

The spreadsheets in this publication are available  
in accessible data form (Excel) for the sections below.

Management's Discussion and Analysis, pages 19-32

[comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/2016/analysis.xlsx](http://comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/2016/analysis.xlsx)

Basic Financial Statements, pages 33-170

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Required Supplementary Information other than MD&A, pages 171-184

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Governmental Funds, pages 185-210

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Enterprise Funds, pages 211-240

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Fiduciary Funds, pages 241-258

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Discretely Presented Component Units, pages 259-274

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Section Two (continued)  
Management's Discussion  
and Analysis



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## Management's Discussion and Analysis

The following is a discussion and analysis of the state of Texas' financial performance for the fiscal year ended Aug. 31, 2016. Use this section in conjunction with the state's basic financial statements. Comparative data is available and presented for this 2016 report.

### Highlights

#### Government-wide

##### *Net Position*

The assets and deferred outflows of resources of the state of Texas exceeded its liabilities and deferred inflows of resources by \$159.4 billion as of Aug. 31, 2016, an increase of \$11.7 billion or 7.9 percent from fiscal 2015. The majority of the increase is primarily due to an increase of \$13.8 billion in restricted net position. The net position is comprised of \$84.1 billion in net investment in capital assets, \$89.7 billion in restricted and negative \$14.4 billion in unrestricted.

#### Fund Level

##### *Governmental Funds*

As of Aug. 31, 2016, the state's governmental funds reported a combined ending fund balance of \$64.8 billion, an increase of \$118 million or 0.2 percent from fiscal 2015, primarily due to an increase in investments. The state reported a positive unassigned fund balance of \$7.7 billion in fiscal 2016.

##### *Proprietary Funds*

The proprietary funds reported a net position of \$60.6 billion as of Aug. 31, 2016, an increase of \$7.2 billion or 13.5 percent from fiscal 2015, primarily due to an increase in interest and investment income and a restatement due to the implementation of GASB Statement No. 72, *Fair Value Measurement and Application*.

## Long-Term Debt

The state's total bonds outstanding increased by \$3 billion or 6.8 percent during fiscal 2016. This amount represents the net difference between net issuances, payments and refunding of outstanding bond debt. During fiscal 2016, the state issued bonds totaling \$7 billion. More detailed information regarding the government-wide, fund level and long-term debt activities can be found in the debt administration section of this management's discussion and analysis (MD&A).

## Overview of the Financial Statements

The focus of this report is on reporting for the state as a whole and on the major individual funds. The report presents a more comprehensive view of the state's financial activities and makes it easier to compare the performance of Texas state government to that of other governments.

The Financial Section of this annual report presents the state's financial position and activities in four parts:

- MD&A (this part)
- The basic financial statements
- Required supplementary information other than MD&A
- Other supplementary information presenting combining statements and schedules

The report also includes statistical and economic data.

The basic financial statements include government-wide financial statements, fund financial statements and notes to financial statements, which provide more detailed information to supplement the basic financial statements.

## Reporting on the State as a Whole

The government-wide financial statements are designed to present an overall picture of the financial position of the state. These statements consist of the

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statement of net position and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that all the current year's revenues and expenses are included, regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private sector companies.

The statement of net position combines and consolidates the government's current financial resources with capital assets and long-term obligations. This statement includes all of the government's assets, deferred outflows of resources, liabilities and deferred inflows of resources.

Net position represents one measure of the state's financial health.

Other indicators of the state's financial health include the condition of its roads and highways (infrastructure) and economic trends affecting the state's future tax revenues.

The statement of activities focuses on both the gross and net cost of various activities (governmental, business-type and component units). These costs are paid by the state's general tax and other revenues. This statement summarizes the cost of providing (or the subsidy provided by) specific government services and includes all current year revenues and expenses.

The government-wide statement of net position and the statement of activities divide the state's activities into the following three types.

### **Governmental Activities**

The state's basic services are reported here, including general government, education, employee benefits, teacher retirement state contributions, health and human services, public safety and corrections, transportation, natural resources and recreation, and regulatory services. Taxes, fees and federal grants finance most of these activities.

### **Business-Type Activities**

Activities for which the state charges a fee to customers to pay most or all of the costs of certain services it provides are reported as business-type activities. The state's institutions of higher education are included as business-type activities.

### **Component Units**

Component units are legally separate organizations for which the state is either financially accountable or the nature and significance of their relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. The state has 27 discretely presented component units. Financial information for these entities is presented separately in the supplemental statements and in the notes.

### **Reporting on the State's Most Significant Funds**

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Fund financial statements provide additional detail about the state's financial position and activities. Some information presented in the fund financial statements differs from the government-wide financial statements due to the perspective and basis of accounting used. Funds are presented on the fund-level statements as major or nonmajor based on criteria set by the Governmental Accounting Standards Board (GASB).

A fund is a separate accounting entity with a self-balancing set of accounts. The state uses funds to keep track of sources of funding and spending related to specific activities.

### **Governmental Funds**

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A majority of the state's activity is reported in governmental funds. Reporting of these funds focuses on the flow of money into and out of the funds and amounts remaining at fiscal year-end for future spending.

Governmental funds are accounted for using the modified accrual basis of accounting, which measures

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cash and other assets that can be readily converted to cash. The governmental fund financial statements provide a detailed short-term view of the state's general governmental operations and the basic services it provides. This information helps determine the level of resources available for the state's programs. The reconciliations following the fund financial statements explain the differences between the governmental activities column reported on the government-wide statement of net position and the government-wide statement of activities and the governmental funds reported on the fund financial statements. The general fund, state highway fund and permanent school fund are reported as major governmental funds.

### Proprietary Funds

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When the state charges customers for services it provides, these activities are generally reported in proprietary funds. Services provided to outside (non-governmental) customers are reported in enterprise funds, a component of proprietary funds, and are accounted for using the economic resources measurement focus and the accrual basis of accounting. These are the same business-type activities reported in the government-wide financial statements, but are reported here to provide information at the fund level.

The employees life, accident and health insurance benefits fund is reported as an internal service fund and provides services on a cost reimbursement basis to other agencies of the financial reporting entity.

Colleges and universities, the unemployment trust fund and the lottery fund are reported as major proprietary funds.

### Reporting on the State's Fiduciary Responsibilities

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The state is the trustee or fiduciary for six defined benefit plans and one defined contribution plan. It is also responsible for other assets that can be used only for trust beneficiaries. All state fiduciary activities are

reported in separate statements of fiduciary net position and changes in fiduciary net position. The activities are reported separately from other financial activities because the state cannot use the assets to finance its operations. The state's fiduciary responsibilities include ensuring that the assets reported in these funds are used for their intended purposes.

## Financial Analysis of the State as a Whole

### Net Position

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Total assets of the state as of Aug. 31, 2016, were \$290 billion, an increase of \$19.8 billion or 7.3 percent. Total liabilities as of Aug. 31, 2016, were \$120.8 billion, an increase of \$6.9 billion or 6.1 percent. Net position was affected by a number of factors. Cash and cash equivalents on the Statement of Net Position decreased by \$5.6 billion in governmental activities, but increased by \$449.4 million in business-type activities from fiscal 2015. Unrestricted noncurrent investments increased by \$7.1 billion. The state's bonded indebtedness was \$47.1 billion, which included new issuances of \$7 billion in state bonds to finance new construction, housing, water conservation and other projects. Approximately \$4.5 billion in bonded debt was retired or refunded. Net position was \$159.4 billion in fiscal 2016, an increase of \$11.7 billion or 7.9 percent. Of the state's net position, \$84.1 billion was net investment in capital assets, while \$89.7 billion was restricted by the state constitution or other legal requirements and was not available to finance day-to-day operations of the state. Unrestricted net position was negative \$14.4 billion. The majority of the net position increase is primarily due to an increase of \$13.8 billion in restricted net position.

## Statement of Net Position

August 31, 2016 and 2015 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
<b>ASSETS</b>						
Assets Other Than Capital Assets	\$ 76,443,239	\$ 76,761,288	\$ 83,614,887	\$ 73,883,287	\$ 160,058,126	\$ 150,644,575
Capital Assets	100,010,365	91,006,365	29,908,475	28,546,049	129,918,840	119,552,414
Total Assets	<u>176,453,604</u>	<u>167,767,653</u>	<u>113,523,362</u>	<u>102,429,336</u>	<u>289,976,966</u>	<u>270,196,989</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>6,183,264</u>	<u>4,665,492</u>	<u>1,654,463</u>	<u>1,260,119</u>	<u>7,837,727</u>	<u>5,925,611</u>
<b>LIABILITIES</b>						
Current Liabilities	12,063,725	12,143,525	11,983,521	12,236,632	24,047,246	24,380,157
Noncurrent Liabilities	54,833,681	52,523,681	41,952,704	37,022,613	96,786,385	89,546,294
Total Liabilities	<u>66,897,406</u>	<u>64,667,206</u>	<u>53,936,225</u>	<u>49,259,245</u>	<u>120,833,631</u>	<u>113,926,451</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>16,995,010</u>	<u>13,479,287</u>	<u>593,603</u>	<u>1,009,206</u>	<u>17,588,613</u>	<u>14,488,493</u>
<b>NET POSITION</b>						
Net Investment in Capital Assets	72,247,981	70,898,289	11,847,190	11,571,493	84,095,171	82,469,782
Restricted	46,941,168	42,674,520	42,741,330	33,218,190	89,682,498	75,892,710
Unrestricted	(20,444,697)	(19,286,157)	6,059,477	8,631,321	(14,385,220)	(10,654,836)
Total Net Position	<u>\$ 98,744,452</u>	<u>\$ 94,286,652</u>	<u>\$ 60,647,997</u>	<u>\$ 53,421,004</u>	<u>\$ 159,392,449</u>	<u>\$ 147,707,656</u>

### Changes in Net Position

The state's net position as of Aug. 31, 2016 increased by \$11.7 billion. The state earned program revenues of \$93.4 billion and general revenues of \$51.1 billion, for total revenues of \$144.4 billion, an increase of \$6.3 billion or 4.6 percent from fiscal 2015. The major components of this increase were tax revenues, which had a decrease of \$4.2 billion and operating grants and contributions, with an increase of \$8.2 billion. Federal revenues increased \$2.4 billion and interest and investment income increased \$5.1 billion.

The expenses of the state were \$140.4 billion, an increase of \$6.7 billion or 5 percent. The expense fluctuations in governmental activities are largely attributable to a \$3.8 billion increase in health and human services and a \$1.1 billion decrease in education services. In business-type activities there was a \$2.1 billion increase in education services.

Further discussion of results for changes in the state's financial condition follows in the analysis of the state's funds.

## Changes in Net Position

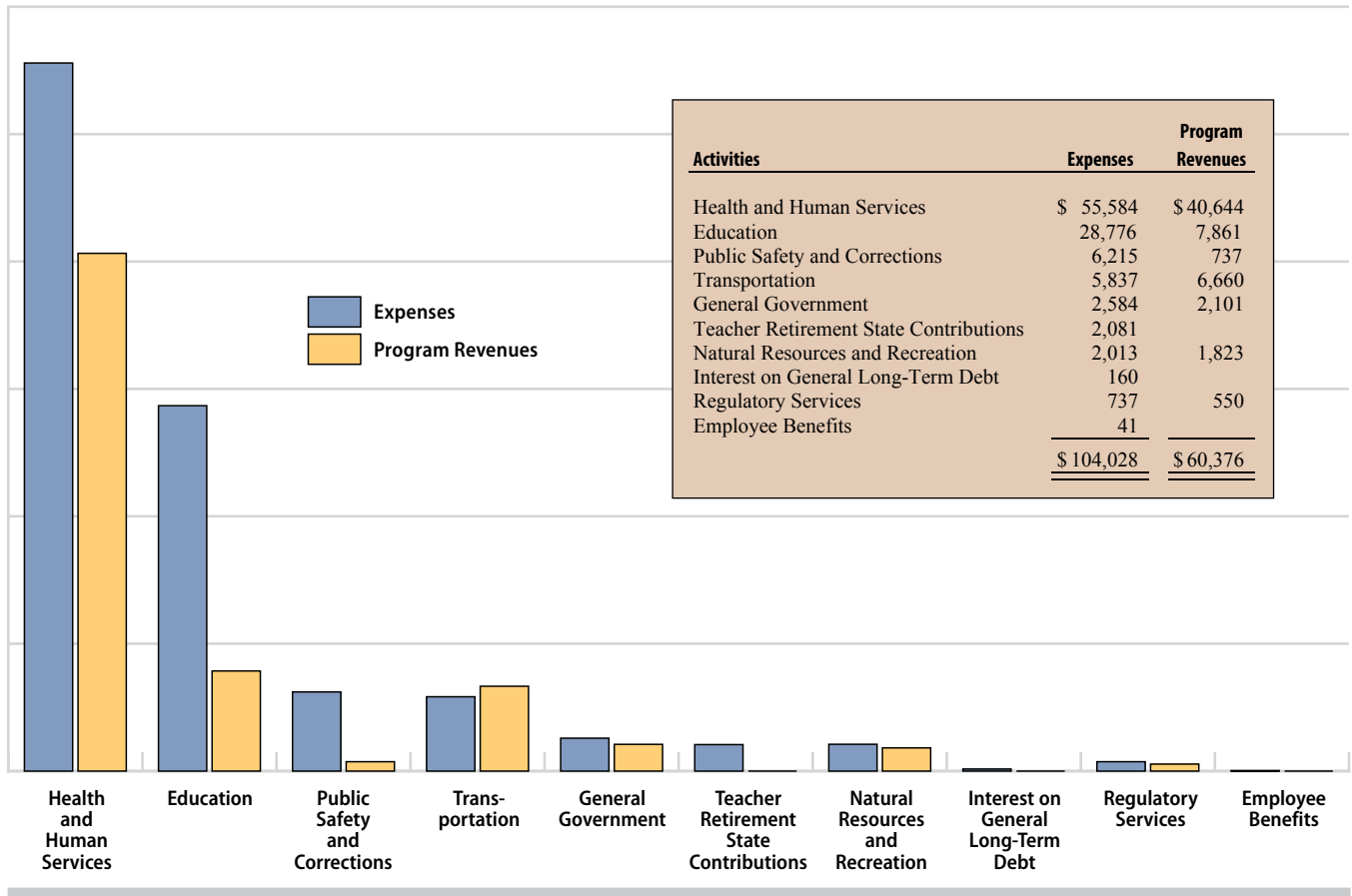
For the Fiscal Years Ended August 31, 2016 and 2015 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
<b>REVENUES</b>						
Program Revenues:						
Charges for Services	\$ 10,967,002	\$ 9,878,338	\$ 23,026,272	\$ 21,876,408	\$ 33,993,274	\$ 31,754,746
Operating Grants and Contributions	49,361,737	43,731,463	9,883,197	7,327,924	59,244,934	51,059,387
Capital Grants and Contributions	47,373	71,237	68,313	131,714	115,686	202,951
Total Program Revenues	<u>60,376,112</u>	<u>53,681,038</u>	<u>32,977,782</u>	<u>29,336,046</u>	<u>93,353,894</u>	<u>83,017,084</u>
General Revenues:						
Taxes	47,534,436	51,773,006			47,534,436	51,773,006
Unrestricted Investment Earnings	282,493	153,316	142,738	67,089	425,231	220,405
Settlement of Claims	670,386	590,685	848	306	671,234	590,991
Gain on Sale of Capital Assets	54,797	50,749	1,044	40,440	55,841	91,189
Gain on Other Financial Activity	(59,904)	22,266			(59,904)	22,266
Other General Revenues	2,259,154	2,171,101	175,050	186,006	2,434,204	2,357,107
Total General Revenues	<u>50,741,362</u>	<u>54,761,123</u>	<u>319,680</u>	<u>293,841</u>	<u>51,061,042</u>	<u>55,054,964</u>
Total Revenues	<u>111,117,474</u>	<u>108,442,161</u>	<u>33,297,462</u>	<u>29,629,887</u>	<u>144,414,936</u>	<u>138,072,048</u>
<b>EXPENSES</b>						
General Government	2,583,707	3,672,395	121,463	113,069	2,705,170	3,785,464
Education	28,775,870	28,057,482	28,555,418	26,443,474	57,331,288	54,500,956
Employee Benefits	40,546	7,064	1,584		42,130	7,064
Teacher Retirement State Contributions	2,080,935	2,735,913			2,080,935	2,735,913
Health and Human Services	55,584,169	51,792,158	3,145,846	2,585,461	58,730,015	54,377,619
Public Safety and Corrections	6,214,653	5,779,455	99,414	98,032	6,314,067	5,877,487
Transportation	5,837,122	5,088,956	352,735	251,897	6,189,857	5,340,853
Natural Resources and Recreation	2,013,773	2,167,711	392,417	279,335	2,406,190	2,447,046
Regulatory Services	737,203	488,780			737,203	488,780
Interest on General Long-Term Debt	159,953	814,564			159,953	814,564
Lottery			3,665,907	3,296,218	3,665,907	3,296,218
Total Expenses	<u>104,027,931</u>	<u>100,604,478</u>	<u>36,334,784</u>	<u>33,067,486</u>	<u>140,362,715</u>	<u>133,671,964</u>
Excess (Deficiency) Before Contributions and Transfers	<u>7,089,543</u>	<u>7,837,683</u>	<u>(3,037,322)</u>	<u>(3,437,599)</u>	<u>4,052,221</u>	<u>4,400,084</u>
Capital Contributions	56,450	713	5,854	3,817	62,304	4,530
Contributions to Permanent and Term Endowments			217,683	182,754	217,683	182,754
Transfers	(4,777,546)	(4,189,320)	4,777,546	4,189,320		
Change in Net Position	<u>2,368,447</u>	<u>3,649,076</u>	<u>1,963,761</u>	<u>938,292</u>	<u>4,332,208</u>	<u>4,587,368</u>
Net Position, Beginning Balance	94,286,652	119,405,256	53,421,004	56,177,318	147,707,656	175,582,574
Restatements	2,089,353	(28,767,680)	5,263,232	(3,694,606)	7,352,585	(32,462,286)
Net Position, Beginning Balance, as Restated	<u>96,376,005</u>	<u>90,637,576</u>	<u>58,684,236</u>	<u>52,482,712</u>	<u>155,060,241</u>	<u>143,120,288</u>
Net Position, Ending Balance	<u>\$ 98,744,452</u>	<u>\$ 94,286,652</u>	<u>\$ 60,647,997</u>	<u>\$ 53,421,004</u>	<u>\$ 159,392,449</u>	<u>\$ 147,707,656</u>



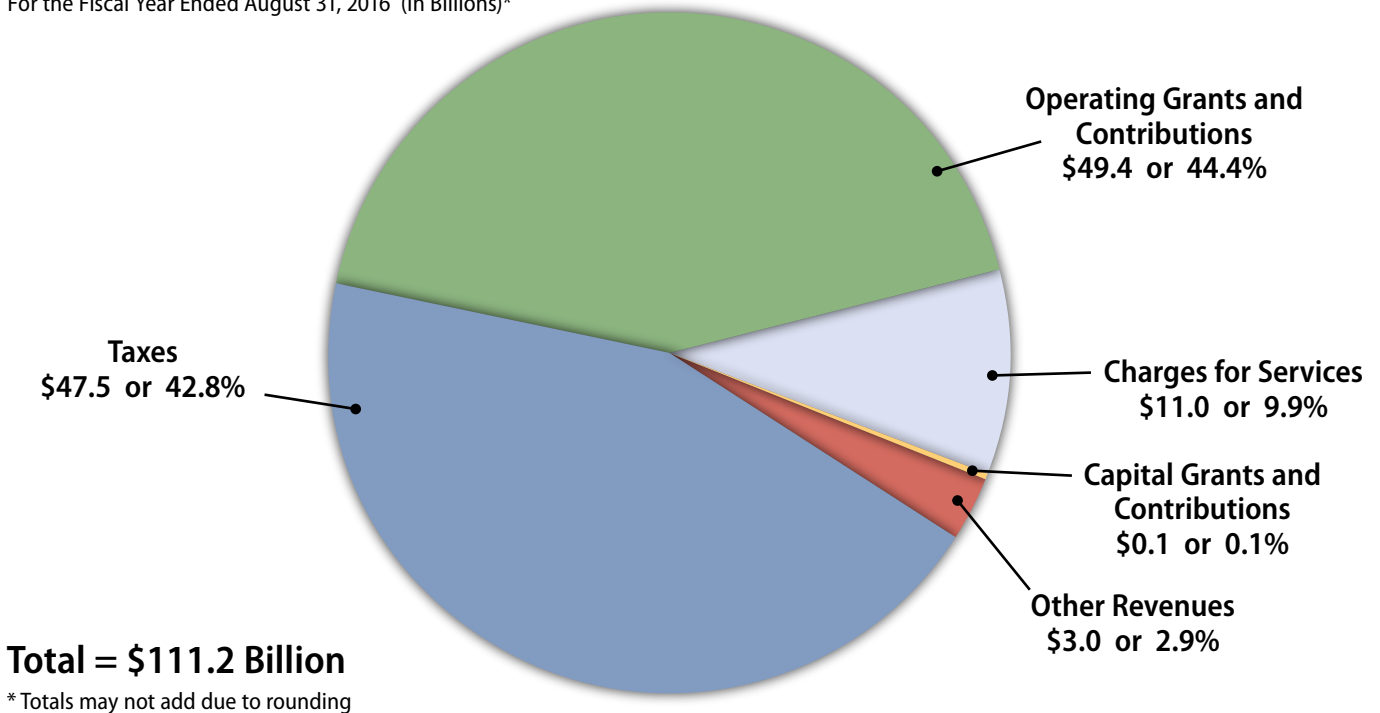
## Expenses and Program Revenues: Governmental Activities

For the Fiscal Year Ended August 31, 2016 (In Millions)



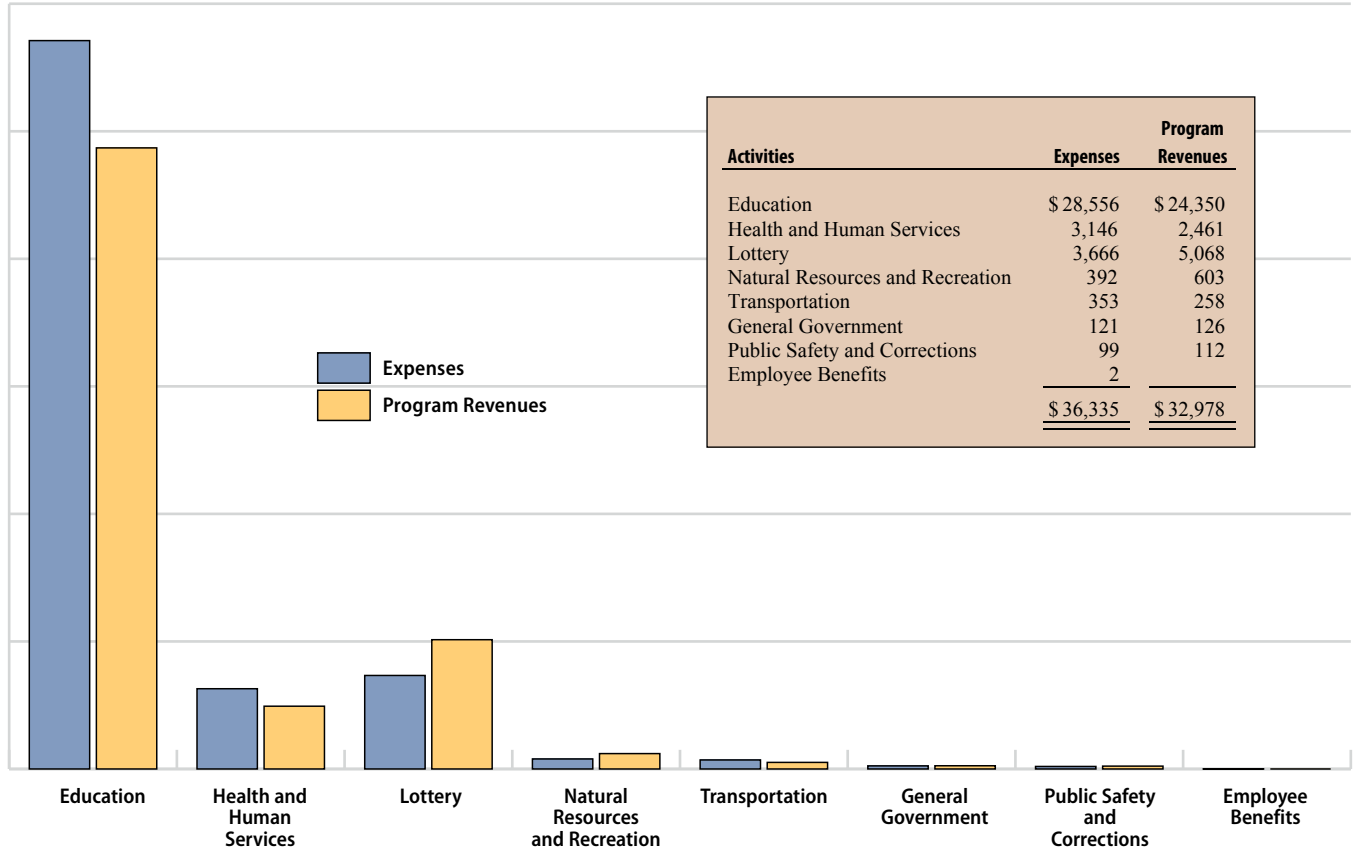
## Revenue by Source: Governmental Activities

For the Fiscal Year Ended August 31, 2016 (In Billions)\*



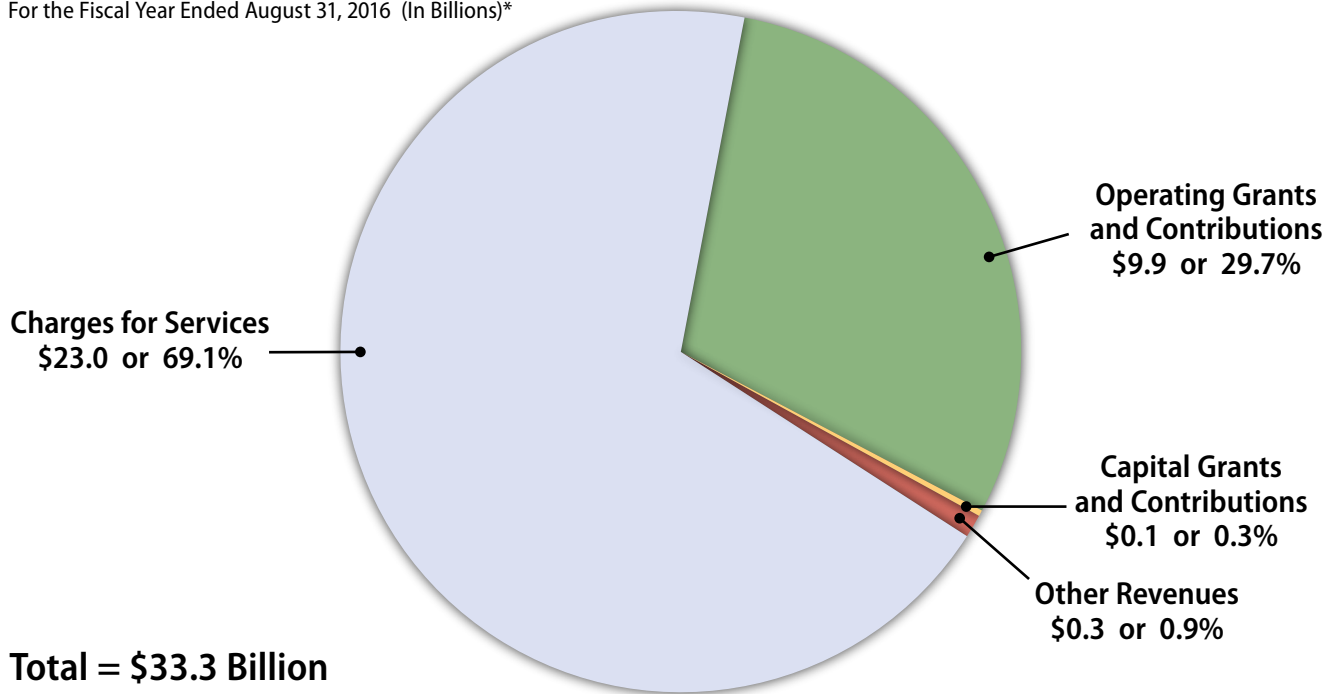
## Expenses and Program Revenues: Business-Type Activities

For the Fiscal Year Ended August 31, 2016 (In Millions)



## Revenue by Source: Business-Type Activities

For the Fiscal Year Ended August 31, 2016 (In Billions)\*



\* Totals may not add due to rounding

## Governmental Activities

The governmental activities program revenue was \$60.4 billion, including charges for services of \$11 billion, operating grants and contributions of \$49.4 billion and capital grants and contributions of \$47.4 million. The largest change, a \$5.6 billion increase, was for operating grants and contributions. Taxes had decreases of \$4.2 billion from general revenue sources, with the largest decrease in franchise tax revenue.

### Net Cost (Income) of the State's Governmental Activities

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ 2,583,707	\$ 482,287
Education	28,775,870	20,915,203
Employee Benefits	40,546	40,475
Teacher Retirement State Contributions	2,080,935	2,080,935
Health and Human Services	55,584,169	14,939,584
Public Safety and Corrections	6,214,653	5,477,429
Transportation	5,837,122	(822,712)
Natural Resources and Recreation	2,013,773	191,232
Regulatory Services	737,203	187,433
Interest on General Long-Term Debt	159,953	159,953
Total	<u>\$ 104,027,931</u>	<u>\$ 43,651,819</u>

### Net Cost (Income) of the State's Business-Type Activities

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ 121,463	\$ (4,860)
Education	28,555,418	4,206,561
Employee Benefits	1,584	1,584
Health and Human Services	3,145,846	684,581
Public Safety and Corrections	99,414	(12,325)
Transportation	352,735	94,361
Natural Resources and Recreation	392,417	(210,594)
Lottery	3,665,907	(1,402,306)
Total	<u>\$ 36,334,784</u>	<u>\$ 3,357,002</u>

Governmental activities expenses were \$104 billion. All functions of governmental activities in the government-wide statement of activities have a net cost, except the transportation function which reported a slight surplus. The education function and the health and human services function account for 81 percent of governmental activities expenses and 81.9 percent of the net cost. The tax collections of the state provide the primary source of funding, which when added to program revenues, support the payment of governmental services.

## Business-Type Activities

Business-type activities generated program revenue of \$33 billion, including charges for services of \$23 billion, operating grants and contributions of \$9.9 billion and capital grants and contributions of \$68.3 million. The total expenses for business-type activities were \$36.3 billion. The largest changes occurred in education, with a \$2.1 billion increase for colleges and universities, and in the health and human services function, where there was an increase of \$560.4 million in health and human services. There was an increase in net position in the government's business-type activities of \$7.2 billion in comparison to the prior year's decrease of \$2.8 billion.

## Financial Analysis of the State's Funds

### Governmental Funds

As of Aug. 31, 2016, governmental funds reported fund balances of \$64.8 billion. The general fund reported a positive \$14.7 billion fund balance.

#### General Fund

The fund balance for the general fund as of Aug. 31, 2016, was \$14.7 billion, a decrease of \$3.2 billion from fiscal 2015, mostly due to a decrease in tax revenues and an increase in education expenditures. Tax revenues decreased by \$2.3 billion from fiscal 2015.

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The state constitution, state statute, and federal rule or bond covenants constrain \$6.1 billion. The unassigned fund balance was \$7.7 billion, which includes \$10.2 billion in the economic stabilization fund, commonly called “the rainy day fund”. Contributing to the lower balance was an increase of \$3.8 billion in health and human services expenditures.

### **State Highway Fund**

The fund balance for the state highway fund as of Aug. 31, 2016, was \$5.1 billion, a decrease of \$234 million from \$5.3 billion as of Aug. 31, 2015. Cash and cash equivalents increased \$167 million as transfers in decreased by \$2.4 billion.

### **Permanent School Fund**

The fund balance for the permanent school fund (PSF) as of Aug. 31, 2016, totaled \$37.3 billion, an increase of \$3.4 billion since Aug. 31, 2015. This increase was primarily attributable to an increase in valuation of investments of \$3.8 billion. Value in the fund provided \$1.1 billion in transfers to provide funding for public education. The PSF also supports the state’s public school system through a bond guarantee program, where the PSF is pledged to guarantee bonds issued by Texas school districts enhancing their credit rating. As of Aug. 31, 2016, a total of \$68.3 billion in school district bond issues were guaranteed.

### **Proprietary Funds**

Proprietary funds reported net position of \$60.6 billion as of Aug. 31, 2016, an increase of \$7.2 billion from fiscal 2015. The state’s public colleges and universities hold 89.9 percent of the reported net position in proprietary funds.

### **Colleges and Universities**

Colleges and universities’ net position as of Aug. 31, 2016, totaled \$54.5 billion, an increase of \$7.5 bil-

lion from Aug. 31, 2015. While colleges and universities have a net loss of \$14.1 billion for fiscal 2016, there were increases of \$1.1 billion in net income before capital contributions, endowments and transfers and \$737.5 million in capital contributions and transfers from fiscal 2015. There was an increase in interest and investment income of \$2.5 billion due to improving market performance. There also was \$512.3 million collected from land mineral income, such as oil royalties, deposited to the permanent university fund (PUF) for the benefit of the University of Texas and Texas A&M University Systems. A \$5.3 billion restatement was reported in fiscal 2016 to increase the value of sovereign lands to fair market value based on the implementation of GASB Statement No. 72. The PUF’s net position after distributions increased by \$390.1 million from \$17.5 billion in fiscal 2015 to \$17.9 billion in fiscal 2016. This endowment fund contributes to the support of 15 institutions in the University of Texas System and 14 in the Texas A&M University System.

### **Unemployment Trust Fund**

The unemployment trust fund reports activity related to the administration of statewide unemployment benefits in proprietary funds. The funds reported a net position of \$982.5 million as of Aug. 31, 2016, a decrease of \$495.7 million from \$1.5 billion as of Aug. 31, 2015. During fiscal 2016, unemployment taxes collected decreased \$126.7 million from \$2.5 billion in 2015, while federal contributions decreased \$8.3 million in 2016. Benefits payments increased \$565.7 million as the unemployment rate averaged 4.5 percent as compared to the U.S. average of 4.9 percent.

### **Lottery Fund**

The Texas Lottery Commission operates on-line and instant ticket lottery games to generate revenue for the state’s foundation school fund. The lottery fund had a net position of \$71.7 million on Aug. 31, 2016, an increase of 45.4 percent from the \$49.4 million at the

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end of fiscal 2015. The Commission recorded its highest level of total sales since ticket sales began in 1992 with collections of \$5.1 billion. Transfers to state agencies totaled \$1.4 billion, the thirteenth consecutive year overall that revenue transfers exceeded \$1 billion.

## **Fiduciary Funds**

Fiduciary funds reported \$178.3 billion in net position as of Aug. 31, 2016, an increase of \$7 billion from \$171.3 billion in fiscal 2015, a 4.1 percent increase.

### ***Pension and Other Employee Benefit Trust Funds***

Total net position for pension and other employee benefit trust funds was \$160.5 billion, an increase of \$5.6 billion from the \$154.8 billion reported in fiscal 2015. The majority of plan assets are held as investments for the pension funds. Additions from all sources increased \$11.1 billion from fiscal 2015, while benefit payments increased \$691.2 million. Increases in additions are due primarily to more favorable conditions in the financial markets and member contribution increases. The return for investments for the state's two largest pension systems, the Teacher Retirement System of Texas and the Employees Retirement System of Texas was 7.38 percent and 5.32 percent, respectively, compared to the previous year's returns of 0.27 and 0.49 percent.

### ***External Investment Trust Fund***

The Texas Treasury Safekeeping Trust (Trust) is the only external investment trust fund. It administers and invests funds belonging to state and local entities as well as providing direct access to services of the Federal Reserve System. The Trust reported a total net position

of \$14.3 billion in fiscal 2016, an increase of \$1.4 billion from fiscal 2015. The increase in net position is due to an increase in both TexPool and TexPool Prime revenue.

### ***Private-Purpose Trust Funds***

Total net position for private-purpose trust funds was \$3.6 billion in fiscal 2016, a decrease of \$41 million from fiscal 2015. Additions from all sources of \$662 million exceeded total deductions of \$493 million, however, the overall increase was offset by negative restatements of \$210 million. The net decrease of \$41 million is a decrease of 119.9 percent from the net increase of \$204 million in fiscal 2015.

## **Budgetary Highlights**

### ***Variances for the General Fund***

The differences from original and final revenue budgets are due to both economic and legislative reasons.

Budget mechanisms allow budget revisions for certain revenues when collections exceed the original budget. Accordingly, major revisions were made to both total revenues and expenditures for a net change of \$2.8 billion.

There was a negative \$4.8 billion variance between the actual and final budget revenues. The largest negative revenue variances occurred with taxes and federal revenues, which reported a \$1.7 billion and \$2.1 billion difference, respectively.

The largest negative expenditure variance is related to the health and human services function.

## Capital Assets – Net of Depreciation and Amortization

August 31, 2016 and 2015 (Amounts In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Land and Land Improvements	\$ 12,609,626	\$ 11,601,206	\$ 2,039,730	\$ 1,764,690	\$ 14,649,356	\$ 13,365,896
Infrastructure	68,246,142	63,674,344	2,819,656	2,771,735	71,065,798	66,446,079
Construction in Progress	15,838,662	12,443,817	2,733,473	3,213,413	18,572,135	15,657,230
Buildings and Building Improvements	2,037,396	2,112,308	16,954,822	16,023,156	18,992,218	18,135,464
Facilities and Other Improvements	60,424	59,889	1,740,746	1,409,548	1,801,170	1,469,437
Furniture and Equipment	306,063	289,706	1,778,053	1,710,112	2,084,116	1,999,818
Vehicles, Boats and Aircraft	471,463	427,830	83,800	82,981	555,263	510,811
Other Capital Assets	256,183	201,469	1,283,195	1,257,624	1,539,378	1,459,093
Intangible Capital Assets, Net	184,406	195,796	475,000	312,790	659,406	508,586
Total Capital Assets	<u>\$ 100,010,365</u>	<u>\$ 91,006,365</u>	<u>\$ 29,908,475</u>	<u>\$ 28,546,049</u>	<u>\$ 129,918,840</u>	<u>\$ 119,552,414</u>

## Capital Assets and Debt Administration

### Capital Assets

As of Aug. 31, 2016, the state had \$130 billion in net capital assets. This total represents an increase of \$10.4 billion in total capital assets or 8.7 percent from fiscal 2015. Included in this amount is an increase to infrastructure of \$6.1 billion and construction in progress of \$3.4 billion by the Texas Department of Transportation (TxDOT). Institutions of higher education also added \$2 billion to buildings and building improvements.

To ensure future availability of essential services and to finance capital improvements, TxDOT made commitments for construction contracts, comprehensive development agreements and pass-through toll agreements totaling an estimated \$28.9 billion. These commitments extend beyond the end of the fiscal year and represent future costs to the state.

Note 2 provides detail about the state's capital assets and Note 15 details the state's significant commitments related to future capital expenditures.

### Infrastructure Assets

The value of the state's infrastructure assets is included in the governmental activities column of the

government-wide statement of net position. The state accounts for its system of roads and highways using the depreciation method. Additional detail is also found in Note 2 for capital assets.

### Debt Administration

The state of Texas issues both general obligation bonds and revenue bonds. Each series of revenue bonds is backed by the pledged revenue source and restricted funds specified in the bond resolution. Most revenue bonds are designed to be self-supporting from a primary revenue source related to the program financed.

The state's general obligation bond issues were rated Aaa by Moody's Investors Service, AAA by Standard & Poor's and AAA by Fitch Ratings as of August 2016. During fiscal 2016, Texas' state agencies and institutions of higher education issued \$7 billion in state bonds to finance new construction, transportation, housing, water conservation and treatment and other projects. General obligation debt accounted for \$3.2 billion of state bonds issued in fiscal 2016. This debt, which can only be authorized by a constitutional amendment, carries the full faith and credit of the state. The remaining \$3.8 billion is due to new issuances of revenue bonds, which are serviced by the revenue flows of individual entity projects. Bonds retired during the year were com-

## Outstanding Bonded Debt

August 31, 2016 and 2015 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
General Obligation Bonds Payable	\$ 15,059,808	\$ 14,177,418	\$ 4,329,815	\$ 3,954,563	\$ 19,389,623	\$ 18,131,981
Revenue Bonds Payable	4,290,384	4,490,215	23,410,697	21,466,229	27,701,081	25,956,444
Total Bonds Payable	<u>\$ 19,350,192</u>	<u>\$ 18,667,633</u>	<u>\$ 27,740,512</u>	<u>\$ 25,420,792</u>	<u>\$ 47,090,704</u>	<u>\$ 44,088,425</u>

posed of \$637.9 million in general obligation bonds and \$1.1 billion in revenue bonds. Also, \$1.5 billion in general obligation bonds and \$1.2 billion in revenue bonds were refunded. The total outstanding general obligation debt of the state after new issuances, retirements and refundings as of Aug. 31, 2016 was \$19.4 billion. This represents an increase of \$1.3 billion or 6.9 percent from fiscal 2015. An additional \$12.1 billion of general obligation bonds were authorized but are unissued. Total revenue bonds outstanding were \$27.7 billion, which is an increase of \$1.7 billion or 6.7 percent from fiscal 2015. Note 5 discloses the details on the state's long-term liabilities and Note 6 provides detailed information on the state's bonded indebtedness.

### Economic Condition

Notwithstanding continuing weakness in the oil and natural gas and related industries over the past year, the Texas economy added 210,800 nonfarm jobs from November 2015 to November 2016, an increase of 1.8 percent. Private sector employment grew by 1.7 percent,

while government employment (federal, state, and local) growth was 2.1 percent. Texas added more new jobs than all other states except California and Florida over those 12 months, and had the lowest unemployment rate among the 10 most populous states as of November 2016 (4.6 percent). The Texas unemployment rate remained below the national rate in each of the last 12 months, as it has in every month since January 2007. As of November 2016, total nonfarm employment in Texas stood at 12,126,300.

### Contacting the State's Financial Management

This financial report is designed to provide the state's citizens, taxpayers, customers, investors and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial Reporting section of the Texas Comptroller of Public Accounts at 111 E. 17th Street, Austin, Texas 78774.