

STATEMENT BY GOVERNOR VIC ATIYEH

JULY 18, 1980

ON JULY 3, I ADVISED YOU THAT BECAUSE OF WORSE THAN PROJECTED ECONOMIC CONDITIONS, STATE REVENUES IN THIS BIENNIUM WILL BE APPROXIMATELY \$204 MILLION LESS THAN WAS ASSUMED AT SESSION END IN 1979. AFTER CONSULTATION WITH THE LEGISLATIVE LEADERSHIP, I CALLED A SPECIAL SESSION OF THE LEGISLATURE FOR AUGUST 4 TO RESOLVE THIS CONSTITUTIONAL CRISIS.

I WANT TO COMPLIMENT LEGISLATIVE LEADERS FOR THEIR STATESMANSHIP AND COOPERATION IN MAKING ARRANGEMENTS FOR THE SPECIAL SESSION. BY MUTUAL UNDERSTANDING, I AGREED TO PROMPTLY MAKE RECOMMENDATIONS SO THE WAYS & MEANS COMMITTEE WOULD HAVE ADEQUATE TIME TO REVIEW THEM BEFORE THE SESSION IS CONVENED. TODAY I PRESENT TO YOU A BROAD OVERVIEW OF THOSE RECOMMENDATIONS. THE DETAILED BUDGETS WILL BE PRESENTED ON MONDAY AS ORIGINALLY PLANNED.

FIRST, LET ME SUMMARIZE MY RECOMMENDATIONS.

I Am Proposing A
--BUDGET REDUCTIONS OF \$130 MILLION--A 13 PERCENT CUT IN STATE AGENCY EXPENDITURES, PLUS DEFERRED CAPITAL CONSTRUCTION.

--THE PROPERTY TAX RELIEF PROGRAM CONTINUES UNTOUCHED.

--NO REDUCTION IN STATE GENERAL FUND SUPPORT FOR BASIC SCHOOL SUPPORT.

--NO ADDITIONAL FINANCIAL BURDENS ON CITIES AND COUNTIES.

--NO INCREASED TAXES.

--TIMELY QUARTERLY PAYMENT OF TAXES ON INSURANCE PREMIUMS AND ON INCOME NOT SUBJECT TO WITHHOLDING.

--ENHANCED ENFORCEMENT AGAINST DELINQUENT TAXPAYERS.

--A PRUDENT PERSON RESERVE OF \$44⁴⁵ MILLION.

LET ME FIRST DESCRIBE AS CAREFULLY AS I CAN ONE DIMENSION OF THE PROBLEM OF WHICH MANY ARE UNAWARE.

MY RECOMMENDATIONS TO THE 1979 LEGISLATURE AND THE ACTIONS TAKEN BROUGHT ABOUT A TRULY FRUGAL STATE GOVERNMENT BUDGET. ADDITIONALLY, OUR MUTUAL OBJECTIVE FOR THE 1979 SESSION WAS TO BRING ABOUT PROPERTY AND INCOME TAX RELIEF TO OUR CITIZENS. THAT GOAL WAS ACHIEVED.

THUS, STATE GOVERNMENT ENTERED THIS BIENNIUM WITH A LITERALLY "BARE BONES" BUDGET JUST AT THE TIME THAT AN UNPRECEDENTED AND UNPREDICTED INFLATION RATE BEGAN BLOWING BIG HOLES IN STATE AGENCY BUDGETS AS IT DID TO ALL CITIZENS. GASOLINE COSTS SKYROCKETED FAR BEYOND ANYTHING ANTICIPATED IN SPITE OF HEROIC CONSERVATION EFFORTS BY STATE AGENCIES.

AN EVEN MORE SERIOUS PROBLEM WAS CAUSED BY CONGRESS. AFTER SEVERAL YEARS OF EXORBITANT AND IRRATIONAL SPENDING, CONGRESS FINALLY REALIZED THAT IT COULD NO LONGER SPEND BEYOND ITS MEANS. UNFORTUNATELY, CONGRESS HAS NOT HAD THE COURAGE TO MAKE REDUCTIONS IN THE FEDERAL GOVERNMENT'S OWN PROGRAMS, BUT RATHER HAS SHIFTED THE RESPONSIBILITY FOR MAKING BUDGET CUTS TO STATE AND LOCAL GOVERNMENTS BY WITHDRAWING ASSISTANCE.

THIS HAS HAD A TREMENDOUS IMPACT ON STATE PROGRAMS. FOR EXAMPLE, THE STATE DEPARTMENT OF HUMAN RESOURCES HAS ALREADY SUFFERED A 15 PERCENT--\$60 MILLION--REDUCTION IN PROGRAMS FOR WHICH FEDERAL AID WAS ASSURED.

UP TO THIS TIME, I HAVE ASKED OUR AGENCIES TO TIGHTEN THEIR BELTS, AND THEN TIGHTEN THEM AGAIN.

THUS, THE STATE GENERAL FUND WAS UNDER FULL-SCALE ATTACK BEFORE THE \$204 MILLION SHORTFALL CAME TO LIGHT. IN THE FACE OF THIS ATTACK, IT IS INSANITY TO BELIEVE THAT FURTHER BUDGET CUTTING WILL MERELY TRIM FAT. THE FAT HAS ALREADY BEEN TRIMMED. FURTHER REDUCTIONS MEAN IMPAIRMENT OF PROGRAMS.

THE PAST TWO WEEKS OF PREPARING THESE BUDGETS HAVE BEEN A TRAUMATIC PERIOD FOR STATE GOVERNMENT. I WANT TO SHARE WITH YOU THE PRIDE I HAVE IN THE MOTIVATION SHOWN AND HARD WORK EXPENDED BY OUR AGENCY HEADS AND THEIR STAFFS. I ASKED THEM TO PRESENT TO ME THEIR PRIORITIES IF DRASTIC CUTS WERE REQUIRED. THEY HAVE BEEN FORTHRIGHT AND RESPONSIVE. OUR AGENCIES HAVE PRESENTED HONEST EVALUATIONS OF WHAT THEY BELIEVED MUST BE RETAINED AND WHAT, IN PAINFUL JUDGMENT, MIGHT BE SACRIFICED.

I ASKED EACH AGENCY TO SUBMIT IN PRIORITY ORDER BUDGET REDUCTIONS OF 30 PERCENT. A REDUCTION OF THIS MAGNITUDE WOULD HAVE BEEN NECESSARY IF THE ENTIRE \$204 MILLION PLUS A RESERVE WERE TO BE MADE UP OUT OF AGENCY BUDGETS. THIS WAS AN EXTRAORDINARILY DIFFICULT BUT ABOLUTELY NECESSARY PROCESS.

I HAVE BEEN WORKING WITH STATE GOVERNMENT AND STATE GOVERNMENT BUDGETS FOR 22 YEARS. FROM THAT EXPERIENCE, I CAN STATE UNEQUIVOCALLY----WE CANNOT MAINTAIN A VIABLE STATE GOVERNMENT WITH A 30 PERCENT BUDGET CUT.

TO SELECT ONLY A FEW OF MANY OTHER THINGS, A 30 PERCENT CUT WOULD:

MAKE DESTITUTE THOSE PEOPLE WHO ARE ALREADY LIVING IN POVERTY.

CLOSE HOSPITALS WHICH PROVIDE MEDICAL SERVICES TO OUR CITIZENS.

CLOSE EDUCATIONAL INSTITUTIONS, THUS DENYING OPPORTUNITIES TO MANY OREGONIANS WHO ASPIRE TO HIGHER LEARNING.

CLOSE FISH HATCHERIES WHICH WOULD PERMANENTLY ENDANGER WILDLIFE RESOURCES.

DISBAND ENVIRONMENTAL PROGRAMS, AND SIGNIFICANTLY ^{DAMAGE} ~~DAMAGING~~ THE QUALITY OF LIFE WHICH OREGONIANS ENJOY.

THESE ARE NOT VAGUE THREATS OR INSULTS TO OREGONIANS' INTELLIGENCE. WITH A 30 PERCENT REDUCTION ACROSS THE BOARD, THIS IS EXACTLY WHAT WOULD HAPPEN.

AS GOVERNOR OF OREGON, I HAVE NO INTENTION OF ALLOWING THIS TO OCCUR.

NOR DO I BELIEVE MOST OREGONIANS, GIVEN THE SAME FACTS, WOULD ALLOW THIS TO HAPPEN BECAUSE OURS IS A STATE OF RESPONSIBLE, COMPASSIONATE AND FAIR PEOPLE.

CONSEQUENTLY, I AM RECOMMENDING BUDGET REDUCTIONS OF \$130 MILLION FOR STATE AGENCIES WHICH IS A REDUCTION OF 13 PERCENT.

IN MAKING THESE CUTS WE HAVE BEEN JUDICIOUS AND SELECTIVE. AT THE SAME TIME, WE HAVE SPREAD THE LOSSES AS EVEN-HANDEDLY AS POSSIBLE THROUGHOUT STATE GOVERNMENT. WE HAVE TO MAINTAIN PUBLIC SAFETY. WE MUST GIVE HIGH PRIORITY TO THE EDUCATION OF OUR CHILDREN. BUT WE ^{WST} ALSO ~~MUST~~ TRY TO MINIMIZE THE IMPACT ON THE UNEMPLOYED AND POOR WHO ARE ALREADY FEELING THE IMPACT OF THE RECESSION.

IN MAKING MY RECOMMENDATIONS, I HAVE ALSO APPLIED OTHER PRINCIPLES.

WE SHOULD NOT IMPOSE ANY FURTHER TAX BURDENS UPON OUR CITIZENS. EVERY OREGONIAN IS LIVING WITH REDUCED MEANS BECAUSE OF INFLATION. A TAX INCREASE NOW WOULD NOT ONLY FURTHER REDUCE INCOMES OF CITIZENS BUT WOULD ONLY COMPOUND THEIR PROBLEMS.

THE PROPERTY TAX RELIEF PROGRAM HAS REDUCED THE COST OF HOME OWNERSHIP AND HAS UNDOUBTEDLY PERMITTED MANY PEOPLE TO UNDERTAKE ^{THE PURCHASE OF A HOME} ~~HOME~~ OWNERSHIP WHO COULD NOT OTHERWISE HAVE DONE SO. IT HAS MADE IT POSSIBLE FOR MANY CITIZENS TO WEATHERIZE THEIR HOMES TO MEET THE ENERGY CHALLENGES OF THE FUTURE. IT WOULD BE ECONOMICALLY WRONG AND UNCONSCIONABLE TO CONTEMPLATE ABANDONING THAT PROGRAM AT THIS TIME. I HAVE REJECTED PROPOSALS FOR REDUCING THE PROPERTY TAX RELIEF PROGRAM.

I HAVE LIKEWISE REJECTED ALL OTHER PROPOSALS FOR TAX INCREASES. I AM ASKING, HOWEVER, THAT YOU INSTITUTE PROGRAMS TO REQUIRE TIMELY PAYMENT OF TAXES. INITIALLY, I HAD STRONG RESERVATIONS ABOUT SUCH A PROPOSAL BECAUSE THIS MIGHT WITHDRAW ^{USEFUL} CAPITAL FROM THE PRIVATE ECONOMY DURING AN ECONOMIC RECESSION. HOWEVER, UNDER THE PROGRAM I AM PROPOSING, THIS WILL NOT OCCUR. NO TAX PAYMENTS WOULD BE REQUIRED BEFORE THE SPRING OF 1981, WHEN IT IS EXPECTED THAT THE ECONOMY WILL BE ON THE UPTURN.

TIMELY PAYMENT OF TAXES WILL PLACE ALL OREGON CITIZENS ON AN EQUAL FOOTING. PRESENTLY, MOST TAXPAYERS--INDEED, 90 PERCENT OF THEM--PAY THEIR INCOME TAXES THROUGH WITHHOLDING ON A PAY-AS-YOU-GO BASIS. HOWEVER, THERE IS NO WITHHOLDING ON DIVIDEND AND INTEREST INCOME, AND THUS SOME TAXPAYERS ^{LEGALLY} POSTPONE PAYMENT UNTIL THE END OF THE YEAR. I AM ASKING THAT THE LEGISLATURE REQUIRE THAT DIVIDEND AND INTEREST INCOME TAXPAYERS BE REQUIRED TO MAKE QUARTERLY PAYMENTS IN THE SAME MANNER AS THEY ARE REQUIRED UNDER PRESENT FEDERAL LAW. THIS WILL MEAN THAT THEY ARE TREATED COMPARABLY WITH ALL OTHER OREGONIANS WHO PAY WITHHOLDING. I ALSO BELIEVE THAT INSURANCE COMPANIES SHOULD BE REQUIRED TO PAY PREMIUM INCOME TAXES ON A QUARTERLY BASIS.

IN ADDITION, I AM ASKING FOR A STEPPED-UP ENFORCEMENT OF OUR PROGRAM FOR COLLECTION OF DELINQUENT TAXES.

THESE THREE MEASURES WILL PROVIDE \$101 MILLION OF INCOME.

THE COMBINATION OF THE \$130 MILLION IN STATE AGENCY BUDGET REDUCTIONS, REVERSIONS AND TIMELY TAX PAYMENTS WILL NET \$249 MILLION. THESE MEASURES WILL BALANCE THE BUDGET AND LEAVE AN ENDING BALANCE OF \$45 MILLION.

I HAD RECOMMENDED TO THE 1979 LEGISLATURE A PRUDENT PERSON RESERVE OF 2 PERCENT. NOW I AM RECOMMENDING AN ENDING BALANCE WHICH WOULD LEAVE A 3 PERCENT RESERVE. IT IS ESSENTIAL TO HAVE THIS ADDITIONAL ALLOWANCE BECAUSE OF THE VOLATILE STATE OF THE ECONOMY AND THE EXTREME DIFFICULTY OF PREDICTING FUTURE REVENUES. IT WOULD BE UNWISE TO NOT LEAVE AN ADEQUATE RESERVE AND THEN FIND OURSELVES A FEW MONTHS FROM NOW FACING ANOTHER PROJECTED SHORTFALL. BY THEN IT WOULD BE TOO LATE.

IN MAKING THESE RECOMMENDATIONS, I HAVE ALSO FELT THAT IT IS OUR JOINT OBLIGATION, YOURS AND MINE, THAT STATE GOVERNMENT TAKE CARE OF ITS OWN PROBLEMS AND NOT TRY TO MOVE THE RESPONSIBILITY TO LOCAL GOVERNMENT. I AM RECOMMENDING AGAINST ANY REDUCTION IN THE GENERAL FUND APPROPRIATION FOR BASIC SCHOOL SUPPORT. THE STATE HAS MADE A COMMITMENT TO SUPPORT 40 PERCENT OF THE OPERATING COSTS OF LOCAL SCHOOLS. SCHOOL DISTRICTS HAVE RELIED ON THAT COMMITMENT IN PREPARING THEIR BUDGETS FOR THIS YEAR. WE SHOULD NOT BACK AWAY FROM OUR PROMISE.

UNFORTUNATELY, DUE TO THE ACTIONS OF CONGRESS WITH RESPECT TO REVENUE SHARING, SCHOOL DISTRICTS WILL HAVE TO SUFFER A \$12.5 MILLION LOSS. THAT LOSS WILL BE SPREAD EVENLY OVER ALL SCHOOL DISTRICTS WITHOUT REGARD TO THE VAGARIES OF THE BASIC SCHOOL SUPPORT FUND FORMULA. UNDER THE PROPOSAL WE ARE SUBMITTING, EACH SCHOOL DISTRICT WILL HAVE TO ADJUST ITS BUDGET FOR A 1.3 PERCENT EQUAL LOSS OF REVENUES.

I HAVE ALSO REJECTED PROPOSALS FOR REDUCTIONS IN STATE AGENCY BUDGETS WHICH WOULD ADVERSELY IMPACT CITIES AND COUNTIES. THESE LOCAL GOVERNMENTS ARE ALREADY SUFFERING DUE TO ECONOMIC CONDITIONS, AND I DO NOT FEEL THAT STATE GOVERNMENT SHOULD TRY TO PASS ITS OWN LOSS ON TO THEM.

IN CLOSING, LET ME SAY THAT I RECOGNIZE THAT YOU AND I MAY DIFFER IN OUR OPINIONS ABOUT HOW BUDGETS SHOULD BE REDUCED OR HOW REVENUES MIGHT BE RAISED. // YOU MAY ASK WHY DIDN'T I CUT THERE INSTEAD OF HERE, OR WHY DID I NOT CONSIDER THIS SOURCE OF REVENUE OVER THAT ONE. // IT WOULD BE IMPOSSIBLE FOR ME TO ANSWER EVERY SUCH QUESTION BECAUSE THIS WAS NOT THE APPROACH I USED IN ARRIVING AT MY RECOMMENDATIONS. MY PURPOSE WAS TO STRIKE A DELICATE BALANCE BETWEEN COMPETING CONSIDERATIONS.

LET ME REITERATE THOSE CONSIDERATIONS:

1. I AM OPPOSED TO ANY NEW TAXES.
2. BUDGET REDUCTIONS SHOULD BE CAREFULLY PRIORITIZED AND SHOULD BE SPREAD EVENLY OVER STATE GOVERNMENT.
3. PUBLIC SAFETY AND BASIC PUBLIC EDUCATION MUST BE PRESERVED.
4. THE IMPACT OF BUDGET REDUCTIONS ON THE POOR AND UNEMPLOYED SHOULD BE MINIMIZED.
5. WE SHOULD NOT ATTEMPT TO SOLVE THE STATE'S FINANCIAL PROBLEMS BY ABANDONING COMMITMENTS TO LOCAL GOVERNMENTS.
6. MASSIVE LAYOFFS SHOULD BE AVOIDED BECAUSE OF THE HARDSHIP TO STATE EMPLOYEES AND THE DETRIMENTAL IMPACT THIS COULD HAVE ON THE ECONOMY.

YOU MAY FEEL THERE ARE OTHER CONSIDERATIONS THAT SHOULD BE TAKEN INTO ACCOUNT. BUT I HOPE THAT YOU DO AGREE WITH ME THAT THESE ARE ALL VALID OBJECTIVES. I FULLY RECOGNIZE THAT YOU MAY WISH TO ALTER MY PROGRAM. BUT I THINK IF WE TOGETHER KEEP OUR EYE ON THE ULTIMATE OBJECTIVE, WE CAN REACH IT IN A TIMELY AND AGREEABLE MANNER.

AS YOU GO THROUGH THE DISTRESSING PROCESS THAT WE HAVE IN
DETAIL, THERE WILL BE A STRONG AND VERY HUMAN TEMPTATION TO CONSIDER
AN EASY, OR A REDUCED "LET'S WAIT AND SEE WHAT HAPPENS" ANSWER. I
ASK YOU TO RESIST THAT UNDERSTANDABLE TEMPTATION. THAT IS A VERY
DANGEROUS GAME. TIME IS OF THE ESSENCE. EVERY DAY WE WAIT, THE
CASH REGISTER RINGS. THE BUDGET PROPOSALS I HAVE SUBMITTED TO YOU
ARE BASED UPON A SEPTEMBER 1 BEGINNING DATE. POSTPONING THAT DATE
WOULD BE EXTREMELY COSTLY TO THE CITIZENS OF OREGON.

I WOULD, HOWEVER, CONSIDER A FORMULA, YET UNDEVISED, THAT WOULD
ALLOW RESTORATIONS IN REDUCED BUDGETS IF OUR ECONOMY IMPROVES. THAT
WOULD BE A FAIR ADDITION TO OUR PACKAGE.

ALONG WITH MY DEPARTMENT AND DIVISION HEADS, I HAVE SPENT HOURS
OF CONSCIENTIOUS EFFORT TO ARRIVE AT THIS MOMENT. WE HAVE USED OUR
BEST JUDGMENT.

NOW BEGINS THE PROCESS FOR YOU TO REVIEW OUR EFFORTS AND
EXERCISE YOUR BEST JUDGMENT. DURING YOUR DELIBERATIONS, YOU CAN
EXPECT FULL AND COMPLETE COOPERATION FROM ALL OF US. THERE IS NO
DOUBT IN MY MIND THAT YOU WILL GIVE CAREFUL ATTENTION TO OUR
SUGGESTIONS IN A FAIR AND OBJECTIVE MANNER.

I LOOK FORWARD TO WORKING WITH YOU.