

GOVERNOR'S BUDGET REMARKS
REPUBLICAN CAUCUS
VALLEY RIVER INN, EUGENE
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PREPARED TEXT

Before I get into the details of the budget, let me spend a few minutes describing for you the process we have just completed.

That process began last July. On my instructions, every state agency was asked to formulate their budget based on the reduced spending levels authorized at the close of last January's special session. We allowed them to adjust that base level for inflation.

Then — again under our instructions — the budget analysts of my Executive Department went over those budgets and cut those requests back substantially to accord with anticipated state income over the coming biennium.

That is exactly where we stood when I personally entered the budget process on November 4th.

I went into that process with a specific philosophy uppermost in mind. All of you know that philosophy. Oregonians have seen it at work in state budget matters since 1979.

It is a philosophy that says we must separate the essential from the merely desirable. We must ask again and again, "Is this something government should do?"

We must provide a minimum level of essential state services. We must get maximum mileage from scarce tax dollars. We must limit the growth of property taxes. And we must try to avoid tax increases while terminating temporary measures — and seek a broader lasting reform of our tax system.

That is the philosophy I brought to our budget process in November.

I applied that philosophy to every decision we made. In every piece, every section, every program of state government; we took a long hard look at the critical needs of our state. And we took an equally hard look at the impact of further budget cuts.

When that process was complete — then and only then — did I turn again to the revenue side. It showed anticipated General Fund revenues of approximately \$2.8 billion over the biennium, matched against critical minimum needs of approximately \$3.3 billion.

You each know my response:

- I said that the critical minimum needs of Oregon must be met.
- I said that the minimum requirements for a sound Oregon future could be met through a carefully balanced package of tax limitations, tax reductions, and tax reforms designed to broaden our tax base fairly and equitably, and...

- I said that to do less would be grossly irresponsible to the people of this state.

The budget I have presented to the legislature reflects, in all of its parts, that philosophy. It is a budget that is a collection of elements, small and large. Each element has been analyzed for the effectiveness and the worth of what it does. These elements include the small, such as the Pest and Disease Control program for Oregon timber — a \$190,000 investment in the future of our most essential economic resource. And these elements include the large, such as \$20 million for prison space desperately needed in our overloaded prison system.

As you know, the great majority of state agencies and programs have been held to their reduced budgets of the current biennium. Significant restorations have been made and forward momentum restored in only a very few critical areas: higher education, public safety, and economic development.

The forward momentum we seek to restore in each of these areas is critical but cautious. In no instance did any agency "get everything it asked for." We strengthened or enhanced budgets in a limited number of areas only when it was absolutely essential for Oregon.

And our very limited increase in a very limited number of areas is essential:

- It is essential that the public safety of the people of this state be preserved. That means more prison space, more help for our prosecutors, and more assistance for our state police.
- It is essential for the future of our state that our ongoing efforts in economic development be continued and strengthened. The economic development program I won from a special session of the legislature last year, with the help of many of you, is working. We must strengthen our continuing efforts — in every way — to bring economic diversification and jobs to our very troubled economy.
- It is essential for our economy, our young people, and the future of our quality of life that the excellence of our system of higher education be restored. At this moment Oregon is dead last among all 50 states in its support for public higher education. Yet we simultaneously charge average tuition rates that are among the highest of public institutions in the West. We must freeze tuition, bolster higher ed's role in attracting industry and jobs, restore salaries, upgrade libraries, and repair once-proud buildings that are in shameful disrepair.

My budget recommendations, ultimately, ask only that we attend to our most critical needs. Taken as a whole, the budget I have submitted requires the great majority of state agencies to continue to do the best job they can at present reduced funding levels. And those agencies have been doing the job — a tremendous job. We have the best-managed, most effective state government in the nation. But we also have a number of vital areas in state government that need renewed policy, as well as budget attention.

My assistants will speak with you during the course of the day about my individual legislative packages in public safety, in economic development, in land use, in forestry, and in other areas.

Our discussions later this morning and afternoon will concentrate on our decisions and any of your own questions and observations.

Let me turn to the revenue and tax side of my recommendations. These recommendations are of the utmost importance to me, and — I am sure — to each one of you. The weight of my budget rests upon the interwoven fabric of my tax and revenue package.

That package has been constructed with caution, sensitivity, and care. It supports, as I have stated again and again, a hold-the-line state budget with some minimal critical additions.

We have forecast an improvement in Oregon's economy in 1983-85. But our recovery will only be gradual. State General Fund revenues from existing sources will grow only a few percentage points. Furthermore, almost \$500 million in temporary revenue increasing measures and one-time pickups passed during this biennium will not, by my recommendation, be available in 1983-85. I am recommending that our temporary revenue-increasing measures be just that — temporary. The bulk of them should be allowed to terminate in accordance with my promise and the legislature's implied commitment.

At the same time, my revenue package proposes an important tax reform designed to broaden our tax base, meet the minimum needs of our state, yet have the least impact on lower income Oregonians. The net receipts tax will fairly and equitably accomplish this. It will raise \$587 million in personal and corporate income tax revenues.

The media has focused considerable attention on the net receipts tax proposal. But far less attention seems to have been focused on the context of that proposal.

That proposal has been put forth within the context of a series of accompanying tax decreases. We are, for example, reducing the personal income tax rate schedule.

The largest reductions are proposed for the lowest income groups, but the tax rate in every tax bracket — including the highest — will be at least partially reduced.

We will also ease the tax burden by:

- allowing the 1982 income tax surcharge to expire;
- reconnecting to the federal tax code;
- resuming indexing of personal income tax exemptions;
- dropping the most recent cigarette tax increase from \$0.07 to \$0.03;
- substituting an \$85 tax credit for the \$1000 personal exemption; and
- limiting property taxes while expanding the relief program provided by HARRP, ~~while~~ ^{and} establishing an income lid for that program.

These recommendations are interwoven and interdependent. They must be considered as part of a total revenue package of limitation and reform.

Because reform we must. And limit we must.

No message was clearer in the November election than those twin messages.

And I can tell you that we will have no future opportunities. You will hear more about land use reforms later today. Let me dwell for a moment on my property tax limitation proposal.

You have seen it before. If it had been enacted before, this message would not be necessary. And Oregon would not have faced the terrible threat we faced in November.

That threat has been turned away — barely — at the polls. Ballot Measure 3 was defeated in an historic vote where, for the first time in Oregon experience, voters from rural areas defeated a ballot measure that passed in the heavily populated metropolitan area. Many of you represent these voters — conscientious Oregonians who put our state ahead of their pocketbook.

Yet, without our action at this legislature, Ballot Measure 3 will be back. And this time it will pass. What we fail to do in this last opportunity will be done for us at the polls — and done in a way that could cause irreversible damage to schools and local government throughout Oregon.

My property tax limitation and relief proposals are designed to responsibly limit the unparalleled growth in real property assessments. And they are designed to provide additional relief to low and moderate income homeowners and renters.

My plan asks that property tax rates be frozen at current levels, and the growth in assessed values be limited to five percent annually on a statewide basis. All property, owner-occupied or not, will be covered by the freeze.

At the same time, I ask that we combine the homeowners' Property Tax Relief program with the Homeowner and Renter Refund program. The "Super HARRP" program will continue our practice of making payments directly to the taxpayer, but will impose a household income lid of \$30,000 to provide the most direct relief to low and moderate income households.

These proposals will halt the uncontrolled increase in property tax rates, continue direct relief to those who need it most, yet provide the means for local government and schools to responsibly meet — with voter approval — local needs. My tax limitation and relief package is designed to relieve, prudently and responsibly, the terrible burden upon the property taxpayers of this state.

My budget — and the revenue and tax packages that support it — represents a balanced and comprehensive approach designed to put our state back on a sensible track of economic health, restore momentum in critical areas, and provide a minimum level of needed services while moving our state strongly forward through this decade and beyond.

It is a plan that reaches strongly out to grasp the opportunity that is ours. It is an opportunity provided us by the people of this state in an historic election. It is an opportunity that will not be ours again.

If we go to the legislature thinking only of this biennium, if we insist on limping through another two years with half-measures and temporary solutions, our inaction will damage our state for decades to come.

I know how difficult it is to take the long view. But I also know how critical it is for the future of Oregon. We no longer have a period of grace. We no longer have time to explore every different idea or subtle variation in approach.

I have worked with every facet of Oregon taxation for almost 25 years. I have governed this state for four of those years.

You each know my philosophy. You each know my dedication to lean government, good management, and essential services at least cost. And you each share with me a firm dedication to the values and qualities that make Oregon what it is: a state unique in the nation and the world, and a state to which we pledge our best skills, our highest honor, and our firmest spirit of balance and determination.

That is the spirit we bring to the high responsibilities of our office — a spirit that reflects the high trust placed in us by the people of Oregon.

It is in that spirit that I prepared my budget for this state. It is a roadmap for two critical years. The road it describes will lead to a better future for our state.

It is a good plan. It will work for Oregon. And I ask for your understanding and support to see it put into action at the earliest possible date.

Thank you very much.

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