Denny

It appeared Oregon's economy, although not thriving, was progressing well when Governor Atiyeh assumed office in 1979. The state was recovering from the recession of the mid-1970's, and the employment rate was down to 6.0%. Appearances were deceiving, however, as Oregonians soon learned. The state was only months from economic havoc. The two traits that characterized Oregon's economy - a disportionate reliance on a few industries, and a reputation as a state closed to business growth - would contribute to Oregon's downfall and would represent formidable barriers to recovery. Confronted with this crisis shortly after he took office, and helpless to prevent it, Governor Atiyeh lead the state out of its depression with programs to strengthen the state's traditional industries, to create a favorable business climate and reputation, and ultimately, to provide a foundation for real economic growth.

Achieving the goals would not be easy. National and international economic trends, over which Oregonians had no control, were largely responsible for the fall of the Oregon economy. Interest rates for home mortgages skyrocketed, causing a sharp drop in new housing -- the mainstay of Oregon's timber and construction industries. Housing starts across the country fell by half. In subsequent years over 40,000 Oregonians in these industries would lose their jobs.[1] More than 70 mills would close or permanently cutback on their operations, mostly in small communities where a mill was frequently the major employer.

It was painfully apparent Oregon could no longer depend solely on industries such as timber, tourism, and agriculture if it was to survive. The remedy, obviously, was diversification, introducing into the Oregon economy new industries that would help insulate the state against future national recessions. Yet here the Governor would be hampered by Oregon's unique reputation as a poor investment site. For years Oregonians had allowed a reputation to persist that portrayed them as people zealous in their protection of natural resources against excessive development.

Part of the state's poor reputation arose from financial disincentives, as well. As recently as 1980, Oregon had the highest workers compensation rates in the country. Particularly discouraging to foreign investors was the state's unitary method of taxation, a method of taxation that was, as the Governor came to learn, especially offensive to the expanding corporations -- the Far East.

[1] Per Don Stewart - Employment Division

FINANCIAL SERVICES

Recovery in Oregon could not have occurred without the vast array of financial and technical services offered by the state to businesses and communities. During the Atiyeh administration, participation in these important programs rose dramatically, and new programs were added. Businesses, large or small, can now receive from the state a financing package that will allow them to increase their size and productivity. Cities and counties can now receive grants that enable them to build roads, sewers, and water systems to accommodate new or expanding businesses. Certain tax incentives were created to encourage development in especially hard-hit areas of the state.

Oregon Community Development Program

The Oregon Community Development Program (OCD) is the most comprehensive of financial services offered to local communities and, in terms of economic development, one of the most important. Federal funds, formerly dispersed through the Community Development Block Grant Program, are now awarded by the Governor to finance a variety of local projects of benefit to a community such as public works projects and housing renovations. The OCD program also accommodates those projects geared specifically for economic development. Communities can receive grants to establish revolving loan funds for businesses, to conduct marketing studies, or to finance specific public works projects to serve a new or expanding businesses:

*The City of Grants Pass received $315,000 to enhance its industrial development loan fund. The first recipient, Rogue Valley Sash and Door, Inc., will use the loan to purchase a vacant facility for door manufacturing.

(50 new jobs will be created)

*$500,000 was awarded by Governor Atiyeh to Deschutes County, which will aid a private company in a development project consisting of real estate, equipment, and building purchases.

(44 jobs were created)

*Governor Atiyeh approved an economic development grant to the City of Ontario. $573,000 grant will help finance a program to improve public facilities and rebuild a business destroyed by fire.

(28 new jobs were created, 20 jobs were retained, and 405 people in the community benefited)

Since the state begain administering these funds in 1983, 230 grants have been awarded by Governor Atiyeh to Oregon cities and counties amounting to more than $42 million dollars in grants and loans. Communities in 33 of Oregon's 36 counties have benefited from this program.

Industrial Development Revenue Bonds

Oregon's Industrial Development Revenue Bond program began in 1976. Under this program, Oregon firms are permitted to issue tax-exempt bonds to finance business expansions which promote or develop industrial activities, tourism, and international trade. The goal of the program is to create employment in the state by allowing firms to expand their operations with lower cost, long-term financing.

When Governor Atiyeh assumed office in 1979, only six firms had participated in the IDRB program, issuing slightly over $11 million in bond issues. In just his first year in office alone, bond issues would exceed the performance of the earlier three years of operation. Since that time over one hundred additional IDRBs were approved, amounting to almost $300 million in bond issues, and ultimately creating 6200 jobs while saving nearly 2000 additional Oregon jobs. Businesses in many of Oregon's depressed counties would benefit:

* Crantson Print Works in Linn County, issued a $1.5 million IDRB, creating 20 jobs (1982);
* Snow Mountain-Pine in Harney County, near Burns, issued a $7.5 million IDRB, resulting in 165 jobs (1983);
* A $6.9 million IDRB issued by Onyx & IMI, Inc., of Jackson County, would help create 185 jobs (1984);
* Hanna Nickel Smelting in Riddle issued a $4.7 million IDRB. Over 300 jobs were saved and an additional 20 were created (1985).

Oregon Business Development Fund

With the Governor's approval in 1983 of Senate Bill 220, an important new program was added to Oregon's ~~(array)~~ mix of financial services for businesses. This bill established the

Oregon Business Development Fund, which, with $667,000 dedicated by Governor Atiyeh and an additional $2 million the Governor obtained from federal sources, allowed the state to issue loans of up to $250,000 for small business expansion.

Since its inception, loans from the Oregon Business Development Fund have totaled over $3.3 million toward projects worth $15 million dollars. It is estimated nearly 600 jobs will result from these loans. Recipients of the loans have included resort destinations, small manufacturers, and food processing outfits, including:

* Flying M Ranch in Yamhill County, destroyed by fire in 198 , received an OBDF loan of $192,000 to rebuild the resort/restaurant.
  (30 jobs will be saved)
* An OBDF loan of $150,000 to Morelock Wood Products in Deschutes County, combined with private investments.
  (45 projected jobs)
* Automotive Parts Exchange in Linn County received an OBDF loan of $32,000
  (7 jobs created)

It is calculated that each job created in projects financed with OBDF loans costs the fund only $5632. Given the benefits that can accrue from just one employed person, the loans from OBDF are more than cost-effective.

Umbrella Revenue Bond Program

The IDRB program is designed to assist firms that need extensive financing. Yet many of Oregon's small businesses do not need the level of financing offered by IDRBs. For this reason, Governor Atiyeh signed into law a 1983 bill establishing the Umbrella Revenue Bond Program. Like the IDRB, the Umbrella Revenue Bond program provides firms with an opportunity for low-cost, long-term financing. Under this program, however, projects as small as $100,000, which cannot be financed by IDRBs, can achieve the same benefits by the pooling of several small projects under one bond issue. Revenues from the bond can finance all or part of acquisitions, constructions, or improvements for small and medium-sized businesses.

Lottery Proceeds

The Oregon Lottery, its proceeds dedicated by law to economic development activities in the state, endowed the state with a substantial new source of funding for economic development programs. Governor Atiyeh proposed and won approval to have a portion of the proceeds directed to the state's Department of Higher Education. An additional amount would be appropriated toward the state's contribution in the Oregon Community Development Program. Nearly $14 million of the projected revenues from the

Lottery were appropriated to several specific programs under the state's Department of Economic Development; including the Site-Specific Infrastructure Fund, Stabilisation and Conversion Fund, the Oregon Business Development Fund, the state's new Promotion and Marketing Fund, and an appropriation to finance the Oregon Pavilion at the Expo '86 World's Fair in Vancouver B.C.

Among these five programs, the largest appropriation went to the Site-Specific Infrastructure Fund. Under this program, Governor Atiyeh is authorized to award grants toward specific public improvements, if such improvements will guarantee the location or expansion of a particular business to Oregon. In its one year of operation, the Governor has awarded 12 grants to Oregon communities, totalling $ 3.2 million. The location or expansion of businesses made possible by this fund resulted in over 3000 jobs.

Oregon communities now also can take advantage of a new service approved and signed into law by Governor Atiyeh in 1985. The Oregon Promotion and Marketing Fund, allotted with nearly $3.4 million dollars, allows grants for projects that encourage new businesses to locate in Oregon. Projects that promote Oregon as a tourism destination, and that promote the sale of Oregon products, also can be funded under this program.

Governor Atiyeh's staunch support during the 1985 Legislative Session also led to $2 million in appropriation for an Oregon Pavilion at the 1986 World's Fair in Vancouver, B.C. Oregon, one of only three states with a pavilion at the Fair, placed at the exhibit to highlight the state's attractions as business sites and as a tourism destination, and to provide a showcase for Oregon products. Tangible results from Oregon's investment in the Expo 1986 are difficult to calculate; however, with over 2 million visitors expected to travel through the pavilion, Expo 1986 represents to Oregon an unequaled opportunity to improve the state's visibility among tourists and business leaders alike.

STRENGTHENING TRADITIONAL INDUSTRIES

For decades two of Oregon's largest industries have been forest products and tourism. Any effort to restore the Oregon economy would require that the growth in these industries be maintained.

Timber

While encouraging new businesses to locate in Oregon, Governor Atiyeh aided Oregon's timber industry by obtaining relief on state and federal timber contracts. Many Oregon timber companies had bid high prices for timber on federal and state lands in anticipation of high timber demands. With the collapse of the housing industry, they remained obligated to purchase timber under these contracts although no market for the timber existed -- and consequently many Oregon firms faced bankruptcy. Governor Atiyeh authorized the State Forester to roll back prices on the few existing state contracts; he then lobbied aggressively in Washington, D.C., all the way to President Reagan, for relief on federal contracts. As a result of these efforts, nearly 1800 Oregonians were able to keep their jobs.

Tourism

Tourism in Oregon continues to represent a substantial part of the Oregon economy. Today, tourism is recognized as Oregon's third largest industry behind timber and agriculture. Under Governor Atiyeh, the state's tourism, promotion activities would finally reflect the important contribution of this industry to the Oregon economy.

Perhaps the most dramatic and obvious improvement is the increase in funding for state tourism activities. During the 1979-81 biennium, the base budget for tourism was $400,000. In eight years, funding for the state's tourism programs increased fivefold, amounting now to over $2.3 million. The increased budget allowed for a number of improvements. The enhanced budget resulted in increased advertising which, in turn, has resulted in more requests for Oregon travel information that encourages travellers to come to our state. Cooperative tourism projects involving the public and private sectors -- such as joint advertising ventures -- result in more effective use of tourism promotion dollars. Recently, a new border information station operated by Oregon and Washington was opened near Umatilla. In short, the increase in funding enables the state to promote Oregon's tourism assets as never before.

As important as the increase in funding is to the state's tourism program, the increase alone does not count for effectiveness of the state's tourism efforts in recent years. In 1983, Governor obtained passage of legislative to transfer the state's tourism promotion and development program to the Economic Development Department. This move had several advantages. First, the state's economic development activities, as a whole, were improved by blending tourism programs with other economic development programs.

Second, the change bolstered the state's relationship with private and public sectors of the travel and tourism industry. Finally, this change provided representatives of Oregon's travel industry with access to overseas contacts previously established by the Department's International Trade Division. Led by the Tourism Division, Oregon travel representatives attended, for the first time, major travel trade shows in Berlin, Japan, and the United States. The Department organized the first travel trade mission to the Far East, and provides, through its Tokyo Office, important connections to travel representatives in Japan. And, for the first time, Oregon advertising appears in foreign travel publications, and Oregon travel information is printed in foreign languages.

Under this aggressive ~~strengthen~~ state tourism program, fostered by Governor Atiyeh, the tourism industry is making an unprecedented effort to reach new travel markets. With this leadership, Oregon tourism can be assured of continued growth.

MAKING GOVERNMENT RESPONSIVE TO BUSINESS

Overcoming Oregon's poor business reputation meant convincing investors that Oregon was, in fact, a good place to conduct business. The state had a number of features to offer ~~investors to~~ new or expanding businesses, such as its tremendous natural resources, a skilled labor force, and one of the finest public education systems in the country. In spite of these very marketable assets, the state was still struggling to overcome its image as anti-business. A persistent national reputation proclaimed Oregonians as staunchly anti-development, ~~and~~ Combined with an often difficult regulatory process, this reputation would have investors looking elsewhere.

Governor's Economic Action Council

Turning around this reputation required Governor Atiyeh to become personally involved in assisting businesses to locate in Oregon. He recognized that Oregon, and specifically Oregon state government, would have to demonstrate that the needs of investors would be given special attention. Perhaps most frustrating to businesses considering Oregon as an investment site was the myriad of regulatory agencies and processes required before a business could open its doors. A single development project c would fall under the regulatory scrutiny of a variety of state agencies, including the state's Departments of Environmental Quality, Commerce, Economic Development, Land Conversation and Development, Revenue, and other agencies as well. To be truly competitive in in attracting business to Oregon, state government would have to assist businesses through the regulatory process.

In response to this need, Governor Atiyeh conceived and established his Economic Action Council. The Action Council is chaired by the Governor's Executive Assistant and is comprised of various cabinet-rank agency heads. The actual composition of the council is tailored to suit the needs of individual companies, but the goal, in each case, is the same: provide businesses with instant access to authoritative information to aid them in their business decisions. The Action Council can be convened on short notice to explain specific regulations, help overcome particular obstacles and, in general, to educate businesses on doing business in Oregon. This unique council has greatly assisted the economic development in Oregon by:

* Providing to businesses the specific information they need in a matter of days, not weeks or months;
* Offering assistance and insight to the state's regulatory process;
* Establishing an important and positive business/state relationship

The Governor's Economic Action Council demonstrates to businesses that it no longer must take a "back seat" to other priorities of the state. When necessary, Governor Atiyeh has made himself available to ~~talk with~~ business representatives, at their convenience, to personally discuss their concerns. The Governor's personal attention to business needs, reflected in his creation of the Action Council and his willingness to meet potential investors, is a strong signal that Oregon truly is "Open for Business".

Land Use Planning

Oregon's poor business reputation was due, in great part, to its unique and stringent land-use planning process. Designed to preserve Oregon's many natural resources, the land-use legislation required jurisdictions to protect such local resources from unnecessary industrial and residential intrusion. Although not wanting to limit these protective measures, the Governor recognized that steps had to be taken to both improve the legislation and to give economic development a niche in the planning process.

Acting on the recommendations of his Land Use Task Force, Governor Atiyeh introduced legislation in 1983 that made significant changes in the state's land-use planning process. Two changes were of special importance to the state's economic development efforts. First, the state's land use planning goals were ~~to be~~ amended to better accommodate the economic development needs of the state. Second, this legislation established time limits and procedures for review of land-use plans -- thus preventing developers from facing open-ended and unfair timelines in land-use conflicts.

Oregon's land-use process provided the Governor with an opportunity to create a new service for businesses. Recognizing that virtually every acre of industrial land in the state had been identified in the land-use process, Governor Atiyeh established, in 198 , the Industrial Property Inventory program, administered by the Economic Development Department, the program allows private and public parties to submit information on sites available for industrial use. Potential investors can then contact the Department, and be provided with a list of sites suited specifically to their needs. All sites and building listed in the inventory have been properly zoned and designated for industrial use in local land-use plans. Since its creation, the program has responded to ~~over~~ 435 requests for information. When complimented with this property inventory the land-use process, rather than an inpediment business, represents a faster, easier road to site selection.

Repealling Unitary Method of Taxation

In his trade missions abroad, the Governor learned that Oregon's unitary methods of taxing multi-national corporations was directly related to the state's inability to attract foreign investors. Under this method, taxes for corporations were assessed not by corporate profits in Oregon alone, but also with consideration to profits worldwide. Large foreign corporations, particularly those in the Far East, had made it clear to Governor Atiyeh that Oregon could not be a contender for foreign investments until this method of taxation was removed or changed.

Acting on this belief, Governor Atiyeh convened a Special Session of the Oregon Legislature in 1984, and secured a repeal of the unitary method. It was estimated the repeal would cost the state $15 million dollars a year in potential revenue from multi-national corporations. Significant investments by foreign investors, however, can more than offset the state's loss in revenue, by providing additional revenues from corporate income taxes, personal income taxes, and property taxes. In 1984, when foreign companies announced investments totalling $370 million, the taxes from these corporations were expected to exceed the loss of revenues when the unitary taxation method was repealed.

Repeal of this method, therefore, is not only good business sense, but may create for Oregon a far greater source of revenue.

INTERNATIONAL TRADE

Since 1979, Oregon's standing in the international trade arena has been growing and becoming ever more significant. The state, possessing sea ports ready to serve Pacific Rim countries and a wide variety of natural resources and manufactured products to export, always has been ripe for heavy international trading. Until Governor Atiyeh assumed office, however, its potential in international markets had not been fully tapped. Departing on a series of trade missions, Governor Atiyeh sought to increase Oregon's visibility in international trade circles and to introduce Oregon businesses to new markets. Moreover, he demonstrated to foreign trading partners Oregon's firm desire to further its trade overseas. Because of these efforts, Oregon no longer is an incidental player in the international markets -- it has become, with Governor Atiyeh's leadership, a full fledged trade partner.

Trade Missions

None of the Governor's economic development activities have generated as much interest in Oregon as his trade missions abroad. To some, these missions were viewed with the skepticism that greets many political junkets. Yet, these missions were much more than superficial ~~trous~~ tours in foreign countries. Governor Atiyeh embarked on these missions with real expectations. With these missions he wanted to stimulate interest in Oregon as an investment site, to increase Oregon exports, to encourage greater use of

Oregon Ports, and to promote Oregon as a tourism destination. These missions, in other words, were designed to improve Oregon's overall world trade.

Ordinarily, such trips would not produce immediate results, but already the success of the missions is evident. International trade with Pacific Rim countries has been increasing steadily in recent years. Following one trade mission, Oregon's trade with Japan, Korea, and Taiwan -- its three largest trading partners -- jumped over one billion dollars between 1983 and 1984. More and more Oregon products are being introduced into foreign markets. In addition, three Japanese corporations, NEC America, Epson America, and Fijutsu American have begun construction on plants in Oregon -- only after Governor Atiyeh encouraged them to locate here.

Credit for the success of the missions rests primarily with Governor Atiyeh himself. His participation was essential to ensure that trade missions provided other Oregon mission members with the type of contacts that would quickly generate further trade. Those who accompanied Governor Atiyeh discovered his presence meant instant access to the highest governmental and corporate levels in foreign countries -- access that usually took months to arrange. Moreover, by travelling overseas, Governor Atiyeh could convince foreign trade countries that Oregon's commitment to, and desire for, ~~exported~~ trade relations originated with the highest office in the state.

Maintaining the Ties

Once Governor Atiyeh had established a greater foothold in the Far East, it was essential that Oregon preserve this advantage. For this reason, the Governor supported the creation of a Japan Representative Office in Tokyo. The mandate of the Tokyo office is to serve state interests in four areas: trade, investment, tourism, and education. As a reliable source of information on markets in the Far East, and as an important guide to Oregon businesses, the Japan office is well-suited to increase Oregon's trade volume. Just as important, the office in Tokyo provides valuable information to those Japanese businesses who want to learn more about Oregon. The individual cases below are typical of the services provided by the Tokyo office:

* Trade mission group representing Coos Bay and North Bend areas requested and received appointments with wood products, metal fabrication, and fish contacts due to the efforts of the JRO.
* Japanese lumber importer requested introduction to several Oregon lumber firms and signed contract with Portland-area firm to receive 40 MBM of lumber per month.
* Japanese importer and Portland-area recycler entered into an agreemtn where 300 metric tons of plastic scrap material per month be shipped to Japan.

Important as the Japan office is to Oregon, it alone is not enough to sustain our presence in the Far East. Yet, Oregon can be assured of a continued visibility among Pacific Rim countries. Governor Atiyeh was instrumental in the creation of the Oregon-Korea Economic Committee. This committee was created to further business and economic relations between the two trading partners. In addition, the Governor established Sister-State relationships with other Pacific Rim partners, such as Japan, Taiwan, and the People's Republic of China, to foster cultural understanding and, ultimately, provide a basis for continued trade.

In 1977 one out of nine manufacturing jobs in Oregon was tied to international trade. Today, that ratio has grown to one out of six. Oregon now ranks eighth among the states for manufacturing jobs tied to exports. The Governor's support for measures, here at home, will ensure that Oregonians can count on international trade activity. Oregon manufacturers now can receive specific how-to information for exporting their products abroad. Oregon farmers and other potential exporters have been introduced to invaluable trade shows and business contacts overseas, with the assistance of the state's Economic Development Department. Behind the leadership of Governor Atiyeh, the state has assumed an aggressive role in fostering Oregon's international trade.

Governor Atiyeh has faced the largest and longest economic recession Oregon has had since the 1930s. The recession of the 1980s created a larger change in state revenues and expenditures than occurred during the Great Depression. At that time, the state's primary source of revenue was the property tax base. By 1940, when the state's property tax base was eliminated, income tax became the state's primary source of revenue. With the drop in personal income in the 1980s, losses in state revenues far exceeded those in the 1930s.

The recession hit hard in early 1980, even after the Governor proposed and worked for the adoption of the tighest state budget in decades. During the 1981 and 1983 legislative sessions and throughout a series of special sessions, the Governor sought to preserve only the absolutly essential state services. This stable essential service base has become a key to the gradual recovery we are now enjoying.

Two decisive steps by Governor Atiyeh complimented his maintenance of an essential service base, each one a bold move to reorganize Oregon's tax system. To accelerate economic development in the state, the Governor led the drive for revision of the state's unitary method of corporate taxation. This tax change enhanced Oregon's attraction as an investment site. To accompany this change, Governor Atiyeh sought additional incentives for prospective industry and business through development of a sales tax structure, a new system that allowed for property tax reductions while simultaneously guaranteeing stable funding for Oregon schools.

UNITARY METHOD OF TAXATION

In July 1984, Governor Atiyeh called a special session of the Oregon Legislature. The critical result from this session was a House Bill modifying the unitary method of corporate taxation in hopes of spurring increased economic development in Oregon. The unitary tax is a method of taxing multinational corporations that takes into account their world wide earnings, as well as in a particular state.

Prior to 1984, Oregon was one of only twelve states subjecting multinational corporations to the unitary method of taxation. During his trade mission abroad, it became clear to Governor Atiyeh how costly this form of taxation was to the state. Prospective investors into the American economy consistently directed their efforts away from Oregon as a specific reflection of the unitary tax. In addition, our reputation as a "closed state" undetermined efforts to attract new businesses; throughout the 1970s, Oregonians flaunted such blustery maxims as "Don't Californicate Oregon" and "A nice place to visit but you wouldn't want to live here." Together, the unitary method of taxation and the state's poor business reputation were strong disincentives to those firms searching for investment locations.

The 1980s brought a recession and consequently, hard times to the Oregon economy. Two of the state's staple industries, timber and housing, suffered drastic declines. Since the recession was precipitated by national international conditions, Oregon was helpless to counteract the impact of the recession on its primary industries. It was clear that in order to fully recover from the recession, Oregon would have to encourage foreign investment and diversify its economy. In the face of this crisis, Governor Atiyeh spearheaded legislation to rescind the unitary method of taxation, thus removing the single element of the Oregon business climate most repugnant to foreign investors.

The business climate in Oregon today, is a far more open one. And, as the doors of Oregon's economy open hundreds of millions of dollars in investment are flowing through it. Foreign corporations, no longer impeded by the unitary method of taxation, have brought with them thousands of jobs for Oregonians. In turn, the state's lush surroundings, its proximity to the Silicon Valley, low housing costs, and highly skilled labor force are now accessible to these firms. So attractive has the state become to foreign investment, particularly high-technology firms, that Oregon's own Washington County is becoming known as "The Silicon Forest." This change would not have occurred without Governor Atiyeh's aggressive efforts to revise Oregon's tax system.

SALES TAX

Governor Atiyeh faced a difficult task during the recession of the early 1980s, to respect the financial burdens of Oregonians in the short run while spurring statewide economic development in the long run. The Governor, therefore, developed a plan for a balanced tax system which would provide tax relief for Oregon citizens and tax incentive to industry and business.

The new system revolved around the introduction of measure #1, referred to the people in 1985. The measure was a call for a statewide five percent sales tax to provide tax relief for Oregonians. The new source of revenue would allow property taxes to be reduced by an average of 35 percent and personal income taxes to be reduced by nearly 10 percent. In addition, the system would provide property tax relief for renters. The sales tax would protect low income citizens because no sales tax would be levied on such necessities as food, rent, utilities, and medical costs. A partial sales tax refund would be developed for low income households with annual salaries of up to $17,500.

The sales tax was designed not to be a new tax, but to be a new way of collecting taxes which would not increase the total net tax collection. Actually, the measure called for strict limitations on the future growth of taxes. The sales tax rate would be locked into the Oregon Constitution subject to change only by a majority vote of the citizens. In addition, a tight reign would be placed on property taxes, limiting schools to a three percent annual property tax increase. The measure would not allow for any local sales taxes to be imposed and state spending limits would be tied to the growth of personal income.

Just as important, a sales tax would provide for stability in Oregon's public schools and community colleges by providing a tax base for schools, dedicating sales tax revenues to schools and removing the threat of closure. The tax base would limit schools to three percent annual property tax increase so that schools could not burden voters with excess tax levies.

In addition to relieving the two major tax burdens and stabilizating school funding, the proposed tax had another important benefit. The development of a sales tax , along with the repeal of the unitary tax, would be crucial in Oregon's drive for new investment and thus crucial to Oregon's economic development. It was understood that the measure would act as a tax incentive to business and industry interested in investing in Oregon since a balanced tax structure would alleviate the fear that some businesses would be forced to reduce employment during off-years in order to pay property taxes. New industry in Oregon would mean new jobs for Oregonians and new business for Oregon.

The time was ripe for this kind of tax overhaul. Meaningful tax reform could not have been instituted earlier during the recessionary years. Now, with a recovering economy, more diversified industries, and more Oregonians going back to work, the state was ready for a plan to instill fairness and stability in the Oregon tax system. Because his proposed sales tax plan would achieve these goals, and because it was the best plan he had seen in 27 years of working with taxes, Governor Atiyeh reversed his two decades of opposition to a sales tax and presented the plan first to the Oregon Legislature and eventually to the Oregon voters.

PROPOSED CONSTITUTIONAL AMENDMENT

FOR SCHOOL FINANCE

Under the current system of school, Oregon school districts are funded primarily by local property taxes. The system ensures that control of the schools is vested in local citizens. Yet half of the state's school districts, 133 of them, operate with inadequate tax bases and some have no taxes bases at all. The result is increasing referrals to voters for operating levies that if passed, increase the already heavy property tax burden and if rejected, can result in school closures. Governor Atiyeh's proposed constitutional amendment would eliminate this precarious situation by accomplishing the following:

It would update school and community college property-tax bases to the level actually levied for the 1986-87 school year. It would permit these tax bases to grow annually at a rate equal to the annual growth of per-capita personal income in Oregon. And, although it would prohibit "excess levies" over the tax base (except in emergencies defined by statute), the amendment would permit school and community college boards to seek new tax bases--but only once a year and only in May.

This amendment would improve a system of school financing that was established seventy years ago. Since 1976, our current, outdated system has permitted schools to close in eight Oregon school districts and has adversely affected 20,000 Oregon students. The Governor's proposed amendment is a common-sense updating of this antiquated system and is not, in the true sense, tax reform. Without introducing any new taxes, or increasing income taxes, the Governor has formulated a plan that would provide the property tax limits Oregonians need. And, like the proposed sales tax measure, the limits his plan would impose on property tax growth would be locked into the Oregon Constitution.

Changes in the Oregon tax system are the cornerstone of Governor Atiyeh's efforts to foster economic development in the state. Certainly, his attention to Oregon's traditional industries was an important element in the state's gradual recovery. The Governor lobbied aggressively in Washington, D.C. to obtain relief from federal timber contracts for Oregon lumber companies. At home, he was responsible for providing additional relief by adjusting the process on state timber contracts. These measures alone saved over 1,700 Oregon jobs in the timber industry. Governor Atiyeh recognized, however, that true recovery could not occur just by strengthening traditional industries. It was also necessary to expand the state's economy to include new, diverse industries. Enticing foreign investment became the key. With the elimination of unnecessary tax barriers to foreign investors, by offering plans for property tax limits, and by ensuring the soundness of Oregon's fine public education system, Governor Atiyeh has created an environment that will allow this diversification.

The State of Oregon is Oregon's single largest employer. It leases three million square feet of office space, operates 1,700 vehicles and employes over 37,000 people.

Government is big business and Governor Atiyeh has worked hard to make sure that Oregon state government operates in the efficient and productive manner demanded by modern business.

This attitude, combined with Oregon's economic recession during the early part of this decade, has led the Governor to lead the challenge to "do more with less" while still providing efficient service to Oregonians.

Efficiency has been enhanced, for instance, by organizational restructuring. Based on the "full-time equivalent position" index, state positions were reduced by 274 between 1979 and the current biennium. And if the 1,200 circuit/district court system positions which were added during the 1981-83 biennium were set aside, state employment was actually reduced by 1,474 positions during the first six years of the governor's administration.

Another example of efficiency is the creation of the Senior Services Division formed to consolidate the services of two formerly separate agencies, the Office of Elderly Affairs and the Long Term Care in the Adult and Family Services Division. The creation of this new division within the Department of Human Resources greatly simplified access to services for seniors and allowed local area agencies on aging to assume more responsibility for providing those services. Today the division concentrates on long-term care and "Oregon Project Independence" in an effort to provide necessary care and essential services in the least confining and most supportive environment.

Other examples of economic efficiency include the lowering of the legal limit of state employes. In 1981, the limit was set at 1.6 percent of the population. In 1983, that limit dropped to 1.5 percent. Today, the number of state employes, at 1.4 percent, is well within that limitation.

Spending in state government has also been kept in check. Governor Atiyeh has consistently managed to improve services to Oregonians without substantially increasing expenditures funded with General Fund tax dollars. In fact, if there had been no inflation, these expenditures would have grown less than one percent.

To further promote efficiency, the Governor has formulated a "productivity improvement program," which includes a variety of measures designed to save tax dollars and elevate employe commitment and camaraderie.

An integral part of this program is the "Employe Suggestion Awards Program" which solicits and rewards employe ideas for stretching and saving tax dollars. Enacted in 1979, the program makes cash awards to employes of up to $5,000 or 10 percent of the first-year savings that result from an idea. To date, the program has inspired more than 5,500 ideas of which more than 1,100 have been formally adopted. Since 1980, the state has paid approximately $90,000 in cash awards while saving taxpayers more than $2.5 million. The Governor recognizes the value of employe ideas to reduce costs and improve services in state government. The creative, innovative ideas of state employes have borne out the Governor's expectations.

The Governor has also introduced a number of programs designed, simply, to make government run smoother. A network of "quality circles" enabled employes and their supervisors to meet on a regular basis to solve problems and misunderstandings in the workplace.

Today there are more than 250 employes meeting in 35 quality circles in seven state agencies.

Another innovative measure involves contracting out government services to the private sector. This alone has enabled Oregon to eliminate another 240 positions from state government.

These are just two examples of programs designed to motivate state government employes to work more efficiently. Perhaps even more significant, however, has been the Governor's involvement with management service. In 1981, the Governor approved the introduction of legislation designed to create that level and was instrumental in getting it passed.

Prior to 1981, all middle-management positions were classified and, as such, difficult to terminate. These employes frequently contributed to bureaucratic inertia by looking beyond current administrations and by practicing familiar, sometimes worn-out methods. Because middle-management personnel are often crucial in the promotion and implementation of changes in government, management service was introduced to make the hiring and firing of these employes easier. The result has not been more terminations but rather, managers who have become more responsive to policy changes instigated by the Governor, the legislature, and top agency administrators.

Management is also given helpful attention. A regular schedule of state-sponsored workshops is offered where managers are given the opportunity to learn or update skills in areas such as time management, employe supervision and writing clarity. In addition, the "Management Service Recognition program" has been implemented to recognize those employes in management service who

who by their own initiative and ability excel in their work, their community activities or a combination of both.

Another way in which the Governor has helped state employes improve productivity is by providing efficient workplace equipment. Advances include word processing, computerization and teleconferencing. The latter saves 53,000 annual travel miles for hearings officers alone.

The state is also saving money on energy conservation. Since 1976, consumption of electricity has decreased by 9 percent and consumptiom of gas, oil and steam has declined by 32 percent. The overall reduction in energy use was 17 percent.

A concept borrowed from the private sector and utilized by the highway division is "Value Engineering." This is a way of reducing costs by identifying and using construction substitutes that do not compromise the strength, design, line, safety or contract time of a project.

Finally, as inter-agency organization becomes a priority, the administration is working to design a central inventory of employe skills to reduce time spent finding personnel with special expertise.