

Report to the Citizens of Texas

Fiscal 2016 • Sept. 1, 2015 — Aug. 31, 2016

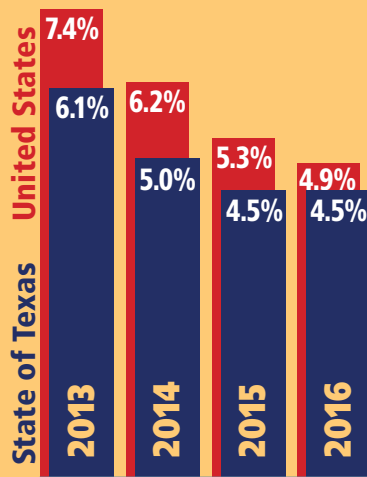


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Economic Diversity Sustains Texas

National and State Unemployment Rate



Source: Texas Comptroller of Public Accounts, Revenue Estimating Division and U.S. Bureau of Labor Statistics; data based on calendar year.



Comptroller's Mission Statement

The Office of the Texas Comptroller of Public Accounts will serve the people of Texas by applying the tax and fiscal laws fairly and consistently. We will continue to improve our services through innovative management and technology, carrying out all our duties with integrity, openness and at the least cost to the taxpayer.

Texas Works

Chief Executive Magazine ranked Texas as the best state in the nation for business in 2016. Texas has taken the top spot every year since the beginning of the CEO survey in 2005. Key factors in the ranking include taxation and regulation, workforce quality and living environment.

As of June 2016, there are currently 54 Fortune 500 companies with their corporate headquarters in Texas — 25 in Houston alone. Companies include AT&T, Exxon Mobil, American Airlines and Whole Foods.

Though the value of Texas exports continued a decline in 2016 (down 12 percent) that began in 2015 due to falling oil prices and a stronger dollar, Texas remains the nation's leading exporting state as it has for more than a decade. Texas exports accounted for 16 percent of total U.S. exports in 2016.

Fifteen major military installations located in Texas generated \$136.6 billion in economic activity in 2016 that added \$81.4 billion to the state's gross domestic product and generated \$48.1 billion in personal income. In all, the military helps support more than 800,000 Texas jobs.

From August 2015 to August 2016, Texas added more jobs than any other state except California and Florida. Texas had the third-lowest unemployment rate among the 10 most populous states during August 2016.

Slowing Economy Shows Modest Growth

Texas' unemployment rate remained below the national rate throughout 2016 and growth continued

in the construction, wholesale trade, finance and insurance, and food service sectors.

Texas employment in **service-providing** industries such as *education* and *health services* (up 61,500 jobs) and *leisure and hospitality* (up 48,400) grew overall by 2.5 percent in fiscal 2016. These industries account for more than 85 percent of the state's total nonfarm employment.

In August 2016, the monthly average NYMEX price for oil fell to \$44.80 per barrel from \$102.39 in July 2014, a decrease of 56 percent. Not surprisingly, Texas employment in fiscal 2016 was down in sectors closely related to the oil and natural gas industry (*machinery manufacturing* down 15,100 jobs; *fabricated metal manufacturing* down 10,500).

Overall, employment in **goods-producing** Texas industries fell by 3.1 percent in fiscal 2016, with decreases in *mining and logging* (down 35,800 jobs) and *manufacturing* (down 28,900). *Construction* was the only goods-producing industry to have an increase in employment in fiscal 2016, adding 8,800 jobs (1.3 percent) to reach 693,600 in August 2016.

Texas' state sales tax collections fell by 2.3 percent, led by reduced revenue from the oil and natural gas-related sectors. The state's manufacturing, retail trade, information, and real estate sectors also experienced declining collections in fiscal 2016. However, state motor vehicle sales, use and rental taxes ticked up by 2.3 percent.

Texas by the Numbers

Fiscal Year	Resident Population ¹	Per Capita Income ¹	Nonfarm Employment ¹	Unemployment Rate (percent) ¹	Per Capita State Tax Collections ²	State Tax Collections ²
2016	27,888,000	\$47,100	11,975,000	4.5	\$1,738	\$48,476,226,223
2015	27,408,000	\$46,700	11,791,000	4.4	\$1,886	\$51,683,059,891

Source: ¹2018-2019 *Biennial Revenue Estimate* (Jan. 2017); ²2016 *State of Texas Annual Cash Report* (Nov. 2016). Prior year numbers subject to benchmark revisions.

Texas Shining Stars

Three Texas cities — Austin (high-tech), Dallas (telecommunications and logistics) and Houston (energy and export) — are among the world's 19 leading knowledge capitals according to a 2016 report from the Brookings Institution. Their success arises from economic diversity and having unique industry clusters around which diverse but associated economies flourish.

Austin

Austin combines a relaxed and diverse culture with cutting-edge innovation. The capital city is:

- At the forefront of computing and information technology
- A modern economy attracting skilled labor, in-demand jobs and giants such as Google and Apple
- A world leader in knowledge creation and commercialization across industries (advanced manufacturing; creative and digital media technology; clean energy; life sciences)



Dallas

Dallas ranked #1 in the nation as the best place to develop and invest in property in 2016. Several factors put Dallas on top:

- A business friendly environment with trade and transportation access that sustains job growth
- Office and industrial clusters that support an overall attractive cost of doing business
- A combination of relatively low commercial rents and residential real estate prices



Houston

Among Houston's many assets, the Port of Houston plays a key part in Texas' seaport network that accounted for \$204 billion of the \$650 billion in international trade carried out throughout 2015.

The port alone:

- Accounted for nearly \$137 billion of that trade
- Supported 509,000 Texas jobs
- Generated \$73 billion in gross state product

Port of Houston's size and diverse capabilities have helped Texas become the nation's largest exporter and the world's 10th largest economy.



State Performance Measures

These performance measures as reported by state agencies show Texas' performance and expectations in business and economic development, education, natural resources, public health, public safety and transportation — all key government services influencing and affecting citizens' quality of life.

Selected State Performance Measures	FY2016 Targeted	FY2016 Actual	FY2015 Actual
Business and Economic Development			
Businesses developed as recruitment prospects	120	204	206
Entrepreneur services provided to veterans and their families through the entrepreneur program	635	1,031	642
Education			
Students with disabilities who graduate high school	78%	78.2%	77.5%
Students receiving Texas grants	71,500	73,466	74,630
Natural Resources			
State parks in operation	91	88	87
Total land acreage in Texas managed to enhance wildlife through Texas Parks and Wildlife Department approved plans	18.84%	18.0%	17.64%
Public Health			
Total Value of Supplemental Nutrition Assistance Program (SNAP) Benefits Distributed	\$5.10 Billion	\$5.30 Billion	\$5.26 Billion
Women, Infants and Children (WIC) participants provided nutritious supplemental food	958,644	855,542	884,951
Public Safety			
Texas National Guard Members	23,000	21,803	21,825
Leaking Petroleum Storage Tank Sites Cleaned Up	93%	95%	94%
Transportation			
Construction Projects Completed on Budget	90%	87.2%	86.16%
Highway Pavements in Good or Better Condition	91%	87.32%	86.92%

Source: Legislative Budget Board

Are there other specific performance measures you would like to see reported here?

Submit your suggestions to the Comptroller's Fiscal Management Division at statewide.accounting@cpa.texas.gov

Connect with the Texas Comptroller of Public Accounts on:



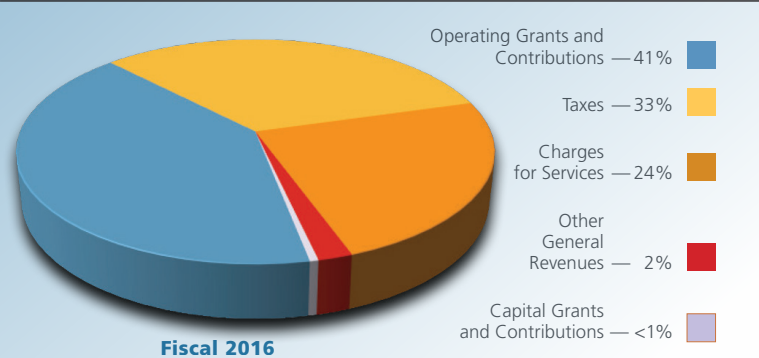
The Comptroller's *Report to the Citizens of Texas* has been awarded the Certificate of Excellence in Citizen-Centric Reporting from the Association of Government Accountants (AGA) for each fiscal year since 2008.



Texas Finances

The amounts below are presented in thousands for fiscal years ending Aug. 31, 2016 and Aug. 31, 2015. An audit of the state's financial statements resulted in a clean audit opinion. Find complete financial information at: <https://fm.x.cpa.texas.gov/fm/pubs/cafr>.

Sources of Revenue

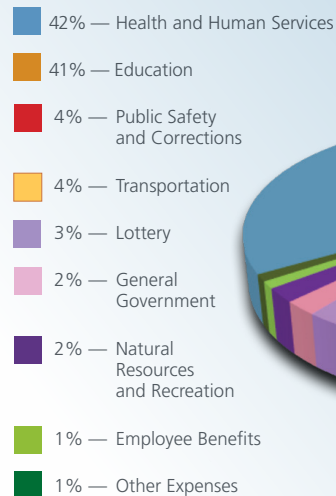


REVENUE BY SOURCE	2016	2015	% Change
Charges for Services	\$ 33,993,274	\$ 31,754,746	7.05
Operating Grants and Contributions	59,244,934	51,059,387	16.03
Capital Grants and Contributions	115,686	202,951	-43.00
Taxes	47,534,436	51,773,006	-8.19
Other General Revenues	3,526,606	3,281,958	7.45
TOTAL REVENUES	\$ 144,414,936	\$ 138,072,048	4.59

Note: Operating Grants provides funding for the day-to-day operations of the state including personnel, administration and other regular expenses. **Capital Grants** provides funding for buildings, construction or equipment, rather than program or operating expenses. **Other General Revenues** includes investment earnings, the settlement of claims and gain on the sale of capital assets and gain on other financial activity.

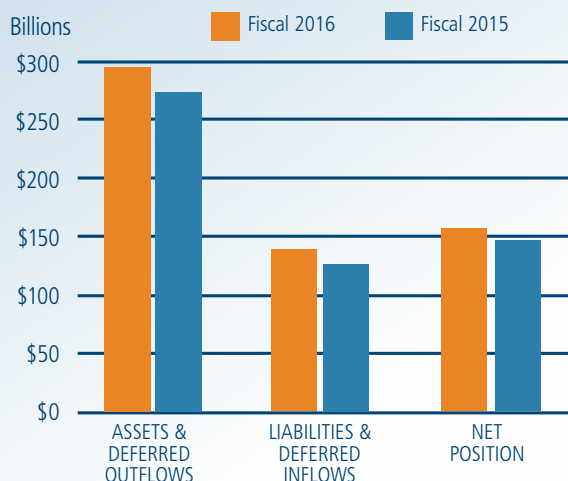
Functional Expenses

EXPENSES	2016	2015	% Change
General Government	\$ 2,705,170	\$ 3,785,464	-28.54
Education	57,331,288	54,500,956	5.02
Employee Benefit	2,123,065	2,742,977	-22.60
Health and Human Services	58,730,015	54,377,619	8.00
Public Safety and Corrections	6,314,067	5,877,487	7.43
Transportation	6,189,857	5,340,853	15.90
Natural Resources and Recreation	2,406,190	2,447,046	2.09
Lottery	3,665,907	3,296,218	11.22
Other Expenses	897,156	1,303,344	-31.17
TOTAL EXPENSES	\$ 140,362,715	\$ 133,671,964	5.01



Note: Employee Benefits includes teacher retirement benefits. **Other Expenses** includes regulatory services and interest on general long-term debt.

Net Position



STATEMENT of NET POSITION	2016	2015	% Change
Assets & Deferred Outflow	\$ 297,814,693	\$ 276,122,600	7.86
Liabilities & Deferred Inflow	(138,422,244)	(128,414,944)	7.79
NET POSITION	\$ 159,392,449	\$ 147,707,656	7.91

Note: Assets are resources the government controls that can be converted into cash. **Liabilities** are obligations that use up resources the government has little or no discretion to avoid. **Deferred Outflows** is the consumption of a resource by the government that should be reported in a future period. **Deferred Inflows** is the acquisition of a resource by the government that should be reported in a future period. **Net Position** is the balance of all financial statement elements (Assets + Deferred Outflows – Liabilities – Deferred Inflows).

Challenges and the Road Ahead

Employment and Economic Growth

Following the sharp decline in oil prices beginning in the second half of calendar 2014 and extending into 2015, the economic momentum of the major oil and natural gas states — of which Texas is the most populous — slowed. However, unlike some of the other states that depend disproportionately on that industry, Texas and its diversified economy avoided recession and continued a modest expansion in fiscal 2016:

- The total output of Texas goods and services grew by 0.2 percent
- Employment expanded much slower than the previous few years — by 1.6 percent

The Comptroller's 2018-19 *Biennial Revenue Estimate* projects the state to regain its economic footing over the fiscal 2018-19 period, with GDP growth averaging about 3 percent. Employment is expected to continue to grow at a pace slightly above the fiscal 2016 rate.

Population and Housing

Along with other Sun Belt states such as California and Florida, Texas has led national population growth since the end of World War II. Mid-year 2016 population estimates by the Census Bureau list the three most populous states:

- California (39 million)
- Texas (28 million)
- Florida (21 million)

These three states represent more than 27 percent of the U.S. population.

Along with decades of above-average population growth, the pressure on Texas to provide ample housing for this burgeoning population has never let up. 2010 Census data shows Texas with more than 8.9 million occupied housing units that year — 64 percent owner-occupied; 36 percent renter-occupied.

In fiscal 2016, Texas' net population grew daily by 1,300. On average during 2014 and 2015,

construction permits were issued each month for nearly 8,700 single-family homes and more than 5,400 housing units (developments for five or more families).

Transportation

In 2014, Texas voters approved the dedication of certain dollars from oil and natural gas tax revenues for state transportation funding. Additional transportation funding approved by voters in November 2015 dedicates a portion of the state's sales and use tax and motor vehicle sales, use and rental taxes. Dedication begins in:

- Fiscal 2018 for the sales and use tax
- Fiscal 2020 for the motor vehicles sales, use and rental tax

In fiscal 2018, the oil and gas and sales tax portions should contribute more than \$2.7 billion to much-needed transportation funding that addresses a growing Texas population. A similar amount is expected in 2019.

The new transportation dedications will mean less available funding for state general-purpose spending — the tax provisions will remain in force through fiscal 2032 (sales and use) and fiscal 2029 (motor vehicle sales, use and rental), though they may be extended by the Legislature.

we value your feedback!

Did you find this report informative?

Is there other information you'd like to see? Please let us know.

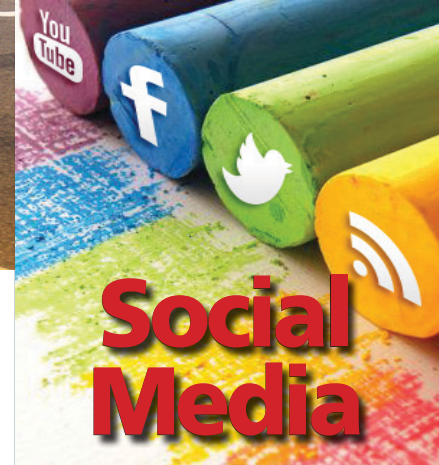
Contact the Comptroller's Fiscal Management Division

statewide.accounting@cpa.texas.gov

Texas Economic Outlook for Fiscal 2016 Through 2019

Source: <i>2018-2019 Biennial Revenue Estimate for Texas</i> (Jan. 2017)	2016	2017	2018	2019
Real Gross State Product — total value of goods and services produced (billions adjusted for inflation)	\$ 1,506	\$ 1,544	\$ 1,590	\$ 1,639
Annual Percent Change	0.2	2.5	3.0	3.1
NYMEX Oil Price (\$ per barrel)	\$ 41.40	\$ 47.73	\$ 55.11	\$ 59.26
NYMEX Natural Gas Price (\$ per Million BTUs)	\$ 2.30	\$ 3.15	\$ 3.05	\$ 2.92
Nonfarm Employment	11,975,000	12,175,000	12,402,000	12,617,000
Annual Percent Change	1.6	1.7	1.9	1.7
Unemployment Rate (percent)	4.5	4.6	4.5	4.5

In Oil Price and Natural Gas, NYMEX means New York Mercantile Exchange. In Natural Gas, BTUs means per British Thermal Units. Nonfarm Employment excludes farm workers, self-employed proprietors, domestic household workers and non-civilian members of the military.



Social Media

Many Texas state agencies and colleges/universities use social media to communicate with the public. For more details, please visit Texas.Gov's social media directory.

