



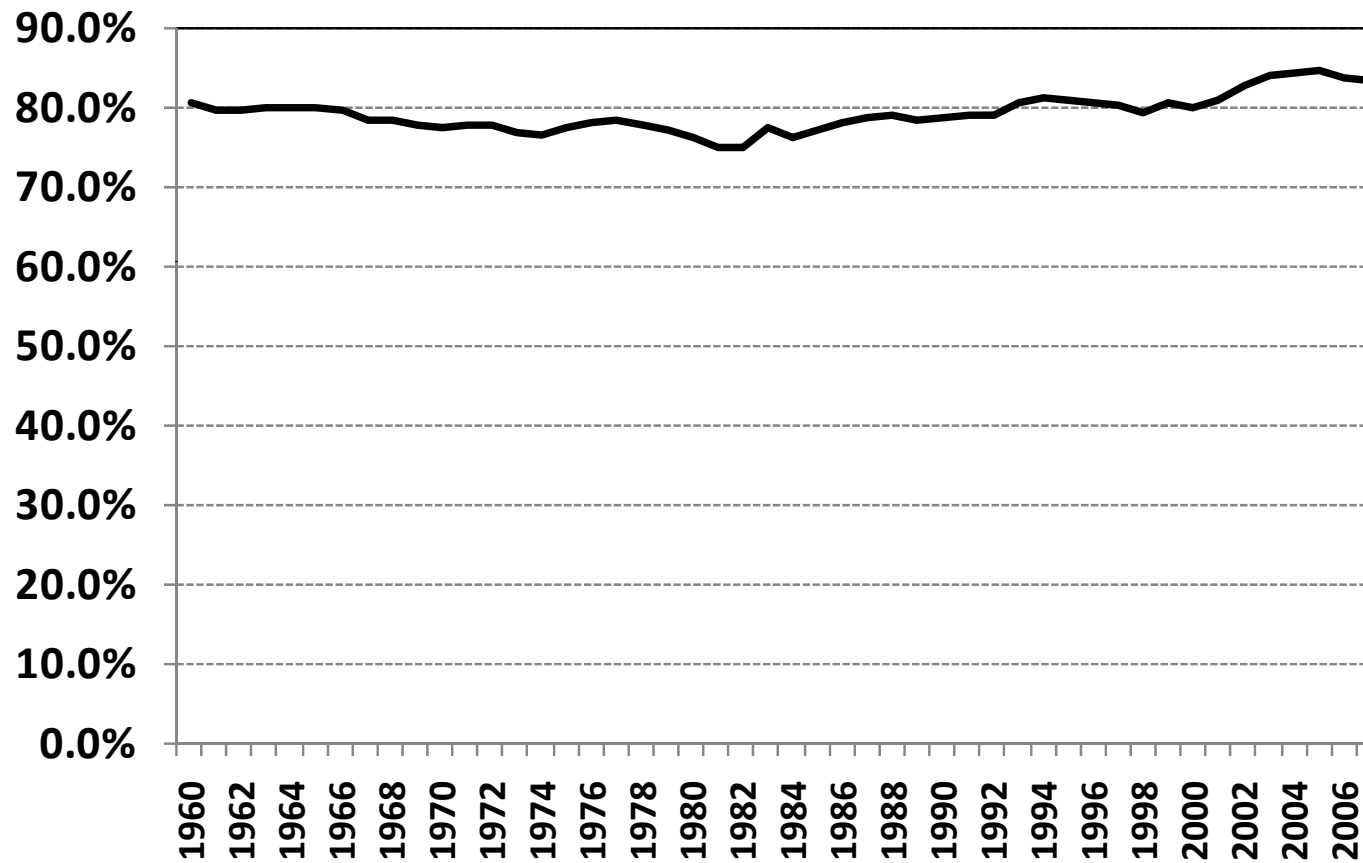
Laffer Associates

Texas

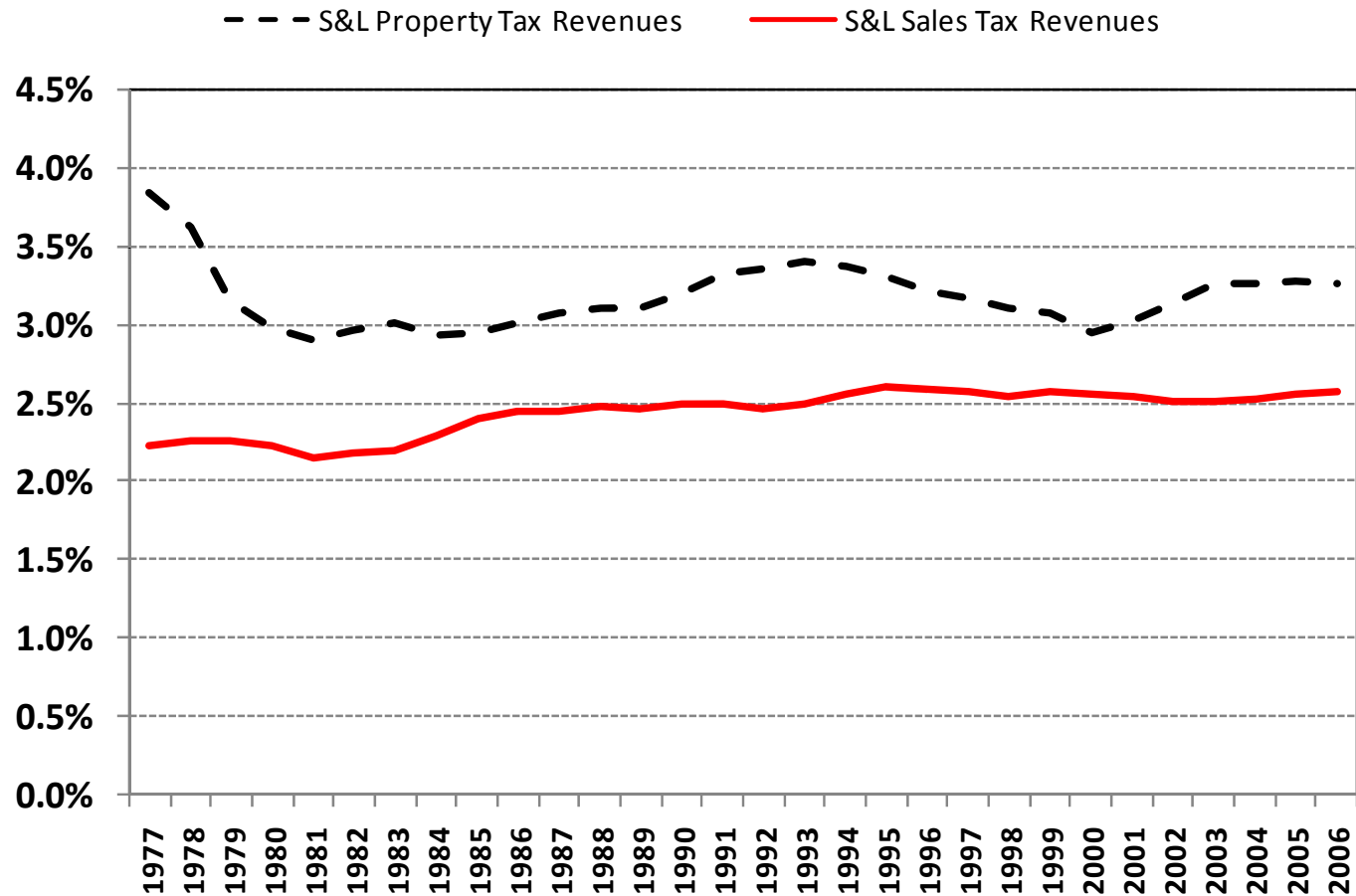
Presentation by
Donna Arduin, Managing Director
Laffer Associates

January 5th, 2010

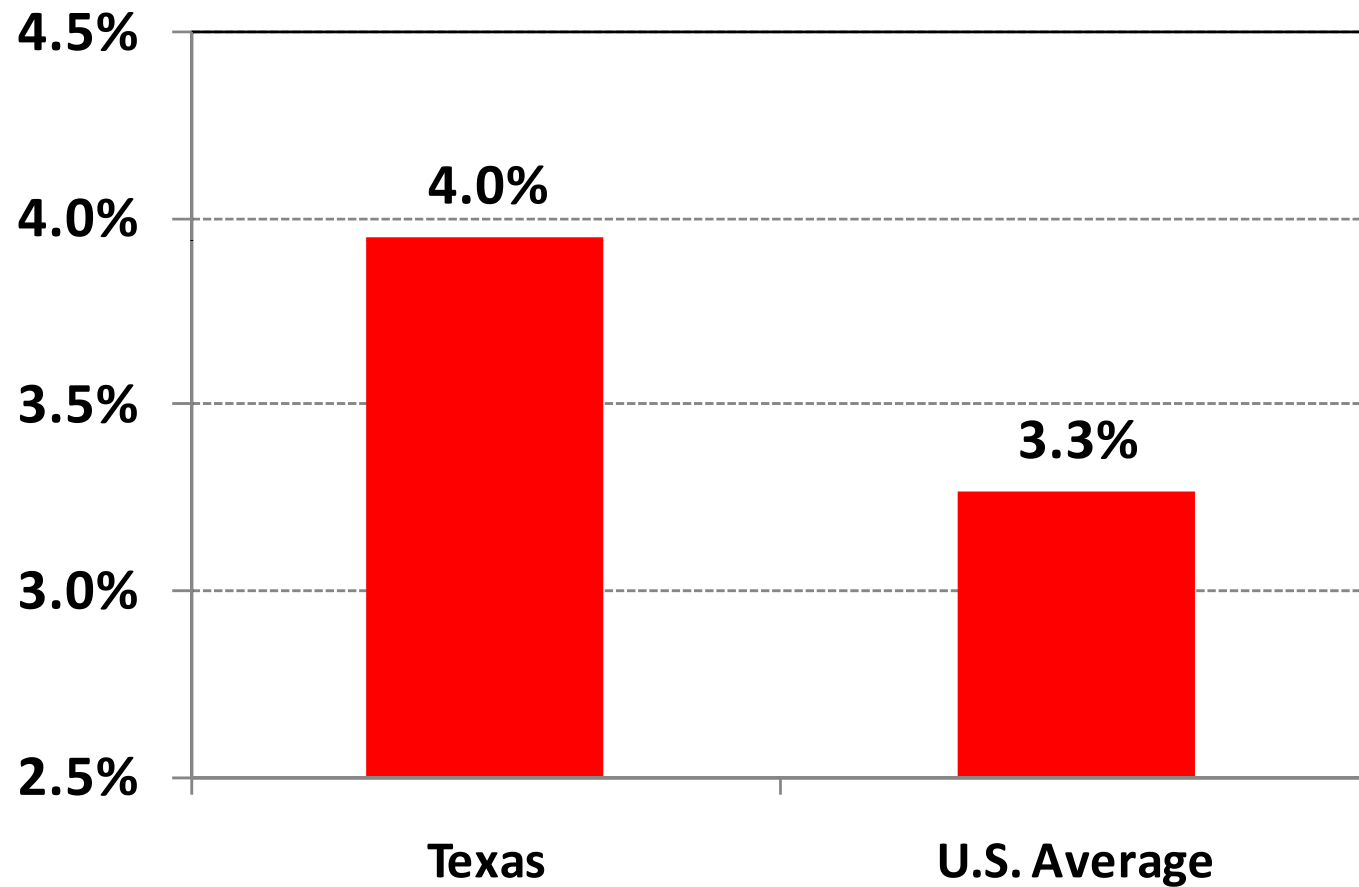
Total U.S. Personal Consumption Expenditures as a Percent of Total U.S. Personal Income 1960 – 2007



Total State and Local Sales Tax Revenues and Property Tax Revenues as a Percent of National Personal Income 1977 - 2007

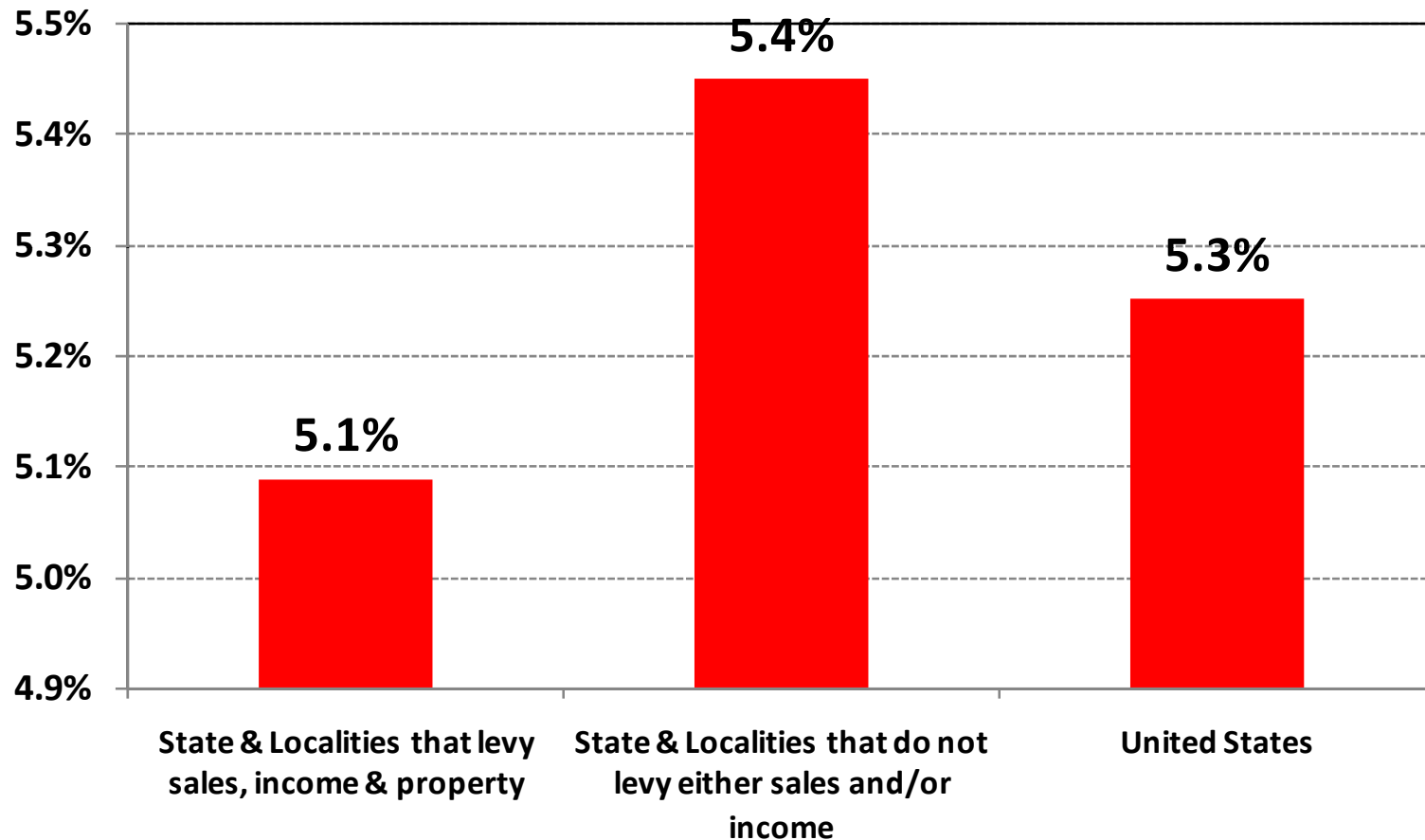


Property Taxes as a Percentage of Personal Income Texas Compared to the U.S. Average 2006

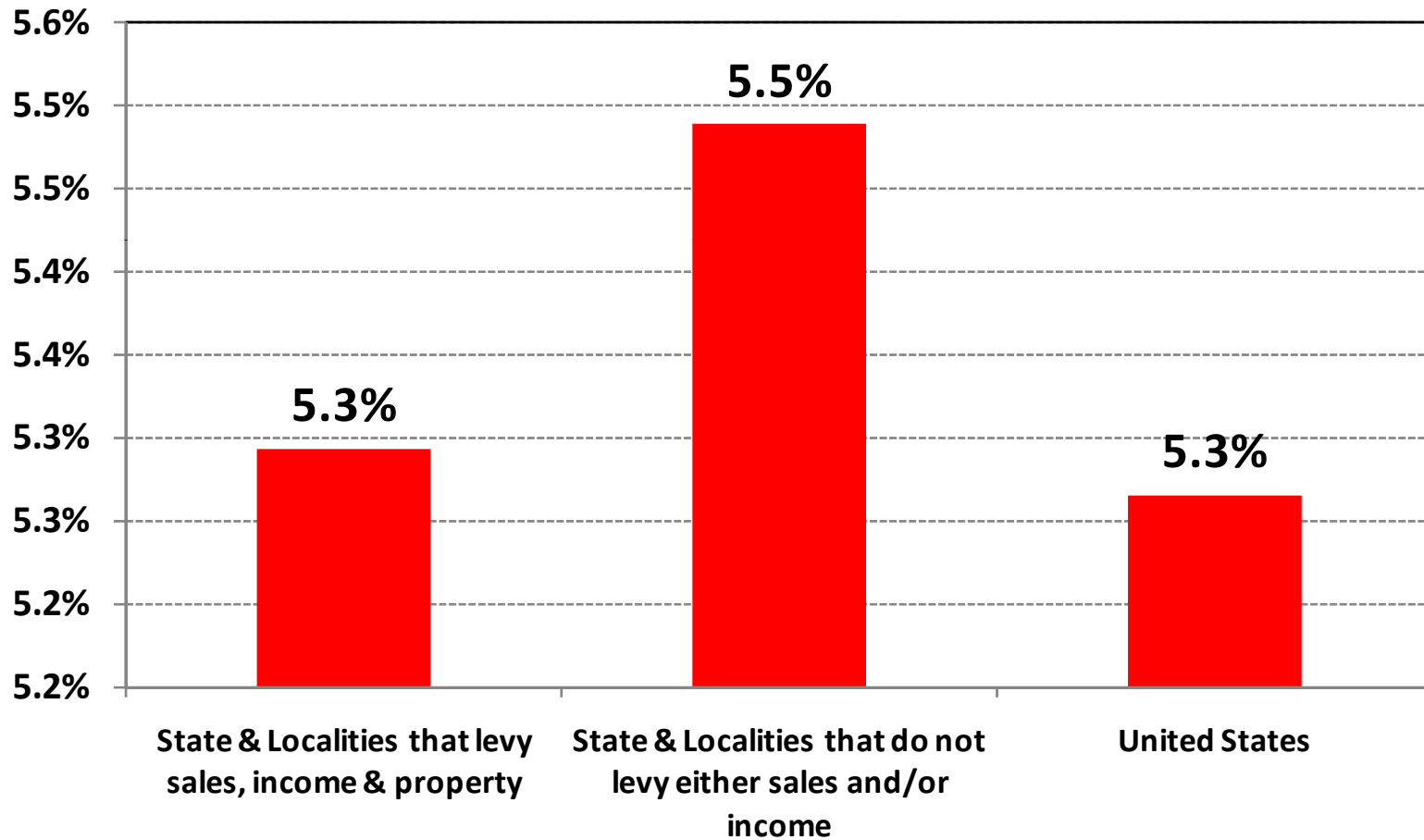


Average Growth Rate in State GDP

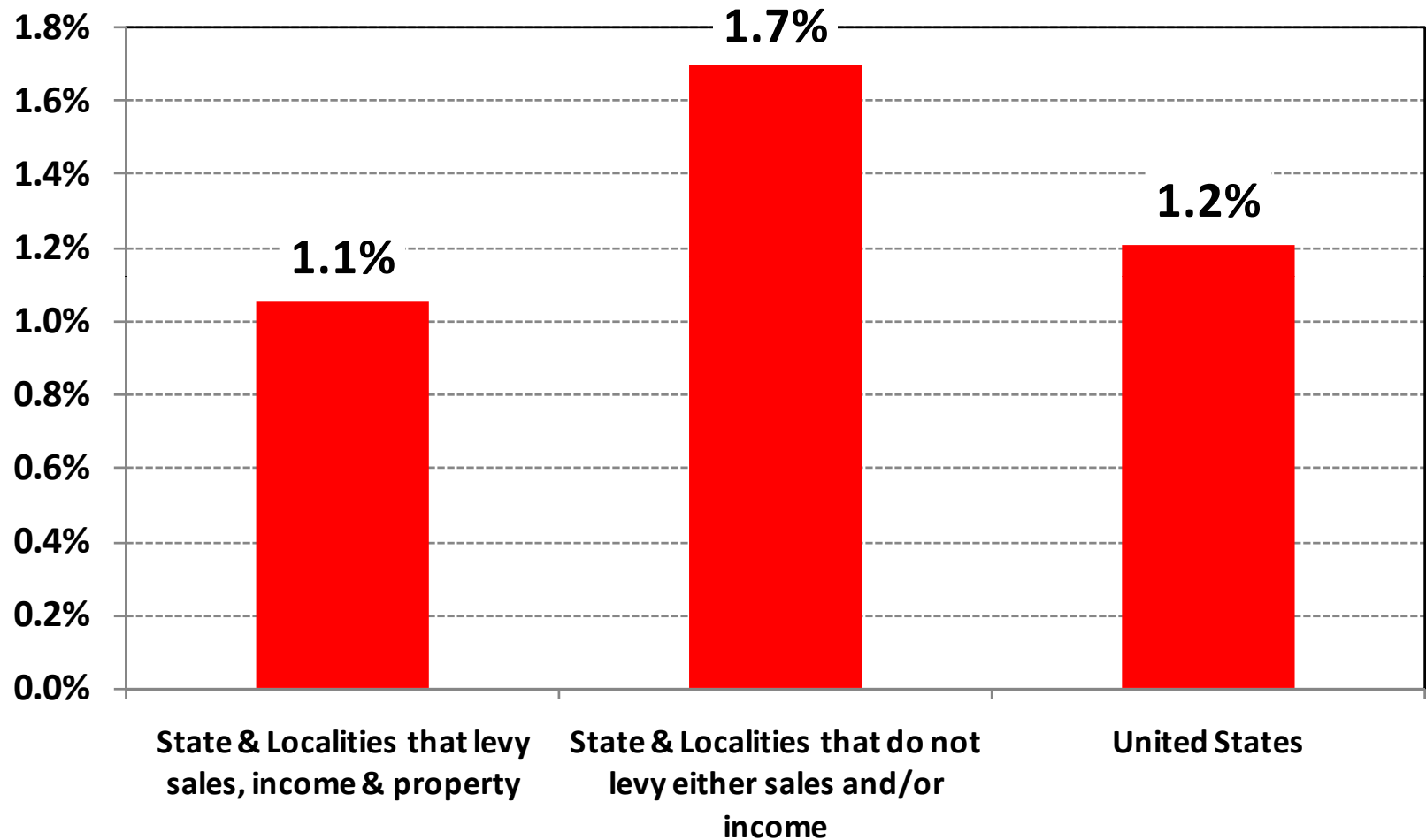
States That Levy Sales, Income, and Property Tax Compared to States That Do Not Levy a Sales or Income Tax



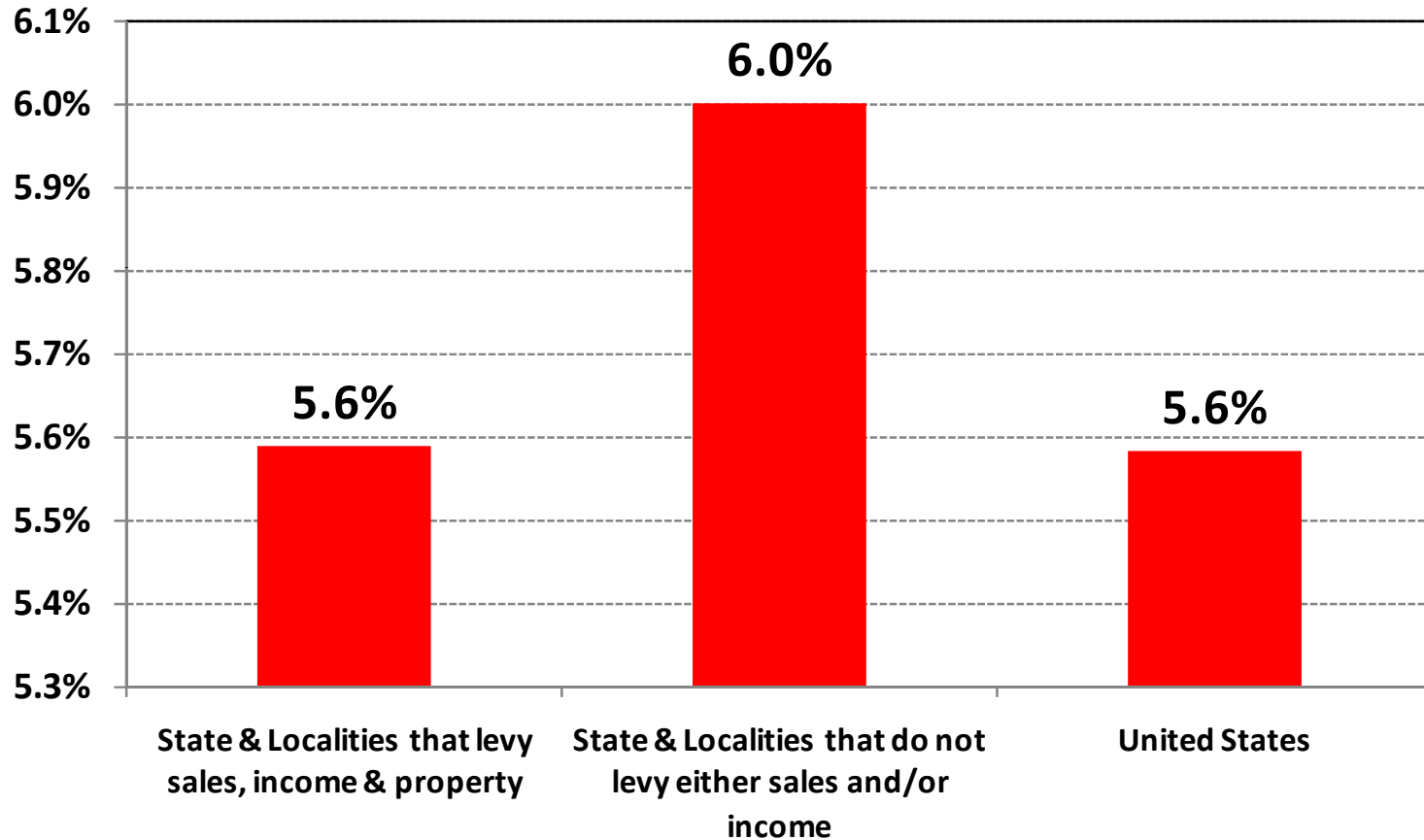
Average Growth Rate in State Personal Income States That Levy Sales, Income, and Property Tax Compared to States That Do Not Levy a Sales or Income Tax 1990 - 2007



Average Annual Growth Rate in State Monthly Employment Trends States That Levy Sales, Income, and Property Tax Compared to States That Do Not Levy a Sales or Income Tax (January 2005 – November 2008)



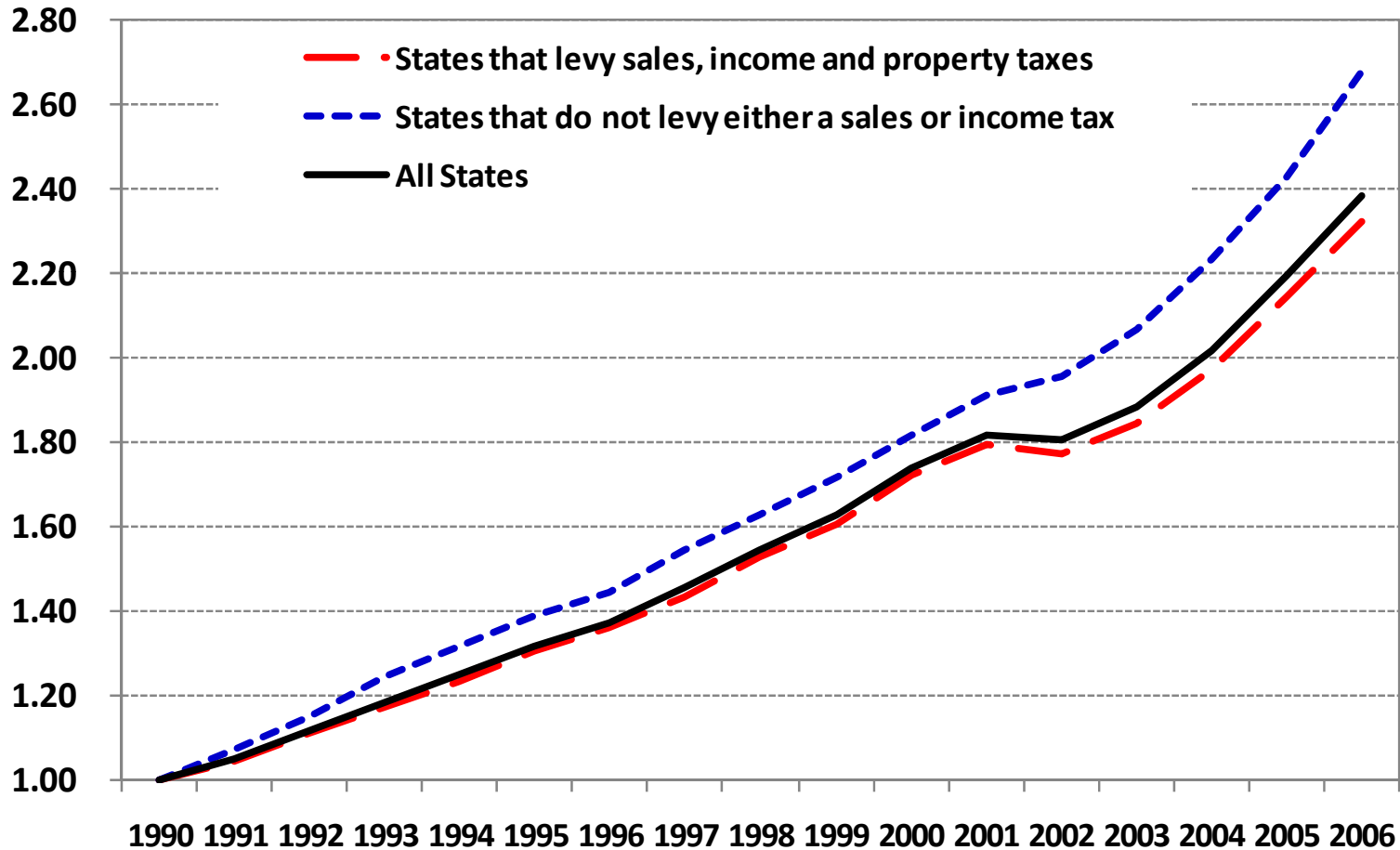
Average Annual Growth Rate in Total State & Local Tax Revenues States That Levy Sales, Income, and Property Tax Compared to States That Do Not Levy a Sales or Income Tax (1990 – 2006)



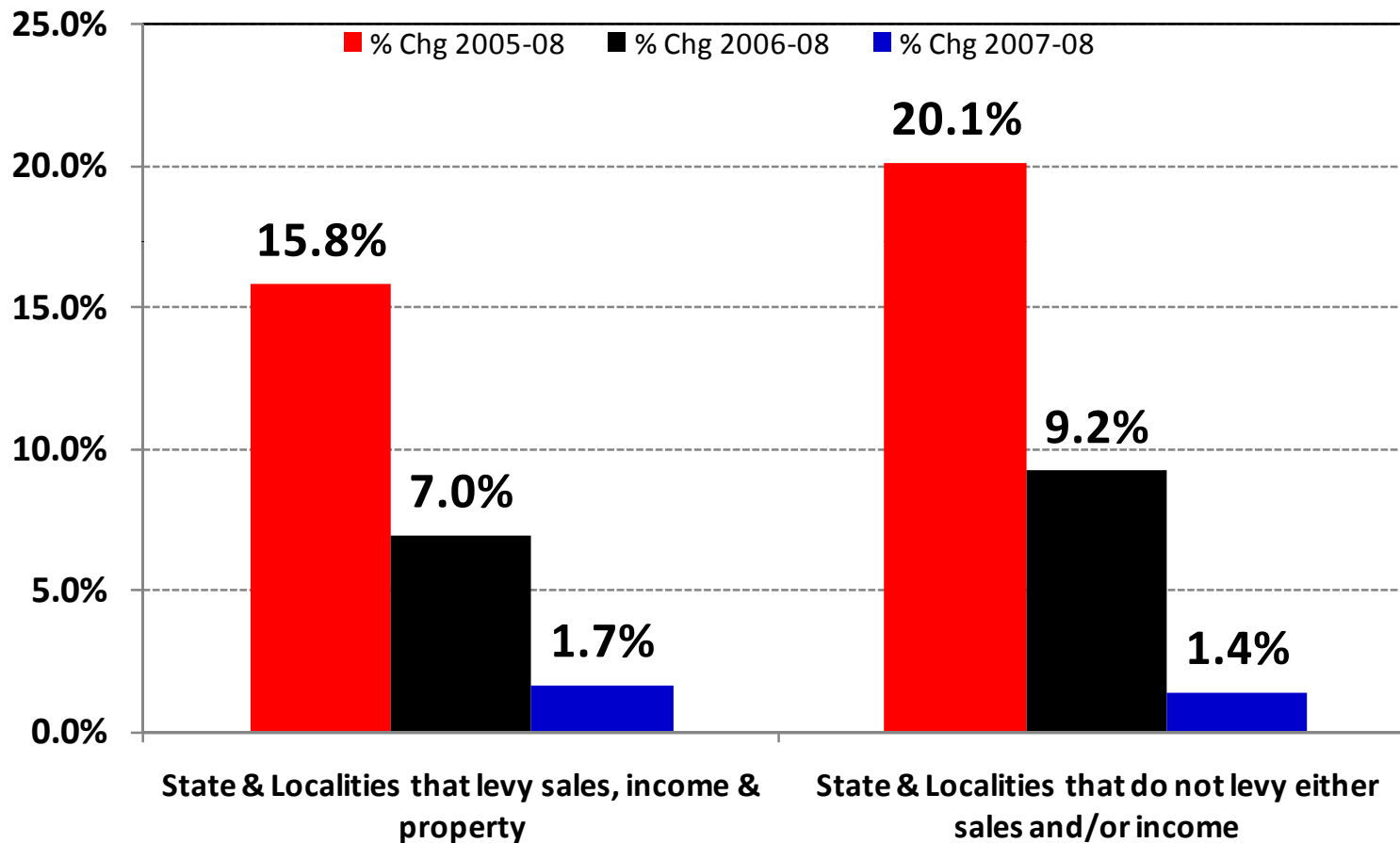
Growth Rate in Total State & Local Tax Revenues

States That Levy Sales, Income, and Property Tax Compared to States That Do Not Levy a Sales or Income Tax

1990 – 2006 (Scaled to 1.0 in 1990)



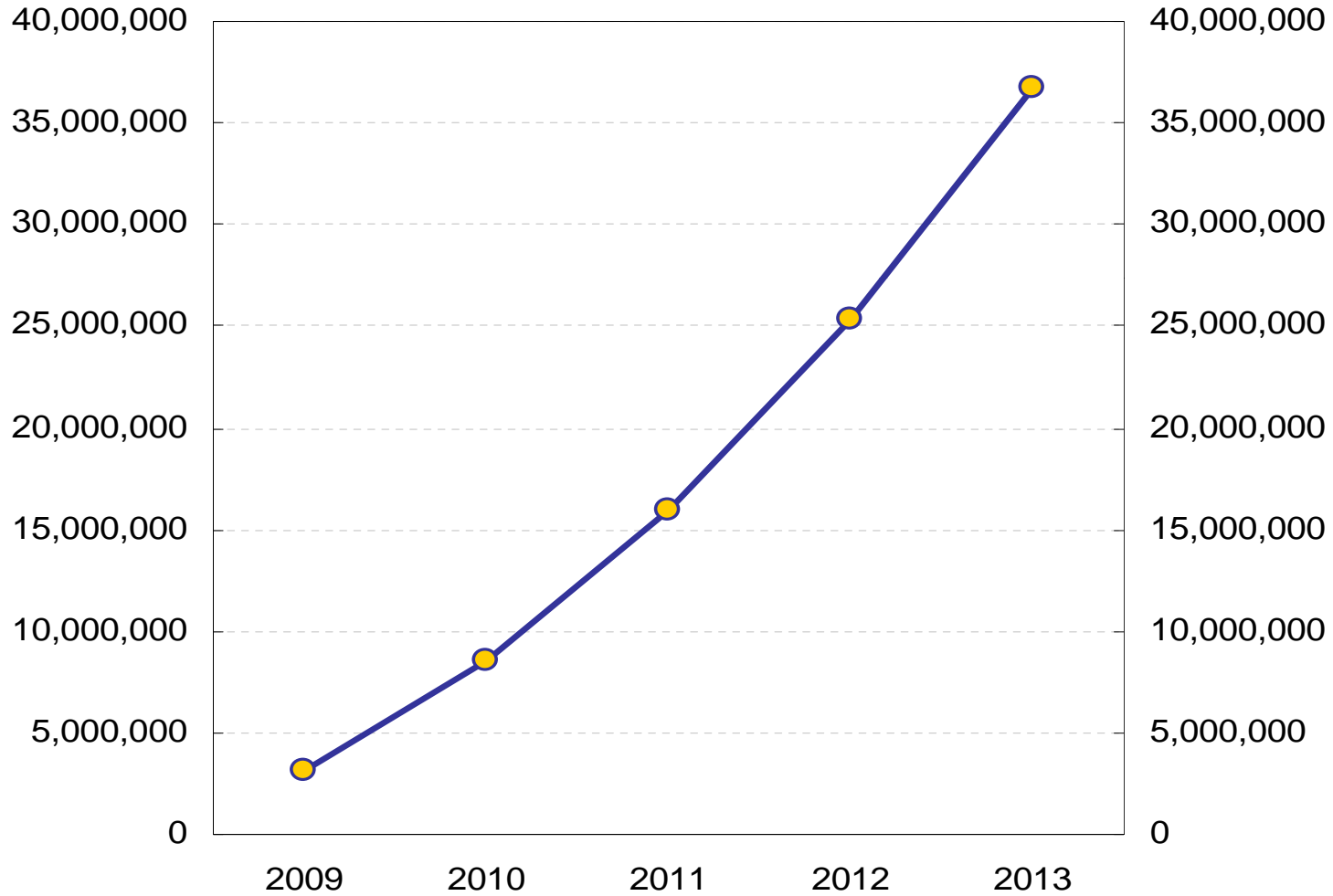
Comparative Growth Rate in Total State Tax Revenues States That Levy Sales, Income, and Property Tax Compared to States That Do Not Levy a Sales or Income Tax *2005Q1, 2006Q1, 2007Q1 & 2008Q1*



Impact on Personal Income in Texas From Replacing Property Taxes with Sales Taxes (billions \$)

| | Personal Income | | Personal Income | | Cumulative Increase | |
|-------------|---------------------------------|-----------|------------------------|-----------|---------------------------|--------|
| | <u>Baseline (no tax reform)</u> | | <u>with Tax Reform</u> | | <u>in Personal Income</u> | |
| | Upper | Lower | Upper | Lower | Upper | Lower |
| 2009 | \$928.2 | \$976.2 | \$931.3 | \$979.5 | \$3.1 | \$3.3 |
| 2010 | \$966.8 | \$1,028.4 | \$973.2 | \$1,032.7 | \$7.6 | \$9.6 |
| 2011 | \$1,006.9 | \$1,082.6 | \$1,017.0 | \$1,087.2 | \$12.3 | \$19.7 |
| 2012 | \$1,048.7 | \$1,139.1 | \$1,062.8 | \$1,143.7 | \$16.8 | \$33.8 |
| 2013 | \$1,092.2 | \$1,198.0 | \$1,110.6 | \$1,202.4 | \$21.3 | \$52.1 |

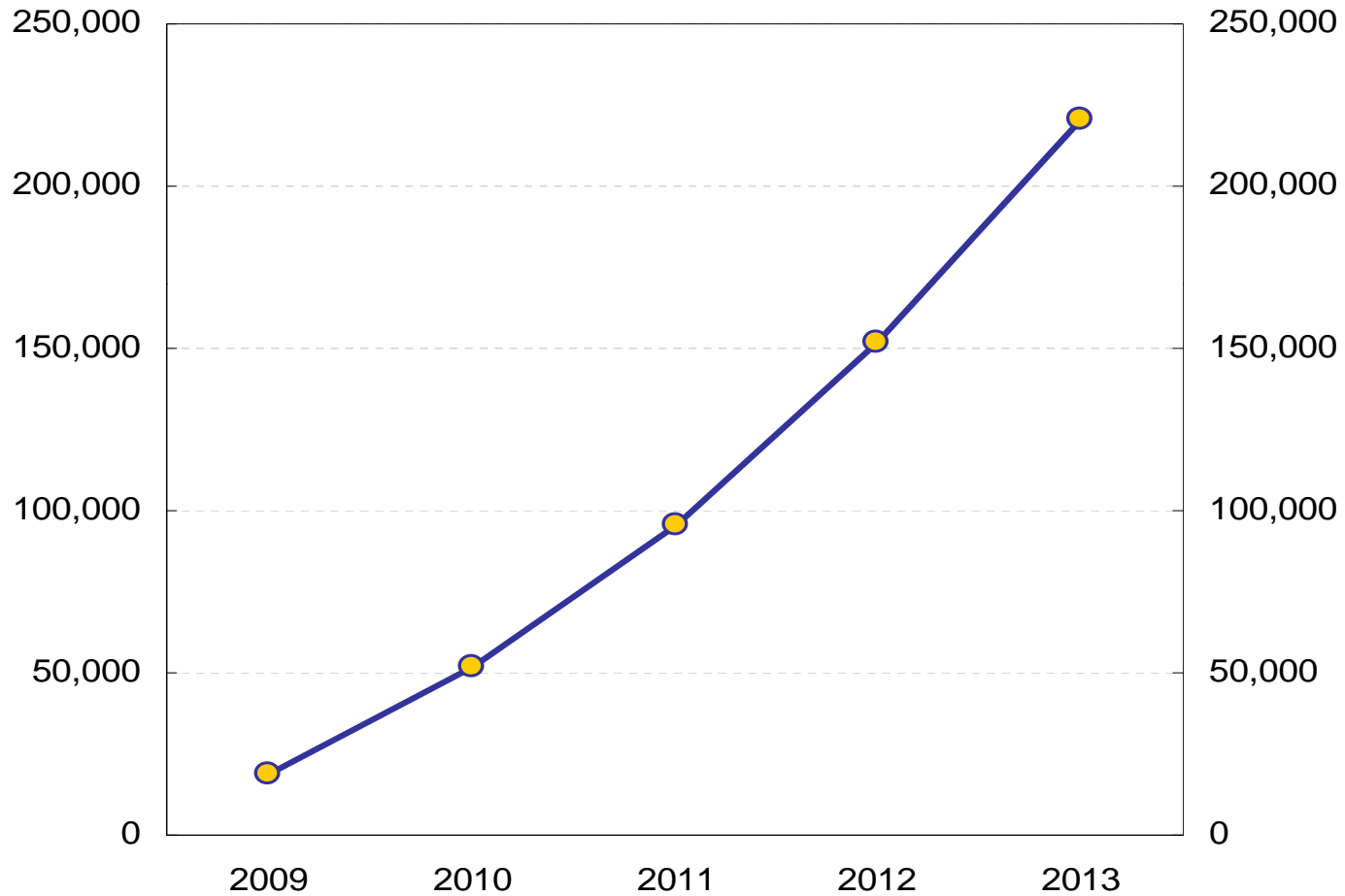
Average Cumulative Increase in Personal Income Growth (thousands \$)



Impact on State Employment Growth in Texas From Replacing Property Taxes with Sales Taxes (Nonfarm Payrolls, seasonally adjusted in thousands)

| | Employment without <u>Tax Reform</u> | | Employment with <u>Tax</u> <u>Reform</u> | | Cumulative Increase in <u>Employment</u> | |
|-------------|---|--------|---|--------|---|---------|
| | Upper | Lower | Upper | Lower | Upper | Lower |
| 2009 | 11,164 | 11,451 | 11,182 | 11,471 | 18,597 | 19,737 |
| 2010 | 11,395 | 11,765 | 11,434 | 11,791 | 45,881 | 57,399 |
| 2011 | 11,636 | 12,090 | 11,696 | 12,118 | 73,593 | 118,118 |
| 2012 | 11,886 | 12,429 | 11,971 | 12,456 | 101,090 | 202,578 |
| 2013 | 12,148 | 12,782 | 12,258 | 12,809 | 127,694 | 312,718 |

Cumulative Net Employment Growth Post Tax Reform



Alternative Sales Tax Rate Necessary to Replace All Property Tax Revenues Including the Value of Property Sales (2005 & 2006)

| | 2005 | 2006 |
|--------------------------------|-------|-------|
| Current Tax Base | 12.6% | 12.2% |
| Taxing All FTA Services | 8.9% | 8.8% |
| Adjusted GDP Tax Base | 6.2% | 6.1% |
| GDP Tax Base | 4.8% | 4.7% |