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Annual Meeting Highlights

Governor Discusses State's Challenges

Governor Publications
Texas State Documents
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Governor Bill Clements, speaking to the Texas Research League's 35th Annual Meeting luncheon on Friday, November 13, opened his remarks by applauding "the fine work of the League in the fight to bring fiscal discipline to our state government."

Clements commented on a recent trip to New York where he met with the editors of the nation's leading business newspapers and magazines. He said the number one issue in Texas from these editors' standpoint was the Texas Supreme Court. The editors expressed interest in Chief Justice John Hill's resignation to work for judicial reform. Clements announced that he and Hill would be working together to

bring about changes in the judicial system.

Tax reform is on the mind of many Texans, and Clements said "there is no doubt that one of the great debates of the next session will be the recommendations of the Select Committee on Tax Equity." He said he is willing to consider any proposal the committee makes, except an income tax. "I am opposed to a corporate or personal state income tax," Clements warned. "I will not sign such a measure."

Meeting the challenges facing our state, commented the Governor, means that "business as usual" in Texas state government is over, and that the time for budgetary reform is here. He said that the work initiated this year to curb state spending and restore fiscal discipline represents the first step of this effort. "In fact," said Clements, "our goal must be to launch our state government into an Era of Budgetary Reform in which accountability and responsibility in state government are joined with contemporary management policies and procedures."

The governor then discussed the operational audits of major agencies, a program revived from his first term. The Texas Employment Commission's Employment Services Programs will be audited first, with an audit team recruited from the League's membership.

Economic development efforts were also discussed, with the governor listing the creation of the Department of Commerce, small business regulatory relief, trucking de-regulation, foreign trade zones, bonds for the super collider, and tort reform as examples of successful efforts this year.

Clements closed by saying that the difficult times ahead "require a unified, bi-partisan determination to pursue the

public interest and to build a strong foundation for the future of Texas. The decisions we make now will shape Texas for many generations to come."



Outgoing League Chairman W. C. McCord, Chairman of Board and President of ENSERCH Corporation, right, welcomes Governor Bill Clements.

League President Resigns

Dr. Jared E. Hazleton, president of the Texas Research League since 1982, has resigned his position to pursue opportunities in the private sector. Effective January 1, 1988, Hazleton will join Mesa Petroleum Company in Amarillo as Vice President for Economics.

Hazleton came to the League from the University of Washington, where he was dean of the Graduate School of Public Affairs. He has served also as an officer of the Federal Reserve Bank of Boston, a Ford Foundation consultant in the Middle East, and on the faculty of the Economics Department and as associate dean and professor in the LBJ School of Public Affairs at The University of Texas at Austin.

New Officers Elected

1988-89 League officers:

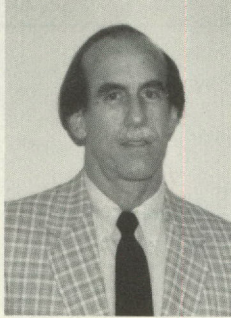
Chairman: **John B. Utsey**, Chairman and Chief Executive Officer, Foley's, Houston

Vice Chairman: **J. Sam Winters**, Partner, Clark, Thomas, Winters & Newton, Austin

Treasurer: **A. W. Riter, Jr.**, Chairman and Chief Executive Officer, First Republic Bank Tyler, N. A., Tyler

Staff Reports to League Members

"There are very substantial problems with our state tax base and its ability to grow with our growing state population and demand for state services."



Senior Research Associate John Kennedy opened the staff presentation to the annual meeting with an overview of the state revenue situation. He immediately got the audience's attention with an interesting statistic: Since the summer of 1984, the legislature has passed a series of tax bills that total more than \$11 billion dollars.

Kennedy explained that the state tax revenue comes from just a handful of major sources—the sales, gasoline, severance and franchise taxes, along with the tax on motor vehicle sales, make up 85% of the total. So when you look at the states taxes over the past five years, what was happening in these areas is critical.

Over those last five years, Kennedy said, there were some important dynamics at work. State tax revenue in 1983 showed a decrease from the previous year—for the first time in 30 years. After modest gains both in 1984 and 1985, the tax take went down again in 1986. While state tax receipts increased 18%, it is important to note that this rise resulted only from rate increases, not from a healthy, expanding tax base.

The Tax Equity Commission was created in response to the problems with the state's tax base, Kennedy said, and will recommend to the legislature a state tax system more responsive to the needs of our state. But, he added, the commission must look not only at state taxes, but also at the local tax system.

Last year's 7+% growth in local property taxes was the lowest increase in 18 years. During the five year period when state tax intake was declining or gaining very modestly, local taxes were increasing at the rate of 12% to 13% per year. But now the downturn in oil and gas prices has dramatically im-

pacted the local level as well as the state, and residential homeowners have picked up the slack. True tax rates at the local level have increased 40% in five years.

Kennedy closed by saying, "There is no great political momentum to tackle major tax reform next session." But taxes will definitely be on the agenda, because early estimates are that an additional \$1 to \$2 billion will be needed to fund the state budget in the next biennium.

"Sure there are places to cut the state budget, but there is no public momentum to cut the big dollar areas."

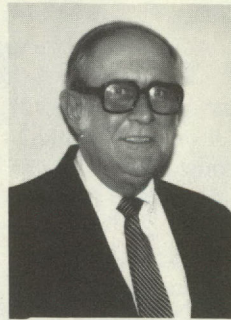
Director of Research Bob Nor-

wood gave an overview of the expenditure side of the budget to complement Kennedy's revenue outline. He stressed that the nature of the state budget makes it difficult to cut expenditures substantially.

The state budget breaks down to 75% program expenditures and nearly all of the rest state employee salaries. Of this 75% for programs, five major areas claim 75% of the total.

Education alone accounts for 44% of state spending. Education is very popularly supported in Texas, as essential for economic development and for keeping people out of prison and off of welfare, Norwood said. Norwood reminded the audience that in a speech two years earlier he had outlined ways to trim the higher education budget. But, he noted, there was little public pressure and, most particularly, almost no business support for doing so. And in the area of public education, a decision to cut state aid would have been a decision to raise local property taxes. The state has little control over expenditure growth at the local school district level.

The four other areas that complete the 75% of the budgeted expenditures are transportation, prisons, mental health/mental retardation, and em-



ployee benefits. "No where," said Norwood, "could you find a substantial public opinion supporting cuts in these programs."

Within existing constraints, noted Norwood, the legislature in 1987 did a pretty good job. The total budget increase of 3.6% is a far cry from the double digit—sometimes 20%—increases that government had become accustomed to in the 70s.

"In recent bienniums, constant legal pressure on the state has resulted in record appropriations for criminal justice and mental health and mental retardation agencies. But it has not been enough."



Research Analyst Augustin Redwine briefed the League membership on the problems facing the prison system and the Department of Mental Health and Mental Retardation. Redwine reported that a contempt citation for failure to improve conditions in the prison system and increased pressure to resolve the MH/MR class action suits placed a high priority in the last legislative session on providing immediate, substantial and continuing relief in both areas.

This translated into record appropriations for MH/MR amounting to a 100% increase in a ten year period; appropriations for adult corrections are five times larger than in 1978 levels.

In the MH/MR arena, Redwine said the major issues currently facing the department are compliance with the recent agreements to settle the lawsuits; recruitment and retention of qualified physicians through higher salaries; and the use of bonding authority to fund facility construction, repair and renovation. As an example of the pulls on the state's purse strings in this area, Redwine noted that the agreement reached in *Lelsz v. Kavanaugh* requires \$63 million above

the current biennium appropriation with possibly another \$140 million needed for the next biennium.

In addressing adult corrections, Redwine shared some interesting statistics with the audience. Fifteen years ago the daily cost per prison inmate was \$3.93. Ten years ago the cost had doubled, but it was still the lowest in the nation. The federal lawsuit so changed the way Texas runs its prisons that today the cost per inmate is \$25 daily and climbing.

Despite the numerous steps taken in the recent legislative session to deal with the many problems facing adult corrections, an emergency situation still exists. Since February, the prison population has exceeded 95% of capacity, and therefore closed its doors to new inmates, 22 times.

A new admissions policy developed by the Texas Department of Corrections—accepting and releasing 150 inmates daily—is helping keep the prison doors open. But the high increase in releases resulting from this policy is putting additional pressure on probation programs and parole officers and is compromising the integrity of the adult corrections system. Street-wise felons are asking to be sent to prison rather than be placed on probation because they know they will spend less time in prison than they would on probation.

“After all the billions of additional state aid over the last ten years, the poorest school districts are merely 7% closer to the expenditures of the richest districts.”



Research Analyst Sabrina Strawn summarized the findings on the *Edgewood v. Kirby* court case challenging Texas' public school finance system and discussed the effects of HB 72 and other finance reforms on equalization of districts' financial resources.

This spring a state district court judge in Austin ruled unconstitutional the Texas system of public school finance. He found that education was a right guaranteed by the Texas constitution, and noted extensive inequalities in the

system. Strawn pointed out that the decision as to constitutionality is only one judge's opinion and that the state is appealing. “But,” said Strawn, “the facts are not in doubt or dispute.”

The court found that there were vast disparities in taxable property wealth among the districts. Furthermore, these wealth inequalities mean that the ability to raise funds is not directly related to tax rates. Poor districts exert a greater tax effort, to less result, than rich districts. Not surprisingly, the court also found great variations in per student expenditures.

Holding that money does make a difference in public education, the judge declared that “a system for funding public education must be adopted that either eliminates or fully compensates for disparities in local district wealth.” His decision would require equal access to funds, not equal expenditures or equal tax rates.

Strawn then went to the authority on public school finance in Texas—the League's **Bench Marks** publication—to give a background on previous efforts to equalize education expenditures. The figures from **Bench Marks** show that every time the state tried to equalize, to compensate the poorer districts for their lack of local funds by simply pouring more state money into the system, the richer districts raised the ante. So after ten years, we are in the same position as far as equalization is concerned, but spending much more money in state aid and local taxes.

Strawn concluded her remarks by discussing some of the options for achieving equalization if the *Edgewood v. Kirby* case is not overturned. These options include total state funding, a limit on local school district spending, and school district consolidation.

“The economic downturn that is clouding the state's financial picture prompted the legislature to loosen its reins on issuing bonds.”



Research Analyst Janet Beinke discussed the changes in the state's pay-as-you-go financial style. In the past,

Beinke said, the state has used bonding with restraint. General obligation (G.O.) bond amendments have been approved for a very limited number of purposes. And even the ability to issue revenue bonds has been parsimoniously doled out. But in this year's legislative sessions, the situation has begun to change.

As the state's resources dwindled, the demand for new or improved programs and facilities did not. Bonds were used to bridge the fiscal gap.

Outstanding G.O. debt totaled \$2.1 billion in September, and unissued authorizations amounted to another \$2.1 billion. Two-thirds of the total is attributable to veterans' land and housing programs and water development. Constitutionally authorized higher education bonds account for another \$868 million.

On the other side of the debt coin is non-guaranteed or revenue debt. As of FY 1987 the state had \$3.7 billion in outstanding bonds. Issuers with substantial amounts of revenue debt are the Texas Housing Agency, the state's colleges and universities, and the Texas Small Business Industrial Development Corporation.

Some changes are starting to appear in the philosophy concerning bond uses. Most obvious are the new purposes for which state bonds were approved or proposed. Behind these new purposes are new repayment approaches and new management activities.

All of the \$1.9 billion in G.O. bonds on last month's ballot, except those for water, represented a departure from traditional bond uses. Voters approved \$1.4 billion in bonds for state prison and MHMR construction, the super collider, and water projects. And the legislature authorized revenue bonds for several new purposes as well.

All told state indebtedness reached \$6.6 billion in FY 1987, compared with about \$2.5 billion in FY 1980, for a 170% increase in the eight year period. When the \$3.5 billion in authorized but unissued G.O. bonds are included, the potential liability jumps to more than \$10 billion.

If the bond-oriented approach taken this year is repeated in the future, and if the state's needs are not brought in line with its financial resources, 1987 could mark the beginning of a new financial style for Texas government.

Board of Directors' Reception



League Chairman **Bill McCord** (l) presents Research Committee Chairman **John Holmgreen** (c) of San Antonio with a life member plaque while League Treasurer **Dub Riter** (r) looks on.



Don Howell (l) of Vinson & Elkins in Houston visits with **Bob Williams** (c) of First Republic Bank and new director **Mary Ruth Duncan** (r), both from Waco.



Dub Riter (l), who was re-elected League treasurer, and **John Utsey** (r), incoming League chairman.



New director **Jim Saxton** (l), Texas Commerce Bank-Austin, and **Ken Murphy** (r), First Abilene Bankshares.



John Lay (l) from Xerox in Austin and League President **Jared Hazleton** (r).



Ron Betz (l), Phillips Petroleum Company, Bartlesville, Oklahoma and new director **Joe Allen** (r), Enron Corp., Houston.



Gale Galloway of Entex, Incorporated, **Henry King** of Texas Eastern Corporation, **Bill Slick** and **Dick Johnson** of the Houston Chronicle Publishing Co., all from Houston.



Left to right: **Buddy Langley**, General Telephone Company of the Southwest, San Angelo; **T. Boone Pickens, Jr.**, Mesa Limited Partnership, Amarillo; new director **Pattilou Dawkins**, Hunter Oil Corporation, Amarillo; and incoming League Chairman **John Utsey**, Foley's, Houston.



Former League Chairman **Bob Present** (l), Capital National Bank, Austin and new director **Bob Rork** (r), First Republic Bank, Austin.

and Meeting Highlights



Left to right: New director **Charles Hrdlicka**, Victoria Bank & Trust Company, Victoria; new executive committee member **Bruce Marsh**, Chevron U.S.A., San Francisco; and **Marvin Selig**, Structural Metals, Seguin.



Left to right: **Dwayne Jose**, Bell Helicopter Textron, Fort Worth; **Tom Jones**, AT&T Company, Austin; and new director **Bob Rork**, First Republic Bank, Austin.



Left to right: **Merle Borchelt**, Central and South West Corporation, Dallas; **Marty Haest**, Westinghouse Electric Corp., Dallas; and **Stan Wyble**, also from Westinghouse, Dallas.



Left to right: League life member **Watson Wise**, Tyler; new director **Roger Hemminghaus**, Diamond Shamrock, San Antonio; and **Bartell Zachry**, E. B. Zachry Co., San Antonio.



Left to right: **Bill George**, Texas Instruments, Dallas; **Bill Elmore**, Southwestern Electric Power Company, Longview; and **Don Scoggins**, Texas Eastman Company, Longview.



Left to right: **T. Boone Pickens, Jr.**, Mesa Limited Partnership, Amarillo; new director **George Nancarrow**, DeGolyer & MacNaughton, Dallas; and **Wales Madden**, Attorney, Amarillo.



Left to right: New director **Bob Martin**, Storey, Armstrong, Steger & Martin, Dallas; **Leo Zuniga**, Sea World of Texas, San Antonio; and **George Becker**, also with Sea World.

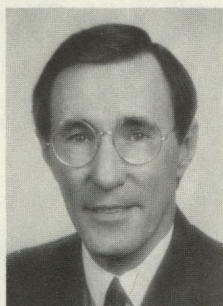


Left to right: Three of the five elected life members of the League are **Tony Martin** of Midland, **John Holmgren** of San Antonio and **Watson Wise** of Tyler.

Texas Research League

New Board Members

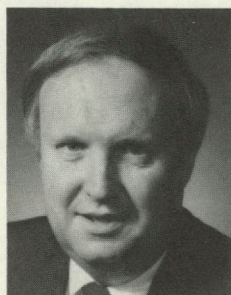
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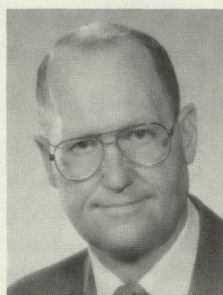
Joe Allen, Vice President, Regulatory & Legislative Affairs, Enron Corporation, Houston



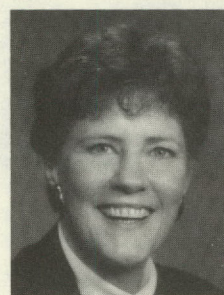
Robert Backlund, Vice President, Administrative Services, 3M Company, Austin



James F. Buresh, National Director, State & Local Taxes, Sears Roebuck & Company, Chicago



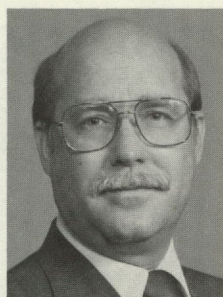
Paul W. Cain, President, Mesa Limited Partnership, Amarillo



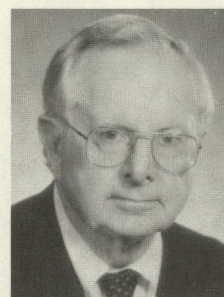
Pattilou P. Dawkins, President, Hunter Oil Corporation, Amarillo



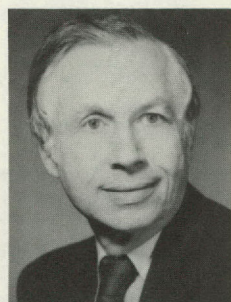
Mary Ruth Duncan, Waco



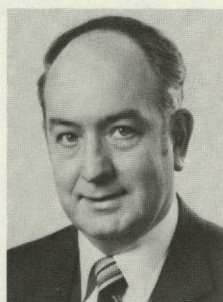
Ronald J. Endres, President, Southern Union Gas Company, Austin



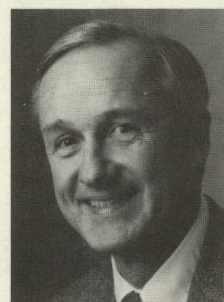
William E. Gipson, President and Chief Operating Officer, Pogo Producing Company, Houston



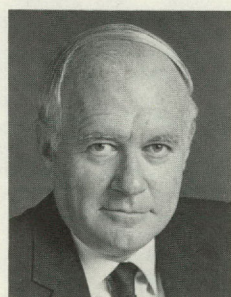
Jenard M. Gross, Chairman and Chief Executive Officer, United Savings Association of Texas, Houston



Clifford J. Grum, President and Chief Executive Officer, Temple-Inland, Inc., Diboll



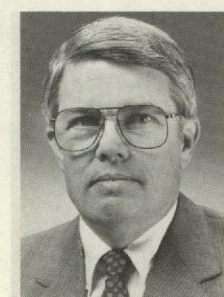
Roger Hemminghaus, Chairman and Chief Executive Officer, Diamond Shamrock Refining and Marketing, San Antonio



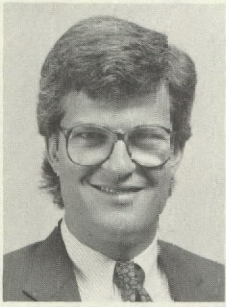
J. Roger Hirl, President & Chief Operating Officer, Occidental Chemical Corp., Dallas



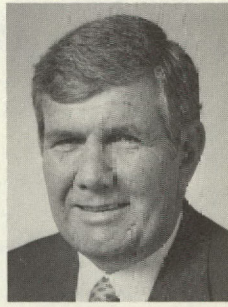
William B. Houston, Associate General Tax Counsel, Worldwide Production, Marathon Oil Company, Houston



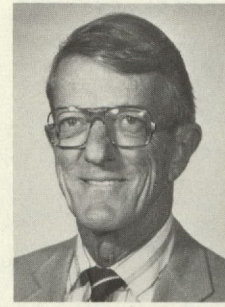
Charles R. Hrdlicka, Chairman and Chief Executive Officer, Victoria Bank & Trust Co., Victoria



Jerrold Jackson, Vice President-Finance, The Houston Post, Houston



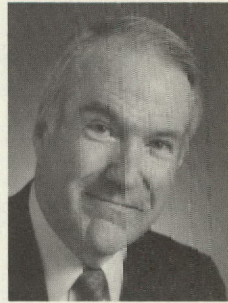
G. M. Laden, Vice President and General Manager, Lockheed Missiles & Space Company, Inc., Austin



Robert M. Martin, Jr., Partner, Storey, Armstrong, Steger & Martin, Dallas



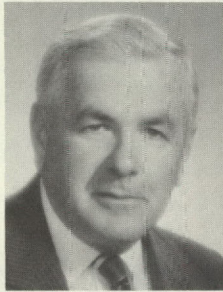
Frank W. McBee, Jr., Chairman and Chief Executive Officer, Tracor, Inc., Austin



Jack Murphy, Chairman, American Physicians Service Corporation, Austin



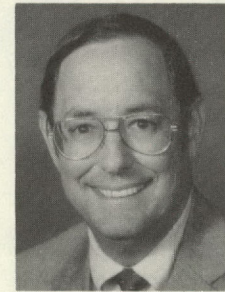
George W. Nancarrow, Chairman of the Board, DeGolyer & MacNaughton, Dallas



Kenneth W. Perry, President and Chief Executive Officer, American Petrofina, Inc., Dallas



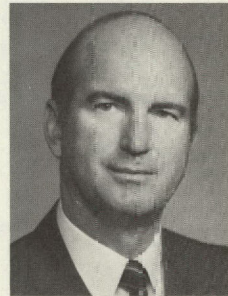
Charles N. Prothro, Perkins-Prothro Company, Wichita Falls



Bruce Romig, Executive Vice President, State Farm Insurance, Austin



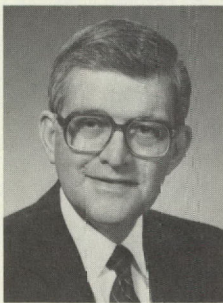
Robert T. Rork, Vice Chairman, First RepublicBank-Austin



James E. Saxton, Jr., Chairman and Chief Executive Officer, Texas Commerce Bank, Austin



Tom V. Shockley, III, President and Chief Executive Officer, Central Power & Light Company, Corpus Christi



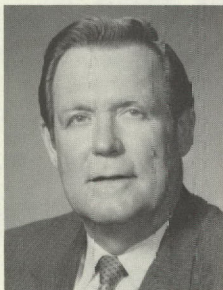
Darwin W. Smith, Chairman and Chief Executive Officer, Kimberly-Clark Corporation, Irving



William T. Smith, Chairman of Board and Chief Executive Officer, Wolverine Exploration Co., Fort Worth



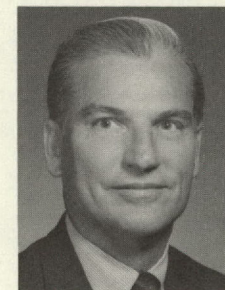
E. Bruce Street, Jr., Investments, Graham



Roland M. Tillison, Vice President and Regional Manager, Otis Elevator Company, Dallas



Judy Trabulsi, Founder, GSD&M, Austin



E. L. Watson, Senior Vice President, Texas Utilities Electric Company, Dallas

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