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April 19, 2004

The Honorable Rick Perry, Governor
The Honorable David Dewhurst, Lieutenant Governor
The Honorable Thomas R. Craddick, Speaker of the House
Members of the 78th Legislature

Fellow Texans:

In accordance with my responsibilities under Article III, Section 49a of the Texas Constitution, I am informing you that the revenue situation facing the 78th Legislature, Fourth Called Session, has improved over the past several months.

In my certification revenue estimate of December 17, 2003, I informed you that the State of Texas had \$58.44 billion in General Revenue-related funds for the 2004-05 biennium. Given the growth rate in collections since that date and the tremendous results from my recently concluded tax amnesty program, Project Pay Up, I am raising my estimate by \$614 million, to \$59.052 billion, for the 2004-05 biennium. The amount remaining unappropriated is \$727 million.

In addition, because of higher than anticipated natural gas tax revenues, I am pleased to report that the Fall 2004 transfer to the Economic Stabilization (Rainy Day) Fund 0599 will be \$102 million higher than previously estimated. As I have stated previously, I believe that building the fund to a prudent balance of \$3 billion is essential for Texas to have the highest reputation among the states for fiscal solvency and responsibility.

The clear standout among recent developments is the success of Project Pay Up, one of my recommendations to the 78th Legislature in *Limited Government, Unlimited Opportunity*. Originally budgeted to generate \$50 million, I take great pride in announcing that this program, just completed, has delivered a whopping \$379 million instead. While some amount may be acceleration of revenue that would have been collected eventually, this large gain of \$329 million leaves us with no excuse to delay any longer restoring the tragic losses of health insurance that Texas children are suffering from being kicked off CHIP rolls. Appropriating less than half of this gain will restore crucial coverage to our kids, and will draw down nearly triple its weight in federal matching dollars. I say, let's act now, for the health of the children.



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Finally, while I am pleased to be delivering positive news for state finance, I must tell you that this money will not begin to address financing lasting property tax relief and quality education. Governor Perry's proposal—announced 11 days ago—cannot even be financed within its own terms. An analysis prepared by my office indicates that during its first five years alone, the plan would accumulate an unfunded and swelling deficit of more than \$10 billion even as it produces **zero** additional property tax rate cuts beyond the amount promised for the very first year. I will provide the analysis later today.

I shall continue to monitor the Texas economy and state revenues closely, and I shall inform you of any significant developments.

Sincerely,

A handwritten signature in cursive script that reads "Carole Keeton Strayhorn". The signature is fluid and extends across the width of the page.

Carole Keeton Strayhorn
Texas Comptroller