

**By Tomas Alex Tizon, L A Times Staff Writer
June 28, 2003**

Portland used to be routinely named one of the best places to live. Now it's considered one of the nation's least functional places. What happened?

SALEM, Ore. — The fall from grace was dizzying and even, to some, cartoonish.

For decades, Oregon's charms routinely won over the surveyors whose job was to rank places according to beauty, efficiency and livability. The state in recent years was hailed as the place "Where It Works" and its largest city, Portland, as one of the nation's best places to live.

Oregon claimed similar honors in the early 1970s, about the time that a square-jawed young labor lawyer named Ted Kulongoski straggled into the state. Kulongoski, 62, now sits in the governor's chair, elected in the fall to bring Oregon back to its glory days.

The new Democratic governor presides over a different Oregon.

The state is a place where it no longer works. The region called "most livable" is now seen by many as the least functional. The national recession and the Internet meltdown, combined with an unstable tax system, have gutted Oregon's budget.

The point has been driven home by the syndicated cartoon "Doonesbury," which has twice devoted weeklong strips in recent months to Oregon's economic tribulations, labeling it one of the nation's "loser states."

The strip focused on the state's ailing school system, which, for lack of money, cut days in nearly half of its districts. One district this spring finished three weeks early, and 30 other districts did not meet the state's minimum requirement of 180 school days.

But schools represent only one piece of the picture.

Oregon has had the nation's highest unemployment rate — currently at 8.2% — for 18 of the last 21 months. It has one of the nation's worst hunger problems. And with revenues plummeting \$2 billion below expectations during the last two years, the state has laid off police and public defenders, dropped medical insurance to tens of thousands and delayed prosecution of many crimes.

While the state's shortfall is not nearly as large as California's \$38 billion, Oregon's crisis has been felt more acutely by its 3.5 million residents, partly because of the swiftness of the state's decline.

The immediate future looks still more bleak. The budget for the next biennium, which begins July 1, will be more than \$3 billion shy of what was once expected. Pundits have dubbed it a "Doonesbury budget."

"Oregonians are starting to comprehend the enormity of what we face," says Jim Sherzinger, a former state economist. "What we face is a disaster."

Kulongoski, six months into his job, leans back in a chair in his office at the Capitol, and explains why he is undaunted. He does so in a roundabout, homespun way that makes it clear why even his rivals like him.

He tells his story.

Kulongoski was 4 when his father died. His mother, too poor to support him, placed the boy in St. Joseph's Home for Boys in St. Louis, where he remained for 10 years. After high school, Kulongoski joined the Marines, then worked at a steel mill before using the G.I. Bill to pay for his education.

He got a law degree from the University of Missouri, moved to Oregon in 1970, then spent the next three decades in public office, from legislator to state insurance commissioner, attorney general and finally Oregon Supreme Court justice.

In 1982, while serving as a state senator, Kulongoski climbed his way into the gubernatorial race.

He ran against Republican incumbent Vic Atiyeh and lost by the largest margin in Oregon's history. Kulongoski knows what it's like to be a loser. Today, he is a grinning testimony to the power of tenacity, and he wants to do to Oregon what he did with his own life.

"Real champions," says Kulongoski, a former boxer and aficionado of the manly art, "are the guys who, after they're knocked down, get off the deck and keep fighting, the ones who go through adversity and come back to win.

"Oregon is going to come off the deck," he says.

His plan will mean hurting political allies along the way, he says. It will mean harking back to his years at the orphanage, where he says the nuns taught him a fundamental guiding principle: You do the right thing no matter what.

Oregon has gone through bad times before. A recession combined with foreign competition and new environmental restrictions forced thousands of timber workers out of jobs in the early 1980s, pushing the unemployment rate to more than 12%.

In the mid- to late-1980s, Oregon — mostly in Portland and the Willamette Valley — began morphing into a silicon Mecca, a transformation that peaked in the 1990s. Nearly 600,000 people moved to Oregon during those years, many of them educated, middle-income "techies."

But while Portland and the valley flourished, the rest of the state, which still relies on timber and farming, stagnated, creating in effect two Oregons with two different political proclivities.

Conservative rural Oregonians made much less money than their liberal urban

counterparts, and the mantra of rural Oregon became "No more taxes." A series of tax-cutting measures pared the state's budget to the bone.

Enter the latest recession, which began in 2001.

Oregon had ridden on the crest of the dot-com tidal wave. The growth of the state economy, like in neighboring Washington, far outpaced the national rate, and Portland and Seattle emerged as twin stars among cities, the vanguards of the New Economy.

When the dot-com world went bust, the high-tech manufacturing industry, which made all the machines and gadgets and hardware for all those start-ups, followed right behind, says state economist Tom Potiowsky.

Today, Washington almost rivals Oregon in jobless rates, and a large number of the unemployed are those newly arrived middle-income workers.

Most economists agree the recession has had a more damaging effect on Oregon because of the state's tax system. Oregon is one of only five states without a sales tax. Citizen initiatives have put a lid on property levies. So the state has become heavily dependent on personal income tax.

In Oregon, fewer people working translated into significantly less state revenue.

Legislators in February cut prescription drug benefits to 9,000 of the state's disadvantaged and dropped state-funded health care for 100,000 more, about a quarter of Oregon's poor. Lawmakers scrambled to restore the programs, but many Oregonians have fallen by the wayside.

Oregon judges have postponed prosecution of burglaries, car thefts and vandalism. Judges daily send repeat offenders away with orders to return for future court dates. Clackamas County Deputy District Atty. John Schilling tells of a 23-year-old car thief who, in April, was arrested and released three times in four days.

No part of Oregon's troubles has received more attention than its school system. One "Doonesbury" cartoon frame ends with this exchange between President Bush and an advisor:

"Is our children learning?" the president asks.

"Well, not in Portland," the advisor replies, "but Oregon's a blue state."

Portland teachers this spring agreed to work two weeks without pay to ensure a full school year. In Lake Oswego, a school foundation opened bingo halls to raise money. One school district solicited "Doonesbury" cartoonist Garry Trudeau for his original Oregon sketches, then sold them at a fund-raiser.

"It's ugly," says Sandi Brinkman, an English teacher in Tualatin, south of Portland. The school year at Tualatin High School was cut by five days. "The ones paying the price for all this are the kids, our kids."

Oregon schools used to be funded primarily by property taxes. But after a citizen initiative in 1990 limited those taxes, the schools became the responsibility of the Legislature. For the last 12 years, funding came out of the general fund, which meant schools competed with police, courts and social services.

Kulongoski has said that, as a centerpiece of his recovery plan, he intends to introduce a more stable and aggressive tax structure that would provide a steadier source of revenue, especially for schools.

Previous governors and legislatures have tried and failed at tax reform. Since 1990, voters have turned down 20 attempts to change the system, including seven measures to create a state sales tax. But Kulongoski says this time, "We're going to win. I'm going to bring it home."

His strategy: Don't talk taxes.

Most experts don't believe Kulongoski can fix Oregon by himself. Oregon's fiscal comeback, they say, will depend mostly on the upswing of the national economy.

Says Ed Whitelaw, an economics professor at the University of Oregon: "If you made a list of 20 different variables that affect the economy, close to the last on that list is what the state and governor can do."

Kulongoski, however, doesn't seem to accept that or will not admit it. In the face of long odds, the governor has presented his plan.

It includes easing regulations for new businesses and aggressively wooing Hollywood to film movies here. He intends to raise the hotel tax to promote tourism and raise the gas tax to fund the state highway patrol.

The main goal is to create jobs by attracting private businesses. But he says businesses will not come if the state's basic services are not sound.

Sherzinger says it more bluntly: "We can't recruit people here if we have a national reputation for having lousy schools."

Kulongoski says the key to overhauling the tax system is to create a compelling vision of what the state should be.

"It isn't that we haven't given the public a choice, it's that we haven't given them a reason to make a choice," he says.

"The public sees it as just being more taxes, but that isn't the real issue. The real issue is: What do we Oregonians want for Oregon?"

Answering that, he says, will be a long process with lots of civic dialogue. Once people agree the current system isn't working, and then settle on a common vision for, say, schools, the next step will be to figure out how to fund it, Kulongoski says. He says the discussion of money (read: taxes) should come at the end of the process, not the beginning.

Forming that vision will likely take the first two years of his term, he says. He predicts a major referendum — perhaps a sales tax, perhaps the lifting of the property tax limit or a combination of both — sometime in 2005.

Some express impatience at Kulongoski's protracted strategy.

"When he says he'll be ready to do it in two years, we still don't know what 'it' is," says Joann Waller, executive director of the Oregon Education Assn., which represents 38,000 teachers.

Mark Wiener, a political consultant in Portland, says that while he understands the governor's need to engage the public, it is unrealistic to expect tax reform to rise up from the grass roots. The governor has to lead the discussion and provide specific options.

"So far," Wiener says, "the governor and Legislature have not been hugely forthcoming with any specific plans."

Kulongoski says trying to rush tax reform has never worked in Oregon. He's taking the long view of things, as he says he always has. Seeing the big picture and being willing to pay the price to achieve it have long been his character hallmarks.

In his first six months as governor, he's shown a willingness to make difficult decisions at the risk of hurting his political career, guided by the principle he learned from the nuns to "do the right thing."

In tough spots, both in and out of politics, Kulongoski says, he would ask himself, "What would the nuns do?"

In May, Kulongoski signed a set of bills reforming the state's runaway pension program. The reforms mean losses in the retirement benefits for 200,000 state employees whose unions endorsed Kulongoski.

"What I've learned in politics is that the people you disappoint most are not your enemies — they expect it," Kulongoski says. "It's your friends."

The governor said reforming the pension system was a necessary sacrifice. He says he did it in part to convince voters that the government was working hard to spend tax money responsibly.

Kulongoski has made his own sacrifices: He's cut his annual salary by 5% to about \$89,000; he's arranged to close his Washington, D.C., office, which will save \$150,000 a year; and he's agreed to auction off a twin-engine plane used by Oregon governors for travel in the state.

Absent from the governor's plan is the identification of the next big thing to fuel the Oregon economy. For most of the last century, the economy was driven by timber and agriculture; in the 1990s, it was the Internet and high-tech manufacturing. What now?

"I honestly don't think anybody knows," says Michael Kennedy, a state economist. Kennedy says he doesn't think that kind of thing is knowable, any

more than economists in the early 1980s could have predicted the explosion of the Internet.

"In the absence of something else coming along, it appears we're going to be in a state of very low growth," Kennedy says.

Kulongoski responds to that kind of resignation with a story about a championship fight in 1979. Heavyweight champ Larry Holmes was knocked down by a tremendous right hand from challenger Earnie Shavers. Every sign pointed to Holmes' demise. But the champion came back and eventually knocked out Shavers. He did it because he believed he could.

Kulongoski appears to believe. He comes across as a man convinced of the possibility of unlikely resurrections, like the grandson of a Polish immigrant rising out of a steel mill to become governor. He doesn't want to talk about unknowns. He wants to talk about what can be done.

"You need someone with the political will. You need a plan. You need a process. You need a public that believes a change is necessary, that we have to do things differently. This is the most difficult piece. It will take time, but we're on our way."