Committee to \$40,000.

DISTRICT ATTORNEYS AND DEPUTY DISTRICT ATTORNEYS

Existing Appropriation	\$1,486,196
Governor's Assumed Reduction	\$ -

Chapter 556 appropriated \$973,696 to pay the personal services expenses of district attorneys and \$512,500 to be distributed to counties with which to pay the salaries of deputy district attorneys. As the salaries of district attorneys and the amounts to be distributed to counties for salaries of deputy district attorneys are specified by statute, the Governor did not recommend any reduction in this appropriation.

Chapter 597, which established the increased salary rates for district attorneys, did not contain an emergency clause and therefore did not become effective until September 13, 1967. The appropriation, on the other hand, provided for increased salaries for the entire period, and in addition the estimated requirement for personal service expense was overestimated. These two items will permit a reduction in the appropriation of \$14,500, thereby recovering savings which are now identifiable.

EMERGENCY BOARD--EXPENSES

Existing Appropriation	\$8,000
Governor's Assumed Reduction	\$ 360

The Governor has applied the uniform 4-1/2% reduction to this appropriation. The \$360 reduction can be used to help offset the deficit, but there is little doubt but that the Emergency Board's existing appropriation will be insufficient because of the additional requests and number of Board meetings caused by the budget reductions. The Board will probably be seeking operating money from its Emergency Fund even without the 4-1/2% reduction.

EMERGENCY BOARD--SALARY ADJUSTMENT FUND

Existing Appropriation	\$1,500,000
Governor's Assumed Reduction	\$ 52,500

The recommended reduction is 3-1/2% of the existing appropriation for mid-biennium salary adjustments. Reduction of this appropriation was recommended to maintain consistency with reductions imposed on the State Board of Higher Education operating appropriation which contains moneys for second year academic salary adjustments with the recommendations concerning other General Fund appropriations.

The Legislature may wish to consider further reducing this appropriation--perhaps to the point of abolishing the mid-biennium salary adjustment fund. It should be noted, however, that existing state salary levels are already below competitive levels in many instances, and future salary increases in competitive jurisdictions can be expected during the current biennium. A survey conducted by the Civil Service Commission in the late spring of 1967 indicated that salary levels which went into effect July 1, 1967, for technical, professional and administrative state positions were then 8% under equivalent salaries in competing jurisdictions. Institutional teacher salaries in Board of Control institutions are now significantly below comparable salaries of public school teachers in the Salem area. Private hospital nursing salaries in the Portland area are scheduled to increase \$25 per month on January 1, 1968, and the starting salaries for 1,000 state employees will be less than the federal minimum wage beginning February 1, 1968, when the minimum wage is increased to \$1.60 per hour.

Also relevant to this matter is the recent action of the United States House of Representatives raising federal administrative employees' salaries an average of 4-1/2% and the 5% average salary increase scheduled for State of Washington employees for January 1, 1968.

The existing \$1,500,000 General Fund appropriation for mid-biennium salary increases in Oregon, when coupled with a similar amount available from dedicated funds, will finance an average increase of less than 1-1/2% in state salary levels on July 1, 1968. Such an increase will not maintain the relative competitive position of state salaries that existed on July 1, 1967, but will make possible some increases to salary levels for those classifications of employment in the state service that most critically need adjustment.

EMERGENCY BOARD--REGULAR EMERGENCY FUND

Existing Appropriation	\$2,000,000
Governor's Assumed Addition	\$1,000,000

Because of his proposed budget reductions, the Governor has recommended \$1,000,000 be added to the existing fund of \$2,000,000. Many agencies will not be able to handle the assigned reductions as easily, program-wise, as others, and may request Emergency Fund moneys rather than using every approach to absorb the cut. If this occurs, a "first come first served" problem may face the Emergency Board in allocating the additional \$1,000,000. Whether the Legislature places an additional \$1,000,000 in the Emergency Fund should depend somewhat upon the policies and procedures used in reducing operating budgets. If new levels are established and financed with the lower appropriation, or if specific cuts are made, then there should be little need for an Emergency Fund request. On the other hand, application of uniform percentage reductions without clearly adjusting expected staffing and performance levels may produce a rush for Emergency Fund relief.

EXECUTIVE DEPARTMENT

Existing Appropriation	\$514,488
Governor's Recommended Reduction	\$ 23,152

The Governor's recommended reduction represents 4-1/2% of the total appropriation. The proposed reduction will be effected by deferring the filling of clerical vacancies, savings to be realized by using automatic office machinery to reduce clerical staff, and savings realized from filling the position of intergovernmental coordinator at a salary considerably less than that budgeted.

DEPARTMENT OF FINANCE

Existing Appropriation	\$1,874,726
Governor's Recommended Reduction	\$ 335,163

The Governor has recommended both a reduction in specific programs and a percentage reduction of 4-1/2% resulting in a combined recommended reduction of \$335,163 to the appropriation to the Department of Finance.

The approved budget of the Department provided for both new programs and new methods of financing existing programs. The responsibility for the design of the Central Accounting System was transferred to the Department from the Office of the Secretary of State as was the Data Systems Division. The latter, however, will not be transferred until July 1, 1968.

The Department received an appropriation of \$486,811 for the design of the Central Accounting System during the current biennial period. The recommendation provides for a program reduction of \$240,000 plus a 4-1/2% reduction of the remaining balance, making a combined reduction of \$251,107. This will leave \$235,704 to be expended by the Department for this particular program. In addition, this office has been advised that the Division of Audits of the Office of the Secretary of State is contemplating spending an additional \$50,000 during the 1967-69 biennial period in order to participate in the design of the Accounting System. It is apparently the belief of the Secretary of State even though the responsibility of the design of the System is assigned by statute to the Department of Finance, that his position as State Auditor makes it imperative that he assist in the design of the System.

DEPARTMENT OF GENERAL SERVICES--ARREST AND RETURN OF FUGITIVES

Existing Appropriation	\$140,000
Governor's Assumed Reduction	\$ -

The Department also received an appropriation of \$140,000 to reimburse county and city law enforcement personnel for out-of-state travel expenses incurred in returning fugitives to the state. The Governor has recommended that this appropriation not be reduced.

The accounting procedure of the Department is to encumber the appropriation when the trip is approved although it is not to be made until after the close of the biennial period. In actual practice many trips are never made, and it is then necessary to cancel the encumbrance which is usually not done until after the close of the biennial period. It is, therefore, impossible to ascertain the actual expenditures for 1965-67. An examination of the accounting control records maintained by the Secretary of State for the 1965-67 and prior biennia disclosed that 1965-67 costs will be approximately \$105,000 instead of \$125,000 as reported in the budget. This will represent an increase of approximately \$15,000 over 1963-65 costs. Assuming the same increase in 1967-69 an appropriation of \$120,000 will be required; however, since the Department is now charging administration costs to the appropriation, it will increase the amount required to \$125,000. It appears possible to reduce the appropriation for the purpose by \$15,000 to the estimated requirement of \$125,000.

INTERSTATE COOPERATION COMMISSION

Existing Appropriation	\$138,750
Governor's Recommended Reduction	\$ 24,750

Because special payments are now found to be less than expected at the Regular Session the Governor has made specific reductions totaling \$24,750 rather than applying a uniform percentage reduction.

It is understood that \$20,000 less than was estimated is now needed for payment to the Western States Water Council, and the dues for the Education Commission of the States is down by \$4,750.

These two specific reductions leave untouched the original estimates for special payments to Council of State Governments (\$18,250), National Governors' Conference (\$8,000), National Conference of State Legislative Leaders (\$2,000) and WICHE (\$45,000), but the State of Oregon is pretty well committed to the amounts set out.

It is recommended that in addition to the Governor's reduction that the regular 4-1/2% reduction be applied to the Commission's budgeted expenses of \$15,000 or a reduction of \$675. It is understood over \$2,000 was turned back at the end of 1965-67.

INVESTMENT COUNCIL

Existing Appropriation	\$200,515
Governor's Recommended Reduction	\$ 9,023

The Governor has applied the usual 4-1/2% reduction to this appropriation, and it is understood it will be achieved principally by not filling a position and by not requiring some other budget items. The budget was developed for 24 months operation but actual operation will be several months less. The law provides for transferring a portion of the appropriation to the State Treasurer if the Council deems it desirable.

JUDGES' RETIREMENT Fund

Existing Appropriation	\$371,037
Governor's Assumed Reduction	\$ 79,200

The Governor has recommended a reduction of \$79,200 in the amount included in the adopted budget for the Judges' Retirement Fund. This reduction applies to the requirements to finance prior service benefits and is possible due to the increase in judges' salaries and to the increased number of Circuit Court Judges. The existing appropriation was determined by using the same percentage of salaries as was paid to the Fund in 1965-67. While the rate of contribution was allowed to stand by the Regular Session, the reduction is entirely appropriate. In circumstances of financial emergency, there appears to be no reason to overlook this opportunity to reduce expenditures.

JUDICIAL COUNCIL

Existing Appropriation	\$59,594
Governor's Assumed Reduction	\$ 2,682

The Governor has applied the normal 4-1/2% reduction to this agency, the budget for which consists of two positions costing \$44,099 and Services and Supplies of \$15,495. The reduction will need to come from using part-time personal services or in cutting back on the amounts of travel, supply and service items.

DEPARTMENT OF JUSTICE

Existing Appropriation	\$1,160,375
Governor's Recommended Reduction	\$ 52,217

The Governor has applied the usual 4-1/2% reduction to both the Legal Division, \$25,183, and Welfare Recovery Division, \$27,034.

In both Divisions, the reductions will be accomplished principally by deferred position appointments. In the Legal Division there will be a reduction in legal service by leaving unfilled two positions.

The reduction in the Welfare Recovery Division budget will result in not hiring an attorney and eliminating the proposed collection station for Central Oregon in Bend where the attorney was to spend most of his time. The other savings will come from reductions in communication, office supplies, and travel costs. Lower collection activity will result in increased caseloads and perhaps some loss in recoveries.

BUREAU OF LABOR

Existing Appropriation	\$1,760,367
Governor's Recommended Reduction	\$ 61,613

The Governor's recommendation for a cutback of 3-1/2% or \$61,613 in the General Fund part of the Bureau of Labor budget can be expected to greatly delay or eliminate expanded field services to outlying areas approved by the 1967 Legislature. It appears that the agency will make every effort to avoid cutbacks in the Civil Rights and the Wages and Hours Divisions.

Maintaining full authorized levels in Civil Rights and Wages and Hours will necessitate cutbacks averaging about 6% in the Administration, Apprenticeship, Conciliation, Legal Service, and Senior Worker programs. The more visible consequences will be elimination or long delay in opening general field offices in Pendleton and Coos Bay, eliminate a projected apprenticeship representative office in Bend, cutback in conciliation services outside of Western Oregon population centers due to curtailment of travel and expense items, reduction of legal assistance to the public on wage case judgment collections outside of Multnomah and Marion Counties and probable delay in hiring a newly-authorized attorney, and a reduction of clerical support and expenses in the Senior Workers Division. Over-all, the reductions will result mainly in a reduced level of public service in the lower population areas of Oregon where the costs per unit of service tends to be high.

Reductions in excess of the Governor's proposed 3-1/2% will necessitate further curtailments of public services in the Divisions cited above and reductions in Civil Rights and Wages and Hours as well. Such reductions would include a delay in civil rights service to the Eastern Oregon Indian community and elimination of a newly-authorized wages and hours inspector needed for operation under the new minimum wage law enacted in 1967.

LABOR-MANAGEMENT RELATIONS BOARD

Existing Appropriation	\$12,630
Governor's Recommended Reduction	\$ 578

The reduction recommended by the Governor is 4-1/2% of the appropriation. Since agency expenditures are closely related to the number of man days spent in hearings, the proposed reduction will limit the number and duration of hearings.

Previously, only two of the three Board members were paid a per diem, because the third member was an employe of the State System of Higher Education. The 1967-69 budget was prepared on this basis. Subsequently, however, this member has resigned and been replaced with a member who is entitled to per diem. Consequently, the agency's expenses are greater than had been anticipated. The agency reports that, prior to the Governor's recommendation for a reduction, it was planning to ask for additional money from the Emergency Board.

LEGISLATIVE ASSEMBLY

Existing Appropriation	\$2,213,082
Governor's Assumed Reduction	\$ 25,000

The 1967-69 appropriations and estimated appropriations for Legislative Assembly costs include the following items:

54th Assembly	\$ 848,000
55th Assembly:	
Preliminary Expenses	75,000
Estimated Appropriation	1,250,000
Amortization of Costs for Extending Elevators and Installing Air Conditioning	40,082

The Governor has recommended that the appropriation for the preliminary expenses of the 55th Legislative Assembly be reduced by \$25,000. He has recommended no other reductions in the appropriations for the Legislative Assemblies.

It appears that the appropriation for the 54th Assembly is substantially below requirements as the budget bill was passed before the Assembly authorized additional expenditures and because no provision was made for the costs of the 1967 Special Session.

As the amount appropriated for preliminary expenses together with the estimated appropriation for the 55th Legislative Assembly is only \$40,000 in excess of the appropriations for the 53rd Assembly, it does not appear that the recommended reduction of \$25,000 is appropriate.

A reduction of \$10,000 can be made in the appropriation for the amortization of costs of extending the elevators and installing air conditioning in the Capitol Building. It is now the intent of the Department of General Services to complete the work in late fall of 1968 rather than prior to the summer of 1968 as was originally intended.

LEGISLATIVE COUNSEL COMMITTEE

Existing Appropriation	\$340,247
Governor's Assumed Reduction	\$ 15,311

The Governor has applied the assumed 4-1/2% reduction to the Legislative Counsel's appropriation. The only way the \$15,311 reduction can be absorbed is to leave vacant professional staff positions. It will, of course, have an impact upon the level of service that office will be capable of furnishing, but probably will not seriously hamper the total program.

LEGISLATIVE FISCAL COMMITTEE

Existing Appropriation	\$333,775
Governor's Assumed Reduction	\$ 15,020

The 4-1/2% reduction applied by the Governor for the purpose of being uniform can be absorbed by the Committee through keeping an analyst position and a clerical position unfilled until the saving is achieved. It will mean that the remaining filled positions will have to assume some extra workload, and it will result in a lower level of service to the Legislature than was anticipated.

LEGISLATIVE TAX STUDY COMMITTEE

Existing Appropriation	\$13,650
Governor's Assumed Reduction	\$ 614

The uniform 4-1/2% was applied to the \$13,650 limitation on expenditures by the Legislative Tax Study Committee. These expenditures are made from an appropriation of \$347,425 to the Legislative Fiscal Committee to cover the costs of both the Fiscal Committee and Tax Study Committee.

The reduction can be achieved by reducing travel, or it can be included as an addition to the assumed reduction of the Legislative Fiscal Committee, which furnishes staff services to the Tax Study Committee. This latter procedure will permit the reduction to be achieved by either a reduction in staff service or in travel.

MID-WILLAMETTE VALLEY COUNCIL OF GOVERNMENTS

Existing Appropriation	\$3,949
Governor's Assumed Reduction	\$ 178

The Governor assumes a reduction of 4-1/2% of the appropriation. Customarily this appropriation, which is based on 10% of the Council's budget, is underspent; \$336 reverted at the end of the last biennium. The proposed reduction should have no adverse impact on the program.

MULTISTATE TAX COMMISSION

Existing Appropriation	\$5,000
Governor's Recommended Reduction	\$ -

This appropriation was made to pay the state's share of the administrative costs of the Multistate Tax Commission. The Governor has recommended that this appropriation not be reduced.

At the present time there are only 13 states which have joined the Multistate Tax Compact, none of which are large, influential states. At a recent meeting of the Multistate State Compact Advisory Committee it was decided that Oregon should not underwrite any portion of the cost of the Multistate Tax Commission until such time as more states have joined the Compact. At the present time the Oregon representative to the Commission, the Chairman of the State Tax Commission, is attending a meeting with representatives of other states at which Oregon's financial responsibility for the Multistate Tax Commission in the current biennium should be determined. Possibly a large part, if not all, of the appropriation can be withdrawn. Information should be available by the time of the Special Session.

PORTLAND METROPOLITAN STUDY COMMISSION

Existing Appropriation	\$123,791
Governor's Recommended Reduction	\$ 5,571

The Governor recommends a reduction of 4-1/2% of the appropriation. The effect of the reduction will be to make less money available for consultant services and for printing and distribution of its study report. This reduction should have no serious impact on the Commission's study.

PUBLIC DEFENDER

Existing Appropriation	\$170,624
Governor's Assumed Reduction	\$ 7,678

The assumed reduction by the Governor represents 4-1/2% of the General Fund appropriation for the Public Defender. This agency has a small staff of three public defenders, three secretaries, and two part-time law clerks. Eighty-five percent of the agency's expenditures are in Personal Services; a reduction of the size assumed by the Governor will probably result in a reduction of part-time law clerks and some curtailments in Services and Supplies and Capital Outlay. It appears that the 4-1/2% reduction will result in a lower level of service by the agency.

In addition to its regular workload, the Public Defender was given additional responsibilities in chapter 441, Oregon Laws 1967, without a corresponding increase in staff. Moreover, recent Supreme Court rulings have added to the workload beyond that anticipated during the Legislative Session. It appears fairly certain that the layoff of law clerks in this agency will mean that the public defenders will be doing much of the legal research formerly provided by the law clerks.

A reduction of 1-1/2%, or \$2,500, would affect Services and Supplies and Capital Outlay, but would probably not require staff reductions.

SECRETARY OF STATE

Existing Appropriation	\$3,029,669
Governor's Assumed Reduction	\$ 136,335

The Governor has assumed a reduction of \$136,335 or 4-1/2% in the 1967-69 appropriation to the Secretary of State to correspond to similar percentage reductions recommended for other executive agencies.

The 1967-69 appropriation of the Secretary of State is divided into three separate limitations as follows:

1. General Division Activities	\$ 854,025
2. Building and Grounds Activities	\$ 2,173,644
3. Oregon State Flag Donation Trust Fund	\$ 2,000

Based on information received from the Secretary of State, it is apparently his intention to effect most of the necessary savings by reducing expenditures in the building and grounds activities. Included in his plans for effecting the savings is delaying major repair and remodeling items costing \$86,164. In addition, certain capital outlay items which were approved in the budget will not be purchased and certain positions will be eliminated. Minor savings are planned in the general division activities.

The Ways and Means Committee may wish to consider the limitations for the General Division and Building and Grounds as though they were separate appropriations.

As the General Division activities compare with other executive agencies, any uniform percentage reduction should be applied to that Division's appropriation. Based upon information received from the Secretary of State, it may be difficult to achieve a reduction of 4-1/2% or \$38,431. In part because the Secretary of State is not subject to allotment control, he had not found it necessary to conduct his activities during the first three months of the current biennium on a reduced scale as did agencies who are subject to allotment control. In addition, \$193,500 or 22.7% of the entire appropriation for the General Division constitutes the direct cost of the voter pamphlet. The Secretary of State has little control over the cost of this program as the size of the pamphlet and, therefore, the amount of direct cost is dependent upon the number of candidates and measures. If direct costs exceed \$193,500, the Secretary of State may find it necessary to request an allocation from the Emergency Fund.

An alternative approach to applying a reduction of 4-1/2% to the appropriation for building and grounds activities would be for the Ways and Means Committee to review each item included in the approved budget for major repair and remodeling which according to the Secretary of State can be delayed until after the close of the current biennial period. These items total \$86,164 and although included in the approved budget of the Secretary of State do not represent administrative costs of that agency. Rather than making a 4-1/2% reduction on the remaining balance of the appropriation, the Ways and Means Committee could approve a reduction of 2-1/2%. This appears justified as the building and grounds activities correspond more closely with the "Post-staffing" concept activities of hospitals and penal institutions for which the Governor has recommended a reduction of 2-1/2%. If the Ways and Means Committee adopts this alternative and finds that the repair and remodeling items can be delayed it would be possible to increase the reduction recommended by the Governor by \$40,448. Delay of these repair and remodeling projects will not, however, result in long term savings since many of the items will have to be provided for in the future.

The Ways and Means Committee may wish to consider the feasibility of reducing the expenditure limitation of the Data Processing and Auditing Divisions. The principal source of revenue for these divisions are the proceeds from charges to other state agencies. Any reduction in amounts charged for services would assist those agencies which are financed by reduced General Fund appropriations to continue their programs.

SUPREME COURT

Existing Appropriation	\$1,195,561
Governor's Assumed Reduction	\$ 39,443

The Governor's "assumption" that \$39,443 is available in the budget of the Supreme Court may be less realistic than some other recommendations included in his budgetary package. Some savings do appear to be feasible based upon information obtained from the Chief Justice.

A deputy administrative assistant position required in connection with District Court reorganization and administration is vacant and apparently can be held vacant for up to one year without major damage to the judicial effort. Another new position, that of research assistant to the Chief Justice, remains unfilled due to lack of space, and perhaps will continue to be so at least until the end of 1967. Also, for lack of space, one authorized Justice Pro Tempore and the related clerk and secretarial positions are vacant. Space arrangements appear to be working toward a solution, however, and are expected to be resolved by January 1, 1968.

A summary of identifiable savings follows:

Deputy administrative assistant (1 year) and OPE	\$11,000
Research assistant to Chief Justice (6 mos.) and OPE	5,000
Pro tem justice, clerk and secretary, including OPE (6 mos.) up to	10,000
Furniture replacement in Supreme Court Library	<u>1,000</u>
Total identifiable reductions	<u>\$27,000</u>

In the event that an additional \$12,500 in reductions are imposed upon the Supreme Court in order to reach the \$39,443 suggested by Governor McCall, it appears likely that such reductions will result in some further increase in the average time required for disposition of cases in the Supreme Court.

Although the Court has reduced the average time for handling cases coming before it from something over two years to a low of 122 days in 1966, the average time required has increased recently under pressure of heavy filings and a lack of space to accommodate pro tem justices and staff. Reductions of more than \$27,000 in the Court's budget can be expected to continue the trend toward greater delays. The probability of a request for Emergency Board relief to avoid increasing delays and a rising backlog of cases appears very great if the full \$39,443 reduction is accomplished.

STATE TAX COMMISSION

Existing Appropriation	\$11,482,708
Governor's Recommended Reduction	\$ 516,722

The Governor's recommended reduction represents 4-1/2% of the 1967-69 General Fund appropriation to the State Tax Commission. The Commission, in anticipation of a reduction of this magnitude, has not filled positions as they have become vacant and also has not filled new positions authorized in the 1967-69 budget. At October 1, 1967, 59 positions were vacant, of which 31 were in the Income Division, 20 in the Valuation Division and 8 in the Administration Division. Salaries and other personnel costs relating to these vacant positions will more than equal the recommended reduction in the appropriation; however, as most of the vacant positions are in the clerical series, it will be necessary for the Commission to hire additional seasonal employes in order to process tax returns during the filing period.

The Commission has not found it necessary to reduce the staff of income tax auditors in order to operate within the reduced appropriation. Only four income tax auditor positions are vacant out of 128 authorized. Thus, no reduction in tax collections due to a reduction in the audit staff appears to be necessary. Any further reduction in the appropriation, however, would make it necessary for the audit staff to be reduced, and would undoubtedly result in a greater loss of revenue to the state than any savings which could be realized.

If the taxable income on the federal tax return is adopted as the base for the computation of the Oregon tax liability, it will be possible to effect additional savings without loss of revenue. It will be possible to reduce the number of auditors assigned to assist taxpayers in preparation of their returns, and further savings can be realized by placing greater reliance upon federal audits.

The vacant positions in the Valuation Division are primarily new positions authorized for the current biennial period. It will, therefore, be possible for the Commission to continue its present level of property tax supervision, assistance to counties, performance of assessment responsibilities and administration of tax programs assigned to that Division. But, it is questionable if present performance levels can be maintained if any further staff reduction is required.

The Governor's proposed reduction in the General Fund appropriation of the Tax Commission appears to closely reflect maximum realization of savings consistent with workload and optimum revenue production.

TAX COURT

Existing Appropriation	\$132,163
Governor's Assumed Reduction	\$ 5,947

The Governor has assumed a 4-1/2% reduction in the 1967-69 appropriation to the Tax Court.

A reduction in this appropriation does not appear to be appropriate. The Court has experienced a rapid growth in workload and further growth can be anticipated. In spite of this, the Tax Court has one less position than was previously authorized, the position having been eliminated shortly after Judge Howell became Judge of the Tax Court. The position was requested by the Court for the current biennium; however, the request was denied with the understanding that when the increased workload made it mandatory for the position to be filled, an Emergency Fund allocation would be requested.

It appears that the only way that the Court can continue to operate under the reduced appropriation and continue to carry out its responsibilities will be to discontinue maintaining its library. The library is a necessary tool of the court.

Under these circumstances, very careful examination of the Court's budget would appear to be advisable before accepting the recommended cutback in the appropriation.

TEMPORARY GOVERNOR

Existing Appropriation	Continuous, Non-limited
Governor's Assumed Reduction	None

ORS 292.325 continuously appropriates sufficient General Fund moneys to pay the salary and expenses of the person serving as Governor when the Governor is out of the state or otherwise temporarily unable to perform the duties of his office. For budgetary purposes, the amount required for 1967-69 was estimated at \$3,325. Since the appropriation therefor is by statute non-limited, the Governor's recommendation assumes no reduction. The actual expenditures will, of course, be largely determined by the length of time during which the Governor is absent from the state.

MINOR COURT RULES COMMITTEE

Existing Appropriation	\$650
Governor's Recommended Reduction	\$ 29

The reduction recommended for this agency by the Governor is 4-1/2% of its General Fund appropriation. The agency was formerly called the Traffic Court Rules Committee, but received a name change during the last session of the Legislature when it became responsible for making recommendations and advising the Supreme Court on voting offenses and violations of game and commercial fishing laws as well as traffic. The Committee's membership was also increased by three members. Prior to this biennium, the Minor Court Rules Committee, under its former name, was financed from the Highway Fund. Because of the expanded program, it is now financed out of the General Fund.

The expenses of the Committee consist of office supplies, postage, publications, and travel of the Committee members. The reduction of \$29 will probably affect each of these expenditure categories, but it is not expected that the Committee will function less effectively.

STATE TREASURER

Existing Appropriation	\$1,007,085
Governor's Assumed Reduction	\$ 45,319

The State Treasurer proposes to achieve the 4-1/2% reduction by (1) leaving unfilled three Inheritance and Gift Tax positions, which will save some \$38,000; (2) cutting back in out-of-state travel; (3) renting rather than purchasing some data processing equipment (\$5,500); and (4) reducing capital outlay (\$1,150). Not filling the tax positions will affect the thoroughness of the audit and revenue collections to some extent.

COMMISSION ON UNIFORM STATE LAWS

Existing Appropriation	\$4,514
Governor's Assumed Reduction	\$ 203

The reduction assumed by the Governor is 4-1/2% of the total appropriation. The proposed reduction can be absorbed by savings realized from the fact that the Associate Commissioner (Legislative Counsel) did not attend the 1967 national meeting.

WORKMEN'S COMPENSATION BOARD

Existing Appropriation	\$7,000
Assumed Reduction	\$ -

The Governor has recommended that the appropriation to the Workmen's Compensation Board for the cost of inspecting amusement rides and ski lifts and tows not be reduced.

The Board charges a fixed fee for permits to operate the rides and ski facilities in an amount sufficient to recover inspection costs. Proceeds from the permits are then deposited in the General Fund.

It appears that this appropriation can be reduced by 4-1/2% or \$315 in accordance with the Governor's recommendation for other appropriations to administrative agencies. Such a reduction will not reduce General Fund revenues.

ANALYSIS OF CAPITAL CONSTRUCTION PROPOSALS

Existing Appropriation	\$18,002,366
Governor's Recommended Reduction	\$ 5,648,908

Although Capital Construction recommendations made by the Governor involve a substantial amount, a majority of the proposed changes are in the nature of refinancing rather than eliminations. The entire recommended reductions for Higher Education and Military Department represent changes to alternative financing, accounting for \$5,279,174 out of the total \$5,648,908 reduction. The balance, \$369,734, represents acquisitions, projects or expenses which it is proposed to defer or eliminate.

The analyses which follow attempt to explain the major implications and consequences which appear to flow from the recommended changes. In a few cases, alternative or additional possibilities involving capital projects are discussed.

The effect of financing changes and the scarcity of General Fund support may indicate some need for re-examination of the total Capital Construction appropriation in terms of needs and priorities. An analytical discussion of expanded use of bond borrowing is presented in a separate section near the beginning of this report.

DEPARTMENT OF HIGHER EDUCATION

Existing Appropriation	\$15,142,554
Governor's Recommended Reduction	\$12,527,054
Expenditure Reduction	(5,177,054)
Bond Borrowing Transfer to	
Revenue	(7,350,000)

The 1967-69 capital construction program for the Board of Higher Education approved by the 54th Legislature totals \$56,992,000, appears in Chapter 404, Oregon Laws 1967, the statute providing for the over-all capital construction program for the State System of Higher Education. A separate statute, Chapter 456, provides for a General Fund appropriation of \$1,365,500 for the state's share in building a mental retardation demonstration center at the University of Oregon Medical School and a clinical service building for mental retardation at the University of Oregon. (In addition to the General Fund appropriation for these two buildings, a federal grant of \$3,706,500 is anticipated, but not mentioned in the statute.) Included in the amount of \$51,920,000 in Chapter 404 is a General Fund appropriation of \$1,250,000 for debt service; thus, the building program, including land acquisition, amounts to \$55,742,000.

COMMUNITY COLLEGES

Existing Appropriation	\$6,393,000
Governor's Recommended Reduction	\$3,388,290

Article XI-G of the Oregon Constitution, approved by the people at a special election in 1964, provided authorization of \$5,000,000 bond borrowings for capital construction of community colleges. During the 1963-65 biennium, \$1,350,000 was distributed to institutions and \$40,000 was paid out on debt service, leaving \$3,610,000 available for use in 1967-69, since none of the bonding authority was used in 1965-67.

The 1967-69 capital construction program for community colleges adopted by the Legislature included utilization of the remaining Article XI-G bond authorization of \$3,610,000, and a General Fund appropriation of \$6,393,000, for a total of \$10,003,000. At this time, \$6,614,710 has been allocated by the State Board of Education to community colleges. The allocated amount represents 47% of the General Fund appropriation, that is, \$3,004,710, and all of the Article XI-G bonds of \$3,610,000, for a total of \$6,614,710. The remaining amount unallocated is \$3,388,290, all from the General Fund appropriation.

In place of the General Fund appropriations for the higher education and community college capital construction, the Governor is recommending a bonding program which is discussed in a separate section early in this report.

Board of Control--Capital Construction

CENTRAL BAKERY

Existing Appropriation	\$65,000
Governor's Recommended Reduction	\$ -0-

The construction of a central bakery on the grounds of the Oregon State Correctional Institution is an integral part of planned operations for the current biennium and will produce over-all savings in the operational costs of the state's institutions. There appears to be no reasonable hope that construction of this facility can be completed at any less cost than that budgeted.

MALL ACQUISITIONS

Existing Appropriation	\$180,000
Governor's Recommended Reduction	\$180,000

The Governor's recommended reduction is the entire amount of new moneys for mall acquisitions appropriated by the 1967 Legislature; however, a total of \$383,912 from previous appropriations remains available to the Board of Control for this purpose.

At the present time there are 22 parcels of private property with a total estimated value of \$845,000 remaining in the Mall area. Offers to purchase two of these parcels of land at a cost of \$64,813 have recently been rendered by the Board of Control. The Board recently sent letters to the other 20 property owners in the Mall area asking if they are interested in selling their property during the 1967-69 biennium. To date 13 answers have been received, of which four have expressed interest in selling during the current biennium. It is believed that the seven owners who did not answer are not interested in selling now. The total approximate value of the property for which sales interest has been expressed is \$296,000, and this total includes the Evangelical United Brethern Church.

It appears that if the Governor's recommendation to reduce the appropriation for Capitol Mall acquisition by \$180,000 is adopted by the Legislature, sufficient moneys will still be available to the Board of Control to purchase all the properties that may be offered for sale during the current biennium. It appears that all of the \$383,912 carryover moneys will be needed during 1967-69 if all properties for which sales interest has been expressed are to be purchased. The Legislature, however, may wish to consider a greater reduction in moneys available for Mall acquisition.

The Board of Control approximately one year ago offered to purchase the Evangelical United Brethern Church property for \$234,885, but the church refused that offer. The offered price was determined, as usual, by averaging two appraisals (one by the owner and one by the Board of Control), and in this instance, the Board of Control appraisal was the higher of the two. The Legislature might wish to consider reducing the available carryover appropriation by the additional \$235,000 representing the Evangelical United Brethern Church since negotiations appear to be at an end for the time being. Such action would make it impossible to purchase the Evangelical United Brethern Church during the current biennium. If an offer to sell by the church had to be denied because appropriated funds were not available, it would constitute a departure from the practice of purchasing mall properties at the convenience of the seller.

PRELIMINARY PLANNING FUNDS

Existing Appropriation	\$15,000
Governor's Recommended Reduction	\$ -0-

The Board of Control uses these moneys to prepare preliminary plans for proposed construction projects. Such plans are helpful to legislative committees considering requests for new construction.

EASTERN OREGON HOSPITAL AND TRAINING CENTER--REMODEL TWO WARDS FOR CARE OF MENTALLY RETARDED

Existing Appropriation	\$296,440
Governor's Recommended Reduction	\$ -0-

Working drawings on this project will be completed within the next few months and current plans envision occupancy of the wards no earlier than September 1, 1968. This project provides sufficient increased bed capacity for mentally retarded persons in state institutions so that no waiting list at Fairview will be allowed to accumulate during the current biennium.

The Legislature may wish to consider several alternative possibilities for reducing the appropriation for this Capital Construction project. Several alternatives are discussed in brief detail under the Mental Health Division operating budget analysis for Eastern Oregon Hospital. If this remodeling project is not completed during the current biennium, it can be expected that the waiting list for Fairview Hospital will be approximately 75 at the end of the current biennium rather than having a small excess bed capacity in mentally retarded institutions as is anticipated under current appropriations.

FAIRVIEW HOSPITAL--DIETARY BUILDING

Existing Appropriation	\$1,393,918
Governor's Recommended Reduction	\$ -0-

Final working drawings for this project have been completed and approved by the Board of Control. It is expected that the construction contract will be awarded some time around January 1, 1968. If the weather in the next 18 months is favorable for construction, it appears possible the currently anticipated occupancy date of July 1, 1969, can be realized. But based on past experience of major construction projects, it seems more probable that occupancy of the new building will be delayed into the 1969-71 biennium.

The Legislature may wish to consider deferral of the construction of this new building at Fairview. Reduction of \$1,308,918 from the existing appropriation would leave \$60,000 for working drawings and \$25,000 for preliminary site preparation. Actual construction of the new Dietary Building might be allowed to wait for a new appropriation. Such a new appropriation could be made early in the 1969 Legislative Session if it were apparent at that time that sufficient General Fund balances had accumulated. Postponement of the start of actual construction on this project to the Spring of 1969 would have the effect of delaying for approximately 18 months the occupancy of the improved dietary facility. Another probable effect of the delay in construction will be to increase the actual cost of construction.

OREGON STATE PENITENTIARY--ACADEMIC-VOCATIONAL ADDITION

Existing Appropriation	\$391,834
Governor's Recommended Reduction	\$141,834

The Governor's recommendation is to postpone construction of the vocational instruction part of the project, but to go forward with the academic classroom-office section at a cost of \$250,000.

This project was originally approved as a single unit. In further planning subsequent to the Regular Session, however, it was concluded that noise from the vocational shops would make close proximity of the academic classrooms and offices inadvisable. The structure was separated into two units without adding to the cost, and plans were prepared to immediately go forward with the academic part of the facility at a total cost of \$289,451. The vocational unit, with a planned cost of \$141,834, was deferred for the time being, and the Governor recommends the delay be extended into 1969-71.

The Governor's recommendation leaves a shortage of \$49,451 which the Board of Control advises must request be restored at some point. The Governor's staff indicates that the difference of \$49,451 will be deferred into 1969-71, since the building cannot be completed prior to Spring 1969 in any event. Such a plan will delay use of the building somewhat beyond the date of normal completion. Unless special action is taken early in the 1969 Legislative Session to provide the needed difference, occupancy may not be possible until Fall, 1969.

MacLAREN CAMP TILLAMOOK

Existing Appropriation	\$77,500
Governor's Recommended Reduction	\$10,000

An appropriation of \$77,500 was approved for construction of a replacement boys' living facility near Tillamook, but at a site other than Tillamook County Airport.

The Board of Control, supported by the Corrections Division and MacLaren School staff, now indicates its strong recommendation to construct a facility on the 37-acre Tillamook Airport property. Use of that property will free \$10,000 appropriated for site acquisition and preparation at another location.

Any agreement to authorize use of the airport site will require amendment to Section 5, Chapter 564 of the 1967 Regular Session Laws, which forbids construction at that location.

The Superintendent of MacLaren School now appears to state positively that the Tillamook Airport site is the best available location for a new boys' facility from every standpoint, including considerations for a successful program. The size of the site affording opportunities for recreation and isolation for surrounding residential growth; its proximity to farm, industry and public opportunities for employment of the boys; and its closeness to Tillamook City churches, stores, theaters and other community facilities and services are stressed as strong advantages for a continued successful rehabilitation unit. Superintendent Reed emphasizes that proximity to the Job Corps Center will be no negative influence, especially after a new building is constructed and the old barracks units are removed.

Another alternative, which has been considered by the Board of Control staff, includes closure of the camp and deferment of construction plans beyond 1967-69. Such a closure, which may be necessary for a part of this biennium in any event, would afford MacLaren with a means of reducing expenses by almost enough to cover the budgetary reduction recommended by the Governor. In addition, the full \$77,500 appropriated for construction would be available for elimination under such an alternative.

DEPARTMENT OF FINANCE

Existing Appropriation	\$90,000
Governor's Recommended Reduction	\$10,000

In addition to other appropriations, the Department of Finance received \$70,000 to plan a new Supreme Court Building and \$20,000 to plan central air conditioning for Salem Mall buildings and other planning. The Governor has recommended a reduction of \$10,000 in these amounts.