



Section Two

(continued)

Required
Supplementary Information
Other Than MD&A

STATE OF TEXAS

Budgetary Comparison Schedule

General Fund

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts	Final
	Original	Final	Budgetary Basis	to Actual Variance
REVENUES				
Taxes	\$ 35,987,443	\$ 35,603,220	\$ 38,400,547	\$ 2,797,327
Federal	31,258,619	38,264,461	35,452,450	(2,812,011)
Licenses, Fees and Permits	2,439,391	2,608,937	2,775,037	166,100
Interest and Other Investment Income	253,890	121,841	535,425	413,584
Land Income	13,410	13,487	32,042	18,555
Settlement of Claims	462,475	532,639	586,770	54,131
Sales of Goods and Services	1,396,373	2,253,987	1,153,896	(1,100,091)
Other	3,027,848	3,213,744	3,815,972	602,228
Total Revenues	<u>74,839,449</u>	<u>82,612,316</u>	<u>82,752,139</u>	<u>139,823</u>
EXPENDITURES				
General Government	5,151,737	4,183,962	2,825,903	1,358,059
Education	23,344,816	23,939,874	26,270,766	(2,330,892)
Employee Benefits	1,233,067	4,312	1,665	2,647
Teacher Retirement Benefits	1,822,440	1,822,440	1,640,592	181,848
Health and Human Services	33,620,295	38,832,770	43,639,682	(4,806,912)
Public Safety and Corrections	4,281,172	5,444,594	4,479,095	965,499
Transportation	178,619	180,218	31,269	148,949
Natural Resources and Recreation	1,366,919	1,642,190	1,547,667	94,523
Regulatory Services	282,295	349,930	343,454	6,476
Total Expenditures	<u>71,281,360</u>	<u>76,400,290</u>	<u>80,780,093</u>	<u>(4,379,803)</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>3,558,089</u>	<u>6,212,026</u>	<u>1,972,046</u>	<u>(4,239,980)</u>
OTHER FINANCING SOURCES (USES)				
Transfer In	1,292,754	2,085,617	4,891,199	2,805,582
Transfer Out	(6,683,857)	(7,337,860)	(5,779,918)	1,557,942
Sale of Capital Assets	8,192	11,064	18,816	7,752
Insurance Recoveries	2,018	2,170	1,467	(703)
Available Beginning Balances	1,339,639	1,339,639	1,339,639	
Total Other Financing Sources (Uses)	<u>(4,041,254)</u>	<u>(3,899,370)</u>	<u>471,203</u>	<u>4,370,573</u>
Excess (Deficiency) of Revenues and Other				
Financing Sources Over (Under) Expenditures				
and Other Financing Uses	<u>\$ (483,165)</u>	<u>\$ 2,312,656</u>	<u>\$ 2,443,249</u>	<u>\$ 130,593</u>

STATE OF TEXAS

Budgetary Comparison Schedule

Major Special Revenue Fund – State Highway Fund

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts	Final
	Original	Final	Budgetary Basis	to Actual Variance
REVENUES				
Taxes	\$ 41,800	\$ 41,787	\$ 2,160,780	\$ 2,118,993
Federal	2,755,747	3,181,028	2,870,276	(310,752)
Licenses, Fees and Permits	1,281,670	1,267,476	1,277,341	9,865
Interest and Other Investment Income	42,899	42,899	39,678	(3,221)
Land Income	5,624	5,624	9,650	4,026
Settlement of Claims	1,000	1,969	24,429	22,460
Sales of Goods and Services	209,288	218,291	9,064	(209,227)
Other	3,741	4,290	1,834	(2,456)
Total Revenues	<u>4,341,769</u>	<u>4,763,364</u>	<u>6,393,052</u>	<u>1,629,688</u>
EXPENDITURES				
General Government	21,058	24,090	17,169	6,921
Employee Benefits	67,593			
Public Safety and Corrections	579,129	711,959	647,566	64,393
Transportation	7,546,232	7,805,864	6,485,489	1,320,375
Regulatory	4,226	4,226	2,548	1,678
Total Expenditures	<u>8,218,238</u>	<u>8,546,139</u>	<u>7,152,772</u>	<u>1,393,367</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(3,876,469)</u>	<u>(3,782,775)</u>	<u>(759,720)</u>	<u>3,023,055</u>
OTHER FINANCING SOURCES (USES)				
Transfer In	2,274,370	2,271,223	433,409	(1,837,814)
Transfer Out			(453,685)	(453,685)
Sale of Capital Assets	4,521	4,521	12,318	7,797
Insurance Recoveries	12,846	12,847	159	(12,688)
Available Beginning Balances	4,150,822	4,150,822	4,150,822	
Total Other Financing Sources (Uses)	<u>6,442,559</u>	<u>6,439,413</u>	<u>4,143,023</u>	<u>(2,296,390)</u>
Excess of Revenues and Other Financing Sources				
Over Expenditures and Other Financing Uses	<u>\$ 2,566,090</u>	<u>\$ 2,656,638</u>	<u>\$ 3,383,303</u>	<u>\$ 726,665</u>

Note to Budgetary Comparison Schedule

The budgetary comparison schedule presents comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of these differences is presented below.

Reconciliation of Budgetary Basis to GAAP Basis

August 31, 2012 (Amounts in Thousands)

	General Fund	State Highway Fund
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – Actual Budgetary Basis	\$2,443,249	\$3,383,303
Basis of Accounting Differences:		
Receivables and Deferred Revenues	(690,818)	463,845
Payables	1,553,579	82,358
Perspective Differences:		
Beginning Cash Balances Reported as Other Financing Sources	(1,339,639)	(4,150,822)
Other Revenues Not Budgeted	175,192	
Other Expenditures Not Budgeted	(151,777)	(63,845)
Entity Differences:		
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses for Other Activities	<u>88</u>	<u>2,779</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – GAAP Basis	<u>\$1,989,874</u>	<u>\$ (282,382)</u>

The major reconciling items between the budgetary comparison schedule actual and the GAAP financial statements are:

- **Basis of Accounting Differences:** Revenues and expenditures are reported on the cash basis of accounting in the budgetary comparison schedule but are reported on the modified accrual basis on the GAAP financial statements. Therefore, deferred revenues, receivables and payables are included as reconciling items.

- **Perspective Differences:** Certain revenues and expenditures, including debt service and the disproportionate share portion of the Federal Medical Assistance program, are not budgeted by the Legislature. The activity for these programs is excluded from the budgetary comparison schedule.

The beginning cash balances are included as other financing sources in the budgetary comparison schedule. The beginning fund balances are not included as financing sources on the GAAP financial statements.

- **Entity Differences:** Budgets are not established for sources from capital leases. These financing sources are not included in the budgetary comparison schedule.

Excess of Actual Budgetary Basis Expenditures over Final Budget

General fund - The \$2.3 billion variance in education was due to various prior year educational programs in that year's budget primarily being spent in this fiscal year. The \$4.8 billion variance in health and human services is the result of increased expenditures made from the excess of federal revenues received over estimates by agencies in this particular function.

Basis of Budgeting

The state's budget is prepared on a cash basis. The Texas Constitution limits appropriation bills to two years. The Legislative Budget Board (LBB) is required by statute to adopt an estimated rate of growth for the next biennium and calculate a limit on the amount of state tax revenue, not dedicated by the Texas Constitu-

tion, that is available for spending in the next biennium. If the Legislature, by adoption of a resolution approved by a record vote of a majority of the members of each house, finds that an emergency exists and identifies the nature of the emergency, the Legislature may provide appropriations in excess of the adopted limit. The Governor's Budget Office and LBB initiate the process by submitting budget requests to the Legislature. At final passage of the General Appropriations Act by the Legislature, it is sent to the Comptroller for certification. If the Comptroller certifies that appropriated amounts are available in the affected funds, the bill is sent to the governor. If not certified, the Legislature may pass the bill with a four-fifths majority vote. The governor has the option of vetoing the total bill or specific line-item appropriations, but does not have the authority to reduce a line item of appropriation. Upon approval by the governor, the bill becomes law and is the budget authority for state agencies to spend state funds. The Comptroller is responsible for controlling, accounting and reporting expenditures in accordance with the expenditure budgets.

Legal Level of Budgetary Control

The Texas Constitution requires the Comptroller to submit a *Biennial Revenue Estimate* to the Legislature prior to each regular session. This document contains an itemized estimate of beginning cash balances, anticipated revenues based on laws then in effect and estimated expenditures from prior appropriations. The Texas Constitution also requires the Comptroller to submit supplementary revenue estimates at any special session of the Legislature and at other necessary times to show probable changes.

The level of legal control for the budget is established at the strategy (line item) level by agency. For example, "Highway Patrol" and "Vehicle Inspection Program" are two of the strategies for the Texas Department of Public Safety. The legal level of budgetary con-

trol is defined as the level at which the governing body must approve any over-expenditure of appropriations or transfers of appropriated amounts. Agencies are authorized limited transfer authority between strategies, not to exceed 20 percent, by the General Appropriations Act. Transfers and expenditures are monitored against the original budget by the Comptroller's office to ensure the agency's authorized budget is not exceeded.

The level of legal control for all agencies is documented in the *Appropriation Summary Report*, which is available by request from the Comptroller's office. This separate document includes budget and actual data by appropriation line item for each state agency. State agencies cannot exceed approved appropriations. In certain emergency situations, the governor may authorize additional appropriations from deficiency and emergency appropriation reserves. During fiscal 2012, \$100,000 was transferred to the Texas Veteran's Commission to provide additional funds for staffing needs in processing veteran's claims for disability benefits. Unexpended appropriations generally lapse 60 days after the fiscal year unless they are encumbered during the 60-day "lapse" period. Other appropriations referred to as "reappropriated unexpended balances" represent the continuation of a prior year's balances for completion of a program.

Modified Approach to Reporting Infrastructure Assets

The state adopted the modified approach for reporting its highway system. Under the modified approach, depreciation is not reported and certain preservation and maintenance costs are expensed.

The modified approach requires that the state:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets
- Perform condition assessments of the eligible infrastructure assets and summarize the results

using a measurement scale in order to document that the eligible infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed by the government

- Estimate each year the annual amount needed to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government

Although bridges are an integral part of the highway system, the state elected to depreciate bridges. Therefore, they are not reported using the modified approach.

Condition Assessments

The Texas Department of Transportation (TxDOT) performs yearly condition assessments through its Texas Maintenance Assessment Program (TxMAP). Under this program, visual inspections are conducted on approximately 10 percent of the interstate system, 5 percent of the non-interstate system (national, state and farm-to-market roadways) and 20 percent of the Central Texas Turnpike System toll roads. For each section of highway observed, 21 elements separated into three highway components are assessed scores from 0 to 5 (0=NA, 1=Failed, 2=Poor, 3=Fair, 4=Good, 5=Excellent) in order to determine the condition of the highways. Each element within a component and each component are weighted according to importance to determine the overall condition of the highways. The overall score is converted to a percentage measurement for reporting (1=20 percent, 2=40 percent, 3=60 percent, 4=80 percent, 5=100 percent).

Assessed Conditions

TxDOT adopted a minimum condition level of 80 percent for the interstate system, 75 percent for the non-interstate system and 80 percent for the Central Texas Turnpike System based on TxMAP assessments. The results of the condition assessments are presented below.

Year	Interstate Condition (Minimum 80%)	Non-Interstate Condition (Minimum 75%)	Central Texas Turnpike System (Minimum 80%)
2012	82.0%	77.7%	86.2%
2011	83.0%	78.5%	89.9%
2010	83.6%	77.9%	87.9%
2009	81.4%	76.5%	90.5%
2008	83.7%	79.0%	91.7%

Estimated and Actual Costs for Maintenance

The table below provides a comparison between TxDOT's estimate of maintenance expenditures required to maintain the highway system at or above the adopted condition levels and the actual expenditures.

Maintenance Cost (Amounts in Thousands)		2012	2011	2010	2009	2008
INTERSTATE HIGHWAYS						
Estimate		\$ 191,442	\$ 604,837	\$ 568,456	\$ 534,263	\$ 502,128
Actual		\$ 346,326	\$ 361,825	\$ 333,253	\$ 326,305	\$ 438,237
OTHER HIGHWAYS						
Estimate		\$ 2,224,822	\$ 3,282,946	\$ 3,005,713	\$ 2,687,869	\$ 2,455,243
Actual		\$ 1,594,432	\$ 1,517,604	\$ 1,423,734	\$ 1,519,110	\$ 1,649,317
CENTRAL TEXAS TURNPIKE SYSTEM						
Estimate		\$ 10,050	\$ 11,578	\$ 11,371	\$ 9,179	\$ 6,910
Actual		\$ 10,628	\$ 11,439	\$ 6,972	\$ 7,262	\$ 5,411

Factors Affecting Condition Assessments

TxDOT continues to develop its methods for determining such estimates. As additional experience is acquired in the estimation and reporting pro-

cesses, TxDOT intends to achieve a greater correlation between the estimated maintenance expenditures needed to maintain the highway system at or above the adopted condition levels and the condition level of the highways. In comparing actual expenditures to estimated expenditures, factors such as increases in traffic, legislative mandates, budgetary constraints and environmental effects (rainfall, drought, freeze, thaw, etc.) are considered as they may have a major impact on needed funds and the condition of Texas roads.

Other Condition Assessments

A separate annual inspection is performed on the Central Texas Turnpike System in accordance with Section 707 of the Indenture Trust. Those inspections are

performed by the general engineering consultant (GEC) of the Central Texas Turnpike System. The fiscal 2012 inspection noted that overall the Central Texas Turnpike System was in excellent condition, achieving an overall score of 95 percent. While the GEC inspection uses the same general criteria as TxMAP, both parties have different areas of focus, timing and methodology that may contribute to a difference in scores. The evaluation covers all 65 miles of the system rather than a 20 percent random sample.

Schedules of Funding Progress

The schedules of funding progress for the state's other postemployment benefit (OPEB) plans for the three most recent actuarial valuations are presented in the table below.

Schedules of Funding Progress – OPEB*						
(Amounts in Thousands)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
UT System Employee Group Insurance Program (UT Plan)						
12/31/10	\$ 0	\$ 5,956,798	\$ 5,956,798	0.0%	\$ 5,309,413	112.2%
12/31/09	0	5,676,868	5,676,868	0.0%	5,026,491	112.9%
12/31/08	0	5,102,765	5,102,765	0.0%	4,820,568	105.9%
A&M Care Health and Life Plan (A&M Plan)						
09/01/10	\$ 0	\$ 1,854,690	\$ 1,854,690	0.0%	\$ 1,313,538	141.2%
09/01/09	0	1,864,320	1,864,320	0.0%	1,315,292	141.7%
09/01/08	0	1,258,563	1,258,563	0.0%	1,260,683	99.8%

* Addresses for obtaining the financial reports of the OPEB plans are provided in Note 11.

The schedules of funding progress for the state's pension plans for the three most recent actuarial valuations are presented below.

Schedules of Funding Progress – Pension*

(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Employees Retirement System of Texas (ERS)						
08/31/12	\$ 24,272,514	\$ 29,377,069	\$ 5,104,555	82.6%	\$ 5,676,509	89.9%
08/31/11	23,997,445	28,398,213	4,400,768	84.5%	5,795,185	75.9%
08/31/10	23,628,567	27,668,876	4,040,309	85.4%	5,930,141	68.1%
Law Enforcement and Custodial Officer Supplemental Retirement (LECOS)						
08/31/12	\$ 832,451	\$ 1,015,668	\$ 183,217	82.0%	\$ 1,498,979	12.2%
08/31/11	830,522	960,953	130,431	86.4%	1,475,432	8.8%
08/31/10	802,897	930,747	127,850	86.3%	1,507,950	8.5%
Judicial Retirement System Plan One (JRS1)						
08/31/12	\$ 0	\$ 232,922	\$ 232,922	0.0%	\$ 2,200	10,587.4%
08/31/11	0	245,777	245,777	0.0%	2,200	11,171.7%
08/31/10	0	264,077	264,077	0.0%	2,827	9,341.2%
Judicial Retirement System Plan Two (JRS2)						
08/31/12	\$ 300,433	\$ 315,199	\$ 14,766	95.3%	\$ 68,778	21.5%
08/31/11	283,936	300,163	16,227	94.6%	69,655	23.3%
08/31/10	264,515	281,760	17,245	93.9%	68,755	25.1%
Teacher Retirement System of Texas (TRS)						
08/31/12	\$ 118,326,042	\$ 144,427,226	\$ 26,101,184	81.9%	\$ 35,444,569	73.6%
08/31/11	115,252,828	139,315,090	24,062,262	82.7%	36,797,011	65.4%
08/31/10	111,292,528	134,191,110	22,898,582	82.9%	36,628,844	62.5%

* Addresses for obtaining the financial reports for the pension plans are provided in Note 9.

Significant Factors Affecting the Comparability of Amounts Reported

Amounts reported in the schedule of funding progress for the following plans varied significantly from the previous year to the current year due to changes in actuarial assumptions or benefit provisions. Significant changes are summarized below and the effects of those changes are incorporated into the 2012 valuations.

Pension Plans

The salary increase assumptions were modified since the prior valuations of the ERS, LECOS, JRS1 and JRS2 pension plans to reflect no across-the-board salary increases.

There were no changes to actuarial assumptions and methods for TRS since the prior valuation.

OPEB Plans

The University of Texas System (UT) and the Texas A&M University System (A&M) opted to perform actuarial valuations of their respective OPEB plans on a biennial basis rather than on an annual basis starting with fiscal 2012. While a true actuarial valuation was not performed for either plan, the results of the prior actuarial valuations were rolled forward using standard actuarial techniques to obtain the current year OPEB plan obligations.