FOURTEENTH DAY
(Thursday, February 2, 1967)

The Senate met at 10:30 o'clock a.m., pursuant to adjournment, and was called to order by the President.

The roll was called and the following Senators were present:

Aikin
Bates
Blanchard
Brooks
Christie
Cole
Connally
Grover
Hall
Harrington
Jordan
Mauzy
Moore
Patman
Reagan
Schwartz
Strong
Wade
Word

Absent—Excused

Hardeman
Parkhouse

Absent

Bernal
Berry
Creighton
Hazlewood

The President announced that there was not a quorum of the Senate present but that Senators Parkhouse, Hardeman and Watson had requested that they be excused for the day because of important business.

Motion to Adjourn

Senator Word moved that the Senate stand adjourned until 10:30 o'clock a.m. on Monday, February 6, 1967, subject to the Joint Session to be held today to hear the address of Governor John Connally.

Joint Session

(To hear address of Governor John Connally)

The President on invitation of the Speaker, occupied a seat on the Speaker's Platform.

The President called the Senate to order and announced a quorum of the Senate present.

The Honorable Ben Barnes, Speaker of the House of Representatives, called the House to order, stated the purpose of the Joint Session and announced a quorum of the House present.

The Honorable John Connally, Governor of the State of Texas, was announced by the Doorkeeper of the House.

The Governor's party was escorted to the Speaker's Rostrum by Senators Hazlewood, Moore, Hall, Mauzy and Blanchard, on the part of the Senate, and Representatives McLaughlin, Traeger, Moore of Dallas, Caldwell, Doran, Longoria, Pickett, Neugent of Galveston, Hendricks of Collin and Clark of Harris, on the part of the House.

The Speaker, the Honorable Ben Barnes presented His Excellency, the Honorable John Connally, Governor of Texas, to the Joint Session.

Governor Connally then addressed the Joint Session as follows:

To the Members of the Sixtieth Legislature:

I am grateful for your invitation to again appear before you to propose the means by which I believe we should carry out the extensive program which was submitted to you some two weeks ago.

In my initial message, I outlined what I considered to be a comprehensive, progressive program for the people of our State, not only for the next two years, but reaching forward into the years that lie ahead.

I suggested that our destiny is unlimited as to the improvements that can be made in our way of life here in Texas—and that we ourselves are perfectly capable of making them.

I stated in my initial message that the sum total of my recommendations will exceed available revenue. I did not at that time suggest how we should go about raising the required additional funds. But I did say that I would recommend the revenue measures needed to cover all of my
spending program for the 1968-1969
biennium.
During the next biennium, my
budget to finance the judiciary, health,
hospitals and special schools, depart­
ments and agencies, public and higher
education and legislative expenses
totals $907,971,637. In addition, I
have proposed emergency appropri­
tions totaling $6,384,444.

Further I have recommended special
appropriations for the State's share of
a driver education program, totaling
$3.5 million for the biennium, and a
five per cent increase in the salaries
of public school teachers and other
professional school personnel. includ­
ing the added cost of teacher retire­
ment this will require an additional
$50,728,776 for the next biennium.
Coupled with an increase in teacher
salaries, I endorse a recommendation
by the State Board of Education to
improve the economic index as a tool
determining local school districts'
share of the Foundation Program.
I therefore propose that Texas en­
act a Real Estate Transfer Report
for each sale of real property. It is
essential that such a report be adopted
to replace the Federal Documentary
Tax Stamp requirement which expires
January 1, 1968. Without this informa­
tion our whole system of property
assessment will be seriously weak­
ened. Eighteen other states have
already adopted a replacement for the
Federal tax stamp, and most of the
others are expected to act on the
matter this year.

To implement the Texas Research
League Recommendations concerning
metropolitan government, I have
recommended funds totaling $2,974,708
for the 1968-1969 biennium.

All of these combined general rev­
ue recommendations total $971,-
559,565.

It has been suggested that we can
run this State government for the
next two years with no new taxes.

To do so we would have to make
significant reductions in some areas of
governmental spending which are
essential if we are to maintain our
leadership in providing the necessary
services to the people of Texas.

Should we fail to recognize that our
expanding population, increasing by
about 260,000 persons each year, will
require additional State services?
Should we ignore the growth factor
in our public schools which will re­
quire us to finance the State's share
of the foundation program to meet an
enrollment of over 2.6 million children
during the next two years? Do we
forget that our junior college en­
rollment will expand by approximately
40 per cent during the biennium and
there will be over 42,000 additional
students in our senior colleges and
universities during this same period?
Should we let the plans for future
water needs and pollution control in
this State become stagnated for lack
of resources to implement plans al­
ready made?

In short, should we mark time by
being shortsighted in meeting our
responsibilities in the major areas of
government? I am not ready for this
course of action. I know that you are
not, either.

Although I have proposed additional
expenditures in almost every major
field of endeavor, I have still reduced
requests made by various State
agencies and institutions by over $440
million from all sources of funds for
the 1968-1969 biennium. Furthermore,
I have proposed a general revenue
fund budget that is $300 million below
agency requests.

To illustrate how economies were
affected in the preparation of my
budget as it relates to all funds:

—I reduced the requests in the
field of public health, mental health
and mental retardation and institu­
tions under the Texas Youth Council
by $77 million.

—The requests made by some 70
departments and agencies were pared
down by approximately $186 million.

—In the field of public and higher
education, I have trimmed $180 million
off requested appropriations.

Yet I have implemented in every
department and agency covered by the
State Classification Plan an average
pay raise for State employees of
approximately 20 percent.

If I had not made these reductions,
and had acceded to all requests made
by departments, agencies and institu­
tions, and had included the full
amount requested for a teacher pay
raise by the Texas State Teachers
Association, we would be seeking new
sources of funds in excess of $500
million for the next biennium. This
would have necessitated a tax bill
almost four times as large as the one
which I propose.

It has been inferred that the State
has something like a $217 million
"surplus" available for the next two years. Yet the Legislative Budget Board, in its budget, utilized all of this amount. And while it traditionally is restricted to use of existing revenues even its recommendations (which use all the $217 million) do not, in my judgment, anticipate many of the essential spending needs.

For example, let me review with you some of the significant differences between my spending proposals and those of the Budget Board.

In the field of Mental Health and Mental Retardation, I have recommended $4.5 million more than the Legislative Budget Board.

I have recommended $2.5 million more than proposed by the Board to be expended for new programs and facilities to fight juvenile delinquency.

I have proposed a $7.5 million state office building not contained in the Budget Board recommendations to house our State agencies more economically.

I have proposed $24 million in State grants to local communities for water treatment facilities and $4 million in planning grants for sewage treatment plants not recommended by the Board.

I have recommended $3.5 million more than the Board to the Department of Public Safety for additional highway patrolmen and other personnel.

I have recommended $7 million more than the Board to fully implement the constitutional amendment for our welfare recipients.

I have recommended $900,000 more than the Budget Board for expansion of our child welfare program for the neglected, abused and deprived.

I have recommended $3.5 million more than the Budget Board for junior colleges to meet dramatically increased enrollments.

I have recommended $32.5 million more than the Budget Board to meet enrollments and continue our program for excellence in our colleges and universities.

I have recommended $50 million for an increase in pay for the 100,000 public school teachers and professional personnel in our local school systems.

No such recommendation is contained in the Budget Board's proposals.

In my judgment these are critical differences. They are the difference between a vital, progressive State, and one preoccupied with economy to the point of shortsightedness.

To take these essential, positive steps will require additional general revenue of $125 million in the next two years.

Obviously, there are varying opinions on sources of such revenue. Some would impose a corporate and personal income tax. I do not recommend such action.

Some would increase the general rate of the State sales tax. I do not recommend such action.

Some would remove the food and drug exemption in our State sales tax. I do not recommend such action.

And some would increase tuition to our college and university students. I do not recommend such action.

Rather, I have attempted to fashion an equitable plan which will impose the least possible burden upon the individual and business taxpayers of this State. I propose removal of inequities as well as increases in taxes. Some of the taxes I propose will result in a return to rates previously paid in Texas, thus reinstating rates reduced in the past several years. Furthermore, the taxes proposed are not out of line with those imposed in other states.

Specifically, I propose first to bring alcoholic beverages—liquor, wine, beer—under the State sales tax. Under that tax, these commodities presently are taxable only when sold with food for on-premise consumption.

They are exempt from the sales tax at all other times. This is a strange provision and one that can never be fully enforced to the letter of the law.

Of 43 states now imposing a sales tax, 30 include alcoholic beverages in the base of their tax in addition to imposing selective taxes on these same commodities that average slightly higher than similar taxes imposed by the State of Texas. Removal of this exemption from the sales tax would impose no great hardship upon our people and, if made effective on July 1, 1967, would add a total of $26 million to State revenues over the next biennium.

We are all proud of the favorable tax climate which Texas now offers to corporate industry, and we must see that it is retained. Our corporation franchise tax, while substantial for taxes of this type, is modest when
compared to the corporation income
taxes used by 37 states.
The present franchise tax rate is
$2.25 per $1,000 of capital, surplus,
undivided profits and debt. This rate
was set at $3.00 for one year (1959)
and at $2.75 for a period of five years
thereafter. A rate of $3.00 per $1,000
would not put Texas out of line with
other states except for one inequity
arising from the fact that we include
debt in the base of our franchise tax.
On the average, debt accounts for just
slightly less than 25 per cent of the
franchise tax revenue, but it is
especially burdensome to some cor-
porations which must operate with
relatively high debt levels. It is also
burdensome to new corporations
which typically begin operations on
borrowed money.
I am, therefore, recommending that
the rate of the franchise tax be in-
creased to $3.00 per $1,000 of capital,
surplus, and undivided profits, but
that the present $2.25 rate on debt
be continued for the first year of the
biennium and be reduced to $2.00 the
second year.
I wish the revenue situation were
such that I could recommend complete
elimination of debt from the franchise
tax. This is impractical at this time.
It is possible, however, to begin the
gradual elimination of the tax on
debt. I therefore recommend that
beginning the first year of the fol-
lowing biennium, the tax on debt be
reduced by 50¢ each year until
eliminated. This revenue source will
produce about $31 million for the
biennium.
One of our great resources is
natural gas, and a large percentage of
this gas is exported from Texas. It
is obvious from several past failures
that it is impossible to tax only that
portion of the gas which is exported
and stay within the confines of the
interstate commerce clause of the
Federal Constitution. In the past,
natural gas has paid a tax in Texas
in excess of the present seven per
cent rate on wellhead value. In 1954,
the rate was nine per cent and in 1955,
is was eight per cent. I propose that
we return to the eight per cent rate
of a decade ago. At the same time we
should note that there is an inequity
in this tax arising from the attempt
to apply the tax to gas which is used
on the lease where it is produced.
No other major producing state
attempts to tax lease-use gas and the
State Comptroller has publicly recom-
manded that such gas be exempt in
Texas because of the administrative
problems it creates. Your committee
on State and Local Tax Policy recom-
manded exemption of lease-use gas in
1965, and it is my understanding that
a similar recommendation is being
made this year. I endorse this recom-
mandation. An increase in the rate of
the gas production tax from seven
to eight per cent, offset by the
exemption of lease-use gas effective
on July 1, 1967, will add about $18
million to our biennial resources.
As Texans, we take justifiable
pride in the fact that our State
Highway System is the best in the
nation, even though our State gaso-
line tax of 5¢ per gallon, which sup-
ports this system, is among the five
lowest in the nation. An increase to
six cents per gallon, which I now
recommend, would still leave us with
a rate lower than that in effect in 30
states. If such an increase is made
effective July 1, the revenue avail-
able for the next biennium would ag-
egrate $97.6 million. Of this total,
one-fourth, or $24.4 million, will con-
stitutionally flow to the Available
School Fund where it can be utilized
to help meet the cost of the supple-
mental teacher pay increase, which I
have proposed.
The remaining $73.2 million would
go into the State Highway Fund, of
which $24.4 million is dedicated by
law to farm-to-market roads. The
other $48.8 million will be available
for use at the discretion of the High-
way Commission.
Our farm-to-market road program
began in 1949 with the passage of the
Colson-Briscoe Act, which provided for
an automatic allocation of $15 million
a year from general tax resources to
the construction of so-called “land
service” roads.
Later, a portion of the gasoline tax
also was dedicated to the farm-to-
market road program. Over the years
the gasoline tax has become the major
source of support of the farm-to-
market road program, and currently
provides in excess of $50 million a
year for this purpose.
Combined with the Colson-Briscoe
Act and Federal funds, we are now
spending over $75 million a year
on these roads. We now have more
than 35,000 miles of farm-to-market
roads.
Therefore, I recommend the repeal of the Colson-Briscoe Act and the automatic allocation of $15 million a year made under it. This will increase the resources of our general revenue fund by $30 million in the next biennium. This will have no appreciable effect on the farm-to-market road program and at the discretion of the Highway Commission need not affect it at all.

In summary, my revenue recommendations to this point will produce an additional $129.2 million in general revenue funds in the next biennium.

In addition, as a part of my total spending program, but distinct from general revenue needs I have previously outlined, I recommend increased expenditures totaling approximately $19 million for public assistance and medical care.

In 1963, the people of Texas adopted an amendment to the Constitution authorizing the expenditure of up to $60 million per year for public assistance. Appropriations for assistance grants were increased by the 59th Legislature but fell significantly below the amount authorized by the Constitutional Amendment.

I recommend that we increase our expenditures for public assistance to the needy aged, the blind, families with dependent children, and the permanently and totally disabled to the full amount authorized by the people of this State. This recommendation requires $15,302,122 in additional State funds for the 1968-1969 biennium.

Further, I am recommending that proper medical care be provided for all recipients of public assistance under Title 19 of the Federal Social Security Act. The provision of this care will require additional State spending of $3,756,050 during the biennium.

In summary, the recommended increase in welfare grants and implementation of Title 19 total $19 million for the 1968-1969 biennium.

These additional welfare expenditures, coupled with the general revenue needs which I have outlined for you, will bring the total of necessary new revenue to some $144 million—about $15 million more than the $129.2 million in new revenue which I have already outlined.

I think it should be apparent to you that we have reached a place in time where we must re-evaluate our position as one of the leading, most progressive and fastest-growing states in the nation. We have reached a time when we must look toward broadening the economic base of Texas.

Talk of taxes is never pleasant, but this procedure will be with us from now on—demands for more State services will continue to expand as we continue to grow and keep pace with the changing times. Texas is a land of industrial expansion. Tourism is on the move. Texas has come of age.

Consequently, we must look to the future and find even more new sources of revenue.

Therefore, in order to balance the budget for the coming biennium and retain an equitable tax structure, I propose legalizing by local option the sale of liquor by the drink—distilled spirits and wine—under strict regulation. I propose this action not only as a means of raising the needed revenue, but as a means of correcting a situation which has existed in our State for many years—the subterfuge under which so-called private clubs presently are circumventing the law and serving liquor by the drink to the general public.

It is time to bring this matter into the open. It is my considered opinion that a far more wholesome climate will prevail if liquor can be sold by the drink, legally and under tight regulation.

I propose that operators of establishments thus selling liquor be required to comply with a rigid set of standards or lose their licenses. In this regard, I propose that the privilege to operate an establishment selling liquor, whether by drink or by bottle, be suspended for period of six months for serving a minor and revoked forever for the second such offense. The burden of identifying a minor must necessarily rest with the operator of the establishment, but as part of my traffic safety program, I am recommending the adoption of a tamper-proof driver's license, including a color photograph of the holder, which should greatly alleviate this problem. I recommend a special colored license to identify minors.

I further propose, as an added incentive to strict compliance with regulations, an annual license fee of $2,000, of which $1,000 will go to the State, $500 to the county, and $500 to the city.
To bring into balance our spending and revenue-raising program for the coming two-year period, I recommend a tax of five cents per ounce be levied on distilled spirits to be sold by the drink.

The most conservative estimate indicates it will yield more than enough revenue to cover the extra $15 million needed to balance the budget during the next biennium.

The revenue measures that I have proposed will generate an additional $144.2 million in general revenue to the State for the 1968-1969 biennium, and will again produce a balanced budget, just as we provided two years ago and four years ago.

I pointed out earlier that I have submitted budgetary recommendations to you only after exercising economy to the fullest degree that my conscience will condone—cuts totaling $300 million from the general revenue fund.

In my judgment, no other action we take in these chambers more urgently deserves the statesmanship we possess than that of facing up to the responsibilities of financing the needs of our people.

The requests for public funds sometimes seem unending. The appetite of government may appear insatiable.

And yet the growth in demand for governmental services is the inevitable by-product of a vibrant and growing State.

To give all that is asked is extravagance.

But to provide less than substantiated need is irresponsibility.

It is not easy for me to recommend new taxes of any kind. And it is not easy for you to vote to impose taxes.

But to be worthy of the trust that is ours, the alternative for me was unacceptable.

I hope that it will be for you.

Thank you.

SUMMATION OF REVENUE SOURCES

1968-1969 Biennium

1. Repeal the Exemption of Alcoholic Beverages from the Sales Tax (Effective July 1, 1967) ........................................... $26,025,007
2. Increase the Franchise Tax to $3 per $1000 of Capital and Surplus with gradual reduction of the tax on debt .... 30,923,118
3. Increase the Natural Gas Tax from 7 to 8% exempting lease-use gas (net) (Effective July 1, 1967) .............. 17,850,278
4. Increase the Motor Fuel Tax to 6¢ per gallon 

$\frac{3}{4}$ constitutionally allocated to the Available School Fund .......................... 24,415,219

$\frac{1}{6}$ to the State Highway Fund—$73.2 million (Effective July 1, 1967)

5. Repeal of the Colson-Briscoe Act which allocates $30 million each biennium to Farm-to-Market Roads .......... 30,000,000

6. Tax on distilled spirits and wine by the drink based on local option. Estimated to be .......................... 15,000,000

Total additional revenue (general revenue and affected funds) .................................................. $144,213,622

Adjournment

The President announced that the purpose of the Joint Session having been concluded, declared the Senate at 11:35 o'clock a.m. adjourned until 10:30 o'clock a.m. on Monday, February 6, 1967, in accordance with a motion previously adopted in the Senate.

APPENDIX

Sent to the Governor
February 2, 1967
S. C. R. No. 8
S. C. R. No. 10
S. C. R. No. 11