

Blazers lose  
to 76ers 126-116;  
details in Sports

# The Oregonian

Forecast: drying;  
high, 45; low, 30;  
report on Page A2

OUR 134TH YEAR

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25 CENTS

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## Atiyeh unveils \$3.2 billion budget proposal

By JEFF MAPES  
of The Oregonian staff

SALEM — Most Oregonians would get a modest income-tax cut while state agencies would get a variety of "wish-list" programs financed by lottery revenues under Gov. Vic Atiyeh's proposed \$3.2 billion 1985-87 budget, released Friday.

The governor called for a 5.4 percent increase in state spending that would emphasize economic development and education and include a new \$800,000 airplane for the use of Atiyeh and other top state officials.

Atiyeh proposed wiping out \$231 million in "temporary taxes," which largely are made up of an 8 percent income-tax surcharge first imposed in 1982. However, the savings would come out of the taxpayers' other pocket.

The governor would make up this lost revenue by getting rid of the property-tax relief program that provides most homeowners a \$170 state rebate every year.

Atiyeh, who tried to eliminate the rebate program two years ago, earlier this week proposed a 5 percent sales tax that would be used to reduce property taxes. The governor would continue the senior citizen property-tax and renter-relief programs.

The centerpiece of Atiyeh's budget is \$98 million in new spending for economic development, with the lion's share of that coming from the estimated \$80 million in revenues from the state's new lottery, which was approved by Oregonians at the Nov. 6 election.

Half of the funding for an executive aircraft would come from lottery revenues. Atiyeh said the plane would allow him and directors of state agencies to make more trips around the state. "I feel getting out among Oregonians is very important," he said.

Other economic development programs included:

— A public works grant program for local governments totaling \$41 million over the next two years.

— A \$10 million venture capital fund and the expansion to \$5 million of an existing loan program for small businesses.

— A \$963,000 program to help market Oregon's lumber products.

— An additional \$1 million for tourism promotion and \$1.4 million for fishery improvements.

Nearly \$12 million in lottery revenues would go to a variety of building projects that would house programs such as trade and engineering that enhance Oregon's economy.

As he mentioned earlier this week, Atiyeh said his budget would increase faculty salaries by \$40 million over the next two years.

Otherwise, the budget largely continues existing state programs. The budget increases were based on a moderate expansion of Oregon's economy, although Atiyeh said he was confident that the state was on the verge of prosperous times.

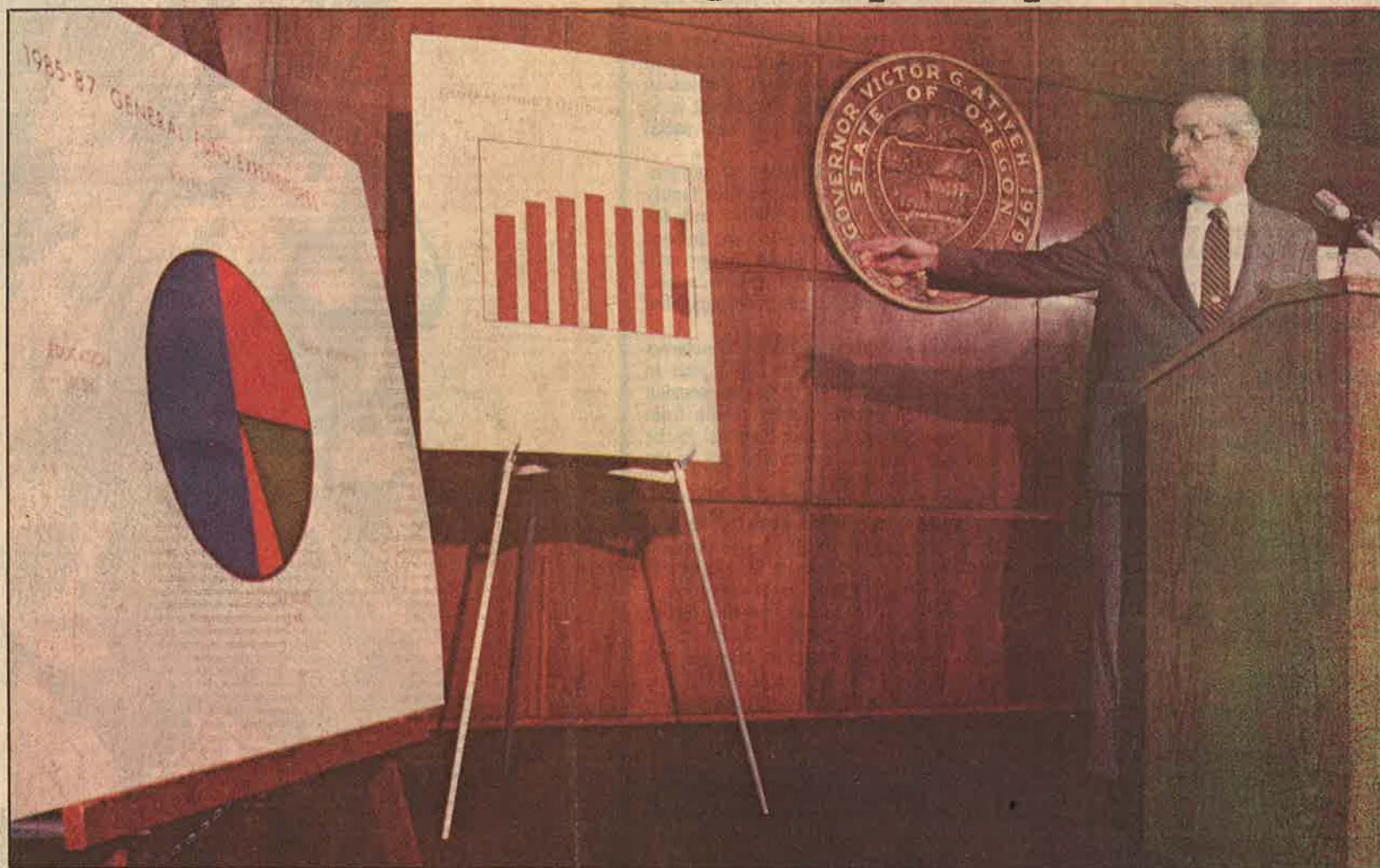
"My vision of Oregon's future is the brightest I have ever seen," said Atiyeh, explaining that his prediction was based on approval of his sales tax and budget plans.

On the tax side of the ledger, Atiyeh proposes:

— Rolling back the top state income-tax rate, which most working Oregonians pay, from 10.8 percent to 10 percent.

— "Reconnecting" to the federal tax system to allow higher deductions for individuals and corporations using the depreciation allowance.

— Reinstating indexing of tax brackets to inflation, which primarily would benefit lower-income taxpayers.



The Oregonian/MICHAEL LLOYD

**SPENDING PLAN** — Gov. Vic Atiyeh announces his \$3.2 billion budget Friday. The fiscal plan includes major spending increases for economic development and higher education in the state. Atiyeh proposes wiping out \$231 million in "temporary taxes."

Atiyeh proposed continuing the 10 cents per-pack state tax on cigarettes but would give cities and counties an additional 3 cents per pack of the revenues.

The state also would get an ad-

ditional 8 cents from every pack of cigarettes sold because the federal government is reducing its cigarette tax by that amount. The budget also continues \$8.2 million in "temporary taxes" on liquor sales.

Other new initiatives in the proposed \$3.256 billion budget include a special fund to clean hazardous waste spills and a center for toxic substances research under the Department of Environmental Quality.

The Highway Division proposed a long-term \$200 million program to modernize the state's highways, beginning over the next two years with \$25 million from the highway fund. Additional details on Pages C2, E8.



## Digest

### The markets

**STOCKS** closed a dismal week Friday with their third consecutive broad decline. Prices were lower for most of the session in lackluster trading; a feeble rally attempt in the early going quickly abated. The Dow Jones average of 30 industrials fell 4.52 to 1,188.94, giving it a loss for the week of 31.36 — the measure's worst weekly performance since it fell 35.78 in the week ended Sept. 21. Declines led advances 4 to 3 on the New York Stock Exchange, whose composite index lost 0.23 to 94.30. Big Board volume totaled 77.58 million shares, compared with 75.86 million on Thursday. Page E9

**THE DOLLAR** rose sharply in New York Friday, but dealers said the high levels could be a slight distortion due to the thin trading. The British pound closed below \$1.20. Gold and silver fell. In Zurich gold closed at \$329.50, against Thursday's \$331.50. In London it finished at a two-year low of \$329.25 an ounce, down from \$331.25. Republic National Bank in New York closed cash gold at \$329 an ounce, down from \$330.75. The New York Commodity Exchange settled the December contract at \$329.10, down from \$330.80. Silver plunged to \$7.01 an ounce from \$7.11 on the cash market in New York; the Comex settled it at \$7.019, down from \$7.112. Silver traded to a low of \$6.98 and gold to \$327.50 before short-covering at the close brought them back.

### The world

**MEXICO'S** state oil company announced it would maintain a production cutback of 100,000 barrels a day for the second straight month in December, but an oil expert said Friday the decision would have no immediate effect on price stability. Petroleos Mexicanos, or Pemex, initially cut back output for the month of November, saying it was a "voluntary contribution by Mexico to defend the world oil market." Mexico is America's largest foreign oil supplier.

**MAZDA** Motor Corp., Japan's

# Atiyeh asks \$98 million for development

Story on Page C2 also

By JULIE TRIPP  
of The Oregonian staff

Gov. Vic Atiyeh wasn't wearing white whiskers at a Friday morning news conference announcing his \$3.2 billion biennial budget, but he sure sounded like Santa to the state Department of Economic Development.

If legislators buy his proposed budget, Atiyeh will earmark \$98 million in general fund and lottery money for the most sweeping economic development action in Oregon's history. The bulk — \$80 million — would come from the lottery state voters approved in November.

"Honestly, I think it's phenomenal. I really do," said the deputy director of the department, Thomas F. Kennedy, shortly after learning of the proposals for his department.

Kennedy's department would have \$33.5 million for its projects, under the governor's proposal. The rest would finance economic development projects on college campuses, channel marketing and research money to forestry, fishing and agricultural projects and provide millions of dollars for helping local governments pay for transportation, sewage and other improvements that accompany the siting of new business in the state.

"We think it clearly reaffirms that Gov. Atiyeh places the highest priority ever in this state on economic development," Kennedy said. The budget "involves many players, many departments. It's balanced — it doesn't try to focus on only one area. It looks at big business, small business, east and west, upstate and downstate.



## Atiyeh's budget: Economic development

**G**ov. Vic Atiyeh's proposed \$3.2 billion budget is a bonanza for economic development in Oregon, funneling \$115 million in lottery, general and other funds to areas like:

- ✓ Public works grants of \$41.5 million to local governments to finance road and other infrastructure improvements for new industry and industrial sites;
- ✓ A \$10 million venture capital loan fund to stimulate new and expanding business and a doubling to \$5 million in the loan program for the state's small business;
- ✓ \$1 million for marketing programs for Oregon agricultural and forestry products;
- ✓ A 40 percent increase, to a total \$3.5 million, to finance tourism, including the new "Oregon, You're More Than Welcome" campaign;

The Oregonian/Bill Morrow

"And the real beauty of it," Kennedy said, "is that it focuses on the real issues that we confront all the time — it provides some real financing mechanisms" for venture capital to start-up businesses; loans for port improvements; loans for small business."

The \$41.5 million in lottery revenues destined for public works grants would be used in two ways, Kennedy said. A city or county might have a new business interested in a site, but the site might lack sewer or highway improvements. The direct grants could

fund those needed improvements. The second method would be to use the grants to prepare sites for future businesses.

The venture capital loan fund would use \$10 million from the lottery to supplement private capital to finance new and expanding businesses that can generate new jobs but can't find or afford the financing elsewhere. The program would be administered by Kennedy's department, with the applications reviewed and approved by the Economic Development Commis-

sion.

Proposed criteria for selecting loan recipients would include sales growth potential, market potential, competition, management expertise and commitment and a reasonable return on investment.

Details beyond those have not yet been worked out, as with many of the lottery-financed projects. State officials have been working on their budgets for months, but only knew the lottery money was in the bag when voters approved it Nov. 6 at the polls.

Kennedy said the budget provides \$400,000 to enhance the recruitment of new business to the state; an additional \$46,500 for recruiting filmmakers, such as the Warner Brothers filming of "Goonies" in Astoria; an additional \$1 million for tourism promotion, for a total budget of \$3.5 million, to sell Oregon through advertising, trade shows and development of package tours; \$150,000 for small grants to local economic development groups for their projects; \$220,000 to refine the state's computerized industrial land sites inventory system; and \$70,000 to hire a publications editor.

Another \$1.5 million would finance missions in the U.S. and overseas to sell Oregon products and services, with the international emphasis to go toward the Pacific Rim countries.

The budget also includes \$800,000 in general fund and lottery money to buy the state an executive aircraft. Jon Yunker, state budget administrator, said that amount would buy an eight-passenger turbo prop plane, and that the pilot could be one of many in state government service. The plane would

be used for trips within Oregon and for some of the missions inside the U.S., such as a state trip to California that Atiyeh and other officials made earlier this year. Other department chiefs would have use of the plane, too.

A program with a \$2.3 million price tag in lottery revenue would help increase fish hatchery production by 680,000 coho salmon and 120,000 chinook salmon. Losses of fish would be averted and more fish produced at a new hatchery to be built in either the Willamette or lower Columbia rivers' basins. Another \$1.4 million for fishery enhancement in coastal areas is included in the general fund.

Almost \$1 million would go to the Forestry Department to set up a marketing program for Oregon's distressed lumber producers, and a \$100,000 in general fund money would go to the Agriculture Department to hire a marketing specialist and set up a program to aid small and medium agricultural producers to penetrate national markets.

Even the Department of Geology and Mineral Industries got a mention in the governor's proposal. Some \$150,000 in general funds would aid mineral exploration and production in Oregon, with the goal of increasing employment in rural areas.

Finally, on the lottery-financed list, the 1986 World Exposition in Vancouver, British Columbia, would have an Oregon pavilion if the \$3 million allocation is approved. Another \$1 million in private funds would finance Oregon's participation in the world's fair, predicted to attract 20 million visitors during its six-month life.

## Tektronix earnings jump 73%

Tektronix Inc. Friday reported earnings of \$22 million, or \$1.14 per share, an increase of 73 percent over the \$12.7 million, or 66 cents per share, earned a year earlier for the 12 weeks ended Nov. 10.

Sales were \$333.4 million for the period, a 17 percent increase over the \$285 million in 1983.

The company said its customer orders for the second quarter were





# Governor's budget

## Legislators react cautiously to Atiyeh budget plan

By DON JEPSEN  
of The Oregonian staff

SALEM — Legislative reaction to Gov. Vic Atiyeh's 1985-87 budget proposal generally was restrained Friday, with most members focusing on a recommendation to end state property tax relief payments to homeowners.

The governor is proposing a \$3.256 billion general fund budget for the two fiscal years beginning July 1, 1985. Atiyeh wants to do away with the homeowners' property tax relief program, even if voters turn down a sales tax to help finance secondary schools and community colleges.

Rep. Vera Katz, D-Portland, who will become House speaker when the session convenes in January, said she has not had time to review the printed budget. But she said the Legislature should "move very cautiously" before it spends property tax relief dollars for general government.

"We should first see what the voters do in

regards to the sales tax," said Katz, an experienced Ways and Means Committee member.

Katz said she wants to see if a balanced budget can be developed without using the money that normally would be allocated for property tax relief, some \$240 million.

Although the program calls for 30 percent state payment of property taxes, in reality the general fund doesn't contain enough money to meet that ratio, and the top payment is \$170 for homeowner-occupied residences.

Sen. John Kitzhaber, D-Roseburg, president-elect of the Senate, was unavailable for comment.

Sen. Mike Thorne, the conservative Democrat who will be Senate co-chairman of Ways and Means, said he had not yet read the budget but had been briefed earlier on some of the proposals, including doing away with property tax relief.

The Umatilla County rancher said he supports Atiyeh's recommendation to let the 8 per-

cent income tax surcharge expire along with reconnecting the state tax code to the federal tax code.

"I very strongly support what he's done in that area," Thorne said.

On ending the property tax relief program, he said the Legislature "will have a hard time with that issue" if voters fail to approve a sales tax.

"I for one feel the 30 percent program was a mistake from the beginning, but it's clear there are people who have a different opinion on the issue," he said.

As a key player in shaping state agency budgets, Thorne said he supports the concept of more financing for higher education, including improved salaries, but said whether it should be at the level recommended by Atiyeh "is debatable."

Atiyeh's request for an executive airplane, Thorne said, is one of those budget items "that

stick out like a sore thumb. If we can come out of this session with a good budget and substantial property tax relief, I'd throw in the airplane."

Rep. Wayne Fawbush, D-The Dalles, the House chairman of Ways and Means, said doing away with the state property tax relief program "is an assumption on the governor's part that will not stand up to legislative scrutiny."

"If the sales tax doesn't pass that formula (ending state property tax relief) just will not hold," he said, predicting that Atiyeh's budget probably will undergo "major changes" at the hands of the Legislature.

Fawbush also questioned Atiyeh's recommendations on allocation of lottery proceeds. "We as a legislative body haven't even begun discussing how we want to consider those funds," he said.

Rep. Larry Campbell, R-Eugene, House mi-

nority leader, generally praised the governor's plan and conceded that Atiyeh's recommendation to end the current property tax relief program was designed to get voter support for the sales tax.

"In essence he is saying to people that they should support the (sales) tax package if they want substantial property tax relief and don't expect it to come from the general fund," said Campbell.

Sen. Steve Starkovich, D-Canby, Senate majority leader, said if the sales tax fails at the polls, the Legislature probably would not do away with the current property tax relief program.

He said that means the difficult choice: either reductions in spending or continuing the temporary taxes the governor wants to end so state spending can be bolstered in selective areas.

## Lottery adds a bit of cheer to Atiyeh budget proposal

By JEFF MAPES  
of The Oregonian staff

SALEM — Nobody knows how popular the lottery will be with Oregonians, but it certainly injected the Christmas spirit into the biennial unveiling of the state budget Friday.

Thanks to the prospect of \$80 million in lottery revenues over the next two years, Gov. Vic Atiyeh was able to shower gifts on a projects.

### Analysis

At his Friday budget conference, Atiyeh emphasized his economic development proposals — such as a \$41 million public works fund for local governments — that also depend on lottery revenues.

Aside from the lottery money — which actually is a small portion of the \$3.256 billion general fund budget — the most attention likely will be focused on the governor's tax priorities.

His proposal to eliminate the 30 percent property-tax relief program — which produces a \$170 check from the state for most homeowners — received a skeptical reception from Democratic legislators.

Atiyeh wanted to eliminate the program two years ago, viewing it as a Band-Aid that produces no real

property-tax relief.

"If they think they are buying Oregon voters" to not approve another property-tax limitation measure, "they are sadly mistaken," Atiyeh said of legislative support for the 30 percent program.

That's true, but legislators are cautious about eliminating the tax relief program without first finding out if Oregonians will approve a sales tax.

If the sales tax doesn't fly, legislators may prefer keeping the income tax surcharge and other temporary taxes that Atiyeh wants to eliminate.

Getting rid of the property tax relief program may be like throwing gasoline on the flames of the property tax revolt, some legislators reasoned.

For taxpayers, those with higher incomes would probably be better off with Atiyeh's plan since an 8 percent income tax cut and other tax benefits would outweigh the \$170 in property tax relief.

Of course, that kind of decision may not come to pass if a sales tax is approved by the Legislature and wins at the polls.

Then the temporary taxes and 30 percent program can be eliminated and the Legislature and the governor can turn to the more joyful task of spending their lottery winnings.

### Atiyeh's budget proposal

Here is a comparison between the 1983-85 state general fund budget approved by the Legislature and the 1985-87 budget proposed by Gov. Vic Atiyeh.

(In millions of dollars)

Program Area	1983-85	1985-87	Change
Economic Development/ Consumer Services	30.9	32.8	6.3%
Education	1,522.2	1,676	10.1%
Human Resources	779.9	822.2	5.4%
Natural Resources	49.3	51.8	4.9%
Public Safety	97.7	107.7	11%
Transportation	7.8	8.6	10.3%
Administration/Support Services (incl. property tax relief)	459	262.5	(42.8)%
Legislative branch	23.5	25.8	9.8%
Judiciary	119.1	144.8	21.5%
Miscellaneous	---	*114.1	---
<b>Total</b>	<b>3,089</b>	<b>3,256</b>	<b>5.4%</b>

\*1985-87 miscellaneous includes salary/benefit adjustments, emergency fund, special programs. For 1983-85 those figures are included in other categories.

The Oregonian

## Governor's plan would boost higher education



## Higher education outlay

The governor's budget for the Oregon System of Higher Education would:

- ✓ Allocate \$40 million to raise faculty salaries. All faculty to receive regular state salary increases with an additional \$20 million to be distributed selectively.
- ✓ Allocate \$30.3 million to fund centers of excellence and new building projects on the state's universities that would spur economic development.
- ✓ Allocate \$16 million for upkeep projects including building maintenance, upgrading instructional equipment, and automating the libraries.
- ✓ Increase tuition by about three percent each year across the board. The increase would end a freeze in effect since 1983.

SALE — Gov. Vic Atiyeh is looking at higher education as a vehicle to move the state's economy into high gear.

Atiyeh is recommending in his 1985-87 budget that higher education's portion be boosted 18 percent, to about \$544 million, to finance a number of sweeping improvements tied to economic development.

"I'm very excited, pleased," said William E. "Bud" Davis, the higher education chancellor. "This is not a status quo budget. . . . This is a budget targeted to make a difference."

Higher education officials received financing for most of the items they sought from the governor's office.

The top priorities identified by the State Board of Higher Education were faculty salary increases, building maintenance and high-technology and economic development programs.

— \$40 million to raise faculty salaries. All faculty members would receive a 2 percent "catch-up" raise, then 3 percent each year for the next two years. Half of the money, \$20 million, is earmarked for "merit" increases to be allocated to faculty members selectively.

— \$11.6 million to set up "centers of excellence" in areas related to economic development: \$4.1 million to the University of Oregon for optical and computer science, biotechnology and other sciences; \$4.8 million for engineering at Oregon State University; \$1.06 million for international trade programs at Portland State University; and \$1.5 million for a technology in medicine center at the Oregon Health Sciences University.

— \$16.8 million from lottery funds to construct new buildings to house the centers at PSU, OSU and UO, plus

of Technology. The lottery funds would pay for half the cost, the rest coming from bond sales.

— \$1 million of lottery funds would finance a high-technology grant program. The Oregon Educational Coordinating Commission would distribute the money to state colleges for high-tech programs. The grants would be matched by private industry.

— \$6 million for maintenance of buildings, \$4 million for replacement and upgrading of instructional equipment, \$6 million to upgrade libraries.

— Increasing the OHSU University Hospital budget from \$32.8 million to \$47 million to meet rising patient costs, including freezing rates.

While Atiyeh saw fit to recommend financing most of higher education's wish list, it left off continuing a tuition freeze in effect on the eight state college and university campuses.

"We're dismayed and a little bit

a tuition freeze," said Sherry Oeser, executive director of the Oregon Student Lobby.

Despite the current freeze, Oregon's tuition is the highest in the western states, Oeser said.

She said it was disheartening to see most of higher education's requests proposed for financing while a freeze, costing \$6 million, was left off.

The budget reflects most of the recommendations of the Oregon Educational Coordinating Commission, an advisory group to the governor and Legislature.

However, the commission placed a very high priority on a tuition freeze.

Tuition for Oregon students is more out of line than are faculty salaries, said T.K. Olson, executive director.

Higher education officials found generally good things to say about the governor's budget.

# Atiyeh maintains status quo for schools funding

By KATHIE DURBIN  
of The Oregonian staff

Gov. Vic Atiyeh's proposed 1985-87 budget provides partial funding for a state school reform effort, but it reduces the base budget for the Oregon Department of Education, which must put any reform plans into effect.

Overall, the proposal — which would affect elementary and secondary schools and community colleges — contained few surprises and, except for a plan to set up an Oregon Action Plan for Excellence, generally preserved the status quo.

In his proposed budget, released Friday, the governor recommended that the Legislature fund \$3.2 million of the \$5.2 million the State Board of Education requested to pay for the action plan.

That money would go to develop a statewide model curriculum, administer statewide testing at certain grade levels, improve educational technology and provide more technical assistance to local school districts.

But Atiyeh also recommended a 2.6 percent decrease in the department's base operating budget and declined to fund a \$243,000 program-improvement request to help the department carry out its regular functions. Overall, including Action Plan implementation money, the governor recommended a \$13.6 million operating budget for the department. The department had requested \$16.9 million for the next two years.

T.K. Olson, executive director of the Oregon Educational Coordinating Commission, said the budget analyst who examined the education depart-

ment's spending patterns found that the department had historically left some positions unfilled in each biennium.

"They used those funds as a kind of superintendent's discretionary fund to meet changing priorities," said Olson, who worked closely with the governor and legislature in setting priorities for state education spending. "The analyst viewed that as an indication that the funds were 'soft.'"

State School Superintendent Verne A. Duncan said he was forced to leave some jobs open to find money for negotiated salary increases for his staff. He said that he has spoken informally with Atiyeh and believes the governor plans to support additional funding for the Action Plan and the department's operating funds beyond the amounts included in his budget.

Duncan said he was generally pleased with the way Atiyeh had treated education, especially in his tax reform plan, announced Monday. That plan would dedicate an estimated \$750 million from a new 5 percent sales tax to property tax relief. Since schools rely heavily on unpopular local property taxes, Duncan said he believes the governor's tax-plan would stabilize funding for schools and community colleges.

The governor proposed \$946,238,000 in basic school support to local districts for the 1985-87 biennium, a 7.6 percent increase over the current level. Duncan and the State Board of Education had requested \$1.032 billion, a 17 percent increase.

The governor's recommended level of basic school support would reduce average state school support slightly,



## Spending for public schools

The governor's budget for the Department of Education would:

- ✓ Provide \$3.2 million for Oregon Action Plan reforms including development of statewide curriculum, student testing, classroom technology, assistance to local districts.
- ✓ Maintain current levels of basic school support and community college assistance.
- ✓ Increase Handicapped Child Fund by 15.4 percent.
- ✓ Reduce the operating budget for the Department of Education by 2.6 percent.

from 31.4 percent of local school district operating costs in 1983-85 to 30.8 percent in 1985-87.

Community colleges fared slightly

better. Atiyeh proposed \$113.3 million in state support for the next biennium, an 8.66 percent increase over the \$104.3 million in current state aid

# Budget of \$1.9 billion proposed for Department of Human Resources

By DAN HORTSCH  
of The Oregonian staff

Program adjustments and fine tuning, with some added emphasis on helping children, mark the governor's proposed budget for the state Department of Human Resources.

The budget calls for a 4.5 percent increase in state spending for the department and about a 6 percent increase when federal and other funds are figured in.

Even so, the proposed \$1.9 billion total budget for the department, including small increases in the Adult and Family Services and Children's Services divisions, represents a continued improvement from the trying times of the 1979-81 biennium, when the lack of revenue forced drastic cuts in social services programs.

What isn't in the budget will attract as much attention from some sectors as what is there.

The budget, for example, calls for short-term emergency help for two-person families

for them.

On the other hand, troubled children — children who have been victims of sexual abuse, young people who have been sex offenders, children who have emotional and mental problems — stand to gain if the budget's proposals are approved by the Legislature.

Don Peer, budget supervisor in the Executive Department, said the budget contains \$7.1 million for expansion of such services for children.

The budget also calls for renaming and reworking the Vocational Rehabilitation Division into the Rehabilitation and Disability Services Division through the transfer of a number of programs into the new division. The transfer of several other programs within the Department of Human Resources is planned as well.

Leo T. Hegstrom, director of the department, said the budget he recommended to the governor was accepted "almost absolutely" as submitted.

that allowed the department to operate within existing resources, and, amid some criticism from social services advocates, he had done that.

Some critics said the department ought to ask for all it would like to have, not just what it might expect to get, but Hegstrom said the governor's adoption of the Hegstrom budget backed up the director's view.

The constraints, he said, produced "more effective budgeting" from division administrators. "When it came to review (by the Executive Department), there weren't the holes the open-ended approach tends to produce," Hegstrom said.

He said he believed the budget "will hold up" under legislative scrutiny as well.

Included in the proposal would be diversion of \$1.5 million expected to be saved in the reorganization — which has already begun — of the state Children's Services Division.

That money would be used for treatment of families in which sexual abuse has occurred —

ers — treatment of sexual abuse victims at Hillcrest School for girls, and treatment for young sex offenders.

Another \$1.4 million would be spent in the Children's Services Division for prevention of abuse and neglect in families receiving aid to families with dependent children. The welfare families have such problems out of proportion to their numbers, a department budget paper says.

In the Mental Health Division, the budget calls for \$1 million — \$677,000 in state funds — for treatment of more than 750 high-risk mentally and emotionally disturbed children, and for expanded alcohol and drug abuse treatment.

Cynthia Thompson, director of the Waverly Children's Home in Portland, which works with abused children, said such programs are "an optimistic sign" for improving aid to children.

Distribution of the money remains a question, she said, adding that providers of serv-

funding for the programs that already exist.

While the number of single-parent families on welfare is expected to grow by only 1 percent or so, causing a relatively small increase in money spent, no large-scale program of help for two-parent families was included in the budget, as some advocates had hoped.

A \$1.3 million pot for emergency needs of families not covered by current welfare programs also is included in the proposal, Hegstrom said.

Terry Ann Rogers, a staff attorney with Legal Aid in Portland and a lobbyist for the Coalition to Keep Oregon Families Together, which is pushing for restoration of welfare for two-parent families, said the governor and the department "are shirking their responsibilities to very poor Oregonians."

The budget for the Corrections Division projects an average daily decrease of 395 inmates in state institutions — and a savings of \$2 million — partially because of a reduction



## Will taxpayers save?

**T**he question whether Oregon residents would save money by having a sales tax to offset some property taxes is difficult to answer but some average effects can be estimated:

The current average statewide property tax rate is \$20.79 per \$1,000 of assessed value, or \$1,039.50 on a home valued at \$50,000. Of that amount, 62.6 percent goes for education. A 45 percent reduction in total property taxes means a saving of roughly \$8.32 statewide per \$1,000 valuation.

A house assessed at \$50,000 would then, at the new average rate, have its property taxes reduced by \$416, for a new tax bill of \$623.50.

**N**o figures have been developed on what Oregonians can expect to pay each year in sales taxes. However, tables developed by the Internal Revenue Service for Kentucky, which has a 5 percent sales tax, allows a family of four earning \$20,000 to \$22,000 to deduct \$226 for what it has paid in state sales taxes. For a family of four with a \$40,000 annual income, the deduction is \$338.

The Oregonian



# State education officials pleased with Atiyeh sales tax plan

By KATHIE DURBIN  
and PHIL MANZANO  
of The Oregonian staff

11-21-84

Oregon education officials Monday gave qualified praise to Gov. Vic Atiyeh's school finance and tax reform plan, but many tempered their enthusiasm with questions about how it would work in practice.

Provoking the most questions were Atiyeh's proposals that the state define and pay for "basic education" and that a new governing board be established to oversee community colleges. Local school officials also said they needed to know more about how Atiyeh proposes to distribute to schools and community colleges the \$750 million that he estimated would be raised annually by a 5 percent sales tax.

"In general, I think it's a real good starting point," said Thomas Rigby, executive director of the Oregon School Boards Association. "I think it's exciting that the governor is willing to come out and promote a sales tax for education."

State School Superintendent Verne A. Duncan said he was "obviously very pleased" that the governor had recommended funding parts of the Oregon Action Plan for Excellence, including statewide testing of students, advances in the use of classroom technology and more technical assistance to local districts.

Atiyeh revealed Monday that some \$3.1 million of the \$5.2 million Duncan had requested to implement the Action Plan was included in his 1985-87 budget.

"I think it's a bold and innovative plan and makes good, common sense," said William E. "Bud" Davis, chancellor of the State System of Higher Education. "The governor specifically identified priorities we've been talking about."

"A lot of people who are committed to Oregon and want to stay here have been waiting to see if education is going to make it or not," University of Oregon President Paul Olum said. He called the Atiyeh plan "an enormous shot in the arm" for higher education.

Atiyeh's 1985-87 higher education budget proposes raising salaries for state college faculty members, creating three new academic-industrial research centers and instituting other systemwide improvements in the state's higher education system — which he said was suffering "unconscionable deterioration" because of years of neglect and budget reductions.

"Obviously, there were some parts of the governor's plan we were very pleased with because they were virtually word-for-word out of our own plan," said Terry K. Olson, executive director of the Oregon Educational Coordinating Commission. Specifically, Atiyeh has embraced the commission's call for adequate and stable tax bases for all Oregon school and community college districts and for state funding of a "basic education" for all students, he said.

Under Atiyeh's plan, \$700 million of sales tax revenue would go to local school districts and \$50 million would go to community colleges, offsetting property tax revenue dollar for dollar. Atiyeh said the replacement of property tax revenue with state dollars would lower property taxes by a statewide average of 45 percent.

In a meeting with editors of The Oregonian later Monday, Atiyeh said his office would write the definition of "basic education" and that it would be "quite definitive and fairly detailed." He said it would be based in part on the Action Plan for Excellence, which calls for a statewide core curriculum.

Atiyeh said his plan would distribute sales tax revenue to local districts on a straight per-pupil formula and would not use an equalization formula such as that now used by the State Department of Education to reduce funding inequities between rich and poor districts when it allocates basic school support monies. But he left the door open to possibly weighting the formula for districts such as Portland that have large numbers of handicapped and disadvantaged students.

Atiyeh said disparities in property tax wealth would be less important under his proposed school finance system, because only 20 percent of average school costs would be borne by the property tax. "We will cover about 80 percent of the cost of schools statewide," he said, referring to the combination of state basic school support and sales tax revenue.

Portland School District lobbyist Frank McNamara said the allocation formula question will be a key issue for Portland in determining its position on the Atiyeh plan. "It sounds good," McNamara said. "My guess is that the district will be interested in any plan that provides stability, guarantees predictable funds and treats Portland fairly."

But he said the district will examine closely how much control the state proposes to have over local school program decisions, how special education funds would be distributed and whether there would be any erosion of the district's overall funding under the governor's plan.

Roger Bassett, executive director of the Oregon Community College Association, applauded Atiyeh's proposal to increase state support for community colleges from an average of 35 percent to 65 percent of total operating costs and lessen their reliance on the property tax.

Bassett said the association historically has opposed setting up a separate state board for community colleges, which now are governed by locally elected boards and, loosely, by the Oregon Board of Education. Atiyeh said he proposed creation of such a board, which would set tuition and approve new programs, to give community colleges a higher profile in the state.

John Anthony, president of Portland Community College, said he would be willing to relinquish some local control in exchange for greater fiscal stability.

"I think the governor is correct in saying we need a focal point," Anthony said. "We need somehow to represent the community college at the state level," while preserving as much local board autonomy as possible, he said.



# Atiyeh tax plan welcomed, but cautiously

By JEFF MAPES  
of The Oregonian staff

SALEM — Democratic leaders of the Legislature welcomed Gov. Vic Atiyeh on the sales-tax bandwagon Monday, but they made it clear that virtually all the details of such a tax package remain to be negotiated.

"I think it's fair to say this is the starting point" for negotiations, said Roseburg Democrat John Kitzhaber, the incoming president of the state Senate.

"I'm glad that he's on track with the leadership of the Legislature. I think we're all agreed on the need to remain flexible," added state Rep. Vera Katz, D-Portland, who will be speaker of the state House in the 1985 session.

Katz and Kitzhaber were both key sales tax proponents in the 1983 Legislature, and both have strong ideas on how a sales-tax package should be structured.

Neither is ready to quickly accept Atiyeh's plan, particularly because the governor's proposal deals more in broad policy outlines than in specifics.

The importance of Atiyeh's announcement, observers said, is that it adds weight to the group pushing the sales tax.

"I think it's very significant in that he had opposed the sales tax all these years," Katz said of the governor. "He's realized after the property tax limitation nearly passed again that he's got no options."

"I have to admit I'm really pleased with the leadership he's shown on this. I don't say that about Vic Atiyeh too often," added the new Senate majority leader, Canby Democrat Steve Starkovich.

Republican House Leader Larry Campbell of Eugene was not ready to abandon his long-time opposition to the sales tax. But given

**"I think it's fair to say (Atiyeh's plan) is the starting point."**

Atiyeh's new support for the tax, Campbell said House Republicans will now concentrate on seeing "that the best possible package is on track for the people to vote on."

Foremost among the issues to be negotiated is determining the formula for distributing sales tax revenues. Atiyeh proposes to parcel it out to school districts by an as-yet-undefined formula, with the individual districts then reducing their property taxes by an equal amount.

"It's a pragmatic plan," newly elected state Sen. Jane Cease, D-Portland, said of Atiyeh's proposal. "The distribution formula is where we're going to fight."

Also to be negotiated is the idea of a spending limit on government to ensure that sales tax revenues go primarily for property tax relief. Atiyeh proposes a limit on school districts, while some believe the limit should be much broader and tougher.

Atiyeh's plan also could lead to legislative fights over budget priorities. His sales tax proposal frees up \$240 million over the biennium that is now in the state's property tax relief program. Atiyeh said he would offset that revenue by eliminating temporary taxes that produce the same amount of money.

Atiyeh acknowledged in a meeting with The Oregonian editorial board that he is willing to compromise on some parts of his plan. But he said if the Legislature does not go along with his proposals for improving education, "I'm likely to get off" the sales tax bandwagon.

Atiyeh said he told legislative leaders: "We're on a roll. Let's move forward. Let's not nitpick the hell out of it."

But others said obtaining wide support for the plan was crucial.

"The thing I'm concerned about is whether the governor's plan or any other plan can get enough support behind it," said Jerry P. Orrick of the Association of Oregon Counties.

"If any major group opposed it, they could probably cast enough doubt and suspicion to get it defeated," he added.

That opposition was expressed by outgoing Senate President Ed Fadeley, D-Eugene, who fought passage of a sales tax during the 1983 session.

"The governor's proposal is dressed up in fine adjectives but is not in the best interest of the average Oregonian," said Fadeley in a statement.

He said it would hurt public education by crimping local control of schools and would be "another increase in government spending without more services being delivered by the government."

Atiyeh, however, contended that there was wide support among governmental leaders and key interest groups.

"We've never had such a diverse group pretty much together on this," added Atiyeh, who said he would campaign for the sales tax if an acceptable package passed the Legislature.

"I think a lot of Oregonians would reach the same conclusion I have" once the whole tax picture is explained, Atiyeh said.

The governor added that if a sales tax measure fails, there is a strong likelihood that voters would enact a property tax limitation similar to the one narrowly defeated earlier this month.



GOV. VIC ATIYEH



## Tax plan highlights

The governor's sales tax proposal, to be referred to voters, would:

- ✓ Institute a 5% sales tax, excluding food, prescription drugs and real estate.
- ✓ Set a new tax base for each education district.
- ✓ Limit tax-base increases to 6% each year.
- ✓ Allow elections to override the tax-base limit only in general election years and only on primary or general election dates.

It would have these effects:

- ✓ Receipts estimated at \$750 million per year.
- ✓ \$700 million dedicated to public schools with a corresponding offset in local property taxes.
- ✓ \$50 million dedicated to community colleges with a corresponding offset in property taxes.
- ✓ Property taxes would decrease by an estimated 45 percent overall.
- ✓ The state's property tax relief account, excluding the Homeowner and Renter Relief Program, would be dedicated instead to higher education.



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## Atiyeh asks for 5% sales tax to aid schools

By **DON JEPSEN**  
of The Oregonian staff

**SALEM** — Gov. Vic Atiyeh, reversing his longtime opposition to a sales tax, proposed Monday a 5 percent sales tax with the proceeds dedicated to school and community college financing and to offsetting local property taxes.

Such a tax would raise an estimated \$750 million a year and reduce overall property taxes statewide by 45 percent, he said.

The tax, which he proposed be voted on during a special election sometime next year, would exempt groceries, prescription drugs, home purchases, rent and such basic services as medical, legal and accounting.

For every dollar schools receive from the sales tax, they would reduce their local property taxes by one dollar. The percentage of the property tax reduction would be lower in school districts where tax rates are higher.

While Atiyeh's proposal contained few details, especially concerning the exact distribution formula, the reaction by state legislative and education leaders to the concept was generally favorable.

Atiyeh's proposal also calls for increased financing for higher education, including the establishment of new research centers financed by state lottery proceeds and dedicated to attracting new business and promoting trade.

Atiyeh said the net effect of his budget and tax plan would be to keep the overall tax burden the same. In a meeting with editors of The Oregonian, he said his budget would call for the elimination of \$250 million in temporary taxes, replacing that revenue with money from part of the state's current property tax relief program.

The governor also called for a statewide community college board. In addition, the community colleges would get an estimated \$50 million of the yearly proceeds from the tax.

"My plan will buy exciting, new dimensions in educational excellence that will make Oregon increasingly attractive to corporate investors who will create a diversified pool of secure payrolls and a promise of lasting prosperity for Oregonians," Atiyeh said in a speech outlining the package.

The Atiyeh plan, if approved by the Legislature and then the voters as a constitutional amendment, would also establish new tax bases for school districts. However, it would require districts to effectively reduce those bases by the amount they gain from the sales tax. For example, a district with a \$300,000 tax base that receives \$150,000 from the sales tax could assess no more than \$150,000 in property taxes.

School districts could increase their tax base by up to 6 percent each year without voter approval; districts could seek approval for increases beyond that only during a primary or general election. School districts could not ask voters to approve an excess levy, Atiyeh said.

School costs now account for 63 percent of the property tax dollars raised in Oregon, according to Richard Munn, director of the Department of Revenue. Proceeds from the sales tax plus the current \$880 million a biennium in basic school support would result in the state picking up about 80 percent of local school costs, instead of about 30 percent as is the case now, Munn said.

Cities, counties and other special taxing districts would not fall under the sales tax umbrella. However, Atiyeh said that in his conversations with local government officials he believes they found the proposal "acceptable."

Atiyeh said he decided to propose a statewide sales tax because of the critical need to stabilize financing of education, free up general fund money for higher education and provide for economic diversification.

"We must forever eliminate the perching vulture of the 1.5 percent limitation that has exhausted and divided Oregonians," the governor said. He said he had not supported past sales tax proposals because they were merely tax shifts, "which made no significant investment in the future of the state."

Voters defeated the last sales tax on the ballot, in 1969, by a better than 8-1 ratio. The 1983 Legislature attempted to refer the sales tax, but the Oregon Supreme Court struck it down because it required local government and school district ratification to get on the ballot.

Oregon is one of only five states without a sales tax.

Additional details on Page B2.