



**Glenn Hegar** Texas Comptroller of Public Accounts

# State of Texas Comprehensive Annual Financial Report



For the Fiscal Year Ended  
August 31, 2017

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/2017/analysis.xlsx](http://comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/2017/analysis.xlsx)

Basic Financial Statements, pages 33-176

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Required Supplementary Information other than MD&A, pages 177-196

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Governmental Funds, pages 197-222

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Enterprise Funds, pages 223-252

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## Acknowledgments

The Comprehensive Annual Financial Report was prepared by the Financial Reporting section of the Texas Comptroller of Public Accounts with assistance from other sections within the Fiscal Management, Revenue Estimating and Communications and Information Services divisions.

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### Other Sections:

Fiscal Integrity, Appropriation Control  
Fiscal Integrity, Fiscal Analysis  
Statewide Fiscal Systems, Fiscal Documentation  
Statewide Fiscal Systems, Fiscal Systems Support  
Communications and Information Services, Graphics  
Communications and Information Services, Editorial  
Revenue Estimating, Revenue Analysis

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Shantel Geeslin, Fiscal Management Administration

### Special Appreciation To:

All accounting and budget personnel of state agencies and institutions of higher education whose extra time and effort made this report possible.

The State Auditor’s Office auditing staff

# State of Texas

## Comprehensive Annual Financial Report

For the Fiscal Year Ended August 31, 2017

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Section One



Introductory Section







February 28, 2018

To the Citizens of Texas, Governor Abbott  
and Members of the 85th Texas Legislature:

The state of Texas Comprehensive Annual Financial Report (CAFR) for the fiscal year ended Aug. 31, 2017, is submitted herewith. Responsibility for both the accuracy of the data presented, as well as the completeness and fairness of the presentation, rests with the office of the Texas Comptroller of Public Accounts. To the best of my knowledge, the information presented is accurate in all material respects, and all disclosures necessary for a reasonable understanding of the state's financial activities are included.

The reporting approach established by the Governmental Accounting Standards Board (GASB) was utilized. The state also voluntarily follows the recommendations of the Government Finance Officers Association (GFOA) of the United States and Canada for the contents of government financial reports and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting. The State Auditor's Office performed an audit, in accordance with generally accepted auditing standards, of the state's general-purpose financial statements. Their opinion is presented in this report preceding the financial statements.

The State Auditor's Office contracted with KPMG to perform portions of the federal audit procedures necessary to meet the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The federal portion of the Statewide Single Audit Report for the fiscal year ended Aug. 31, 2017, with the opinion expressed by KPMG, will be issued separately.

## **Profile of the Government**

This report includes financial statements for the state of Texas reporting entity. Criteria for determining the reporting entity and presentation of the related financial data are established by GASB. The criteria include legal standing and financial accountability. Other organizations that would cause the financial statements to be misleading or incomplete if they were excluded are also included in the reporting entity. Note 1 of the notes to the financial statements provides detail on the financial reporting entity. Note 19 provides a brief summary of the nature of significant component units and their relationship to the state of Texas.

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All activities generally considered part of the state of Texas are included in this report. These activities provide a range of services in the areas of education, health and human services, public safety and corrections, transportation, natural resources and recreation, regulation, general government, employee benefits and teacher retirement state contributions.

The management's discussion and analysis (MD&A) in the financial section provides an overview of the state's financial activities, addressing both governmental and business-type activities reported in the government-wide financial statements.

## **Accounting System and Budgetary Controls**

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The state's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

Budgetary control is exercised through expenditure budgets for each agency. These budgets are entered into the statewide accounting system after the General Appropriations Act (GAA) becomes law. All governmental funds are appropriated for a biennium, except for appropriations related to construction, which are appropriated for five years. The GAA becomes law after passage by the Legislature, certification by my office that the amounts appropriated are within the estimated collections and the signing of the bill by the governor. Controls are maintained first at the agency level, with additional control at the fund and appropriation level to ensure expenditures do not exceed authorized limits. Further detail on budgetary accounting for the state, other than the MD&A section, is found in the required supplementary information.

## **Financial Policies**

Fiscal soundness is an unwavering principle that guides the financial policies of the state. The Texas Constitution supports responsible governance by mandating several limitations on the budgeting process. In addition to the certification process requiring passage of a balanced budget in Article III, Section 49a, budget growth and indebtedness are also limited. According to Article VIII, Section 22, appropriations from state tax revenue not dedicated by the Texas Constitution cannot grow faster than state economic growth estimated by the Legislative Budget Board. Payments required for debt cannot exceed 5 percent of the previous three-year average of nondedicated general revenue as provided in Article III, Section 49j.

The economic stabilization fund (ESF), commonly called the "rainy day fund," authorized in 1988 by the Texas Constitution, Article III, Section 49g, is yet another example of prudent governance. The Comptroller may transfer ESF amounts to the general revenue fund to prevent or eliminate temporary cash deficiencies. Any amounts transferred to general revenue shall be returned to the ESF with interest as soon as practicable, but no later than Aug. 31 of each odd-numbered year. Generally, the Legislature may appropriate within the statutory guidelines, by a three-fifths vote of the members present in each house, amounts in the ESF that do not exceed the amount of any unanticipated deficit in a current biennium or anticipated revenue decline during the next biennium. The Legislature may also appropriate any amount from the ESF for any purpose only if approved by at least two-thirds of the members present in each house. The ESF shall receive a transfer, not later than the 90th day of each biennium, from the general revenue fund for one-half of any unencumbered positive balance remaining in the general revenue fund on the last day of the preceding biennium. The ESF also receives transfers, not later than the 90th day of each fiscal year, from the general

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revenue fund for at least 50 percent of the 75 percent of the prior fiscal year oil or natural gas production net collections that exceeded the amount of collections in fiscal 1987. The transfer amount of each production tax is calculated separately and must be in excess of the 1987 threshold. The remaining amount is transferred to the state highway fund as directed by the passage of a constitutional amendment known as Proposition 1 in the November 2014 election. The amendment did not create any new taxes or fees.

The balance in the fund on Aug. 31, 2017, was \$11 billion. The ESF is also discussed in Note 13.

## **Economic Outlook**

Texas has advantages such as relatively low living costs, an attractive business climate, a central Sunbelt location, and a balanced mix of industries that have enabled it to grow faster than the nation in most years. In fact, over the period 2006-15, Texas economic growth exceeded that of the U.S in every year, by an average of more than two percentage points per year. However, as a result of the fall in oil and natural gas prices that began in the summer of 2014, and the resulting reduction in related economic activity, the Texas economy declined in real terms in 2016 for the first time since the Great Recession (and only the second time in the last 40 years), while that of the nation increased by 1.5 percent. Economic growth resumed in 2017, however, and it is estimated that Texas real Gross State Product (GSP) growth once again exceeded the growth rate of the nation, notwithstanding the significant economic damage caused by Hurricane Harvey in August and September of that year. After a decline of 0.3 percent in 2016, the Texas economy, as measured by real GSP, is estimated to have grown by 2.9 percent in 2017 and is projected to grow by another 3.6 percent in 2018.

After increasing by just 0.4 percent in 2016, Texas personal income is estimated to have grown by 3.2 percent in 2017 and is projected to grow by a further

5.0 percent in 2018. Underlying this income growth is growth in Texas population. Recent estimates by the U.S. Census Bureau show that six of the nation's 15 most rapidly growing large incorporated cities are in Texas, where total state population is expected to grow by 1.5 percent in 2018, yielding 28.8 million in population.

The Texas unemployment rate has decreased slightly over the year, from an average of 4.6 percent in 2016 to 4.4 percent in 2017. The rate has been dropping in recent months and is projected to average 3.9 percent in 2018.

Total Texas nonfarm employment grew by 1.3 percent in fiscal 2016 and is estimated to have grown by 2.3 percent in fiscal 2017. In fiscal 2018, Texas non-farm employment is projected to grow 2.1 percent.

Growth in Texas' GSP, personal income and employment is expected to be significantly higher than that of the nation as a whole over the next year, but still somewhat slower than during the rebound from the Great Recession. Texas' unemployment rate will remain low, but is not expected to decrease significantly from the current level.

## **Texas Industry Performance**

Employment in goods-producing industries increased by 5.4 percent over the past 12 months, while employment in service-producing industries grew by 2.3 percent. Employment increased in all three of the goods-producing industries (mining and logging, manufacturing, and construction), led by a 38,100 increase in manufacturing employment. Employment growth in the service-providing industries was led by professional and business services (up 56,500) and education and health services (up 40,400). Mining and logging employment increased by 15.2 percent over the year. The service-providing industries that saw the largest percentage gain in employment were other services (up 4.3 percent) and financial activities (up 4.0 percent). The information industry was the only industry to experience an employment decline (6.5 percent) over the year.

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## Manufacturing

According to the U.S. Census Bureau, the value of Texas exports in 2016 was \$233 billion, a decrease of 7.4 percent from 2015. Through November 2017, exports were 13 percent higher than in the corresponding period of 2016, increasing for the first time on a year-over-year basis in two years. Texas is still the nation's leading exporting state, a position held since 2002.

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## Construction

Total housing construction activity over the past 12 months was essentially unchanged from the previous year. Total single-family building permits issued in the year ending November 2017 were up 8.9 percent compared to the prior year while multi-family building permits were down 11.6 percent. According to Multiple Listing Service data from the Texas A&M Real Estate Center, the median sales price for an existing Texas single-family home rose 3.3 percent over the last year, from \$214,000 in November 2016 to \$221,000 in November 2017. The inventory of existing homes for sale in November 2017 was only 3.6 months, equal to a year ago and a substantial improvement from the recent high of 8.7 months in mid-2011.

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## Mining and Logging

Texas oil production peaked more than 40 years ago in 1972, when calendar year production reached 1,263 million barrels. Production volumes reached a low of 343 million barrels in calendar 2007. In 2017 production reached 1,145 million barrels. In addition to the substantial exploration and production activities within the state and in the Gulf of Mexico, Texas is the headquarters for many of the nation's largest oil and natural gas refining and distribution companies, and has a large number of energy-related jobs in other industries associated with those activities. The recent fall in oil and gas prices has had significant negative effects on those industries as well.

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## Major Legislative Initiatives

The 85th Texas Legislature met in its biennial regular session from Jan. 10 to May 29, 2017. State policymakers filed and deliberated on thousands of bills. More than 1,200 of them became law, including Senate Bill (SB) 1, the General Appropriations Act, which will fund state government operations for the next two years.

The 2018-19 biennial budget was widely regarded as a significant challenge for legislators. In January, Texas Comptroller of Public Accounts (Comptroller) provided the Legislature with a \$104.9 billion Biennial Revenue Estimate (BRE) for general revenue that reflected a low starting balance, increased dedication of sales tax revenues and lower revenue collections from 2016 due to ongoing weakness in the oil and gas industries.

The BRE shows the state's financial condition and estimates the revenue it can expect to receive during the next two-year budget period. Legislators are constitutionally required to keep spending below that threshold if no additional revenue is generated or freed up.

The Legislature's final budget for 2018 and 2019 appropriates \$107.23 billion in general revenue and \$216.8 billion from all funds, including federal aid and revenues dedicated to specific purposes such as the State Highway Fund. The Legislature also appropriated about \$1 billion in general revenue and almost \$1.6 billion in federal funds as supplemental appropriations for 2017 to cover outstanding obligations from the previous biennium, such as Medicaid obligations, not fully covered by the previous budget.

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## Legislation Affecting Revenues

The 2017 regular session of the Legislature did not pass legislation that would significantly affect revenue collections.

Still, the Legislature needed to identify and make available additional revenue to allow certification of the

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budget. To appropriate \$107.23 billion for the biennium, plus another \$1 billion of general revenue in supplemental appropriations for 2017, legislators needed about \$4 billion in additional funds.

The Legislature was able to identify nearly half of that, \$1.8 billion, by delaying a payment to the State Highway Fund. This was accomplished through a rider in the General Appropriations Act.

Another \$668 million came from deeming a number of dedicated accounts within general revenue as available for Comptroller certification, through a funds consolidation bill, House Bill (HB) 3849.

The Comptroller's office also was able to certify an additional \$500 million for spending by expediting the sales of certain securities held by the state's unclaimed property program.

One area the Legislature always considers in creating the budget is state employee and teacher pay and benefits, as well as pensions, health care and other post-employment benefits administered by the Employees Retirement System of Texas (ERS) and the Teacher Retirement System of Texas (TRS).

The 2017 regular session changed little for state employee retirement. For fiscal 2018 and 2019, retirement contribution rates will remain the same for Texas state government (9.5 percent), individual agencies (0.5 percent) and employees (9.5 percent). The Legislature made no changes to retirement eligibility or benefits.

One retirement benefit change, however, will prevent certain state and local elected officials from receiving pension benefits if convicted of a felony related to the performance of their official duties. SB 500 enacted this restriction immediately.

To protect the system, HB 3976 eliminates three coverage tiers for retirees receiving TRS-Care benefits as of Jan. 1, 2018. Those under age 65 will be moved to a high-deductible health care plan with a \$3,000 deductible and maximum out-of-pocket costs of \$7,150. Older retirees will participate in a Medicare Advantage plan

with a \$500 annual deductible and a \$3,500 maximum out-of-pocket cost.

## 2017 Special Session

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The Legislature met in special session from July 18 to Aug. 15, 2017. Among other issues, the session addressed one holdover from the regular session, "Sunset" reauthorization of five Texas state agencies.

The Legislature also appropriated an additional \$351 million for public schools, including \$150 million in "hardship grants" for districts expecting significant revenue losses in the 2017-18 or 2018-19 school years. Lawmakers also appropriated \$212 million in general revenue to reduce health insurance premiums for retired public school teachers who participate in the state's TRS-Care insurance plan.

## Certification Revenue Estimate

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On Oct. 10, 2017, the Comptroller's office released the Certification Revenue Estimate (CRE) for the fiscal 2018-19 biennium. After the session, the Comptroller's office releases the CRE to provide the detailed basis by which the Comptroller certified the budget, to revise estimates in the BRE to reflect legislative activity and current economic information and to take into account final revenue numbers for the recently ended fiscal year.

As a result of 2017 legislation and an updated economic forecast, the CRE estimates revenue available for general spending in the 2018-19 biennium to total about \$107.33 billion, versus the BRE estimate of about \$104.87 billion. This revenue will support the \$107.23 billion in general-purpose spending called for by the 85th Legislature, and will result in a final balance available for certification of \$94 million.

The State Highway Fund (SHF) and Economic Stabilization Fund (ESF, the state's 'Rainy Day Fund') both receive funding from oil and gas severance taxes. Fiscal 2018 transfers will total \$734 million each to

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ESF and SHF, and the CRE projects \$777 million will be transferred to each fund in fiscal 2019.

Additionally, a constitutional amendment passed in 2015, which directs up to \$2.5 billion in annual state sales tax revenue in excess of \$28 billion into the SHF, begins to take effect in fiscal 2018.

In 2018, the \$28 billion threshold is not expected to be reached until August. As a result, a projected \$2.31 billion transfer will not occur until September 2018, the first month of fiscal 2019.

In 2019, the state is projected to reach the \$28 billion threshold in July, triggering a \$920 million transfer to the SHF in August. The remaining estimated \$1.58 billion from August collections will be transferred in September 2019 — the first month of the 2020-21 biennium — leaving that amount available for certification in 2018-19.

In addition to market turbulence, energy price fluctuations and potential changes in national economic policy, the impact of Hurricane Harvey contributed some uncertainty to this estimate. Texas remains in recovery; the storm's full impacts to the state's economy and revenues are still taking shape.

The Comptroller's office will continue to monitor legislation that could affect the state's finances and economy.

## **Awards and Acknowledgments**

### **Certificate of Achievement**

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The GFOA of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the state of Texas for its CAFR for the fiscal year ended Aug. 31, 2016. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The state of Texas has received a Certificate of Achievement for the last 27 years (fiscal years ended August 1990 through 2016). We believe our current report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

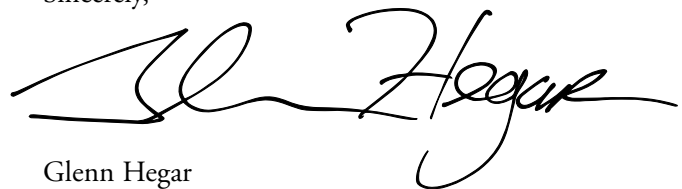
I will continue to maintain a highly qualified and professional staff to make this certification possible.

### **Acknowledgments**

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The preparation of this report requires the collective efforts of hundreds of financial personnel throughout state government, including the dedicated management and staff of the Comptroller's Financial Reporting section and Fiscal Management Division; the chief financial officers, chief accountants and staff at each agency; and the management and staff of the State Auditor's Office. I sincerely appreciate the dedicated efforts of all these individuals who continue to strive for improvements that will make Texas a national leader in quality financial reporting.

Sincerely,



Glenn Hegar



# State of Texas Comprehensive Annual Financial Report

## State of Texas Elected State Officials

### Executive

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Greg Abbott  
Governor

Dan Patrick  
Lieutenant Governor

Glenn Hegar  
Comptroller of Public Accounts

Ken Paxton  
Attorney General

George P. Bush  
Land Commissioner

Wayne Christian  
Christi Craddick  
Ryan Sitton  
Railroad Commissioners

Sid Miller  
Commissioner of Agriculture

### Legislative

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Lieutenant Governor Dan Patrick  
President of the Senate

Joe R. Straus  
Speaker of the House of Representatives

### Judicial

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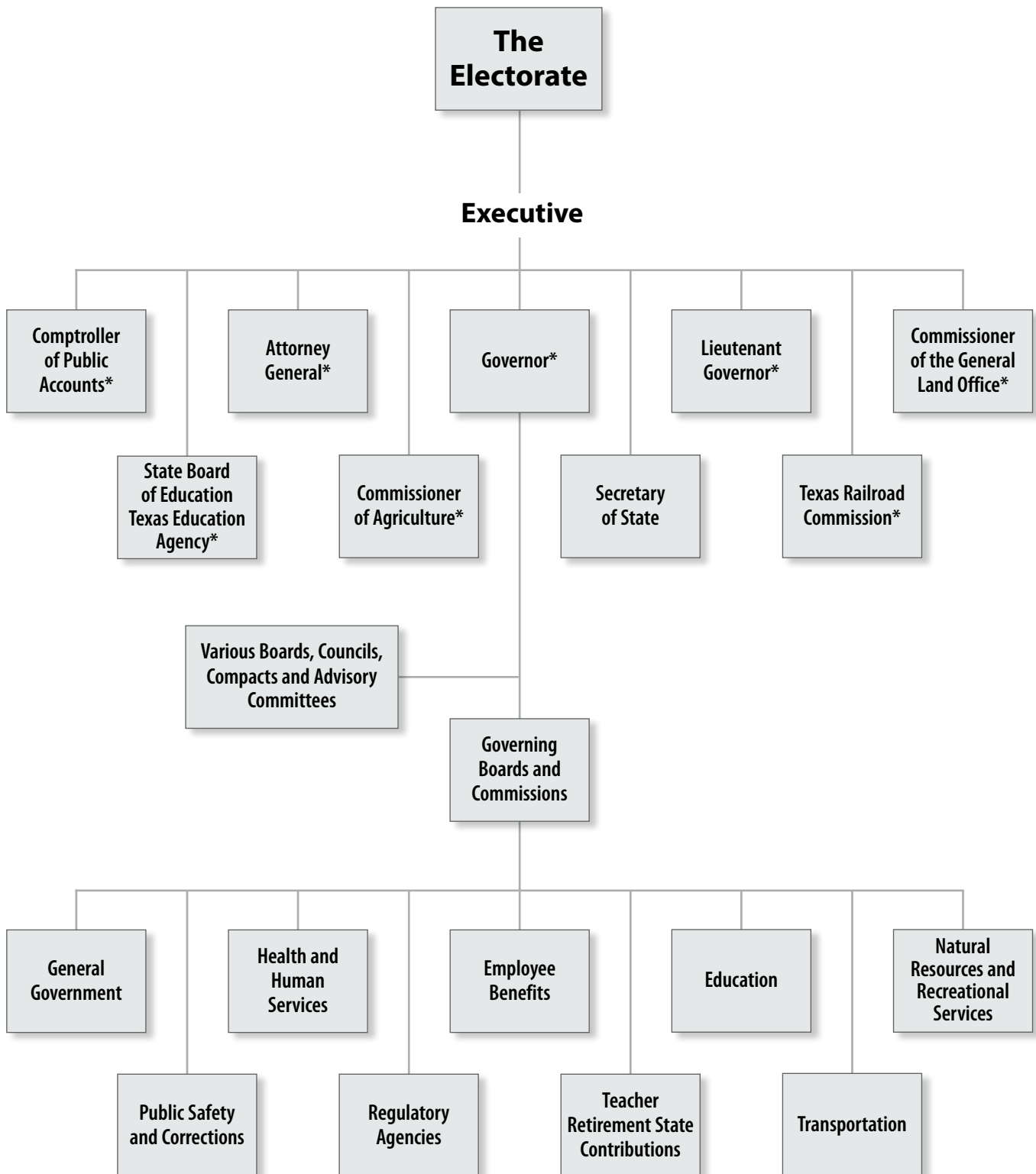
#### Supreme Court of Texas

Nathan L. Hecht, Chief Justice  
Jeff Brown, Justice  
Jeffrey S. Boyd, Justice  
John Devine, Justice  
Paul Green, Justice  
Eva M. Guzman, Justice  
Phil Johnson, Justice  
Debra Lehrmann, Justice  
Don R. Willett, Justice

#### Court of Criminal Appeals

Sharon Keller, Presiding Judge  
Elsa Alcala, Judge  
Barbara Parker Hervey, Judge  
Scott Walker, Judge  
Michael E. Keasler, Judge  
Mary Lou Keel, Judge  
David Newell, Judge  
Bert Richardson, Judge  
Kevin Yeary, Judge

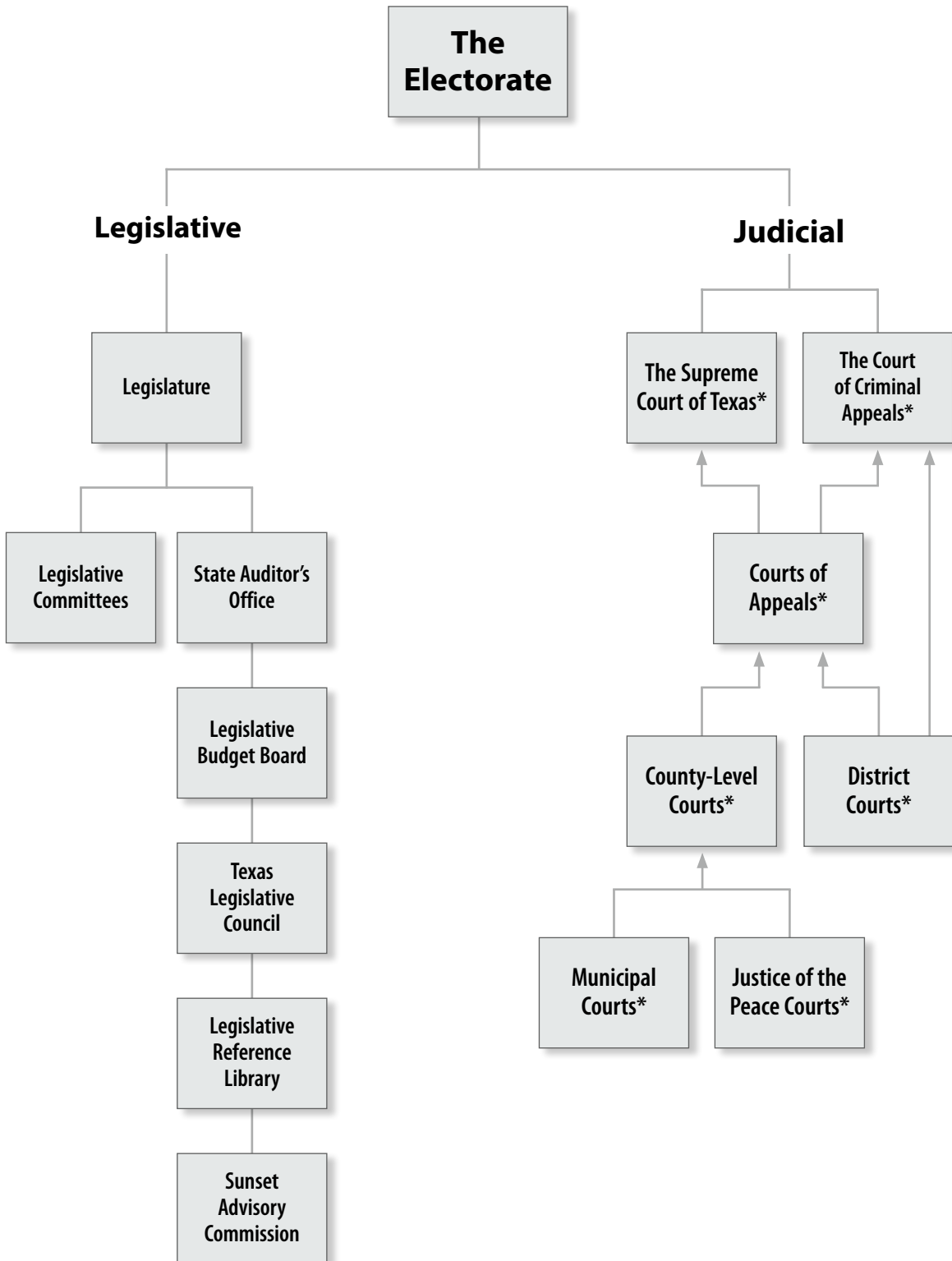
# Government Structure of Texas



\* Elected Offices



# Government Structure of Texas (continued)



\* Elected Offices



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**State of Texas**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**August 31, 2016**

*Christopher P. Morill*

Executive Director/CEO