



Oregon State Archives

800 Summer Street NE

Salem, OR 97310

503-373-0701 ext. 1

sos.oregon.gov/archives

GOVERNOR I.L. PATTERSON ADMINISTRATION

January 10, 1927 to December 21, 1929

Governor's Message, 1927

Source: STATE OF OREGON Message Of I. L. Patterson, Governor To the Thirty-fourth Legislative Assembly 1927

Gentlemen of the State Senate and House of Representatives:

You have been favored with the able presentation of the message of Governor Pierce, in which he has given you the benefit of information he has assembled and convictions he has derived from his wealth of experience as chief executive of our state. His recommendations deserve our careful consideration, because they reflect a wide acquaintance with all the affairs of state and a thoughtful study of the problems of government.



As his successor, I can not make a contribution from experience so broad and comprehensive, but in accordance with the command of the Constitution of the State of Oregon it is my duty and my pleasure to present for your consideration a brief statement recommending measures and policies which, I believe, will make for the best interests of the state and increased prosperity of her people.

I appreciate very sincerely the honor which has been conferred upon me by my election as Governor of Oregon. I feel, however, that my election does not, in any way, represent a personal tribute, but that it has resulted from the demand of a majority of the voters of the state for a sound, economical, efficient administration of the work of the state—an administration founded on business principles and performed in a businesslike way.

You, gentlemen of the Thirty-fourth Legislative Assembly, were elected to the offices you hold as a result of the same desire for economy and efficiency which directed voters of the electors on November 2. Your presence here demonstrates the fact that the people of your districts trust you to carry out such a program. Your election and mine entail a definite mandate from the people—a mandate for carefully considered, thoughtful legislation, aiming at economy effected by the only possible means: namely, a reduction, through efficient management, of the cost of government. I hope that we may work together effectively and conscientiously throughout this session to discharge the responsibility which the people of the state have placed upon us.

Oregon has, through its state constitution and through the action of successive legislative assemblies, provided a body of laws which safeguards the rights of its citizens and which provides an adequate and efficient organization for the conduct of the business of the state. Legislation which finds a place in our statutes should embody fundamental principles and permanent values. Laws which apply only to temporary emergencies or local contingencies or which attempt to regulate in too great detail the activities of the state may tend to become restrictive rather than protective in nature. They may entail for their proper enforcement an organization so elaborate as to become in itself a burden. To my mind, therefore, the

legislative assembly now convening should concern itself primarily with strengthening, stabilizing, clarifying and improving the body of laws now in existence in Oregon, adding to them only such additional statutes as prove themselves to be of urgent present need and assured permanent worth.

TAXATION

No matter is of greater public concern than the laws regulating the levy and collection of taxes. Our present law is based on the theory that all property, whether real or personal, should be assessed at its actual value. Personal property which, by law, assessing officers are required to assess, has, however, carried only a small portion of the tax burden of the state. As a result of public opinion of such long standing as to establish a tradition, some personal property has escaped assessment and much has been given a low valuation.

If the assessment and taxation laws, as they now stand in our statutes, were fully and fairly enforced, as they should be enforced, and if the assessing officers of the state were supported by public opinion in placing a just and proper valuation on personal property, much would be accomplished toward equalizing the burden which now falls to heavily on real property.

The Thirty-third Legislative Assembly provided for a committee to study the questions of assessment and taxation, with a view of finding new sources of revenue and a fairer distribution of the tax burden. The report of this committee has not been in my hands for a sufficient length of time to permit me to assimilate properly the information it contains. I hesitate, therefore, to offer any recommendations until the members of your body, as well as myself, shall have had the full benefit which will be derived from a careful study of the report of the committee. I may take occasion to advise with you again, later in the session, on the question of tax legislation.

Careful consideration may prove that some amendments and additions to our present tax laws would operate beneficially, but I repeat my former assertion that the assessing officers of the state should, in no way, be released from their present duty fully and fairly to enforce the laws which now exist and which may be enacted, to the end that all personal property shall contribute to the public revenue on a basis proportionate to the demands imposed on real property.

BUDGET OFFICER

In our national government, the President is the budget-making officer. Likewise, in many states of the Union the Governor is the budget-making official. Under the laws of Oregon, the Governor now has the power to veto any appropriation made by the legislature, or any single item in any appropriations bill. I believe, therefore, that it is a logical delegation of responsibility to constitute the Governor the budget-making official for this state. This would place under his supervision the work of drafting the budgets for the various state departments and institutions, which is now carried on under the direction of the Board of Control. In this way the Governor would assume the sole responsibility for state expenditures—a responsibility which could be diverted only by the over-riding of his veto by a two-thirds vote of the two houses of the legislature.

In the housing of the wards of the state and in the custody of the delinquents and criminals, careful attention should be given to the visualization of these requirements for a definite future period. These anticipated needs should be ascertained and construction so timed and the cost thereof equitably distributed over the period that the burden may not fall heavily upon the taxpayers during any one year or biennium.

Budgets for all tax-levying bodies should be made with reference to a well-considered program covering a period of years, and not as though all of the improvements required in the state should be provided for in a single year. Appropriations made at each biennial session of the legislature should be made only as a part of such general program. As an example of appropriations made without their relation to a carefully developed

state program, your body, at each session, is confronted with a demand for armories from various sections of the state. A definite program for the erection of armories in the state would be a step toward economy and efficiency. At the present time, each locality which desires a new armory conducts its own campaign, and each application is considered on its individual merits, regardless of the needs existing in other communities. My suggestion is that a survey shall be made by the military authorities of the state, who shall consider the merits of the claims of cities petitioning for the erection of new armories in their proper relation to the requirements of the whole state. The different locations should be ranked in the order of the urgency of the state's needs. A future building program could then be shaped to care first for the most immediate and present needs, and to give consideration to the other cities in fair order, to the extent of the funds available for the construction of armories.

CENTRAL PURCHASING AGENCY

The State Board of Control now purchases all supplies for the state hospitals, the penitentiary, and a number of other state institutions. The institutions of higher learning, however, and a majority of the state officers, boards and commissions, purchase separately all supplies, furnishings and equipment. I am advised that a cursory examination of the prices paid for standard articles now used by the various state activities in many instances reveals a wide discrepancy.

Experience has proved that those institutions and activities of the state now required to purchase their supplies through the Board of Control do so to the financial advantage of the state. I, therefore, urge the enactment of a law which shall authorize the centralization of all such purchases within the existing Board of Control, already effectively functioning, or in a body to supplant that agency with broadened powers and duties. I believe such a policy will result in a material financial benefit to the state, through the application of the same wisdom in the conduct of state affairs as any private corporation accords to the conduct of its business. Centralization, in this instance, will not embarrass or materially restrict any of the state functions now existing under the law, and will prove logical and desirable in the interests of efficiency and economy.

SELF-SUSTAINING ACTIVITIES

Realizing that a multitude of funds not only added to the complexity of the state's finances but permitted available moneys to lie idle, while, for the functioning of some of its activities the state was, in effect, compelled to pay interest on borrowed moneys, the 1915 session of the legislature enacted a law diverting into the general fund all moneys collected for state purposes by state and county officers, with the exception of such moneys as are paid into the state treasury for fiduciary purposes or required by law to be placed to the credit of certain trust funds.

While the operation of this law at various times has relieved the state of paying interest on general fund warrants, further benefit, I am convinced, may accrue to the state by directing that a proportion of the moneys so paid into the state treasury shall become a part of the general fund of the state and available for the payment of the general expenses of the state. IN the administration of the laws imposing licenses or other fees, and in the operation of the activities for whose benefit such moneys may be used, the state is put to a considerable expense for service, for which it receives no remuneration. The cost of this service is absorbed or included in the expenses of those functions and activities of the state which are supported by legislative appropriations from the general fund revenues. It would seem reasonable and logical, therefore, that the state should be reimbursed for additional outlays in connection with the functioning of such of the activities of the state as are maintained from such receipts.

Action of this kind on the part of the legislative body will not embarrass or curtail the activities of any such state functions, but, by the diversion of a small portion of such receipts, will contribute to that necessary financial relief now so important, and will, in a measure, aid in relieving the state of an existing deficit.

A bill was submitted to the people at the general election of November 2, 1926, providing for the payment of a portion of the fees, licenses and taxes collected by the state into the general fund. It failed of approval, I am convinced, from lack of a proper conception of its purposes, and because of the high percentage of receipts required.

Your careful and serious attention is directed to this proposal, to the end that the finances of the state may be improved without embarrassment or hindrance to any of the existing functions of government, or without increasing any fees, licenses and taxes imposed and collected under the existing laws of the state. In this way no duties will be imposed on any department of state without remuneration.

BRANCH OFFICES

I am not sure that the interests of the state are being best served by having maintained in Portland branch or separate state departments, but if it is necessary, as shown by proper investigation, to maintain such state activities in Portland, they should, in the interest of economy and public convenience, be confined to one building, or to fewer buildings than are now occupied. The State Board of Control should have authority to contract for all space leased to house state departments.

PENITENTIARY

A public or private institution can not function efficiently unless its administrative officers have a reasonable degree of security and permanence of tenure. We have witnessed the appointment and removal of six wardens at the state penitentiary within a period of six years. No private business could prosper with an annual change of management, no matter how able the managers.

In the interests of economy and efficiency, I ask that you place the state penitentiary under the direction of the Board of Control, which now has the management of other state institutions. I advocate this policy to the end that the management of the state penitentiary may be removed from politics; that the tenure of its administrative officer may depend solely on merit, and that efficiency may be the only consideration in the conduct of this institution.

The penitentiary is now so crowded that the prisoners can not be properly segregated, and, as a result, young who have been committed for their first offense against the law are in close and constant contact with hardened and habitual offenders. When the boys' training school near Woodburn is finished and the present property near Salem now used by the training school is no longer needed for the purpose for which it was acquired, provision should be made, by legislative enactment, if necessary, for the use of this latter plant in connection with the state penitentiary. This would provide a means whereby those who are not hardened criminals may be segregated and given opportunity and encouragement for such reform and training as will tend to make them useful and law-abiding citizens on their release.

The parole board should be abolished and recommendations for the parole of prisoners should be made by the Board of Control.

EDUCATION

No aspect of the development of Oregon is more important than that which has to do with education. Here we invest not in our present prosperity but in our future welfare and stability. The state can not neglect its education interests without immediate and apparent detriment to its well-being.

Oregon has invested generously in public schools. We have kept step with out neighboring states in steadily raising the standards of school equipment, scholastic requirements, and teacher training. We have in the last twenty-five years added to our elementary schools two hundred and sixty standard high schools. If the

inculcation of a desire for further knowledge is a sound criterion of the success of elementary education, and I believe it is, then Oregon's educational efforts are bearing fruit, for Oregon ranks fourth among the states in the percentage of eighth-grade graduates who continue their education in the high schools. Oregon also stands high among the states in the number of high school graduates who enter college.

There should be no disposition to decrease this present hearty support of education in Oregon. In so far as is consistent with a policy of sound economy, educational support should be maintained and increased. The people of the state, themselves, demonstrated their approval of a progressive school policy when they added, through popular vote, a third normal school to the teacher training institution of the state.

No retrenchment should be made which will interfere with the efficiency or retard the progress of our school system. Economy in education should be practiced only as it can be effected through a business-like and efficient treatment of the problems of school finance. The high standards of our public schools and institutions of higher learning must be maintained.

Recently the people have been informed as to the peculiarly distressing financial condition of the state. The legislature approaches its task with limited resources from which to make appropriations—resources which are now heavily burdened by necessary obligations authorized by the emergency board and resultant from an insufficient tax levy. Many much needed appropriations must fail unless your body provides for new sources of revenue or for a temporary diversion of state funds.

If the legislature finds it impossible, with its limited resources, properly to furnish the financial requirements of our institutions of higher learning, it may be necessary to resort, for a time at least, to an increase in the tuition fees charged by these institutions.

IRRIGATION

I quote from a statement which I made during the political campaign of last year:

“The irrigation question in Oregon is not apolitical one, and the solution of the problem will require careful, intelligent and sincere study and action to the end that the farmers on the irrigation projects may not be penalized for their industry, confidence in the state and show of good faith.

“We should see that the farmers now on irrigated lands who have shown their good faith are fully protected. Those farmers who are making or have made good their obligations to the irrigation districts and who are contributing to the productivity of the state, should be given the benefit of every possible means of protection.

“In some of the irrigation districts many of the settlers have suffered undue hardships and dire misfortune, due to improper organization of districts and to the activities of unscrupulous speculators, The next Legislature should, in so far as possible, provide legislation for the reorganization and restoration of the unsuccessful districts. However, the taxpayers of the state, outside the irrigation districts, are not responsible for the unfortunate conditions that exist, and must not be called upon to pay more interest on bonds, other than those for which the state is already obligated, or to make good the losses.”

The constitutional amendment providing for the guarantee by the state of interest payments on irrigation district bonds should be repealed.

I would welcome legislative action in keeping with the above-stated policy.

REFORESTATION

While the timber supply of Oregon will furnish lumber for the needs of the state and a large payroll for a number of years, yet immediate action should be taken looking to the reforestation of lands suitable for that purpose, that water sources may be protected, that the timber supply of the state may be continuous, that labor may be employed, and that the tax rolls of the state may not suffer when the present mature timber is removed.

A committee to study the question of reforestation and report to you was provided for by the Thirty-third Legislative Assembly, and the report of this committee, like that of the committee on assessment and taxation, has not been in my hands for a sufficient length of time to warrant my discussing its recommendations at this time.

I submit to you that legislation should be enacted that will encourage and promote reforestation by private owners on lands from which the timber has already been removed, and which will insure continuing reforestation of logged-off areas.

THE WORKMEN'S COMPENSATION LAW

The workmen's compensation law became effective over twelve years ago, and it is gratifying to note that since that time there has come, through the actual operation of the law, an increased recognition of the benefits of such a system of protection to injured workmen and their dependents.

The compensation law has been amended and improved by action of the several legislative sessions since the passage of the original act in 1913, and during these same sessions the members of the legislature have been called upon to consider a number of conflicting measures respecting the workmen's compensation law.

It seems apparent to the casual observer that the law as now administered has brought about an amicable relation between employees and employers; a relation which reflects improved industrial conditions.

The Thirty-third Legislative Assembly authorized the appointment of a committee composed of members of each house of the purpose of making a thorough investigation of workmen's compensation laws, with instructions to report a bill at this session containing such amendments or changes in the present act as it may deem essential.

At this time I am not familiar with the recommendations of this committee, but commend them to you for your careful consideration.

SALARIES

I respectfully suggest that you submit to the people for their consideration at the next general election a constitutional amendment which will provide that no increase in the salary of the elective officer of the state or county shall be made effective during the term for which such officer is elected.

HIGHWAY

An efficient and well-considered highway program has a direct bearing upon the prosperity and progress of a state. Conservative road construction in Oregon should continue; the roads already built should be maintained, and the bonds be retired as they mature. There must be no hasty legislation which may interfere with this policy. In my opinion, this program can be carried out with less present cost to the countries and eventually less cost to motorists. The increase in the number of cars and the resultant increase in revenue from this source should make possible for the state to bear the full burden of acquiring rights of way and constructing all state roads without requiring the assistance of the counties. This plan, I submit, should be

adopted, but should not be so construed as to relieve any counties of obligations now due for past advances of money or work by the State Highway Commission, or to interfere with any existing contracts.

When relieved of the necessity of contributing to the expense of state highway construction, county courts will be able to give much needed attention to the more remote roads, to the end that rural residents may, at all times of the year, have easy access to market places.

State highway activities must always be supported by the state highway fund. There should never come a time when a property tax will be required to maintain our state highway program.

The construction of the proposed and partially completed Roosevelt Highway is of paramount importance to the coast counties and, indirectly, to the whole state. Its completion should be expedited as rapidly as funds can be made available for this purpose.

ADMINISTRATION OF THE MOTOR VEHICLES LAWS

Whenever any function of the state government associated with an existing department reaches those proportions where it requires the attention of the administrative officer to an extent that makes it impossible for him to give the necessary attention required to all of his duties, then division of the work is advisable. This policy was followed with respect to the regulation of insurance organizations and corporations.

The details in connection with the administration of the laws relating to the licensing and regulation of the operation of motor vehicles upon the highways of the state have now reached such proportions as to necessitate the separation of such duties from the present duties of the Secretary of State. The creation of a separate department appears desirable. The work is of such magnitude and importance as to require the entire time and attention of a separate administrative officer. The duties will not become less in the future; in fact, they will materially increase from year to year.

In the creation of a separate department for this important duty, full authority for the appointment of all officers deemed necessary for the proper patrol of the highways should be included with the administrative duties. Administration included licensing and regulation; these two duties are not well separated without weakening one or the other side of the task. By vesting the administration and enforcement of the motor vehicle laws to his state in an official to be appointed by the Governor, control is retained of the enforcement officers that may be appointed so that in the event it may be desirable at times that they be assigned to other duties necessary in maintaining the peace of the state they may be readily and speedily assigned thereto.

The creation of a separate department should be so timed that the transfer may be made at a season in the administration of the work that will permit this to be accomplished with the least interruption and inconvenience to the departments affected.

I recommend the repeal of that provision of the existing motor vehicle laws imposing an additional license fee of 50 per cent on "motor vehicles not common carriers, * * * and used for commercial purposes in the business of selling and/or delivering goods, wares, merchandise, materials or any articles of commerce" under certain conditions, for the reason that such law includes within its scope motor vehicles of many of the residents of this state which it was not the intention of the originators of such a law to include, and for the further reason that the difficulties of administration are such as to preclude a fair and equitable enforcement thereof.

Those existing laws having to do with certificates of title to motor vehicles and the regulation of headlight devices upon motor vehicles operated in this state, I am respectfully referring to you for such amendment or

adjustment as, in your conclusions, shall best serve the interests and welfare of the people of Oregon, taking into due consideration the character of the vehicle, the celerity with which it is desired to transfer the ownership thereof, and the condition under which its operation on the highways of the state should be directed and restricted.

In a number of the states similar laws have been enacted with the object of finally securing uniform laws in all the states relating to these two subjects.

MUNICIPAL OBLIGATIONS

An expanding conception of the function of government has brought about, within the last twenty-five years, an enormous increase in the number and complexity of activities and institutions maintained for public benefit and supported by public revenue. To obtain the desired and necessary public improvements, whether they were highways, streets, bridges, or public buildings, the credit of the state, the county and the municipality has been largely employed, thus placing upon future years a portion of the cost of immediately obtaining desired or necessary public benefits.

Under the constitution of Oregon, the credit of the state may be pledged to the extent of 11 per cent of the assessed value of the total property thereof. In addition, the counties of the state may pledge their credit for an amount not in excess of six per cent of the assessed valuation of all property therein. There is no provision of the state constitution limiting the indebtedness or the extent to which a municipality may pledge its credit for the accomplishment of any of the purposes of such municipality authorized by its charter as adopted by the legal voters thereof.

Following the adoption of the home rule amendment by the people in 1910, granting power to cities and towns to enact and amend their municipal charters, there has resulted an era of issuing bonds, not only on the part of the cities and towns of the state but of the state itself, the school districts and other municipalities existing under authority of law, until their total bonded obligation or pledges of credit aggregate well up to \$200,000,000.

We can turn, for example, to a certain city of the state where, if the obligations of the state, the county, the port district and the school district were prorated in the proportion that the assessed value of the property of such city bears to the assessed value of the property of the state, the county, the port district and the school district within which it is situated, it would be found that every parcel of property therein would be carrying a bonded obligation of 22.15 per cent of its assessed valuation for the year 1925. In the case of another city, the property of the residents thereof would be found to be carrying a bonded obligation of 63.27 per cent.

A condition such as outlined gives us cause for serious thought as to the ultimate result of our present system, which permits municipalities to pledge their credit, without regard to the fact that other overlapping divisions may also pledge their credit, which is based on the same property, to an unlimited extent. In addition, the county may pledge its credit for a sum not to exceed six per cent and the state another 11 per cent of the assessed value of the same property. I urge you to give careful consideration to the advisability of imposing some supervision over the bonding activities of the various agencies to which is extended the privilege of pledging the future credit of the property of the state. It appears to me most necessary that a program shall be formulated whereby the different bonding agencies shall guide their activities, not independently but with reference to other obligations which must in the future be safeguarded by the same property which they propose to utilize as a pledge of credit.

FINANCIAL DATA REQUIRED

The financial affairs of the state, the counties, the municipalities, the school districts, the irrigation and drainage districts, and other civil divisions of the commonwealth are administered without any relation whatever to each other. Under existing laws no financial or other data respecting the state and its political subdivisions are secured and compiled for public information. Consequently no such data are available.

As an understanding of the finances supporting any activity or undertaking is imperative for its intelligent administration, I am impelled to the conclusion that the state may wisely and profitably, for the benefit of its citizens, as well as those entrusted with the administration of public affairs, authorize the placing of funds at the disposal of the executive for the purpose of securing such data and information respecting the state and its various civic divisions as, in his judgment, may be deemed advisable.

The importance of the finances of the commonwealth and its many subdivisions is not to be underestimated, and, unless there is available true information upon this subject which may be applied in the conduct of the financial affairs of the state and its civil divisions, we may be inadvertently led into a more or less chaotic financial condition. The appropriation of a reasonable amount to be expended under the direction of the executive, will, I feel confident, result in large benefits, and my object in presenting this matter for your favorable consideration is that I may have correct information upon which more intelligently to base the discharge of my official duties.

In all that may tend to accomplish the ends I have touched upon in this message, and in any other legislation which promises to promote the stability and progress of Oregon and the well-being of her citizens, I tender to you my hearty cooperation. I stand ready, at all times, to advise with you and to work with you that the proper functions of the executive and legislative departments may operate together harmoniously and effectively in worthy service to the state.

I.L. PATTERSON

Governor's Special Message, 1927

Source: State of Oregon SPECIAL MESSAGE Of I.L. PATTERSON, Governor To the THIRTY-FOURTH LEGISLATIVE ASSEMBLY February 2, 1927

Gentlemen of the State Senate and House of Representatives:

You are convened in joint session today pursuant to my request directed to the President of the Senate and the Speaker of the House of Representatives that you be so assembled. My wish that I be accorded the courtesy of hearing by this body was prompted by a desire to place before you, in accordance with utterance made in my inaugural message, observations which I have assembled concerning tax measures which have been presented for your consideration, and convictions at which I have arrived after a thorough and conscientious scrutiny of every aspect of such proposed legislation.

I am informed by the ways and means committees that notwithstanding their careful consideration, and even relentless paring of appropriations proposed in the budget, expenditures for conducting the varied governmental activities of Oregon for the ensuing biennium will exceed the revenues at present anticipated from all sources by approximately three million dollars. This estimate, moreover, is reached by eliminating virtually all building enterprises, except those necessary to carry out the expressed desire of the people for a new normal school and a tuberculosis sanitarium in Eastern Oregon.

The condition thus outlined is one that you, as members of this legislature, have, no doubt, foreseen, and I believe it has given you the same deep concern that it has given me.

It is known to the members of your body that this unsatisfactory condition has been brought about by a combination of circumstances and policies, none of which was directly intended to produce such a dire

result. We have witnessed the defeat by the people of measures devised to add to the revenue of the state at the same time that other measures increasing the expenditures of the state were approved by the people.

The people have also put certain limitations on the power of the legislature to increase and regulate taxation.

An amendment to the constitution adopted not many years ago forbids the legislature to attach an emergency clause to any bill regulating taxation.

Another amendment prohibits any tax-levying authority from increasing the revenues raised by taxation in any one year by more than 6 per cent over the revenues raised by taxation in the preceding year.

The effect of the first named amendment is that no matter how pressing the emergency may be for a new regulation of taxes, the law designed to meet the emergency must await a lapse of ninety days before it becomes effective.

It is not a criticism of our people to say that no element or group thereof rejoices over an increase in taxes applying to that particular group or element.

Because of the present high level of taxes levied for state and local purposes, there is plausible argument to be found why any new or special tax should not be imposed upon a particular class of property or upon the right of any profitable activity to do business. It is still fresh in our recollections that new tax revenue bills were adopted by the preceding legislature, were halted in their application by use of the referendum and were defeated by the people in the next ensuing general election.

As for the 6 per cent limitation amendment to the constitution, its inhibitions may apply to any revenues that may be provided by resort to new taxation. In other words, the prospective deficit of \$3,000,000 for the ensuing biennium takes into account the maximum tax levy for state purposes possible under this provision of the constitution. I call your attention at this time to the further fact that under this provision of the state constitution the 6 per cent limitation on increase in tax revenues may be exceeded when such excess is approved by vote of the people, and does not apply to taxes levied to pay bonded indebtedness or interest thereon.

The state, it is true, has two major sources of revenue. One is taxation, safeguarded and limited as I have outlined. The other is a group of miscellaneous revenues, including fees, licenses, excises, and the like. It has been assumed—and I believe correctly—that measures regulating miscellaneous revenues are not restricted or limited by the two provisions of the constitution which I have cited.

But, in considering new possible sources of revenue, the question always arises as to whether they are in fact regulations of taxation, as meant by the constitutional restriction on the use of the emergency clause, and likewise whether their revenues would fall within the 6 per cent limitation. If defined as tax measures, they offer no relief from the prospective deficit, for tax revenues may not, as I have said, be increased beyond the amount already levied or anticipated for the ensuing two years. They would serve only to shift taxes in part from one source to another.

To retire the deficit by the process of increasing miscellaneous revenues means that not one but several new subjects must be tapped, or the revenues from present miscellaneous sources be increased. It is, I am convinced, not feasible to impose the entire burden of the deficit upon a single business, upon a single industrial or professional group, or upon any single activity. To meet our difficulty by this method requires that a group of companion measures be adopted. They must all withstand the scrutiny of the constitution as to whether they come within its restrictions on taxation; they must not be unduly depressive on business or industry; they must not be discriminatory as to person, firms or corporations engaged in the same line of

business or manufacture; and they must not be oppressive in point of administration, either upon the state or upon the subject taxed.

It is possible, if we consider only the matter of revenue to be derived, to devise a set of companion laws which will, by careful estimate, provide the additional money of which the state is in need. But I know of now group of revenue measures which will provide the necessary money and still meet the other requirements which I have enumerated. And even if a series of revenue measures which met these requirements could be devised, I doubt that this legislature would have the moral right to force them into immediate effect by use of the emergency clause, or that, as a matter of practical legislation, an emergency could be declared in the face of the combined opposition that these bills would arouse among those who would be called upon to pay. And without the emergency clause, appeals to the referendum would certainly follow, with a result that can not be foreseen.

In the category of miscellaneous revenue measures suggested for meeting the emergency are the following:

An impost on the fees and licenses collected by certain state boards and commissions.

A corporation franchise tax measured by a levy upon what is termed corporate excess.

A tax on moving pictures.

A tax on so-called luxuries.

A withdrawal of intangibles from the scope of the general property tax and the application of a special levy thereon.

The use of the market road tax for general fund purposes, and diversion of an equivalent amount from the highway fund to market road projects.

I commend to your attention the justice of a requirement that the state boards and commissions which are supported by fees and licenses imposed under authority of the state shall pay to the state the overhead costs created by the existence and functioning of these boards and commissions. I recommend the adoption of this measure, not essentially as a revenue device, but as a fair recognition of the principle that these boards and commissions should, in truth, be "self-sustaining." In that regard, I suggest payment to the general fund as a permanent practice of only such percentage of fees and commissions as shall reimburse the state for the expenses cause by the exercise of its duties as a sponsor for and guardian of the affairs of these bodies, except that I shall hereafter in this message qualify the foregoing recommendation as a temporary expedient.

The corporate excess tax, the tax on moving pictures and the tax on luxuries, do not fit into a well ordered, permanent system of taxation, such as we should try to achieve in Oregon.

The corporate excess tax is, in the final analysis, an income tax imposed upon one class, to the exclusion of all other classes. If strictly administered, its cost of application would be very large, and its annoyance and cost to the subjects taxed would be similar to the annoyance and costs occasioned them by the federal excess profits tax, now repealed.

Taxes on amusements and luxuries have been imposed by the federal authority only as emergency means of raising war revenues. They are not adapted, as I have said, to a well ordered system of taxation, and have, under the federal system, justly acquired the opprobrious name of "nuisance" taxes.

As regards these three measures, I wish to be understood as not condemning them outright as temporary devices for raising public revenues for which there is a dire and immediate need. In the absence of more permanent methods and more equitable methods of providing emergency funds, it may be necessary to adopt one or more of them. My hope is that we can agree upon a more permanent and equitable method of alleviating the state's financial condition.

The intangibles tax is an indirect method of applying an income tax to that class of property. It has been successful as a revenue produced in states which do not impose the income tax, but in its operation the tendency is for revenues derived from that source to fall off for the first few years from the sums that were raised by applying the general property tax to intangibles, but thereafter to show a yearly increase under intelligent administration, until the proceeds greatly exceed the proceeds derived by the older method. The intangibles tax, therefore, does not meet the need for immediate increased revenues, whatever may be its other merits, and moreover would fall within the 6 per cent limitation.

The proposal that the market road tax be diverted to the general fund and market roads be built out of general highway funds is a circuitous method of avoiding the 6 per cent limitation. If such a plan were to have favor, I see no reason why it should not be approached directly. A flat division of highway funds for general fund purposes would produce the same results. But at best it would be a temporary way out of the present difficulty. If we provide by temporary expedient for the present deficit, there is the same problem to meet two years hence. This is apart from the restrictive effect the measure would have upon the general road program.

There is, in fact, another circuitous method of avoiding the 6 per cent limitation, by the exercise of which the burden of the deficit would fall upon general property. The 6 per cent limitation does not apply to tax revenues raised for the payment of principal of or interest on state bonds.

The principal and interest of the major part of the highway bonds outstanding are paid out of moneys derived from automobile licenses and gasoline tax. I believe there would be no legal obstacle to a requirement that the state highway fund transfer to the general fund \$1,500,000 a year, and for the state tax commission at its next meeting to increase the general property tax by an equivalent sum to be used in retirement of state highway bond principal and payment of interest thereon.

I look upon this device as undesirable because of the increased tax obligation thereby imposed upon some classes of general property, and particularly upon agricultural lands which are now almost, if not quite, at the limit of their ability to pay. I suggest to you, however, that a drastic situation sometimes calls for drastic remedies. It may be a sound policy for a commonwealth to go into debt for permanent improvements, but it is unsound and disastrous for a state to run largely into debt for current running expenses. I believe you will all agree that the general property tax must not be increased except as a last resort. But the general property tax is now a major source of state revenue. If, through pride of opinion, or refusal to accept sacrifices, we divide into factions and through that division produce no form of relief, the necessity that government shall continue makes unavoidable the addition of greater loads upon the revenue sources that have once been established and which we have failed to assist in their plight.

I am coming to this legislature in the hope that it will, in its able counsel and assistance, help me to avoid the application of a drastic remedy—one which could virtually all be applied by exercise of administrative power.

I have sought diligently for some plan of taxation which will spread the needs of the present emergency equitable among all classes who have ability to pay. I am convinced that such a plan is the only plan that ought to merit to be considered. I have explained to you the obstacles in the way of adopting any fair system of increasing miscellaneous revenues; and I have explained to you my opposition, which I believe is yours, to the singling out of general property for increased taxation. Every avenue I have approached has finally, by

devious courses, led back to one plan or scheme which meets the situation. I present it with reluctance, for the people of Oregon have several times expressed their views on this form of taxation and on only one occasion, and then by a majority of less than one thousand, approved it, only to reverse their will at the first opportunity offered.

I would remind you that in the election last November there was presented to the people an amendment to the constitution declaring it to be the policy of Oregon that no income tax should be adopted by this state for fifteen years. That amendment was overwhelmingly defeated. I believe it was defeated because the people of Oregon feared that an emergency might arise within fifteen years which would involve the state in unpleasant consequences if this form of taxation were precluded from consideration.

I come to you with the conviction that the emergency which the people of this state foresaw might arise, has now arisen. I believe an income tax law can be drafted which will be free from discriminatory aspects, and free from those appeals to prejudice of class against class which have attended some other efforts to apply this form of tax. It is my conviction that an income tax properly drawn will produce revenues sufficient to meet the present emergency, and yet be so light in its application that capital or industry will not be reluctant to come to this state. It is my observation that the antipathy of new capital and industry to the income tax is not to the payment of a moderate income tax, but to an apprehension lest venturesome and extravagant policies, based on the false assumption that income tax money is easy money, will gradually encroach upon and increase the income tax until it becomes unbearable.

In this connection it may be pointed out that in one of the constitutional provisions to which I have hereinbefore referred, there is a strong safeguard against improvident increase in an income tax or any tax. It is that provision which requires in effect that measures regulating taxation shall not go into force until ninety days have elapsed. There is here offered opportunity for invoking the referendum, if future legislatures shall unwisely promote extravagance. The people who vote today on matters of taxation are to be considered no wiser, and no more careful of their own interests, than will be the people who vote tomorrow. Without the restraints of initiative and referendum, without the provision in the constitution which I have cited, the fear that an income tax would row to oppressive proportions would perhaps have some foundation. In Oregon there need be no such fear.

The income tax I recommend would be graduated and have a low maximum rate—not more than 3 per cent. It would be framed with no intent or expectation that its revenues would be immediately sufficient to put the state on a cash basis, but it would provide sufficient revenues to meet the necessary obligations of the state under present laws and when these obligations shall have been met the income tax will operate to reduce the burden of state tax on the property of the taxpayer.

As is known to you, the income tax would fall within the 6 per cent limitation. It must take its course with other non-emergency measures and under ordinary circumstances await the possible application of the referendum. I assume that the referendum would be applied to it.

Inasmuch as the people will vote on this measure in any event, I recommend that a bill drawn along the lines I have broadly outlined be submitted at a special election, and that it contain a provision lifting its proceeds out of the scope of the 6 per cent limitation of the constitution in such measure as will place the state on a case basis until such time as an agreed-upon base of tax revenues shall have been reached; that thereafter the proceeds of the income tax shall be used as a means of reducing the general property tax.

Inasmuch as the proceeds of an income tax would not be available until 1928 and inasmuch as the need for immediate additional funds is pressing, I also recommend that for 1927 a 5 per cent tax on the fee and license revenues of state boards and commissions be imposed in order not only to provide new revenues at once but also to hasten the time when the income tax can be used as an equalizer of taxes, and that after 1927 the tax on fees and commissions be reduced to 2.5 percent.

If the legislature shall be pleased to grant certain other measures which I recommend, I am confident that this system will pull the state out of its financial dilemma within a reasonable time and that this will be done without undue hardship to any class of the people or any class of property.

The plan assumes a careful supervision of state expenditures which will be attained by the creation of a state budget official with direct responsibility placed upon the governor. Another measure providing for expert state supervision of local assessments should facilitate the reform of assessments until a much more equitable distribution of the tax load than at present prevails has been accomplished.

I assure the legislature again that I have given my best thought to this problem and that I have incited and received the disinterested counsel of many persons of sound judgment. I repeat that the principal recommendation I have made has been decided upon with considerable reluctance in view of the oft expressed contrary opinion of the people. But I am confident that the people themselves will as readily sense the serious nature of the emergency which confronts us as you and I, and will be found as ready as you and I to sacrifice previously conceived opinion and surrender proportionately of their means that the good financial name of Oregon and the progress of our public institutions shall be preserved.

I.L. PATTERSON

Governor's Message, 1929

Source: State of Oregon MESSAGE Of I.L. PATTERSON, Governor To the Thirty-Fifth Legislative Assembly 1929

Members of the State Senate and House of Representatives:

The Constitution of the state of Oregon directs that the Governor shall "from time to time give to the legislative assembly information touching the condition of the state, and recommend such measures as he shall judge to be expedient." Pursuant to the command of the constitution and in accordance with the usual custom, I meet with you today at the halfway point in my term of office as Governor to place before you a brief statement regarding various state departments and institutions and to submit certain recommendations which, in light of my contact with state governmental activities, I believe promise to promote the welfare of the state.

TAXATION

The matter of taxation and state finance is always of paramount public importance. Never has it been of more vital concern in the state of Oregon than at this time. It is not necessary for me to outline the present financial condition of the state nor to rehearse the circumstances which have created that condition. You are aware that at the last session of the legislature appropriations were made aggregating approximately four million dollars in excess of available state revenues for the biennium. Of these appropriations I vetoed bills provided for one million three hundred thousand dollars, leaving a deficit of more than two million dollars which I hoped might be taken care of by the income tax measure passed by the legislature and referred to the electorate. The income tax measure was defeated, and, as a result, the revenues of the general fund will be insufficient by approximately two million dollars to meet the obligations thereon for the biennium ended December 31, 1928. It is true that moneys originally credited to the general fund and later as state periods set aside for specific purposes may be used to meet current general fund obligations. This, however, does not satisfy obligations against the general fund but only defers the date of final payment of general fund obligations met in this manner.

Chapter 130, General Laws of Oregon for 1927, transferred to the Governor direct supervision over all matters relating to the preparation of estimates of requirements for the various offices, boards and commissions, institutions, departments and activities of the state, public or private, supported or aided in

whole or in part from moneys disbursed through the state treasury. The proposed budget for 1929-1930 is in your hands and I trust has had your careful scrutiny. By cutting the estimates of requirements for the various branches of state activity to the lowest figure compatible with the efficient performance of the duties imposed on them, I have been able to balance the appropriations recommended in the budget with the estimate of state revenues available for 1929-1930. I have been able to accomplish this only through the whole-hearted cooperation of the various department and institution heads who have made a most gratifying response to my plea for stringent economy in face of the financial condition of the state.

No provision has been made to liquidate the existing deficit, and it has been necessary to eliminate practically all requests for substantial capital outlay, despite the fact that many such requests were for legitimate and necessary improvements which should be cared for now and which must be provided in the near future if Oregon is to maintain her standing as a progressive and forward moving commonwealth.

In view of this situation, I wish to call your attention to section 2 of article IX of the constitution of the state of Oregon, which reads: "The legislative assembly shall provide for raising revenue sufficient to defray the expenses of the state for each fiscal year, and also a sufficient sum to pay the interest on the state debt, if there be any"; and further, to section 6 of article IX of the state constitution, which reads: "Whenever the expenses of any fiscal year shall exceed the income, the legislative assembly shall provide for levying a tax for the ensuing fiscal year, sufficient, with other sources of income, to pay the deficiency, as well as the estimated expense of the ensuing fiscal year."

Despite subsequent constitutional provisions qualifying these sections, it is the evident intent of the constitution to place squarely upon the legislative assembly the responsibility not only for providing revenue adequate for discharging the expenses of state governmental activities, but also for eliminating any deficiency which may exist. As I see it, this is the foremost duty which faces you as members of the Thirty-fifth Legislative Assembly. The manner in which you discharge it will affect the progress of the state as a whole and the welfare of each individual citizen. It challenges your businesslike attention, your careful research and your earnest consideration throughout this session.

The importance of providing an equitable solution of the problem of taxation has been recognized by succeeding sessions of the legislative assembly. In 1921 and 1925 committees were authorized by the legislature to investigate the tax situation in Oregon with a view to finding new sources of revenue and equalizing the burden of taxation. Each of these committees made an exhaustive investigation and submitted comprehensive recommendations, none of which, so far as I know, has been put into effect. The report of the tax investigating committee authorized by the 1927 legislative assembly will be submitted for your consideration at this session. I trust that it may prove helpful in your deliberations and fruitful of tangible results. If the legislative assembly should again find itself unable to profit by the researches of the committee appointed to study the tax situation, it would appear that the practice of naming such committees should be discontinued, and the time and money involved in their activities directed into some other avenue of approach to this important and difficult problem.

TEN-YEAR BUILDING PROGRAM

I have previously stated that improvements essential not only to the consistent expansion but also to the proper maintenance of state activities have been eliminated from the proposed budget for the current biennium in order to keep the estimate of requirements within the revenue now available. This will mean an accumulated demand for capital outlay when state finances are in a condition to justify such expenditure. Let me, therefore, repeat the recommendation made at the last legislative session to the effect that anticipated needs of the state institutions and activities should be ascertained for a certain period and a definite plan should be formulated for caring for these requirements in the order of their urgency. To this end I recommend that the Board of Control be authorized and directed to make a survey of the needs of the various state institutions and to draft a well-considered program of meeting these needs over a period of say ten years.

EDUCATIONAL INSTITUTIONS

The high percentage of attendance at the institutions of higher learning in Oregon must be gratifying to every person who recognizes that education is one of the foremost functions of a progressive government. It is regrettable in the face of greatly increases and increasing enrollment that it has been necessary to curtail completely the requests for building appropriations of the educational institutions. Every one of these institutions has building needs which an expanded enrollment makes urgent. In view of the present financial condition of the state the boards of regents have agreed to defer these requests in the hope that the finances of the state will be put on a sound, progressive basis during this biennium.

In the meantime some constructive plan should be worked out for meeting the building needs of the institutions of higher learning when the state is financially able to care for them. A competent impartial agency should be commissioned to make a thorough survey of all the state institutions of higher learning with a view to determining their building needs for a ten-year period. On the basis of such a survey, the state legislature will, with the improvement of the state's finances, be in apposition to adopt a consistent policy with reference to satisfying these needs.

The United States Bureau of Education, through its specialists in higher education, has made many surveys of state institutions of higher learning during the past twelve or fifteen years. The cost of such a survey, which usually comprises only the traveling and local expenses of the educational specialists conducting the investigation, is comparatively slight, and is ordinarily pro-rated among the several institutions surveyed.

In the interests of an adequate and impartial program for the future department of our institutions of higher learning, I recommend that the United States Bureau of Education be invited to make a building survey of these institutions to form a basis for capital outlay whenever appropriations may be available for this purpose.

CENTRAL PURCHASING DEPARTMENT

In my message to the Thirty-fourth Legislative Assembly, I recommended the centralization of all purchases for state departments and institutions with the Board of Control. The legislature approved this recommendation and designated the Board of Control as central purchasing agency, although no appropriation was made to provide for expansion of the existing department to care for the heavy additional duties imposed by the act. The central purchasing law was put into effect on October 1, 1927. The report of the purchasing department for the period between October 1, 1927, and September 30, 1928, shows total purchases amounting to nearly \$3,500,000 for the year, and an apparent saving of over \$200,000 has been made as a result of the operation of this department. These figures are conservative, and it is safe to assume that the central purchasing agency will save biennially at least \$500,000.

These savings, you will understand, do not accrue to the general fund, but to the separate departments. Many of the branches of state activity making the largest purchases, such as the Highway and Accident Commissions and the institutions of higher learning, are supported by fees or by millage taxes and do not draw their funds from legislative appropriations.

The evident saving effected by the central purchasing agency has, during the first year of its operation, been sufficient to justify the legislature in appropriating funds for the adequate support of the department in the future, and recommendation for the allocation of such funds is contained in the budget.

STATE PENITENTIARY

Upon my recommendation, the 1927 session of the legislature placed under the supervision of the board of control the state penitentiary which had previously been under the sole jurisdiction of the governor. The

wisdom of this policy has been amply demonstrated. Upon assuming charge of the penitentiary the board at once placed the prison on the same basis as the other institutions under its care and appointed a superintendent to relieve the warden of details of business management not directly connected with the care and custody of prisoners.

Under the new administration repairs and renewals were immediately instituted. No special appropriation was available for such purposes and the capital outlay has been very small, all work being done by the prisoners. Although the buildings and equipment are old and inadequate, a great improvement has been effected in the physical condition of the prison plant. Roads have been rebuilt and graded. The entire inside premises have been renovated and cleaned, and additional lights have been installed. New doors and floors have been built in all guard towers. Valuable records dating back to 1853 have been placed for the first time in a fire-proof vault which was constructed at a remarkably small cost to the state. A new vegetable storage building has been erected, also at small expense, and many other necessary changes and improvements have been instituted.

The appropriation for the penitentiary for the past biennium was based on an estimated average population of 590 whereas the daily population has averaged 625 and has been as high as 713. The penitentiary is spotlessly clean, the prisoners have plenty of clean, wholesome, plain food; they are well and warmly clad, and the per capita cost of maintenance has been lower than since 1916, having been reduced from \$27.32 per month during the years 1925-1926 to \$24.74 during this biennium.

Although the institution is crowded far beyond its capacity, making segregation impossible and necessitating improvised quarters to take care of the surplus population, only three prisoners have escaped during the past biennium, all of these being trusties working outside the walls. One of these has been apprehended and returned, another is in custody in Texas, and only one remains at large.

For the first time in the history of the institution, every man who is physically able is at work every day. This fact is undoubtedly reflected in the excellent discipline and morale which prevail.

It is absolutely essential that additional quarters be provided immediately to care for prisoners. Under direction of the Board of Control, the Boys' Training School has abandoned the old training school property near Salem. The board has authorized the superintendent of the penitentiary to take charge of these lands and farm them. I have recommended in the budget an appropriation of \$35,000 for the purpose of remodeling the former training school building to house forty men and also to care for the women prisoners, with the hope that in a reasonable length of time this plant can be used for the purpose of segregating prisoners. Should this proposal be approved, it is contemplated that the dairy herds, swine, and poultry will be transferred to the training school lands thus giving room at the present institution for "wigwaming" the flax which must be spread out after retting. Otherwise it will be necessary to rent land and haul the flax for some distance in order to complete the processing. The budget also recommends funds for the completion of a much needed two-story garage at the penitentiary, the second story to be used as quarters for trusties. This will take care of one hundred men and relieve the present unsafe congestion.

FLAX INDUSTRY

A careful inventory and audit was made at the beginning of the biennium to ascertain the exact condition of the state flax industry conducted at the penitentiary. Resulting data showed that since the beginning of flax operations in 1915 up to January 1, 1927, there has been an actual loss of more than \$107,000, the major portion of this deficit having been incurred during the four years immediately prior to January 1, 1927.

The Board of Control has been greatly pleased with what has been accomplished in the flax industry during this biennium. In 1927 the flax acreage under contract to the state was 2,000 acres. This was increased in 1928 to 3,000 acres. For 1929 the Board has authorized contracting for 4,500 acres and will be able with the present revolving fund to care for this substantial expansion. Since April 1, 1927, the industry has shown a profit of approximately \$97,000 and has financed from its profits the installation of permanent improvements costing in excess of \$84,500, which have resulted in improved efficiency in operation and increased production.

Flax-pulling machines have been manufactured at the penitentiary which have not only proved more satisfactory than the purchased article but have effected a substantial saving to the state. Two of these machines have been sold at a handsome profit and shipped abroad. Twenty-five have been bought by local growers and eleven more are in the process of sale.

No appropriation will be requested from the legislature at this session for the revolving fund for the flax industry. The industry will not only finance itself but will, from its profits, provide additional equipment and improvements to take care of increased tonnage of flax. The Board of Control feels justified in taking an optimistic view of the future development of this industry which has provided employment for state prisoners, which is now more than self-supporting and promises increased profits in the future, and which will be of great agricultural and industrial benefit to Oregon.

BOYS' TRAINING SCHOOL

At the beginning of the present biennium there were 201 boys in the State Training School. Since the new buildings near Woodburn are insufficient to accommodate this number, two organizations were being maintained, one at the new school and one at the old building near Salem. This involved an expensive duplication of staff and activities. Certain essential operations such as laundry and baking were being carried on at the Salem branch and the products transported by truck at considerable expenditure of money and effort to the Woodburn school.

The waste and inefficiency entailed were so apparent that the Board of Control determined to consolidate the two institutions. To this end a new policy was instituted with reference to the parole of boys committed to the training school. Release had previously been determined by length of time spent in the institution, credits earned, and other features arbitrarily fixed without consideration of individual cases. The Board authorized the appointment of a parole officer whose duty it is to investigate suitable and desirable homes in which boys may be placed and to supervise and follow up all boys released from the institution under parole. By this practice the number of training school charges has been so materially reduced that the school at Salem has been vacated and all the boys are housed at Woodburn.

The present parole policy has fully justified itself. During the years 1925 and 1926 when a parole officer was not employed, the percentage of parole violators whom it was found necessary to return to the school was 28 per cent. During the present biennium, with an increased number under parole, the percentage of boys who have not made good has been reduced to 17.5 percent. There are at present nearly four hundred boys out on parole and the number in the school has been reduced from 201 to 144. In order to supply the individual attention, which is essential to successful parole, it has been found necessary to employ an assistant parole officer.

Through the consolidation of the two institutions and through the enlarged parole system, the Boys' Training School will be able to return to the state treasury at the end of the biennium an unexpected balance of over \$40,000. This financial return is, however, the least important feature of the parole policy. The great saving lies in boys restored to normal home life and given wise and friendly encouragement to rehabilitate themselves as good citizens. This has a value to the state not measurable in dollars and cents.

EASTERN OREGON TUBERCULOSIS HOSPITAL

The new State Tuberculosis Hospital authorized by vote of the people and located at The Dalles is nearing completion and will be ready for occupancy in about three months. The site selected by the Board of Control has proved satisfactory and well adapted to the needs of the institution. There is at present a waiting list at the State Tuberculosis Hospital of seventy-five persons, which represents only a part of those actually desiring admittance, since many afflicted persons when they learn that they must wait four or five months for a vacancy become discouraged and withdraw their applications. The new hospital will furnish bed for ninety-five patients which it is hoped will care for the present waiting list and eliminate the delay which often makes recovery unduly difficult or impossible.

OTHER STATE INSTITUTIONS

I shall not take time to make a detailed report regarding each of the other institutions which care for state wards. They are enjoying the same efficient administration under which they have operated for some time past. The report of the Board of Control contains full information concerning their conduct. Each one will have an unexpended balance to return to the general fund for the past biennium. Per capita costs for such institutions in Oregon are lower than the average throughout the United States. My experience on the Board of Control has convinced me that our state institutions are ably conducted at a cost which is as low as is compatible with efficient and progressive administration.

WORLD WAR VETERANS' STATE AID COMMISSION

I take pleasure in calling your attention to the fact that the World War Veterans' State Aid Commission has reduced its deficit from \$2,034,256.344 on September 30, 1926, to \$648,663.92 on September 30, 1928, a reduction of \$1,385,592.42 during the past biennium. The Commission has instituted a system of field inspection which has greatly increased the efficiency of its operations. Field inspectors report on all loans considered doubtful by the examiners or the commission and on all applications for loans where the applicant is not satisfied with the amount allowed. They investigate all cases of delinquency and give advice and assistance to borrowers on avoiding or overcoming delinquency. Periodic inspection is made to all property covered by loans with a view to keeping it in first-class repair, clearing up delinquent taxes and correcting other conditions which might impair the security of the state. Under this system the percentage of loans which will have to be foreclosed will be much smaller than in the past. Profits on sale and rental of rural and city properties have, during this biennium, more than paid the expenses of field inspection.

STATE MARKET AGENT

The State Grain Inspection Department was created by the legislature in 1917 and an appropriation of \$7,500 was authorized to carry the act into effect with a provision that this amount should be returned to the general fund of the treasury when sufficient fees were collected to justify its return, the act providing that the department should be self-sustaining.

The amount originally appropriated proved inadequate for carrying out the provisions of the law, and on November 15, 1917, the Emergency Board made an additional allowance of \$5,000. On November 25, 1919, the further sum of \$10,000 was appropriated by the Emergency Board. Out of these sums a total of \$21,828.30 was expended by the Grain Inspection Department without reimbursement to the state.

The present State Market Agent took charge of the Grain Inspection Department in February, 1927. By reorganization of the work in the interests of greater efficiency and economy, he has not only been able to pay from fees collected during this biennium all the expenses of the department but in addition has returned to the general fund \$21,828.30 which repays the total amount previously advanced by the state for the support of the Grain Inspection Department.

AUDIT OF INDUSTRIAL ACCIDENT COMMISSION FUNDS

In accordance with the direction of chapter 413, General Laws of Oregon for 1927, an annual audit has been made of the receipts and disbursements of the Industrial Accident Commissions which has revealed an entirely satisfactory condition for the funds of that Commission as well as an efficient method of carrying on the accounting incident to its large volume of business. ANNUAL AUDIT OF STATE FUNDS

I wish to recommend that the Secretary of State as State Auditor be authorized and directed to audit the fiscal records of each state officer and state institution at least once each year, the expense of such audit to be allocated to the respective departments.

PORTLAND OFFICE BUILDING

The Thirty-fourth Legislative Assembly authorized and directed the Board of Control to lease quarters and concentrate all state departments maintaining Portland branches in one building. The Board of Control has rented space in the Oregon building and practically all state offices in Portland are now housed there. The board believes that this will prove to be in the interests of economy and public convenience and will also permit a closer coordination between the departments, which it is hoped will result in eliminating some duplication of activity.

OREGON NATIONAL GUARD

In furtherance of a plan to center the federal training of national guard troops within our own state, the people of Clatsop county two years ago leased the necessary camp area on Clatsop plains. Based on a ten-year lease of the grounds by the state, the government has spent \$100,000 in developing this tract, and contemplates further expenditures greatly in excess of that amount. It does not appear to me equitable that the lease cost should be paid by the citizens of Clatsop county, inasmuch as the activity is state-wide in scope and the financial and other benefits of such a camp in Oregon accrue to the state as a whole. Until such time as state finances will permit the purchase of this land, under an existing lease and option, I recommend that the state take over the lease upon same.

RESTORATION FUND

The law at present provides for a restoration fund to be built up at the rate of \$50,000 annually to replace or rebuild any property of the state or any of its activities that may be damaged or destroyed by fire, flood or other casualty, the contribution of each branch of state activity to this fund being based on the appraised value of its buildings, equipment and other property subject to destruction. Demands on this fund during the period of its duration have been less than one-third of the amount of the contributions thereto. In view of the present financial condition of the general fund, I recommend that the law be amended reducing the annual contribution to \$25,000.

PILOT COMMISSIONERS

The State Board of Pilot Commissioners has heretofore received an appropriation of \$2,400 for the biennium. Other similar agencies and activities are made self-sustaining through the imposition of sufficient fees to cover administrative expenses. It is my recommendation that the present nominal license fees exacted from pilots be sufficiently increased to return a sum which will absorb the expenses now provided by biennial appropriation and relieve the state of this expense.

CHAMPOEG

There is at present a bill before congress providing funds for the erection of a memorial building at Champoeg, such federal appropriation to be contingent upon the appropriation of an equal sum by the state. Congress has agreed to credit moneys already expended by the state at Champoeg toward matching federal funds. It is to be hoped that through the development of new sources of revenue state funds will be available for an appropriation for this purpose should the bill be passed by congress.

BLUE SKY LAW

Believing that omissions and defects exist in the present law regulating the sale of securities in Oregon, I recently named a committee to draft a proposed new blue sky law for this state. The members of this committee are outstanding business and professional men, who have carefully investigated the subject in an effort to formulate a measure which will afford adequate protection not only to the investing public but to legitimate brokerage firms. This is a subject which merits your very careful attention, taking into consideration the report of the committee and all other available data.

REFORESTATION

In my message to the 1927 of the legislature I called the attention of the members to the importance of reforestation. During the past two years it has come to my attention that the taxes against thousands of acres of logged-off lands are not being paid and the lands may revert to the counties, which are not organized to give adequate fire protection, nor should they lose the tax revenue from this class of property. The major portion of our logged-off lands will reforest themselves if protected from fire, and the state will be assured of a sufficient timber supply for the future. It is extremely important that legislation be enacted which will give that assurance and at the same time in no way deprive the state and its several subdivisions of the tax revenue which should be derived from this source.

As long as the cut-over lands are held in private ownership the state can compel proper fire protection. The time required for maturing timber is such that revenues therefrom are long deferred. I express the hope that legislation will be enacted which will provide for a fair taxation of this property during the growing period of the timber and will provide, in addition to a fair annual tax, a yield tax when the timber is cut.

STATE RECLAMATION COMMISSION

The State Reclamation Commission was created by the last session of the legislature to perform all the duties of the former Desert Land Board and the Irrigation and Drainage Securities Commission, and in addition was charged with the duty of investigating the physical, financial and economic condition of these districts. Based on its findings, it has the problem of bringing together all interests with a view to the formulation of a definite plan under which the affairs of the district may be successfully worked out.

There are 12 irrigation districts in Oregon with certified bonds outstanding in the amount of \$6,791,100, which have defaulted either in the payment of principal or interest on their bonds. They owe the state \$1,945,844.12. Apparently there is no chance that these districts can succeed under present conditions, as their debts are prohibitive. The bonds were issued under laws which give little protection either to the investor or to the settler after trouble develops.

The commissions has examined nine projects, having an irrigable area of 74,642 acres and a total indebtedness of \$8,793,000. The economic reports indicate that before these districts can be successful, a write-off of present debts against the districts of amounts varying from 30 to 80 per cent will be necessary. The present financial condition of the districts offers little hope for the recovery of interest paid by the state on irrigation district bonds. The members of the Reclamation Commission, therefore, believe that for the purpose of settlement, they should be authorized to remit to the districts in whole or in part the amounts advanced by the state in payment of interest on bonds. I recommend that such authority be given the State

Reclamation Commission. Such remission should be made only in those cases where it is necessary for the financial reorganization of the district and where concessions to accomplish this end are made by other creditors.

In this connection I also suggest that the legislature submit to the electorate a constitutional amendment repealing article XI-b of the state constitution which authorizes the payment by the state of irrigation and drainage district bond interest.

The bonds are widely scattered and there is no accurate record of their ownership. Yet, before reorganization can be completed, these bondholders must be located and an organization representing them must be created. We have cooperated in assisting committees to organize bondholders, and six projects now have committees representing from 70 to 85 per cent of the bondholders on each. The work of organizing and obtaining their acceptance of a plan of reorganization, which will reduce the district's debt to the amount it can pay, is slow and tedious, but it seems the only sound solution. The present work of the commission should be continued for at least two more years, in the hope that reorganization can be effected that will allow the districts to stand alone and eliminate the necessity for further state aid.

WATER POWER

Oregon has one-sixth of the potential hydro-electric power of the nation, most of its undeveloped, which means immeasurable industrial possibilities for the future when electric energy will be applied to every branch of commerce, industry and transportation. It is natural and proper that the people of the state should be vitally interested in the conservation, development and control of this valuable natural resource.

The Oregon Water Code is regarded as one of the most progressive in the nation. It is based on the theory that the water belongs to the state---that it may be appropriated for beneficial use as provided in the code, and not otherwise. The beneficial use of water is true conservation. It has always been the policy of the state to encourage the development of its water resources through intelligent appropriation and use. The courts have reiterated time and again that beneficial use shall be the measure of right. No water right is perfected until the water is put to the proposed use, and this must be done within a reasonable time after the right is first initiated or the priority is lost.

The last legislature did much to shut out speculative filings on water rights. The state engineer now has authority, and it is the policy of the department, to hold no applications in incomplete form for more than six months except on large projects where extensive investigation are required. After a permit is issued, the appropriator must begin actual construction work within one year or the right will lapse, and it must be completed within a reasonable time thereafter. It is not possible under the code for any power company or other appropriator of water to monopolize the state water resources. Rights can be acquired only through development and use.

Applicants for permits to appropriate water for power purposes may be required to furnish satisfactory proof of their ability to finance and construct the proposed project and of intention in good faith on the part of the applicant to construct the project with due diligence. In the great majority of cases they must make application to the Federal Power Commission for preliminary permit within six months after applying to the state engineer for permit, and the time fixed by the state for completion of the works is the same as that fixed by the Federal Power Commission. It is therefore possible for appropriators through filings in the state engineer's office to hold a water right only temporarily while investigations are being made for its further development.

The present law provides that all applications for permits to appropriate water for beneficial use shall be approved by the State Engineer when made in proper form, unless the appropriation will constitute a menace to the safety and welfare of the public. In that event the State Engineer may deny the application if

after full hearing, the public welfare demands. His authority to deny applications under this statute has not been passed on by the courts, but in order to protect the public interests, this section should be amended in a manner which will more fully define the duties of the State Engineer and the grounds upon which applications may be denied. Authority over appropriation of water for beneficial use similar to that of the Federal Power Commissioner relative to leasing public lands which are used in power development, should be given.

The statute should also charge the State Engineer with the duty of taking into consideration the value of the stream for other purposes. The construction of dams which will destroy the scenic or recreational value of our streams or which will destroy or injure commercial fishing should not be allowed, unless it can be clearly shown that the proposed use of water is of higher value to the general public.

With slight amendment giving more authority over the appropriation of water and with the provision for an appeal in important cases from the decision of the State Engineer to the State Reclamation Commission, the rights of the public can be protected and the highest development of our water resources can be obtained.

I believe that the right to the use of water should be obtained through a lease from the state with fees based on the value of the right obtained, considering its use, location, proximity to market, cost of development, etc. The state should continue to encourage the development of its water resources, but it should not part with the title to this great natural resource.

MOTOR VEHICLE LICENSE FEES

The heavy vote cast last November in favor of a measure proposing a cut in motor vehicle license fees so drastic as to menace the highway system of Oregon shows that there is strong public sentiment in favor of a revision of the automobile license schedule. When this measure was before the public I promised, in the event of its defeat, to lend my aid in my power to bring about a change in our license fee schedule, and I expect to keep that promise. Unless such a reduction is made here in the legislature, carefully and scientifically, and in a manner which will maintain existing roads to the highest degree of efficiency and raise enough money to complete the roads already authorized, there will be constant danger of the initiation and enactment of radical measures which may imperil our splendid highway program and place upon real property the burden of paying the principal and interest on \$32,000,000 worth of outstanding highway bonds.

It is my firm belief that the people of this state want a reduction of license fees for old or used cars. I have in the past advocated a plan whereby the present fee scale would be maintained for the first and second registrations and reduced by a certain percentage each year thereafter, reaching a minimum at the fifth registration. Careful research into the matter may disclose some plan better adapted to accomplish the same purpose. I therefore make no specific suggestion other than an urgent recommendation for the early relief of owners of used cars.

The attitude of the public toward the activities which the Highway Commission is performing with outstanding efficiency has always been one of confidence and support. These activities are too vitally connected with the progress of the state to be retarded or curtailed as a result of public dissatisfaction with the motor vehicle license fee schedule.

STATE BOARDS AND COMMISSIONS

The reports of the various state boards and commissions will be placed before you during this session, and it is not necessary for me to duplicate the information contained therein. I have been gratified by the fact that all departments have functioned efficiently and with a minimum of friction during the past biennium.

The Corporation Commission and the departments under the Insurance Commissioner have returned substantially increased revenue to the state with a small proportionate increase in administrative expenses. The Fish and Game Commissions show a satisfactory financial condition and have, during the past biennium, enjoyed a fuller degree of cooperation than heretofore, which operates to the best interests of the state.

The State Prohibition Commissioner has cooperated efficiently and harmoniously with federal and local officers, with the result that Oregon has recently been commended as one of the most effective states in the nation in the enforcement of the prohibition laws.

I sincerely appreciate the uniform response which has been made to my plea for economy and efficiency on the part of every state department.

CONCLUSION

On the subjects discussed in this message or on any other matters pertaining to state governmental activities I shall be happy at any time to confer with the members of the Thirty-fifth Legislative Assembly. My experience during the past two years has strengthened my deep interest in the welfare of the state of Oregon. Recognizing that a progressive body of laws is a vital factor in the development and prosperity of any state, I offer to you my fullest cooperation and support in all undertakings which promise to promote the best interests of our commonwealth and the well-being of her people.