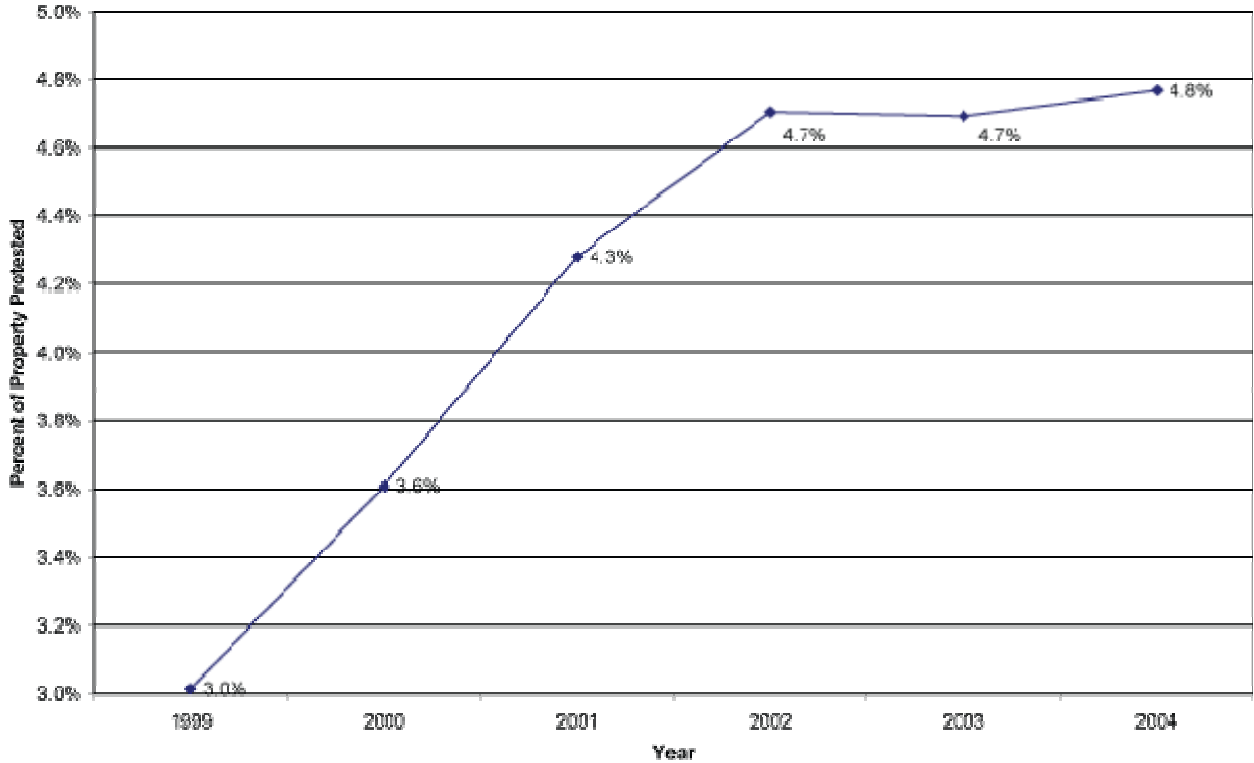


Trends

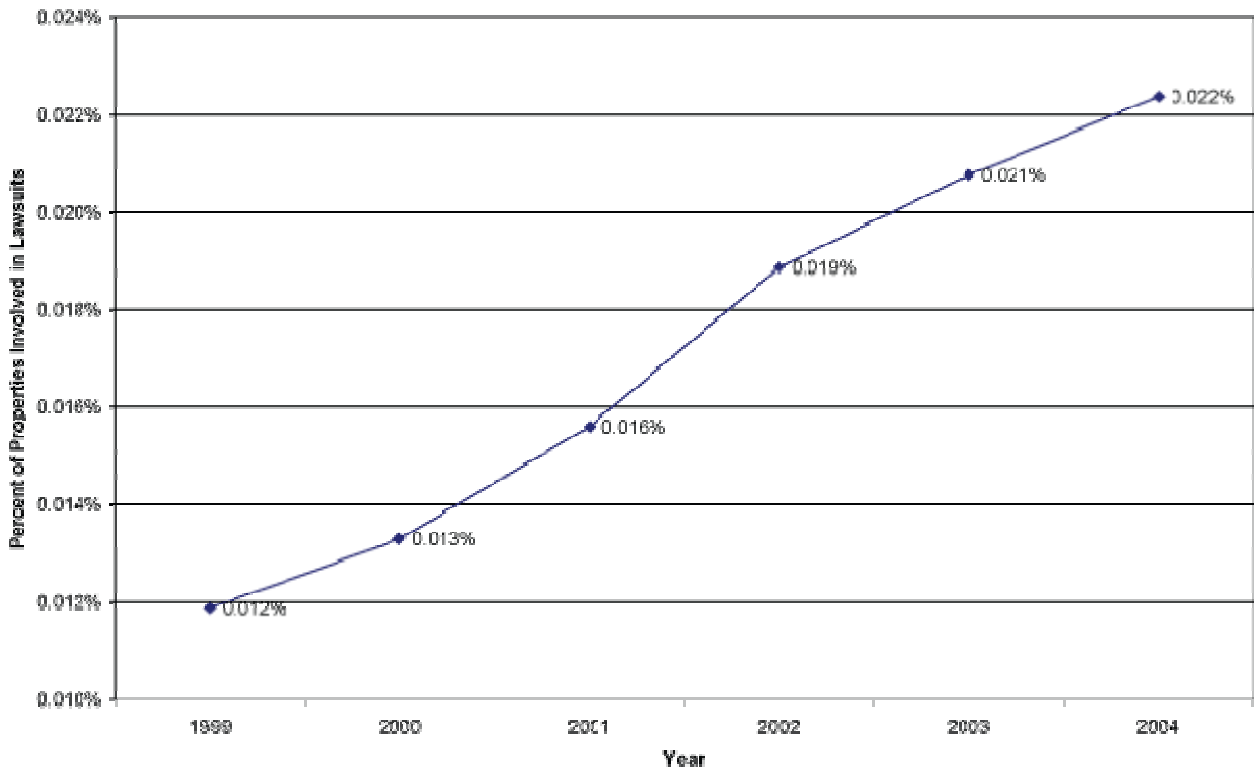
So what trends are we seeing among Texas property taxpayers? According to the Texas Comptroller's Office taxpayers are protesting more each year as illustrated below. The Comptroller states that 784,727 protests were filed in 2004, an increase of 4.4% over 2003.

Exhibit 5
Protests per Parcel 1999 to 2004



We are also seeing an increase in litigation. The number of lawsuits has nearly doubled between 1999 and 2004. Section 42.21 gives the taxpayer the right to appeal an adverse ruling from the appraisal review board to district court. Section 42.25 gives the taxpayer an avenue to seek relief from excessive appraisal. However, more and more we are seeing taxpayers seeking relief under Section 42.26 (Remedy for Unequal Appraisal). The Comptroller's office states "...Property owners who disagree with the ARB's decision on their property may file suit in district court. As of the survey's reporting date, taxpayers had filed 3,682 lawsuits challenging their 2004 values, compared to 3,325 lawsuits at the same time in the previous year. The number of lawsuits filed is increasing faster than the growth in property appraisals."

Exhibit 7
Lawsuits per Parcel 1999 to 2004



Why are Texans filing more protests and lawsuits? We believe the reason is the continual increase in property valuations which translates into higher property taxes. The illustration noted below shows the 2006 increases from tax year 2005 in six north Texas counties.

INCREASES IN 2006 COUNTY TAX ROLLS

Collin County	+10.2%
Dallas County	+8.1%
Denton County	+8.2%
Ellis County	+7.5%
Kaufman County	+11.8%
Tarrant County	+9.2%

Source: County Appraisal Districts; Dallas Morning News Research

So, what is the engine driving the increase in valuations and taxes? We feel the answer is in the Texas population growth rate. As the second most populated state in the U.S., the population growth rate is creating extreme pressures on the State and local governments (counties, cities and schools). Depending on which model you choose from the Texas State Data Center, the population in Texas could grow from 21,874,158 in 2005 to 45,388,036 in 2040.

The cost of keeping up with increasing infrastructure needs and services provided by the local governments requires a constantly expanding property tax base. Just as the politicians in Washington expound about America's addiction to oil, Texas local governments are addicted to property taxes. In 2003 Texas ranked 46 in effective state and local tax burden as reported by the Tax Foundation. However, strictly looking at the per capita local property tax collection, Texas ranks 15 as reported by the U.S Department of Commerce in 2003. A possible solution to the growing property tax monster would be to limit the amount of revenue collected from property taxes and create alternative tax revenues.

Looking into the future, there is a train coming towards us with 45,000,000 Texans on it. Hard choices and action are required now to avoid becoming a second California who faced a similar dilemma several years ago and made poor decisions on how to resolve those challenges, resulting in the budget crisis they face today.