

ARTICLE BY GOVERNOR VIC ATIYEH

"OREGON'S BUDGET: AN ACTION PLAN FOR A BRIGHTER FUTURE"

Oregon's state budget is a two-year fiscal plan for the state which balances state spending against expected revenues. On December 1st of last year, I released my recommendations for the two-year period beginning July 1, 1983. Those recommendations now await action by the Oregon legislature.

As the legislative process unfolds, I believe that it is vitally important for you and every Oregonian to be aware both of the recommendations I have made, and the process through which they were determined. I am very pleased to have this opportunity to describe that process — and those recommendations — to you.

The 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 the State 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. Many 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 need to 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 budget 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.

This was 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 increases 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 Oregon 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.

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 because 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 your support, 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.

My budget will allow that effectiveness to be maintained within tightly-drawn limits. In addition, I am introducing individual legislative packages to move Oregon forward in the vital areas of public safety, economic development, and land use — while providing help for critical industries such as timber and fish. ✓

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

My revenue package has been constructed with caution, sensitivity, and care. It supports only the hold-the-line state budget with minimal critical additions I have described.

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.

Considerable attention has already been focused on the words "net receipts tax." But far less attention seems to have been focused on the context of that proposal.

The net receipts tax is a flat one percent tax levied against all taxpayers before deductions or exemptions are subtracted. It is aimed primarily at the 15% of Oregon tax returns that currently go untaxed. It is designed to broaden Oregon's tax base in a way that defines income, and so reduces the burden on low-income taxpayers.

The alternative to the net receipts tax is often said to be a statewide sales tax. I do not support a sales tax, because a sales tax is indiscriminate. It makes no distinction in ability to pay between the high, middle, and low-income taxpayer. It makes no distinction between purchases by an unemployed worker or a millionaire. Its impact is not reduced for those with lower incomes.

The net receipts tax, by comparison, is paid only by people who are working and earning income. Social security benefits, welfare payments, and similar assistance amounts are excluded from the tax. Taxpayers making less than \$3,000 per year are excluded from the tax.

The net receipts tax proposal has been planned very carefully as part of a tax package which features tax reductions in many other areas, and the elimination of most of the temporary tax measures of the current biennium.

For example, the personal income tax rate schedule will be reduced.

The largest reductions are proposed for the lowest income groups, but the tax rate in every personal income tax bracket — lowest to 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 increases from 7¢ to 3¢;
- substituting a tax credit for the personal exemption;
- limiting property taxes; and
- expanding the relief program provided by HARRP, while 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.

My budget — with 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 budget designed to reach 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 the Legislature thinks only of this biennium, if we balance our budget by limping through another two years with half-measures and temporary solutions, then our inaction could do serious damage to our state in 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.

Most of you know my philosophy. You know my dedication to lean government, good management, and essential services at least cost. And I am certain that you 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.

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.

#