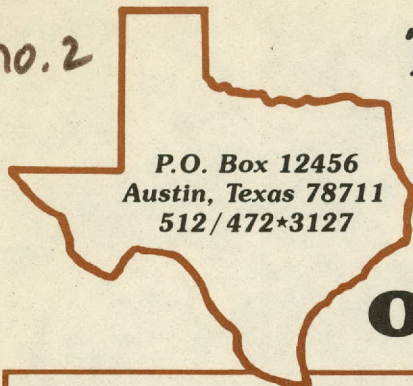


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BULLETIN

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— Jared E. Hazleton, President

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BUDGET CUTS FIRST ORDER OF BUSINESS FOR SPECIAL SESSION

The announced special legislative session became official on July 25th with the governor's proclamation including two subjects for consideration--

- * To amend the 1986-1987 appropriations act for the purpose of making spending cuts; and
- * To consider and pass such other items as submitted from time to time by the governor after the session convenes.

While the door was left open to consider other topics--possibly a tax bill--the first order of business will be to cut the state budget.

Bottom Line Keeps Moving

And that job keeps getting harder as the bottom line of the budget moves lower. As anticipated, the comptroller took another swipe at state revenues, cutting another \$1.2 billion and bringing the total revenue shortfall to \$3.5 billion. And, the end may not have been reached.

"Given the continuing instability in world oil markets and the fast changing nature of our economic situation," said the comptroller, "I must emphasize that any revenue estimate is a moving target. Although there might be a slim chance of improving economic conditions, there is a much greater possibility that our economic downturn will worsen beyond what we currently expect, driving the shortfall even higher." (Emphasis added.)

Thus, when the legislature meets next week, the current deficit problem still will not be defined; the fiscal picture for 1988-1989 is even fuzzier. Any action taken in the special session may turn out to be too little or too much, depending on the behavior of the Texas economy in 1987 and 1988. Given this uncertainty, one might well inquire whether it is wise to devise a one-year solution which relies primarily on tax increases.

Tables 1 and 2 on page 2 detail the changes made in the state revenue estimate and some of the key economic assumptions used by the comptroller. Note that falling oil prices are not the sum of the problem--particularly in the latest revenue cut. The big cuts are in sales and franchise taxes, showing the pervasiveness of the economic decline.

Table 1
1986-1987 Biennial Revenue Forecasts

	January 1985 Estimate	February 1986	June 1986	July 1986	Revised Total
TAX COLLECTIONS:					
-Sales Tax	\$ 9,827.0	\$ (334.0)	\$ (723.8)	\$ (295.4)	\$ 8,473.8
-Oil Production	1,680.9	(377.1)	(17.7)	(34.0)	1,252.1
-Gas Production	2,040.0	(388.0)	(244.4)	0.0	1,407.6
-Franchise Tax	2,078.1	(155.3)	(14.6)	(208.8)	1,699.4
-Motr.Veh. Sales Tax	1,927.9	0.0	(211.6)	(71.0)	1,645.3
-Other Taxes	5,219.7	(36.2)	(129.4)	(12.9)	5,041.2
Total Tax Revenue	<u>\$22,773.6</u>	<u>\$(1,290.6)</u>	<u>\$(1,341.5)</u>	<u>\$(622.1)</u>	<u>\$19,519.4</u>
NON-TAX REVENUE					
-Federal Funds	8,208.1	(26.6)	154.1	(410.6)	7,925.0
-Interest Income	2,383.1	(121.6)	(35.6)	(3.8)	2,222.1
-Land Income	973.5	0.0	326.1	0.2	1,299.8
-Other Revenue	2,827.9	102.7	(99.8)	(158.6)	2,672.2
TOTAL REVENUE	<u>\$37,166.2</u>	<u>\$(1,336.1)</u>	<u>\$(996.7)</u>	<u>\$(1,194.9)</u>	<u>\$33,638.5</u>

Table 2
Selected Key Economic Assumptions by Comptroller:
January 1985, February 1986 and July 1986 Forecasts

	<-----Fiscal Year----->				
	1985*	1986	1987	1988	1989
Texas Personal Income (\$ Billions)					
Jan 1985	\$213.6	\$230.3	\$248.2	\$ ---	\$ ---
Feb 1986	210.4	219.1	229.9	243.9	259.5
Jul 1986	211.4	216.3	219.3	233.8	255.3
Texas Unemployment Rate					
Jan 1985	6.0%	6.8%	6.4%	---%	---%
Feb 1986	6.6	7.4	7.3	7.0	6.6
Jul 1986	6.7	8.6	11.0	9.7	7.3
Texas Oil Price					
Jan 1985	\$27.00	\$25.00	\$24.15	\$ ---	\$ ---
Feb 1986	27.44	21.08	15.18	14.94	15.12
Jul 1986	27.24	20.66	15.11	14.94	15.12
Texas Retail Sales (\$ Billion)					
Jan 1985	\$103.0	\$109.6	\$118.2	\$ ---	\$ ---
Feb 1986	99.3	103.2	108.1	114.0	120.5
Jul 1986	98.9	95.3	94.0	108.0	121.7
Consumer Inflation					
Jan 1985	3.9%	5.0%	5.6%	---%	---%
Feb 1986	3.2	3.3	3.4	3.5	3.7
Jul 1986	3.7	2.7	3.2	4.2	4.7