

November 15, 2007

The Honorable Rick Perry, Governor
The Honorable David Dewhurst, Lieutenant Governor
The Honorable Thomas R. Craddick, Speaker of the House
Members of the 80th Legislature

Ladies and Gentlemen:

In accordance with Texas Government Code Section 403.0131, I present the detailed tables for the revenue estimate I used to certify the General Appropriations Act for 2008-09 and other appropriations bills approved by the 80th Legislature.

The estimates in this document reflect actual collections through Aug. 31, 2007, the end of fiscal 2007. After accounting for statutory transfers, adjustments and balances on hand at the close of the 2006-07 biennium, the state will have a total of \$85.1 billion in General Revenue-related funds available to finance appropriations in the 2008-09 biennium.

This estimate shows that available revenue supports current General Revenue spending of \$83.1 billion for the 2008-09 biennium, yielding an expected General Revenue-related ending balance of \$2.0 billion on Aug. 31, 2009. It should be noted that the aforementioned \$83.1 billion includes the legislatively mandated transfer of \$3.0 billion to the Property Tax Relief Fund from the General Revenue Fund, to be made in August 2008.

Fiscal 2007 closed stronger than expected. The increase was brought about by greater revenues, attributable to strong state economic growth, and lower expenditures, attributable to legislative and agency spending restraint. State sales and use tax collections, which registered a 10.9 percent increase over fiscal 2006, have proved particularly robust, propelled in large part by vigorous activity in the mining, construction, manufacturing and trade sectors.

The economic forecast that provides the basis for many of the calculations underlying this estimate reflects the expectation that state economic growth will continue to slow down well into 2009, but, as with most current projections for the U.S. economy, will still continue to expand. The state's non-farm employment is expected to register only a 1.9 percent average annual increase in 2008-09, compared to the 2.9 percent average annual rate for 2006-07. Likewise, Texas' gross state product is expected to increase at only an average annual rate of 3.0 percent in 2008-09, compared to the 3.7 percent average annual rate for the previous biennium.

November 15, 2007

Page Two

As a note of caution, in an effort to increase liquidity in credit markets and ease the economic consequences of the ongoing correction in the housing market, the Federal Reserve Board decreased short-term interest rates first on Sept. 18 and again on Oct. 31. Although this strategy has met with generally positive responses, the overall consequence is that we remain in a period of uncertainty that demands extreme caution and prudence.

As required by the Texas Constitution, and not included in the General Revenue-related funds available for 2008-09 biennial appropriations, a total of \$3.0 billion has been set aside from fiscal 2007 receipts for transfer to the Economic Stabilization (Rainy Day) Fund. This transfer, representing a portion of the oil and natural gas production tax receipts and unencumbered balances in the General Revenue Fund, must be made before the end of November 2007.

I will continue to monitor the Texas economy and revenues closely, and I will keep you informed of any significant events as they arise.

Sincerely,

Susan Combs

Enclosure

cc: Capitol Office

John O'Brien, CPA, Director, Legislative Budget Board

The 2008-09 Certification Revenue Estimate

The State of Texas will have an estimated \$85.1 billion available for general purpose spending in the 2008-09 biennium, 12.9 percent above the corresponding amount for 2006-07. (See Tables 1, 2, and 3.) This figure represents the sum of the 2006-07 ending balance, 2008-09 tax revenue, and 2008-09 non-tax receipts, less estimated transfers to the Economic Stabilization Fund (ESF) and adjustments to General Revenue-related dedicated account balances.

Tax collections in 2008-09 will generate \$68.8 billion; and non-tax revenues will produce an additional \$9.6 billion. Factoring in the \$8.8 billion ending balance carried forward from 2006-07, these three sources total \$87.1 billion. Against this amount, \$2.1 billion must be placed in reserve for future transfers to the ESF, and \$115 million must be added for various adjustments to General Revenue-related dedicated account balances.

Taking all state revenue sources into account, the state is expected to collect \$160.5 billion in revenue for all state funds during the 2008-09 biennium.

Texas Economic Outlook

Largely in response to national events, the Texas economy started losing momentum in the second half of fiscal 2007. This slowdown is expected to continue into the 2008-09 biennium. (See Table 4.)

As the national housing sector continues to weaken, pressure on the Texas economy will become more manifest, driving down the growth rate in gross state product (GSP). Adjusted for inflation, year-over-year GSP growth should average 3.0 percent in 2008-09, down 19 percent from the 3.7 percent average annual growth rate in 2006-07. Even so, Texas GSP is still expected to outpace national growth, estimated to average 2.4 percent in the biennium.

Texas Still Outperforming the Nation. Texas created jobs nearly twice as fast as the nation during the 2006-07 biennium. Non-farm employment in the state advanced by 2.9 percent annually, while U.S. non-farm employment grew at slightly more than half that rate—1.7 percent. In 2008-09, national as well as Texas job growth rates are expected to slip, but Texas is still expected to maintain its relative advantage, growing by an annual average of 1.9 percent, compared to a national average of 0.9 percent.

The unemployment rate in Texas dropped to 4.2 percent at the end of fiscal 2007, compared to 4.6 percent nationally. This was largely attributable to the impact of high energy prices on the state's oil and gas production, manufacturing, and service sectors. Although higher energy prices have negative effects on Texas consumers, in the near term, they still have a positive effect on the state's overall economy, because the oil and

natural gas industry provides Texas with relatively high-paying jobs and profits. State and national unemployment rates are likely to trend upward during 2008-09, with Texas averaging 4.8 percent unemployment for the biennium, compared to 4.9 percent nationally.

Personal income growth was healthy in Texas in 2006-07 and is expected to remain so, albeit at a more modest rate. Job growth helped nominal personal income increase by an annual average of 8.4 percent in 2006-07, but slower job growth should temper this to a 5.9 percent average annual rate in 2008-09.

Population growth in Texas is expected to step back from the rapid 2006-07 pace, which was fueled by the large number of migrants displaced by Hurricane Katrina. Even so, Texas population will increase by 761,000 in 2008-09—an average annual increase of 1.6 percent—to reach 24,536,000 in fiscal 2009.

Job Growth Shifting. As fiscal 2007 drew to a close, oil and natural gas prices completed a three-year run-up that brought new vitality to the state's energy sector. Natural resources and mining continued to lead Texas industries with the fastest rate of job growth that year, but the lead in job growth was in professional and business services, which added 63,300 jobs, up 5.2 percent over 2006. During the 2008-09 biennium, the growth in professional and business services is expected to remain solid, at 4.3 percent annually. Management services, support services for the energy industry, and computer systems and other scientific services will be the key sectors supporting this growth.

Texas' job growth over much of 2006-07 was also spurred by construction jobs, including rebuilding the damage from 2005's Hurricane Rita. Even though job growth in the construction sector is expected to soften in 2008-09 in response to tighter mortgage lending standards and fewer housing starts, all but one major industry—manufacturing—in the state is still expected to add jobs over the biennium. The confluence of continued strong productivity increases and a general economic slowdown is expected to cause the manufacturing sector in Texas to shed jobs by an average of 0.6 percent per year.

Oil & Gas Steady and Stable. Texas' oil and gas sector has benefited significantly from higher energy prices, particularly those activities in support of oil and gas exploration and development. Texas is the headquarters for many companies in the oil and gas industry, and, not unexpectedly, the natural resources and mining industry's contribution to Texas personal income is more than five times the national share. In 2006-07, this industry had 32,400 more jobs (predominately in oil and gas activity) than in the previous biennium, for an average annual growth rate of 9.9 percent. While job growth at those lofty rates appears unsustainable in the 2008-09 biennium, the energy price levels in the current forecast support annual employment growth of 2.7 percent.

With respect to exploration activities, 3,229 new oil wells and 6,737 new gas wells were completed during the first nine months of calendar 2007. These represented increases over the same period of the previous year of 4.5 percent and 10.2 percent, respectively.

In comparison, the growth rates in new well completions between 2005 and 2006 were 39 percent for oil wells and 20 percent for gas wells.

Construction Slowing. The Texas construction industry contributed strong employment growth in 2006-07, but the action shifted from the building of single-family homes to the construction of utility systems, refineries, and pipelines related to the state's oil and gas industry, as well as heavy engineering construction related to the building of multi-family residences, and highways.

Although Texas has thus far fared better than many other large states in the mortgage credit crunch, the state's single-family construction sector has not been immune from its effects. According to data from the Texas A&M Real Estate Center, new single-family housing permits in Texas have declined from an annualized level of 165,298 in September 2006 (close to an all-time high) to 121,327 in September 2007, a 26.6 percent decline. Even so, the adverse effects of declining single-family permits have been softened by increases in multifamily housing permits, which jumped more than 20 percent in 2007.

The outlook is for single-family residential construction to continue shrinking through fiscal 2008, but for multi-family residential and highway building to remain on a positive growth path, with overall construction employment expected to advance by an average 1.2 percent per year in 2008-09. While that is markedly slower than the 5.3 percent rate in 2006-07, it will still result in an additional 15,500 construction jobs in the biennium.

Exports Still Strong. National forecasters expect the dollar to continue its slide relative to major world currencies, and this will benefit Texas exporters. Texas exports rose by 13.7 percent to nearly \$165 billion in fiscal 2007, the fourth consecutive year of double-digit percent increases. Texas exports now account for nearly 15 percent of the state's economic product, up from less than 10 percent in 1990, and they constitute 14.6 percent of all U.S. exports. Texas exports are forecast to grow by an annual average of 10.8 percent in 2008-09, with a value surpassing \$200 billion in fiscal 2009.

Forecast Concerns. Housing remains the biggest drag on national economic growth, and the headwind from steep declines in this area has the potential to derail the national economy and, by extension, the Texas economy. Economic consultant Global Insight, Inc. expects housing starts to fall 31 percent nationally in fiscal 2008. A significant downturn would be expected to spill into the consumer sector, with the potential to cause a contraction in retail sales. The savings rate nationally is at its lowest rate since the 1930s, with several years of consumer spending that outstripped income growth. This pattern inevitably will turn around, and when it does, there will be a substantial drag on wholesale and retail sales activity.

To no small extent, the use of mortgage equity withdrawals helped propel consumer spending throughout most of 2006-07. With the recent bursting of the nationwide housing bubble and the concomitant problems associated with the nonperformance of many subprime mortgages, housing prices have begun to fall in many markets while

lending practices have grown stricter. The ultimate consequence has been to restrict consumers' ability to draw additional funds via mortgage equity withdrawals, thereby exacerbating the slowdown in wholesale and retail sales.

Going into fiscal 2008, strong growth in the global economy and the declining value of the dollar have worked to boost U.S. export growth. While economic growth in Asia looks to remain solid, there are now some indications that the European economy may be losing steam. Any general slowdown in U.S. exports would be felt in Texas, if only for the simple reason that Texas is the nation's largest exporting state.

So far, inflation has remained under control, leaving the Federal Reserve Board some leeway to maneuver and forestall a recession. Rates of productivity growth, however, are expected to slow, raising the possibility of upward pressure on prices.

Finally, it should be noted that while the economic forecast relies on current consensus estimates for oil and gas prices, any circumstances in which oil prices jump to—and, most importantly, remain—at levels above \$100 per barrel could have serious consequences for the U.S. and Texas economies. Although \$100-plus prices could be salutary to the oil and gas sector of the Texas economy in the short-run, those gains would be expected to be overwhelmed in the longer term as transportation, fertilizer, and general petrochemical industry feedstock costs shoot up within the state, and general price inflation accelerates at the national level.

The baseline expectation is that the Texas economy will continue to grow throughout 2008-09, albeit at a decidedly slower pace than in 2006-07.

The 2006-07 Ending Balance

The ending certification balance for 2006-07 is \$8.8 billion after setting aside a required \$3.0 billion transfer to the ESF. This balance is the joint product of unexpectedly vigorous revenue growth—driven principally by sustained growth in housing, and consumer purchases—and 2006-07 available revenue remaining unappropriated.

Fiscal 2007's remarkable pace, however, is not expected to continue. As discussed in the preceding "Economic Outlook," Texas housing activity is expected to drop, oil and natural gas prices to recede, and consumer purchases to abate as the national and Texas economies cool.

The Economic Stabilization Fund

As required by the Texas Constitution, a total of \$3.0 billion has been set aside from fiscal 2007 receipts for transfer to the ESF by the end of November 2007. This transfer, which represents a portion of the oil and natural gas production tax receipts and unencumbered balances in the General Revenue Fund, is not included in the General Revenue-related funds available for 2008-09 biennial appropriations.

With respect to 2008-09 revenues, the portion of state oil production and natural gas tax collections reserved for transfer to the ESF should total \$2.1 billion over the biennium. Again, as required by the Texas Constitution, these estimated transfers to the ESF have been deducted from available revenues and balances.

At the end of the 2008-09 biennium, August 31, 2009—and before the fall 2009 required transfer of fiscal 2009 revenues—the ESF balance should total \$5.7 billion.

Tax Revenue

The state's tax system is the main source of General Revenue-related funding. Taxes are expected to yield \$68.8 billion during the upcoming biennium, contributing 87.8 percent of total net revenues. Compared with the \$65.0 billion collected in 2006-07, total General Revenue-related tax collections in 2008-09 are expected to register a 5.8 percent increase.

Since 1988, state sales tax revenues have accounted for more than half of all state General Revenue-related tax collections. Motor vehicle sales and use taxes provide the second-largest source of general revenues, followed by the proceeds from the state's general business tax—the franchise tax. The franchise tax is the largest state tax not levied on consumption.

Sales and Use Taxes. In fiscal 2007, Texas sales and use tax receipts totaled \$20.2 billion, up 10.9 percent from 2006. The increase was driven by several major sectors of the economy. The construction and manufacturing sectors each experienced gains of more than 20 percent for the year. In addition, high energy prices—spurring increased exploration, repair, and maintenance activity—led to significant increases in the mining industry, which was up 40.4 percent. Sales and use tax collections from the retail trade sector, which typically accounts for more than 50 percent of total sales tax revenue, rose by 6.8 percent in fiscal 2007.

The continued high growth rates for sales tax collections are impressive given that inflation—excluding volatile energy components—in recent years has been (and continues to be) low by historical standards. Outside of those years where legislative changes to the tax resulted in large revenue increases, fiscal 2006 and 2007 saw the largest inflation-adjusted growth rates in sales tax revenue since 1978.

The growth in sales tax collections is expected to taper down significantly over the 2008-09 biennium. New home construction permitting is down, as previously discussed; sales tax on building materials for new homes is likewise expected to be down. Consumer spending associated with both new and existing home sales is projected to decline, as sales of appliances and other large consumer durables recede from recent levels.

Sales taxes are expected to generate \$42.1 billion state revenue in 2008-09. Compared to the \$38.4 billion collected in 2006-07, this will represent a 9.6 percent biennial increase.

Franchise Tax. The franchise tax undergoes an extensive transformation beginning with reports due in 2008. The universe of business entities subject to the tax expands to include: partnerships, business trusts, professional associations, business associations, joint ventures, holding companies, and other legal entities. Corporations and limited liability companies remain subject to the tax as well. Business entities not subject to the franchise tax include sole proprietorships and general partnerships composed entirely of natural persons. Exempt entities defined in Chapter 171, Subchapter B, are also exempt as are certain partnerships and trusts that qualify as passive entities.

The base for the franchise tax is “taxable margin” apportioned to Texas. “Taxable margin” is defined as the smallest of three calculated values: 70 percent of total revenue; total revenue less the cost of goods sold; and total revenue less compensation. The tax rate applied to Texas-apportioned taxable margin is 1 percent for a business not primarily engaged in wholesale or retail trade. For a business primarily engaged in wholesale or retail trade, the tax rate is 0.5 percent.

Franchise tax receipts in 2006-07 reflected the old base (capital and earned surplus) and rates. Receipts totaled \$5.7 billion—a 43.6 percent increase over the amount collected in 2004-05. The large increase reflected continued strong corporate profits, due, in part, to the steep rise in oil and gas prices that occurred between 2004 and 2006.

As discussed above, the 2008-09 biennium is the first biennium in which the franchise tax will be calculated on the taxable margin base. The newly configured tax is estimated to yield \$11.9 billion in total (all funds) revenue for 2008-09—more than double the amount collected in 2006-07. However, pursuant to legislation also adopted by the Legislature in 2006, only \$5.8 billion of the 2008-09 franchise tax revenue—the estimated amount that would have been collected under the previous franchise tax law—will be available for general-purpose spending. The remainder will be dedicated for school property tax relief.

In 2006, the 79th Legislature, 3rd Called Session, enacted HB 2, which established provisions for dedicating part of the franchise tax revenue collected to the Property Tax Relief Fund. The dedicated revenue is the amount collected under the taxable margin based tax that exceeds the amount estimated to be collected under the prior capital and earned surplus based tax. For 2008-09, the amount estimated for the Property Tax Relief Fund from the franchise tax is \$6.1 billion.

Motor Vehicle Taxes. The state’s motor vehicle taxes respond in general to changes in the state’s economy as well as changes in the number of vehicles purchased and their prices. In 2007, manufacturer and dealer price incentives continued to attract buyers to showrooms, where they accelerated the switch from trucks, minivans, and mid-sized SUVs to more car-like crossover vehicles and smaller and more fuel-efficient vehicles. As a consequence, 2006-07 tax collections rose 14.3 percent over the amounts collected over 2004-05.

As the economy cools down, the outlook for 2008-09 tax collections is expected to follow suit. Motor vehicle tax collections are expected to generate \$6.8 billion in 2008-09, up 6.3 percent over the \$6.4 billion collected in 2006-07.

In addition, pursuant to HB 2 and HB 4, 79th Legislature, 3rd Called Session (2006), an additional \$25.2 million in motor vehicle sales tax revenues in 2008-09 will be made available for school property tax relief. The additional funds will derive from the “presumptive value” calculations required by HB 4 for the purpose of calculating motor vehicle sales tax liability for used vehicles sold in private-party transactions, effective October 1, 2006.

Motor Fuels Taxes. Three quarters of the proceeds from the state’s motor fuels taxes are dedicated to the State Highway Fund, with the remainder dedicated to the support of public education, a General Revenue-related activity. In 2004-05, General Revenue-related motor fuels tax collections rose 4.4 percent over the previous biennium. For 2006-07, however, biennial growth slowed to only 2.6 percent, reflecting consumer responses to the sustained run up in fuel prices.

After deducting for transfers to the State Highway Fund, General Revenue-related tax collections for 2008-09 are expected to rise to \$1.7 billion, up 4.6 percent from the \$1.6 billion collected in 2006-07, as motorists adjust to higher fuel prices.

Oil & Gas Taxes. Oil and gas severance tax collections are the product of two factors: production and price. Since 2002, taxable oil prices have taken a generally upward path, rising from \$17.54 per barrel in January 2002 to \$70.36 in July 2007. This price increase is the result of a variety of forces, including: persistent threats of supply disruptions abroad, hurricane-related production losses in the Gulf of Mexico, diminished excess production capacity, growing global demand, and the continuing depreciation of the U.S. dollar. For all of fiscal 2007, taxable oil prices averaged \$58.92 per barrel; and oil production and regulation tax revenues dropped to \$835 million for the year, down 3.2 percent from the \$862 million collected in fiscal 2006.

Given the continuing trend of production declines, oil production and regulation taxes are anticipated to generate \$1.6 billion in revenue for 2008-09, compared to \$1.7 billion in 2006-07, a 7.4 percent decline.

Two factors—ample natural gas in storage (attributable in part to the previous warm winter) and the implosion of the Amaranth Advisors hedge fund—caused prices to fall below \$5 in October 2006 for the first time in two years. The fiscal 2007 taxable natural gas price dropped to \$5.86 per Mcf, a 15.8 percent decline from the fiscal 2006 price of \$6.96.

Natural gas prices are expected to rebound modestly in 2008-09 as storage volumes are worked off, Canadian imports decrease, minimal additions are made to LNG supplies, and demand growth offsets the expected new production from the Independence Hub in the Gulf of Mexico. In addition, Texas production has been on an upward path since

2003, due in large part to the tremendous growth in output of the Barnett Shale Formation, which now spans 17 counties in the Fort Worth Basin, accounting for 12 percent of Texas gas production in 2006.

Natural gas tax receipts are expected to total \$3.6 billion in 2008-09—down 16.2 percent from the \$4.2 billion collected in 2006-07.

Insurance Taxes. Compared to the 8.1 percent biennial increase registered in 2004-05, insurance tax collections moderated slightly in 2006-07, rising 7.7 percent to \$2.6 billion, compared to the \$2.4 billion collected in 2004-05.

For 2008-09, revenue growth is expected to abate still further, to 3.4 percent, yielding \$2.7 billion. The modest increase is attributable to a continued soft market in the property and casualty lines; slowing growth in life, accident, and health lines; and the increased application of premium tax credits for guaranty fund assessments and certified capital company (“CAPCO”) investments.

Tobacco & Alcoholic Beverage Taxes. Cigarettes, which account for the great majority of tobacco tax revenue, were taxed at the rate of \$0.41 per pack from 1990 through December 2006. Pursuant to HB 5, passed by the 79th Legislature, 3rd Called Session (2006), the tax rate rose by an additional dollar to \$1.41 per pack, effective January 1, 2007. This tax hike, combined with the downward national trend in tobacco usage, should exert a downward force on consumption and, in turn, associated tax revenues.

In 2006-07, cigarette and tobacco tax revenues to all funds totaled \$1.9 billion, 65.8 percent above the amount collected in 2004-05. The jump in revenues was due to the rate increase in 2007. For 2008-09, total all-funds revenues are expected to increase by 34.9 percent to \$2.5 billion. Of this amount, \$1.1 billion will be available for general purpose spending, and \$1.4 billion will be dedicated to school property tax relief.

Three-quarters of all alcoholic beverage tax revenues are generated by the mixed beverage tax, which is levied at 14 percent of gross receipts. As with general sales tax collections, the growth in mixed beverage tax proceeds is expected to taper off in 2008-09 in response to the economic slowdown. As such, and in contrast to the 15.0 percent biennial growth registered in 2006-07, total alcoholic beverage tax revenues are expected to reach \$1.5 billion in 2008-09, up 9.3 percent from the \$1.4 billion received in 2006-07.

Utility Taxes. Combined utility tax revenues posted a 34.0 percent biennial increase in 2006-07, rising to \$987 million from \$736 million in 2004-05. Total utility tax receipts are expected to rise only 10.2 percent in 2008-09, to \$1.1 billion, tracking the general economic slowdown.

Hotel Occupancy Tax. Following a 4.9 percent downturn in 2002-03, hotel occupancy tax revenues rebounded by 9.2 percent in 2004-05, reaching \$501 million, as tourism and business travel picked up in response to the improving national and state economies. The economic surge continued into 2007, with the result that 2006-07 revenues jumped by

29.5 percent, totaling \$648.7 million. Given the more modest, but sustained economic growth forecast for the upcoming biennium, hotel occupancy tax revenues are expected to rise by 12.9 percent to \$732.5 million in 2008-09.

Other Taxes. The state's remaining taxes include the currently dormant inheritance tax and taxes on such disparate subjects as cement, sulphur, coin-operated machines, oil-well services, attorneys, and bingo rental receipts. Other tax collections are expected to generate \$151.6 million in 2008-09, up 2.4 percent from the \$148.1 million collected in 2006-07.

Non-Tax Revenue

In addition to the \$68.8 billion in tax revenue estimated for 2008-09, the state's General Revenue-related funds are expected to receive \$9.6 billion in non-tax revenue. This represents a 12.3 percent decline from the \$10.9 billion in non-tax receipts in 2006-07. Non-tax revenue comes from the total return distribution from the Permanent School Fund to the Available School Fund, state lottery proceeds, fees, and other sources.

Interest and Investment Income. For 2008-09, interest and investment income is expected to fall 13.4 percent below 2006-07 collections, from \$2.0 billion to \$1.7 billion. The \$26 billion Permanent School Fund (PSF) produces most of the investment income accruing to General Revenue-related funds, but the PSF distributions to the Available School Fund will be based on a rate of 3.5 percent in the upcoming biennium instead of the 4.5 percent rate used in the 2006-07 biennium. Also contributing to the decline are lower balances in General Revenue-dedicated funds and lower anticipated interest rates.

Lottery Proceeds. With an expected small decline in per-capita lottery sales counterbalanced by overall population growth, lottery transfers to the Permanent School Fund and other General Revenue-related accounts are projected to total \$2,071 million in 2008-09, virtually unchanged from the \$2,061 million in 2006-07.

Remaining Revenues. In addition to the two revenue sources discussed above, the non-tax revenue category includes licenses, fees, fines and penalties; the sales of goods and services; land income; contributions to employee benefits; settlements of claims (including tobacco settlement proceeds), unclaimed property, third-party payments from private vendors in the state-federal Medicaid program, and federal payments to the state for treating indigent patients, among other revenue sources.

In fiscal 1999, Texas began receiving regularly scheduled court settlement payments from tobacco product manufacturers. In 2008-09, Texas tobacco settlement receipts are expected to total \$985 million, a 5.3 percent decline from the \$1,041 million received in 2006-07. Future tobacco settlement payments likely will be negatively affected by the cigarette tax increases imposed recently by Texas and other states (and their local governments). The resulting higher consumer prices are likely to accelerate the national decline in cigarette consumption, reducing the sales volume of the settling cigarette manufacturers and thereby causing lower settlement payments.

With respect to federal payments, after falling by 26.6 percent to \$531 million in 2006-07, revenues from the Disproportionate Share Program, which helps pay for indigent care at state and local hospitals, are expected to decline further, by 17.3 percent, to \$439.3 million in 2008-09. Since fiscal 2005, the diversion of potential state Disproportionate Share funds to the closely related Upper Payment Limit Program, which pays eligible health care providers at the generally higher Medicare—rather than Medicaid—rates for each procedure, has significantly reduced state Disproportionate Share revenues.

Like Disproportionate Share, state vendor drug rebates from major pharmaceutical manufacturers participating in Medicaid's vendor drug program are also on the decline, as Medicare (rather than Medicaid) assumes responsibility for providing prescription drugs to low-income senior citizens. As older Texans increasingly turn to the Medicare Part D prescription drug program, the General Revenue portion of Medicaid-related vendor drug rebates are expected to continue to fall—by 2.9 percent—in 2008-09, relative to 2006-07 receipts.

In the past, revenue collected from teacher retirement reimbursement from funds outside the State Treasury was deposited into the General Revenue Fund. Pursuant to HB 2358, 80th Legislature, Regular Session (2007) this revenue has been redirected to the Teacher Retirement System Trust Account. This will reduce General Revenue by \$497 million for 2008-09, which will in turn be offset by a reduction in expenditures.

Finally, collections of the telecommunication utility/commercial mobile service provider assessments totaled \$427.7 million in 2006-07. Effective September 1, 2008, however, these assessments will be abolished pursuant to HB 735, 80th Legislature, Regular Session (2007). Because fiscal 2009 will see only one month of assessment receipts, this will result in a 40.6 percent decline in biennial revenues—to \$253.9 million—for 2008-09.

Revenue to All Funds

Revenue to all funds will total \$160.5 billion in 2008-09. Of this amount, General Revenue-related receipts will total \$78.4 billion, and dedicated federal income will account for \$51.6 billion. Most of the federal funds will be used for health and human services, highway construction and maintenance, and public education programs. A second large source of all funds revenue is the State Highway Fund's share of motor fuels tax revenue, which is constitutionally dedicated to highway construction and maintenance and public transportation.

Total revenue to “all funds” does not equal appropriations to all funds because the total estimated revenues do not include the fiscal 2007 ending balance in the General Revenue Fund, which provided part of the \$167.3 billion appropriation for 2008-09.

In addition, total estimated revenues do not include certain local funds that are appropriated but not deposited into the State Treasury, but they do include certain

revenues that are deposited in the State Treasury but not appropriated, such as royalties deposited to the Permanent School Fund. (See Table 5.)

TABLE 1
General Revenue-Related Funds By Source

	Revenue in Millions		Percent Change
	2006-07	2008-09	
<i><u>Tax Collections</u></i>			
Sales and Use Taxes	\$ 38,384	\$ 42,071	9.6 %
Motor Vehicle Sales and Rental Taxes	6,361	6,759	6.3
Motor Fuels Taxes	1,615	1,689	4.6
Franchise Tax	5,750	5,836	1.5
Insurance Taxes	2,578	2,665	3.4
Natural Gas Tax	4,235	3,550	(16.2)
Cigarette and Tobacco Taxes	1,164	1,101	(5.4)
Alcoholic Beverage Taxes	1,412	1,544	9.3
Oil Production and Regulation Taxes	1,697	1,572	(7.4)
Inheritance Tax	19	1	(96.9)
Utility Taxes	987	1,087	10.2
Hotel Occupancy Tax	649	732	12.9
Other Taxes	148	152	2.4
Total Tax Collections	<u>\$ 64,999</u>	<u>\$ 68,760</u>	5.8 %
<i><u>Non-Tax Collections</u></i>			
Licenses, Fees, Fines, and Penalties	\$ 2,645	\$ 2,510	(5.1) %
Interest and Investment Income	1,990	1,724	(13.4)
Lottery Proceeds	2,061	2,071	0.4
Sales of Goods & Services	193	196	1.6
Settlements of Claims	1,071	999	(6.7)
Land Income	19	15	(21.1)
Contributions to Employee Benefits	459	1	(99.7)
Other Revenue Sources	2,500	2,081	(16.8)
Total Non-Tax Collections	<u>\$ 10,939</u>	<u>\$ 9,597</u>	(12.3) %
Total Net Revenue	\$ 75,937	\$ 78,357	3.2 %
<i><u>Balances and Adjustments</u></i>			
Beginning Fund 1 Balance	\$ 3,687	\$ 8,771	
Beginning Funds 2 and 3 Balances	52	19	
Change in GR-Dedicated Account Balances	302	115	
Reserve for Transfers to the ESF	(4,557)	(2,143)	
Total Balances and Adjustments	<u>\$ (517)</u>	<u>\$ 6,762</u>	
Total General Revenue-Related Funds Available for Certification	<u>\$ 75,420</u>	<u>\$ 85,119</u>	12.9 %

Note: Totals may not sum because of rounding.

SOURCE : Susan Combs, Texas Comptroller of Public Accounts.

TABLE 2
General Revenue-Related Spending
2008-09 Biennium

	In Millions
General Appropriations Act*	\$ 73,852
Method of Finance Reclassifications and Other Adjustments, net	(1,109)
Emergency Appropriations and Reductions, and Other Legislation Making Appropriations, net	10,337
Total	\$ 83,081

* Conference Committee Report for HB 1, 80th Legislative Session

Note : Totals may not sum because of rounding.

SOURCE : Susan Combs, Texas Comptroller of Public Accounts.

TABLE 3
General Revenue-Related Balances and Available Revenue

	In Millions
<i>Balances</i>	
FY2008 Beginning General Revenue Fund Cash	\$ 12,399
Less: Dedicated Oil Overcharge Account	(47)
Less: Dedicated Lottery Account	(101)
Less: Constitutionally Dedicated Victims of Crime Accounts	(72)
Less: Trust Accounts	(9)
Less: Federal Elections Improvement Account	(54)
Less: Texas Enterprise Account	(177)
Less: Emerging Technology Account	(162)
Less: Reserve for Economic Stabilization Fund Transfer	(3,005)
FY2008 Beginning Balances in Funds 2 and 3	19
FY2008 Balances Available for Certification	\$ 8,790
 <i>Revenues</i>	
FY2008-09 Estimated Tax Collections	\$ 68,760
FY2008-09 Estimated Other Revenue	9,597
Total FY2008-09 Estimated Revenue	\$ 78,357
 <i>Other Adjustments</i>	
Change in Dedicated General Revenue Account Balances	\$ 115
Reserve for Economic Stabilization Fund Transfers	(2,143)
	\$ (2,029)
Total FY2008-09 Estimated Available Revenues and Balances	\$ 85,119
Less FY2008-09 Estimated Expenditures	(83,081)
FY2008-09 Ending Certification Balance	\$ 2,038

Note : Totals may not sum because of rounding.

SOURCE : Susan Combs, Texas Comptroller of Public Accounts.

TABLE 4
Texas Economic History and Outlook for Fiscal Years 1999-2009
Fall 2007 Forecast

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007*</u>	<u>2008*</u>	<u>2009*</u>
TEXAS ECONOMY											
Gross State Product (Billions, 2000 \$)	691.3	722.6	740.8	757.1	767.3	798.0	827.1	858.1	888.8	917.4	943.8
<i>Annual Percentage Change</i>	5.3	4.5	2.5	2.2	1.3	4.0	3.7	3.7	3.6	3.2	2.9
Personal Income (Billions, Current \$)	530.3	581.3	615.6	624.0	641.4	681.6	743.6	808.6	874.2	928.3	980.3
<i>Annual Percentage Change</i>	6.5	9.6	5.9	1.4	2.8	6.3	9.1	8.7	8.1	6.2	5.6
Nonfarm Employment (Thousands)	9,111.6	9,365.9	9,532.0	9,426.2	9,375.2	9,450.4	9,667.7	9,980.6	10,228.7	10,432.7	10,620.0
<i>Annual Percentage Change</i>	2.8	2.8	1.8	-1.1	-0.5	0.8	2.3	3.2	2.5	2.0	1.8
Resident Population (Thousands)	20,507.8	20,895.2	21,281.0	21,667.9	22,046.7	22,421.9	22,827.6	23,432.2	23,775.2	24,158.2	24,536.1
<i>Annual Percentage Change</i>	2.0	1.9	1.8	1.8	1.7	1.7	1.8	2.6	1.5	1.6	1.6
Unemployment Rate (%)	4.7	4.4	4.4	6.1	6.7	6.2	5.4	5.1	4.4	4.7	4.9
Oil Price (\$ per Barrel)	12.91	25.16	27.73	21.91	28.59	32.48	46.89	61.17	58.92	57.21	57.63
Natural Gas Price (\$ per Mcf)	1.59	2.45	4.54	2.37	4.01	4.47	5.42	6.96	5.86	5.97	6.12
U. S. ECONOMY											
Gross Domestic Product (Billions, 2000 \$)	9,361.9	9,762.8	9,885.1	10,002.4	10,208.3	10,593.4	10,925.8	11,247.3	11,481.2	11,713.0	12,033.9
<i>Annual Percentage Change</i>	4.4	4.3	1.3	1.2	2.1	3.8	3.1	2.9	2.1	2.0	2.7
Consumer Price Index (1982-84 = 100)	165.5	170.7	176.2	178.9	183.1	187.4	193.5	200.6	205.3	210.0	213.5
<i>Annual Percentage Change</i>	1.9	3.2	3.2	1.5	2.4	2.3	3.3	3.7	2.3	2.3	1.6
Prime Interest Rate (%)	7.9	9.0	8.0	4.9	4.2	4.1	5.7	7.6	8.2	7.3	7.4

*Estimated or projected.

SOURCES: Susan Combs, Texas Comptroller of Public Accounts; and Global Insight, Inc.

TABLE 5
All Funds Reconciliation
2008-09 Certification Revenue Estimate, Senate Bill 1 and Other Appropriations

	In Billions
<u>2008-09 Certification Revenue Estimate</u>	
<i>All Funds Revenues and GR Balances</i>	
Estimated Collections	\$ 160.5
General Revenue Related and Property Tax Relief Fund Balances	8.5
Estimated All Funds Revenues Deposited into the Treasury, but not Recapped *	(3.1)
Estimated All Funds Revenues Deposited into the Treasury, but not Spent **	(3.4)
Adjusted Available Revenue	\$ 162.5
<u>Appropriations of the 80th Legislature</u>	
All Funds Budget	\$ 167.3
Appropriation of G.O. and Revenue Bonds	(4.4)
Local Funding Sources not in the Biennial Revenue Estimate (Outside the Treasury) †	(7.0)
Adjusted Cost of Appropriations, 80th Legislature	\$ 155.9
<u>Total Adjusted Appropriations</u>	\$ 155.9
Remaining Available Revenue and Balances	\$ 6.6

* Disproportionate share revenue from state and local hospitals, lottery prizes, federal portion of vendor drug rebates and premium credits, and miscellaneous interest income.

** Economic Stabilization Fund reserve and royalties to the Permanent School and Permanent University Funds.

† Local patient revenue from teaching hospitals, higher education grants, indirect cost recoveries for higher education research grants, and local recapture (attendance credits) from school district to school district.

Note: Totals may not sum because of rounding.

SOURCE : Susan Combs, Texas Comptroller of Public Accounts.

TABLE A-1

**Estimated Balances, Revenues, Disbursements, and Appropriation Authority
General Revenue-Related**

	<u>Thousands of Dollars</u>	
	<u>2008</u>	<u>2009</u>
Revenues and Beginning Fund Balances		
General Revenue-Related Adjusted Fund Balance *	\$ 8,790,475	\$ 4,312,435
General Revenue-Related Revenues **	39,078,795	39,277,935
Adjustment to Dedicated Account Balances	<u>57,325</u>	<u>57,325</u>
Total Revenue and Fund Balances	\$ 47,926,595	\$ 43,647,695
Probable Disbursements and Other Adjustments		
Disbursements for Foundation School Programs	\$ 12,453,100	\$ 13,546,100
State Textbook Disbursements	496,496	0
Other Probable Disbursements	29,564,268	27,020,769
Reserve for Transfers to the Economic Stabilization Fund	<u>1,100,296</u>	<u>1,042,990</u>
Total Probable Disbursements and Other Adjustments	\$ 43,614,160	\$ 41,609,859
Estimated Ending Certification Balance, August 31	<u>\$ 4,312,435</u>	<u>\$ 2,037,836</u>

Appropriation Authority	
Prior-Year Authority	\$ 1,868,415
Current-Year Authority	<u>42,816,006</u>
Total Appropriation Authority	<u>\$ 44,684,421</u>

* Excludes constitutionally restricted accounts, dedicated lottery proceeds, and oil overcharge balances.

** Excludes constitutionally restricted motor fuels transfer to the State Highway Fund.

Note : Totals may not sum because of rounding.

SOURCE : Susan Combs, Texas Comptroller of Public Accounts.

TABLE A-2**Estimated Revenues and Balances Available for Certification
General Revenue-Related**

	Thousands of Dollars	
	2006-07	2008-09
Beginning Fund Balances		
Consolidated General Revenue Fund Adjusted Balance	\$ 3,687,226	\$ 8,771,187
Available School Fund Balance	43,196	12,351
State Textbook Fund Balance	8,319	6,936
Total Fund Balances	<u>\$ 3,738,740</u>	<u>\$ 8,790,475</u>
Revenue		
General Revenue Fund	\$ 72,169,173	\$ 74,842,589
Available School Fund	1,702,456	1,438,889
State Textbook Fund	4,278	4,625
Foundation School Fund Account	2,061,480	2,070,627
Total General Revenue-Related Revenues	<u>\$ 75,937,386</u>	<u>\$ 78,356,730</u>
Other Adjustments		
Change in General Revenue-Dedicated Account Balances	\$ 301,529	\$ 114,650
Reserve for Transfers to the Economic Stabilization Fund	(4,557,201)	(2,143,285)
Total Other Adjustments	<u>\$ (4,255,672)</u>	<u>\$ (2,028,635)</u>
Total General Revenue-Related Revenues and Balances	<u><u>\$ 75,420,454</u></u>	<u><u>\$ 85,118,569</u></u>

Note : Totals may not sum because of rounding.

SOURCE : Susan Combs, Texas Comptroller of Public Accounts.

TABLE A-3

Sources of Estimated General Revenue-Related Funds

Object Code	Description	Thousands of Dollars	
		2008	2009
General Revenue Fund			
3004	Motor Vehicle Sales and Use Tax	\$ 3,032,693	\$ 3,056,764
3005	Motor Vehicle Rental Tax	214,958	224,208
3007	Gasoline Tax	2,316,634	2,332,210
3008	Diesel Fuel Tax	781,189	809,403
3016	Motor Vehicle Sales and Use Tax--Seller Financed	100,146	104,164
3020	Motor Vehicle Inspection Fees	2,608	2,686
3025	Driver License Fees	0	0
3027	Driver Record Information Fees	525	533
3102	Limited Sales and Use Tax	20,756,908	21,209,829
3110	Inheritance Tax	296	284
3111	Boat and Boat Motor Sales and Use Tax	59,521	60,711
3114	Unclaimed Property/Escheat Estates	358,706	365,862
3131	Franchise Tax	2,874,501	2,965,611
3139	Hotel Occupancy Tax	359,199	373,289
3175	Professional Fees	198,754	191,653
3201	Insurance Premium Taxes	1,244,418	1,183,635
3219	Workers' Comp. Comm.--Insurance Maintenance Tax	51,340	51,920
3230	Public Utility Gross Receipts Assessment	61,427	62,438
3233	Gas, Electric, and Water Utility Tax	462,557	483,834
3238	Telecom. Utility/Comm. Mobile Serv. Prov. Assessment	218,732	35,205
3250	Mixed Beverage Tax	577,478	598,421
3253	Liquor Tax	61,978	63,019
3258	Beer Tax	103,956	105,572
3275	Cigarette Tax	447,446	493,678
3278	Cigar and Tobacco Products Taxes	78,774	81,393
3290	Oil Production Tax	792,831	777,866
3291	Natural Gas Tax	1,805,878	1,744,435
3512	Teacher Retirement Reimbursement	0	0
3849	Tobacco Suit Settlement Receipts	497,782	487,207
3854	Interest--Other, General	5,353	5,592
3950	Allocations from Special Fund --U/B	19,571	7,802
3952	Allocation of Disproportionate Share Revenues	219,264	219,986
	Other General Revenue Fund Revenue	1,880,761	1,709,564
	Less: Tax Allocation to State Highway Fund	(2,264,357)	(2,288,012)
	Subtotal, General Revenue Fund	\$ 37,321,827	\$ 37,520,762
School Funds *			
3851	Interest--Other, General	\$ 5,258	\$ 5,329
3910	Allocation from PSF to ASF	714,151	714,151
3922	State Gain from Lottery Proceeds	1,035,252	1,035,375
	Other School Funds Revenue	2,307	2,318
	Subtotal, School Funds	\$ 1,756,968	\$ 1,757,173
Total Estimated Net General Revenue-Related Funds		\$ 39,078,795	\$ 39,277,935

* Includes net revenue for the Available School Fund, the State Textbook Fund, and the Foundation School Fund Account.

Note : Totals may not sum because of rounding.

SOURCE : Susan Combs, Texas Comptroller of Public Accounts.

TABLE A-4

Estimated General Revenue-Dedicated

Account Number Account	2008	2009
9 Game, Fish, and Water Safety	\$ 119,773	\$ 120,806
27 Coastal Protection	16,711	16,747
64 State Parks	40,244	38,861
99 Operators and Chauffeurs Licenses	23,124	23,124
151 Clean Air	94,101	97,939
153 Water Resource Management	39,227	39,813
225 University of Houston Current	58,836	59,345
226 Pan American University Current	25,069	25,692
238 University of Texas at Dallas Current	27,757	28,675
242 Texas A & M University Current	73,807	75,002
244 University of Texas at Arlington Current	40,730	40,734
248 University of Texas at Austin Current	99,376	101,381
249 University of Texas at San Antonio Current	33,833	34,892
255 Texas Tech University Current	44,790	44,868
258 University of North Texas Current	49,504	49,504
260 Texas State University San Marcos Current	37,732	37,732
273 Federal Health & Health Lab ing Excess	201,705	201,705
345 Telecommunications Infrastructure	871	3
421 Criminal Justice Planning	29,396	29,525
469 Compensation to Victims of Crime	94,921	95,800
549 Waste Management	31,816	32,073
550 Hazardous and Solid Waste Remediation Fee	24,590	25,010
5000 Solid Waste Disposal Fees	18,598	18,784
5007 Advisory Comm. on Emergency Communication	19,196	19,388
5010 Sexual Assault Program	25,390	395
5025 Lottery *	316,176	316,211
5028 Fugitive Apprehension	28,675	29,177
5050 911 Service Fees	53,867	55,331
5064 Volunteer Fire Department Assistance	15,000	15,000
5071 Texas Emissions Reduction Plan	188,110	187,207
5073 Fair Defense	17,447	17,505
5080 Quality Assurance	55,106	55,106
5094 Operating Permit Fees	33,232	32,568
5100 System Benefit	161,175	168,236
5111 Trauma Facility & EMS	98,445	98,834
Other Accounts	717,019	731,124
Total Estimated General Revenue-Dedicated Accounts	\$ 2,955,349	\$ 2,964,097

* Net of proceeds to Foundation School Program and other dedicated accounts.

Note : Totals may not sum because of rounding.

SOURCE : Susan Combs, Texas Comptroller of Public Accounts.

TABLE A-5**Estimated Federal Income, by Fund and Account**

Fund or Account		2008	2009
Number	Fund or Account		
1	General Revenue Fund *	\$ 16,031,349	\$ 14,509,169
6	State Highway Fund	3,545,804	3,352,373
9	Game, Fish, and Water Safety Acct.	35,115	35,150
37	Federal Child Welfare Service Acct.	397,038	384,394
117	Federal Public Welfare Administration Acct.	102,389	102,389
127	Community Affairs Federal Acct.	130,985	131,166
148	Federal Health, Education, and Welfare Acct.	2,875,342	2,875,341
171	Federal School Lunch Acct.	1,295,391	1,411,997
222	Department of Public Safety Federal Acct.	5,914	5,914
273	Federal Health & Health Lab Funding Excess Acct.	933,872	927,108
351	Water Development Fund	0	0
421	Criminal Justice Planning Acct.	56,965	50,537
449	Adjutant General Federal Acct.	37,765	38,765
469	Compensation to Victims of Crime Acct.	41,542	39,046
549	Waste Management Acct.	9,656	9,656
550	Hazardous and Solid Waste Remediation Fee Acct.	2,861	2,861
5026	Workforce Commission Federal Acct.	943,473	944,976
	Other Funds and Accounts	192,997	183,089
	Total Estimated Federal Income	\$ 26,638,458	\$ 25,003,931

* Federal receipts deposited to the General Revenue Fund are dedicated for Medicaid and other specific federal programs.

Note : Totals may not sum because of rounding.

SOURCE : Susan Combs, Texas Comptroller of Public Accounts.

TABLE A-6

Estimated Other Funds Revenue *

Fund or Account		2008	2009
Number	Fund or Account		
6	State Highway Fund	\$ 3,616,245	\$ 3,682,120
11	Available University Fund	461,230	501,294
193	Recapture—Education Code Chapter 41, Subchapter D	242,388	254,039
304	Property Tax Relief Fund	3,715,143	3,850,599
365	Texas Mobility Fund	269,105	371,934
573	Judicial Fund	57,335	58,019
	Disproportionate Share Revenue/State & Local Hospitals	1,209,738	1,209,738
	Appropriated Receipts	408,766	411,028
	Other Funds	1,988,167	2,263,321
	Total Estimated Other Funds Revenue	\$ 11,968,117	\$ 12,602,092

* Excludes certain local funds that are appropriated but not deposited in the State Treasury. Includes certain state revenues that are deposited in the State Treasury but not appropriated. Excludes federal income.

Note : Totals may not sum because of rounding.

SOURCE : Susan Combs, Texas Comptroller of Public Accounts.

TABLE A-7

Estimated All Funds Revenue, Excluding Trust Funds *

Source	<u>2008</u>	<u>2009</u>
General Revenue-Related	\$ 39,078,795	\$ 39,277,935
General Revenue-Dedicated	2,955,349	2,964,097
Federal Income	26,638,458	25,003,931
Other Funds	<u>11,968,117</u>	<u>12,602,092</u>
Total Estimated All Funds Revenue	<u><u>\$ 80,640,719</u></u>	<u><u>\$ 79,848,055</u></u>

* Excludes certain local funds that are appropriated but not deposited in the State Treasury. Includes certain state revenues that are deposited in the State Treasury but not appropriated.

Note : Totals may not sum because of rounding.

SOURCE : Susan Combs, Texas Comptroller of Public Accounts.

TABLE A-8

Estimated Allocations and Transfers from the General Revenue Fund

	<u>2008</u>	<u>2009</u>
Allocations and Transfers to Other Funds		
Available School Fund	\$ 759,699	\$ 767,711
State Highway Fund	2,264,357	2,288,012
County and Road District Fund	7,300	7,300
Economic Stabilization Fund	3,005,332	1,100,296
Teacher Retirement System Trust Fund (excl. health insurance)	1,508,822	1,521,298
Subtotal, Allocations and Transfers to Other Funds	<u>\$ 7,545,510</u>	<u>\$ 5,684,617</u>
Allocations and Transfers to Other Dedicated Accounts		
Parks and Wildlife	\$ 16,497	\$ 16,536
Motor Fuels Enforcement Allocation	29,267	27,917
State Parks Account	30,511	34,554
Foundation School Fund Account	1,095,068	1,066,300
Local Parks Account	15,500	15,500
Hotel Occupancy–Economic Development	29,933	31,107
Texas Department of Insurance Operating Account	115,067	115,784
Parks and Wildlife Capital Account	1,000	1,000
Historic Sites Account	6,751	6,999
Subtotal, Allocations and Transfers to Other Accounts	<u>\$ 1,339,594</u>	<u>\$ 1,315,697</u>
Total Allocations and Transfers from General Revenue	\$ 8,885,104	\$ 7,000,314

Details of the Economic Stabilization Fund - Cash Basis Reporting

Beginning Balance	\$ 1,331,393	\$ 4,457,693
Transfers and Interest Income		
Oil Production Tax Transfer	226,876	195,720
Natural Gas Tax Transfer	971,784	904,576
Unencumbered Balance Transfer	1,806,672	0
Interest Income	120,968	181,147
Total Transfer and Interest Income	<u>\$ 3,126,300</u>	<u>\$ 1,281,443</u>
Appropriations	\$ 0	\$ 0
Ending Balance	<u><u>\$ 4,457,693</u></u>	<u><u>\$ 5,739,135</u></u>

Note : Totals may not sum because of rounding.

SOURCE : Susan Combs, Texas Comptroller of Public Accounts.

TABLE A-9

**Available School Fund and State Textbook Fund
Estimated Revenues and Expenditures**

	<u>2008</u>	<u>2009</u>
Beginning Cash Balances		
Available School Fund	\$ 12,351	\$ 3,683
State Textbook Fund	6,936	0
Total Cash Balances	<u>\$ 19,288</u>	<u>\$ 3,683</u>
Estimated Revenue		
<i>Available School Fund</i>		
Total Return Allocation from Permanent School Fund	\$ 714,151	\$ 714,151
Interest on State Deposits	5,258	5,329
Allocation From General Revenue Fund	759,699	767,711
Total Estimated Available School Fund Revenue	<u>\$ 1,479,108</u>	<u>\$ 1,487,191</u>
<i>State Textbook Fund</i>		
Sale of Textbooks	\$ 1,750	\$ 1,750
Interest on State Deposits	257	268
Other Revenue	300	300
Total Estimated State Textbook Fund Revenue	<u>\$ 2,307</u>	<u>\$ 2,318</u>
Total Estimated Revenue and Cash Balances	<u><u>\$ 1,500,703</u></u>	<u><u>\$ 1,493,192</u></u>
Estimated Expenditures		
Instructional Materials*	\$ 496,496	\$ 0
Administration—State Textbook Fund	2,056	2,056
Administration—Available School Fund	0	0
State Schools	110	110
Per Capita Apportionment		
4,248,334 (prior year ADA) @ \$235	998,358	
4,344,003 (prior year ADA) @ \$343		1,489,993
Total Estimated Expenditures	<u>\$ 1,497,020</u>	<u>\$ 1,492,159</u>
Ending Balance	<u><u>\$ 3,683</u></u>	<u><u>\$ 1,033</u></u>

* Excludes appropriations from GR Account 0345 - Telecommunication Infrastructure.

Note : Totals may not sum because of rounding.

SOURCE : Susan Combs, Texas Comptroller of Public Accounts.

TABLE A-10**Sources of State Highway Fund Revenue**

Object			
Code	Description	2008	2009
State Revenue			
3010	Motor Lubricants Sales Tax	\$ 38,908	\$ 41,091
3012	Motor Vehicle Title Certificate Fees	26,337	26,600
3014	Motor Vehicle Registration Fees	1,031,694	1,073,358
3018	Special Vehicle Registration Fees	17,167	17,339
3750	Sales of Machinery and Equipment	0	0
3767	Supplies, Equipment, and Services	170,000	170,000
3851	Interest on State Deposits	3,600	3,600
3901	Motor Fuels Tax Allocations	2,264,357	2,288,012
	Other Revenue	64,182	62,120
	Total State Revenue	\$ 3,616,245	\$ 3,682,120
Federal Income			
3001	Federal Receipts–Matched–Transportation	\$ 3,522,603	\$ 3,329,622
3701	Federal Receipts–Not Matched–Other	23,201	22,751
	Total Federal Income	\$ 3,545,804	\$ 3,352,373
Total State Highway Fund Revenue		\$ 7,162,049	\$ 7,034,493

Note : Totals may not sum because of rounding.

SOURCE : Susan Combs, Texas Comptroller of Public Accounts.

TABLE A-11**Funding Sources of the Property Tax Relief Fund**

	<u>2008</u>	<u>2009</u>
Beginning Balance	\$ 730,924	\$ 3,000,000
Revenue		
3004 Motor Vehicle Sales and Use Tax	12,281	12,884
3131 Franchise Tax	3,000,888	3,079,255
3275 Cigarette Tax	677,353	731,126
3278 Cigar and Tobacco Products Taxes	13,229	13,668
3851 Interest—Other, General	11,392	13,666
Total Revenue	<u>\$ 3,715,143</u>	<u>\$ 3,850,599</u>
Net Transfers	\$ 3,000,000	\$ 0
Appropriations	\$ 4,446,067	\$ 3,850,599
Ending Balance	<u><u>\$ 3,000,000</u></u>	<u><u>\$ 3,000,000</u></u>

Note : Totals may not sum because of rounding.

SOURCE : Susan Combs, Texas Comptroller of Public Accounts.

TABLE A-12
State Revenue, By Source and Fiscal Year
General Revenue-Related

	Thousands of Dollars			
	2006 actual	2007 actual	2008 estimated	2009 estimated
<i>Tax Collections</i>				
Sales Tax	\$ 18,200,845	\$ 20,183,344	\$ 20,808,689	\$ 21,262,800
Motor Vehicle Sales and Rental Taxes	3,060,542	3,300,759	3,360,647	3,398,361
Motor Fuels Taxes	799,389	815,610	834,642	854,713
Franchise Tax	2,605,447	3,144,059	2,872,265	2,963,375
Insurance Taxes	1,232,409	1,345,534	1,362,485	1,302,419
Natural Gas Tax	2,339,147	1,895,488	1,805,878	1,744,435
Cigarette and Tobacco Taxes	545,904	617,993	526,220	575,071
Alcoholic Beverage Taxes	680,748	731,677	760,095	784,154
Oil Production and Regulation Taxes	862,361	835,025	793,443	778,460
Inheritance Tax	13,360	5,291	296	284
Utility Taxes	480,793	506,069	532,537	554,825
Hotel Occupancy Tax	308,019	340,634	359,199	373,289
Other Taxes	68,148	79,918	75,384	76,239
Total Tax Collections	\$ 31,197,113	\$ 33,801,402	\$ 34,091,780	\$ 34,668,425
<i>Revenue By Source</i>				
Tax Collections	\$ 31,197,113	\$ 33,801,402	\$ 34,091,780	\$ 34,668,425
Licenses, Fees, Fines, and Penalties	1,372,165	1,273,099	1,418,355	1,091,379
Interest and Investment Income	918,944	1,070,974	884,045	839,658
Lottery Proceeds	1,029,613	1,031,867	1,035,252	1,035,375
Sales of Goods & Services	94,446	98,568	97,316	98,866
Settlements of Claims	530,695	539,919	504,611	494,036
Land Income	9,078	10,350	7,834	7,486
Contributions to Employee Benefits	220,900	237,887	746	746
Other Revenue	1,301,787	1,198,579	1,038,856	1,041,964
Total Net Revenue	\$ 36,674,740	\$ 39,262,646	\$ 39,078,795	\$ 39,277,935

Note : Totals may not sum because of rounding.

SOURCE : Susan Combs, Texas Comptroller of Public Accounts.

TABLE A-13
Percent Change in State Revenue, By Source and Fiscal Year
General Revenue-Related

	<u>2006</u> <u>actual</u>		<u>2007</u> <u>actual</u>		<u>2008</u> <u>estimated</u>		<u>2009</u> <u>estimated</u>		
<i>Tax Collections</i>									
Sales Tax	12.0	%	10.9	%	3.1	%	2.2	%	
Motor Vehicle Sales and Rental Taxes	7.9		7.8		1.8		1.1		
Motor Fuels Taxes	1.7		2.0		2.3		2.4		
Franchise Tax	20.1		20.7		(8.6)		3.2		
Insurance Taxes	1.9		9.2		1.3		(4.4)		
Natural Gas Tax	41.2		(19.0)		(4.7)		(3.4)		
Cigarette and Tobacco Taxes	(8.9)		13.2		(14.9)		9.3		
Alcoholic Beverage Taxes	8.7		7.5		3.9		3.2		
Oil Production and Regulation Taxes	26.5		(3.2)		(5.0)		(1.9)		
Inheritance Tax	(86.9)		(60.4)		(94.4)		0.0		
Utility Taxes	26.5		5.3		5.2		4.2		
Hotel Occupancy Tax	17.5		10.6		5.5		3.9		
Other Taxes	21.9		17.3		(5.7)		1.1		
Total Tax Collections	13.0	%	8.3	%	0.9	%	1.7	%	
<i>Revenue By Source</i>									
Tax Collections	13.0	%	8.3	%	0.9	%	1.7	%	
Licenses, Fees, Fines, and Penalties	33.9		(7.2)		11.4		(23.1)		
Interest and Investment Income	6.8		16.5		(17.5)		(5.0)		
Lottery Proceeds	1.3		0.2		0.3		0.0		
Sales of Goods & Services	(4.3)		4.4		(1.3)		1.6		
Settlements of Claims	(3.2)		1.7		(6.5)		(2.1)		
Land Income	(36.9)		14.0		(24.3)		(4.4)		
Contributions to Employee Benefits	12.0		7.7		(99.7)		-		
Other Revenue	1.5		(7.9)		(13.3)		0.3		
Total Net Revenue	12.3	%	7.1	%	(0.5)	%	0.5	%	

SOURCE : Susan Combs, Texas Comptroller of Public Accounts.

TABLE A-14
State Revenue, By Source and Biennium
General Revenue-Related

	Thousands of Dollars		
	2004-05 actual	2006-07 actual	2008-09 estimated
<i><u>Tax Collections</u></i>			
Sales Tax	\$ 31,607,566	\$ 38,384,189	\$ 42,071,489
Motor Vehicle Sales and Rental Taxes	5,567,188	6,361,301	6,759,008
Motor Fuels Taxes	1,573,921	1,614,999	1,689,355
Franchise Tax	4,005,095	5,749,507	5,835,640
Insurance Taxes	2,393,791	2,577,943	2,664,904
Natural Gas Tax	3,049,522	4,234,635	3,550,313
Cigarette and Tobacco Taxes	1,133,945	1,163,897	1,101,291
Alcoholic Beverage Taxes	1,228,117	1,412,425	1,544,249
Oil Production and Regulation Taxes	1,178,002	1,697,386	1,571,903
Inheritance Tax	252,806	18,651	580
Utility Taxes	736,252	986,862	1,087,362
Hotel Occupancy Tax	500,954	648,653	732,488
Other Taxes	102,601	148,066	151,623
Total Tax Collections	<u>\$ 53,329,761</u>	<u>\$ 64,998,515</u>	<u>\$ 68,760,205</u>
<i><u>Revenue By Source</u></i>			
Tax Collections	\$ 53,329,761	\$ 64,998,515	\$ 68,760,205
Federal Income	354,535	0	0
Licenses, Fees, Fines, and Penalties	1,999,700	2,645,264	2,509,734
Interest and Investment Income	1,700,612	1,989,918	1,723,703
Lottery Proceeds	2,019,546	2,061,480	2,070,627
Sales of Goods & Services	191,519	193,015	196,182
Settlements of Claims	1,054,739	1,070,614	998,647
Land Income	55,669	19,428	15,320
Contributions to Employee Benefits	375,489	458,787	1,492
Other Revenue	2,401,031	2,500,366	2,080,820
Total Net Revenue	<u>\$ 63,482,601</u>	<u>\$ 75,937,386</u>	<u>\$ 78,356,730</u>

Note : Totals may not sum because of rounding.

SOURCE : Susan Combs, Texas Comptroller of Public Accounts.

TABLE A-15
Percent Change in State Revenue, By Source and Biennium
General Revenue-Related

	<u>2004-05</u> <u>actual</u>		<u>2006-07</u> <u>actual</u>		<u>2008-09</u> <u>estimated</u>
<i>Tax Collections</i>					
Sales Tax	10.1	%	21.4	%	9.6 %
Motor Vehicle Sales and Rental Taxes	(1.2)		14.3		6.3
Motor Fuels Taxes	4.4		2.6		4.6
Franchise Tax	9.7		43.6		1.5
Insurance Taxes	8.1		7.7		3.4
Natural Gas Tax	79.6		38.9		(16.2)
Cigarette and Tobacco Taxes	1.0		2.6		(5.4)
Alcoholic Beverage Taxes	8.9		15.0		9.3
Oil Production and Regulation Taxes	54.5		44.1		(7.4)
Inheritance Tax	(51.5)		(92.6)		(96.9)
Utility Taxes	15.0		34.0		10.2
Hotel Occupancy Tax	9.2		29.5		12.9
Other Taxes	17.0		44.3		2.4
Total Tax Collections	10.8	%	21.9	%	5.8 %
<i>Revenue By Source</i>					
Tax Collections	10.8	%	21.9	%	5.8 %
Federal Income	0.0		(100.0)		0.0
Licenses, Fees, Fines, and Penalties	14.5		32.3		(5.1)
Interest and Investment Income	10.4		17.0		(13.4)
Lottery Proceeds	14.9		2.1		0.4
Sales of Goods & Services	7.9		0.8		1.6
Settlements of Claims	(0.3)		1.5		(6.7)
Land Income	189.3		(65.1)		(21.1)
Contributions to Employee Benefits	24.3		22.2		(99.7)
Other Revenue	15.5		4.1		(16.8)
Total Net Revenue	11.0	%	19.6	%	3.2 %

SOURCE : Susan Combs, Texas Comptroller of Public Accounts.

TABLE A-16
State Revenue, By Source and Fiscal Year
All Funds, Excluding Trust Funds

	Thousands of Dollars			
	2006 actual	2007 actual	2008 estimated	2009 estimated
<i><u>Tax Collections</u></i>				
Sales Tax	\$ 18,275,210	\$ 20,270,476	\$ 20,890,343	\$ 21,348,426
Motor Vehicle Sales and Rental Taxes	3,075,154	3,325,597	3,388,686	3,427,444
Motor Fuels Taxes	2,993,570	3,053,812	3,098,999	3,142,725
Franchise Tax	2,605,447	3,144,059	5,873,153	6,042,630
Insurance Taxes	1,233,494	1,346,577	1,363,585	1,303,499
Natural Gas Tax	2,339,147	1,895,488	1,805,878	1,744,435
Cigarette and Tobacco Taxes	545,904	1,334,039	1,216,802	1,319,865
Alcoholic Beverage Taxes	680,748	731,677	760,095	784,154
Oil Production and Regulation Taxes	862,361	835,025	793,443	778,460
Inheritance Tax	13,360	5,291	296	284
Utility Taxes	480,793	506,069	532,537	554,825
Hotel Occupancy Tax	308,019	340,634	359,199	373,289
Other Taxes	131,291	166,885	152,889	155,229
Total Tax Collections	<u>\$ 33,544,498</u>	<u>\$ 36,955,630</u>	<u>\$ 40,235,905</u>	<u>\$ 40,975,265</u>
<i><u>Revenue By Source</u></i>				
Tax Collections	\$ 33,544,498	\$ 36,955,630	\$ 40,235,905	\$ 40,975,265
Federal Income	24,726,454	24,376,053	26,638,458	25,003,931
Licenses, Fees, Fines, and Penalties	5,999,064	6,914,296	6,368,522	6,188,986
Interest and Investment Income	1,949,503	2,372,705	3,040,500	3,310,799
Lottery Proceeds	1,585,181	1,551,976	1,570,607	1,570,791
Sales of Goods & Services	492,439	538,835	339,218	341,310
Settlements of Claims	545,574	537,942	507,864	497,431
Land Income	860,755	751,358	586,210	562,379
Contributions to Employee Benefits	220,924	237,887	746	746
Other Revenue	2,496,559	2,952,608	1,352,689	1,396,417
Total Net Revenue	<u>\$ 72,420,949</u>	<u>\$ 77,189,291</u>	<u>\$ 80,640,719</u>	<u>\$ 79,848,055</u>

Note : Totals may not sum because of rounding.

SOURCE : Susan Combs, Texas Comptroller of Public Accounts.

TABLE A-17
Percent Change in State Revenue, By Source and Fiscal Year
All Funds, Excluding Trust Funds

	2006		2007		2008		2009	
	actual		actual		estimated		estimated	
<i>Tax Collections</i>								
Sales Tax	12.0	%	10.9	%	3.1	%	2.2	%
Motor Vehicle Sales and Rental Taxes	8.0		8.1		1.9		1.1	
Motor Fuels Taxes	2.0		2.0		1.5		1.4	
Franchise Tax	20.1		20.7		86.8		2.9	
Insurance Taxes	2.0		9.2		1.3		(4.4)	
Natural Gas Tax	41.2		(19.0)		(4.7)		(3.4)	
Cigarette and Tobacco Taxes	(8.9)		144.4		(8.8)		8.5	
Alcoholic Beverage Taxes	8.7		7.5		3.9		3.2	
Oil Production and Regulation Taxes	26.5		(3.2)		(5.0)		(1.9)	
Inheritance Tax	(86.9)		(60.4)		(94.4)		0.0	
Utility Taxes	26.5		5.3		5.2		4.2	
Hotel Occupancy Tax	17.5		10.6		5.5		3.9	
Other Taxes	134.9		27.1		(8.4)		1.5	
Total Tax Collections	12.4	%	10.2	%	8.9	%	1.8	%
<i>Revenue By Source</i>								
Tax Collections	12.4	%	10.2	%	8.9	%	1.8	%
Federal Income	8.4		(1.4)		9.3		(6.1)	
Licenses, Fees, Fines, and Penalties	(2.5)		15.3		(7.9)		(2.8)	
Interest and Investment Income	27.5		21.7		28.1		8.9	
Lottery Proceeds	0.0		(2.1)		1.2		0.0	
Sales of Goods & Services	43.1		9.4		(37.0)		0.6	
Settlements of Claims	(1.1)		(1.4)		(5.6)		(2.1)	
Land Income	31.6		(12.7)		(22.0)		(4.1)	
Contributions to Employee Benefits	12.0		7.7		(99.7)		-	
Other Revenue	16.4		18.3		(54.2)		3.2	
Total Net Revenue	10.0	%	6.6	%	4.5	%	(1.0)	%

SOURCE : Susan Combs, Texas Comptroller of Public Accounts.

TABLE A-18
State Revenue, By Source and Biennium
All Funds, Excluding Trust Funds

	Thousands of Dollars		
	2004-05 actual	2006-07 actual	2008-09 estimated
<i>Tax Collections</i>			
Sales Tax	\$ 31,729,967	\$ 38,545,686	\$ 42,238,769
Motor Vehicle Sales and Rental Taxes	5,587,941	6,400,750	6,816,130
Motor Fuels Taxes	5,852,287	6,047,382	6,241,724
Franchise Tax	4,005,095	5,749,507	11,915,783
Insurance Taxes	2,393,789	2,580,070	2,667,084
Natural Gas Tax	3,049,522	4,234,635	3,550,313
Cigarette and Tobacco Taxes	1,133,945	1,879,943	2,536,667
Alcoholic Beverage Taxes	1,228,117	1,412,425	1,544,249
Oil Production and Regulation Taxes	1,178,002	1,697,386	1,571,903
Inheritance Tax	252,806	18,651	580
Utility Taxes	736,252	986,862	1,087,362
Hotel Occupancy Tax	500,954	648,653	732,488
Other Taxes	102,601	298,176	308,118
Total Tax Collections	\$ 57,751,279	\$ 70,500,127	\$ 81,211,170
<i>Revenue By Source</i>			
Tax Collections	\$ 57,751,279	\$ 70,500,127	\$ 81,211,170
Federal Income	44,747,429	49,102,506	51,642,389
Licenses, Fees, Fines, and Penalties	11,700,650	12,913,360	12,557,508
Interest and Investment Income	2,935,444	4,322,208	6,351,299
Lottery Proceeds	3,181,257	3,137,157	3,141,398
Sales of Goods & Services	673,370	1,031,274	680,528
Settlements of Claims	1,061,941	1,083,516	1,005,295
Land Income	1,152,351	1,612,114	1,148,589
Contributions to Employee Benefits	375,489	458,811	1,492
Other Revenue	4,304,030	5,449,167	2,749,106
Total Net Revenue	\$ 127,883,240	\$ 149,610,241	\$ 160,488,774

Note : Totals may not sum because of rounding.

SOURCE : Susan Combs, Texas Comptroller of Public Accounts.

TABLE A-19
Percent Change in State Revenue, By Source and Biennium
All Funds, Excluding Trust Funds

	<u>2004-05</u> <u>actual</u>		<u>2006-07</u> <u>actual</u>		<u>2008-09</u> <u>estimated</u>
<i><u>Tax Collections</u></i>					
Sales Tax	10.2	%	21.5	%	9.6 %
Motor Vehicle Sales and Rental Taxes	(1.0)		14.5		6.5
Motor Fuels Taxes	3.2		3.3		3.2
Franchise Tax	9.7		43.6		107.2
Insurance Taxes	8.1		7.8		3.4
Natural Gas Tax	79.6		38.9		(16.2)
Cigarette and Tobacco Taxes	1.0		65.8		34.9
Alcoholic Beverage Taxes	8.9		15.0		9.3
Oil Production and Regulation Taxes	54.5		44.1		(7.4)
Inheritance Tax	(51.5)		(92.6)		(96.9)
Utility Taxes	15.0		34.0		10.2
Hotel Occupancy Tax	9.2		29.5		12.9
Other Taxes	4.1		190.6		3.3
Total Tax Collections	10.2	%	22.1	%	15.2 %
<i><u>Revenue By Source</u></i>					
Tax Collections	10.2	%	22.1	%	15.2 %
Federal Income	14.3		9.7		5.2
Licenses, Fees, Fines, and Penalties	27.9		10.4		(2.8)
Interest and Investment Income	(10.3)		47.2		46.9
Lottery Proceeds	13.7		(1.4)		0.1
Sales of Goods & Services	(24.7)		53.2		(34.0)
Settlements of Claims	0.3		2.0		(7.2)
Land Income	61.2		39.9		(28.8)
Contributions to Employee Benefits	24.3		22.2		(99.7)
Other Revenue	13.6		26.6		(49.5)
Total Net Revenue	12.6	%	17.0	%	7.3 %

SOURCE : Susan Combs, Texas Comptroller of Public Accounts.