



STATE OF TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED AUGUST 31, 2018

THE SPREADSHEETS IN THIS PUBLICATION ARE AVAILABLE
IN ACCESSIBLE DATA FORM (EXCEL) FOR THE SECTIONS BELOW.

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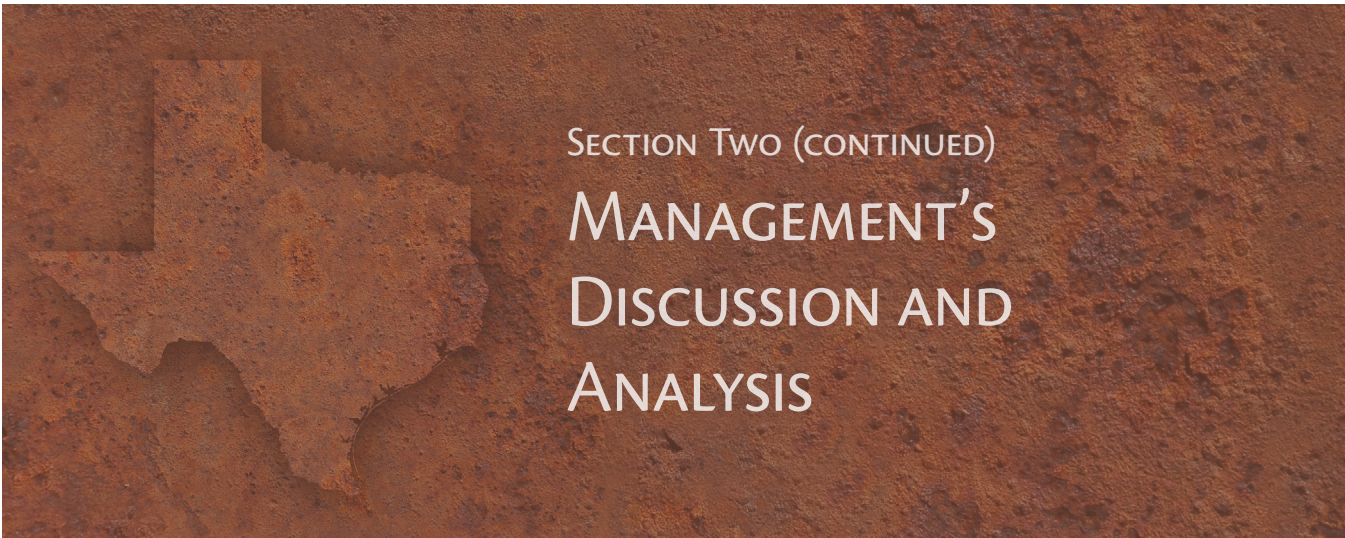
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SECTION TWO (CONTINUED)
MANAGEMENT'S
DISCUSSION AND
ANALYSIS

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, 2018. Use this section in conjunction with the state's basic financial statements. Comparative data to 2017 is presented for this 2018 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 \$99.5 billion at fiscal 2018 year-end, a decrease of \$68.1 billion or negative 40.6 percent from fiscal 2017. The majority of the decrease is primarily due to a decrease of \$85.4 billion in unrestricted net position. The net position is comprised of \$93.5 billion in net investment in capital assets, \$110.1 billion in restricted and negative \$104 billion in unrestricted.

The \$85.4 billion decrease in the unrestricted net assets includes a \$94.1 billion restatement due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (OPEB). The objective of this statement is to improve accounting and financial reporting for OPEB. It also improves information reporting provided by state and local governmental employers about financial support for OPEB that is provided by non-state entities. The restatement amount includes two separate transactions; the initial balance of the new methodology and the inclusion of the deferred outflows of resources related to contributions subsequent to measurement date from fiscal year 2017. Additional details concerning the change in methodology can be found in Note 11 Postemployment Benefits Other Than Pensions.

The state recognized negative \$8.5 billion in grant expense due to changes in OPEB plan benefits and actuarial assumptions in the TRS-Care Plan. The state is a non-employer contributing entity in this OPEB plan. In the government-wide financial statements, this negative grant expense was recognized in the Statement of Activities in the General Government function expenses. Additional information can be found in the Teacher Retirement System of Texas portion of Note 11.

Fund Level

Governmental Funds

At fiscal 2018 year-end, the state's governmental funds reported a combined ending fund balance of \$72.2 billion, an increase of \$5.5 billion or 8.2 percent from fiscal 2017, primarily due to an increase in investments. The state reported a positive unassigned fund balance of \$5.3 billion in fiscal 2018.

Proprietary Funds

The proprietary funds reported a net position of \$66.5 billion at fiscal 2018 year-end, an increase of \$771.8 million or 1.2 percent from fiscal 2017, primarily due to an increase in interest and investment income.

Long-Term Debt

The state's total bonds outstanding increased by \$3.2 billion or 6.4 percent during fiscal 2018. This amount represents the net difference between net issuances, payments and refunding of outstanding bond debt. During fiscal 2018, the state issued bonds totaling \$6.5 billion. Detailed information regarding the government-wide, fund level and long-term debt activities is stated 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. This report presents a 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 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 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 state-

ment 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 in order to pay for 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 24 discretely presented component units. Financial information for these entities is presented separately in the supplemental statements and notes.

Reporting on the State's Most Significant Funds

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

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 the amounts remaining at fiscal year-end for future spending.

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

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

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 only be used for trust beneficiaries. All state fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. These 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 assets reported in these funds are used for their intended purposes.

Financial Analysis of the State as a Whole

Net Position

Total assets of the state as of fiscal 2018 year-end, were \$334.1 billion, an increase of \$26.2 billion or 8.5 percent from fiscal 2017. Total liabilities as of fiscal 2018 year-end, were \$208.2 billion, an increase of \$71.3 billion or 52.1 percent from fiscal 2017. Net position was affected by a number of factors. Cash and cash equivalents on the Statement of Net Position increased by \$2.6 billion in governmental activities, and increased by \$1.4 billion in business-type activities from fiscal 2017. Unrestricted noncurrent investments increased by \$3.7 billion. The state's bonded indebtedness was \$54.3 billion, which included new issuances of \$6.5 billion in state bonds to finance new construction, housing, water conservation and other projects. Approximately \$3.4 billion in bonded debt was retired or refunded. Net position was \$99.5 billion in fiscal 2018, a decrease of \$68.1 billion or negative 40.6 percent. Of

the state's net position, \$93.5 billion was net investment in capital assets, while \$110.1 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 \$104 billion. The majority of the net position decrease is primarily due to the restatement required by the implementation of GASB Statement 75. See Notes 11 and 14 for more information regarding the restatement.

Changes in Net Position

The state's net position for fiscal 2018 decreased by \$68.1 billion. The state earned program revenues of \$105.4 billion and general revenues of \$60.4 billion, for total revenues of \$165.8 billion, an increase of \$13.1 billion or 8.6 percent from fiscal 2017. The major components of this increase were tax revenues, which had a increase of \$5.8 billion and operating grants and contributions, with an increase of \$4.6 billion. Federal revenues increased 2.9 billion and interest and investment income increased \$1.4 billion.

Statement of Net Position						
Table MDA-1						
August 31, 2018 and 2017						
(Amounts in Thousands)						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
ASSETS						
Assets Other Than Capital Assets	\$ 86,623,179	\$ 80,499,779	\$ 103,062,798	\$ 91,146,327	\$ 189,685,977	\$ 171,646,106
Capital Assets	110,784,897	104,978,345	33,615,818	31,291,666	144,400,715	136,270,011
Total Assets	197,408,076	185,478,124	136,678,616	122,437,993	334,086,692	307,916,117
DEFERRED OUTFLOWS OF RESOURCES	9,654,909	10,959,432	1,896,074	1,836,820	11,550,983	12,796,252
LIABILITIES						
Current Liabilities	15,612,668	14,809,809	13,932,205	12,321,958	29,544,873	27,131,767
Noncurrent Liabilities	123,336,920	64,199,238	55,290,550	45,539,480	178,627,470	109,738,718
Total Liabilities	138,949,588	79,009,047	69,222,755	57,861,438	208,172,343	136,870,485
DEFERRED INFLOWS OF RESOURCES	35,109,225	15,504,980	2,818,004	651,251	37,927,229	16,156,231
NET POSITION						
Net Investment in Capital Assets	80,746,971	76,925,845	12,705,500	11,755,741	93,452,471	88,681,586
Restricted	56,896,014	50,168,023	53,186,622	47,294,517	110,082,636	97,462,540
Unrestricted	(104,638,813)	(25,170,339)	641,809	6,711,866	(103,997,004)	(18,458,473)
Total Net Position	\$ 33,004,172	\$ 101,923,529	\$ 66,533,931	\$ 65,762,124	\$ 99,538,103	\$ 167,685,653

The expenses of the state were \$140.3 billion, a decrease of \$3.6 billion or negative 2.5 percent. The expense fluctuations in governmental activities are largely attributable to a \$7.8 billion decrease in general government and a \$2.2 billion increase in health and

human services. In business-type activities, there was a \$441.4 million decrease in health and human services and a \$9.1 million increase in education services.

The financial analysis of the state's funds will further explain the results for changes in the state's financial condition.

Changes in Net Position

Table MDA-2

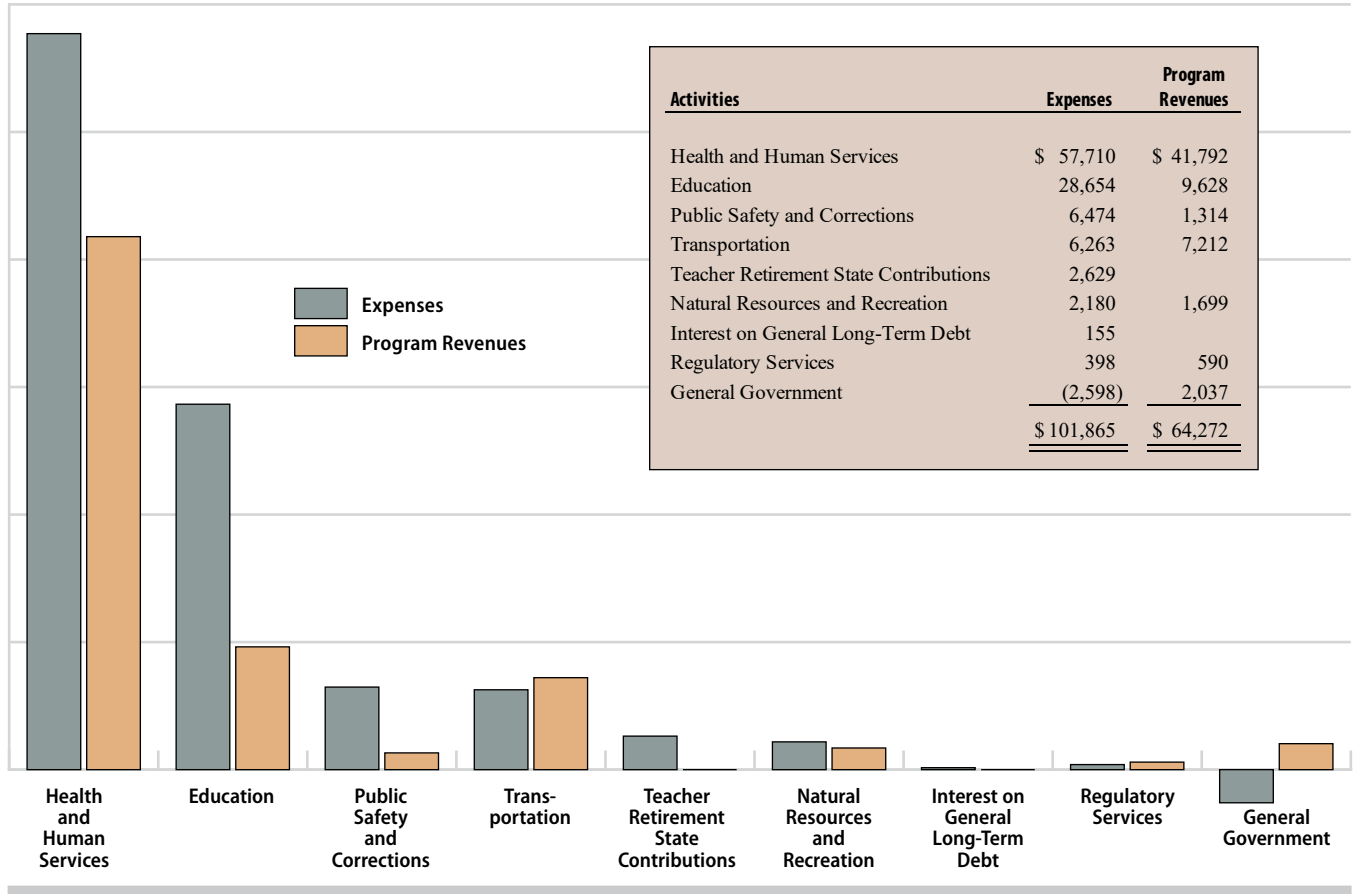
For the Fiscal Years Ended August 31, 2018 and 2017
(Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
REVENUES						
Program Revenues:						
Charges for Services	\$ 11,905,492	\$ 10,996,291	\$ 25,490,336	\$ 24,239,708	\$ 37,395,828	\$ 35,235,999
Operating Grants and Contributions	52,302,464	50,747,993	15,301,199	12,315,252	67,603,663	63,063,245
Capital Grants and Contributions	64,179	51,202	289,553	180,782	353,732	231,984
Total Program Revenues	<u>64,272,135</u>	<u>61,795,486</u>	<u>41,081,088</u>	<u>36,735,742</u>	<u>105,353,223</u>	<u>98,531,228</u>
General Revenues:						
Taxes	55,962,771	50,187,814			55,962,771	50,187,814
Unrestricted Investment Earnings	724,302	481,261	79,105	86,447	803,407	567,708
Settlement of Claims	560,556	537,444	16,368	1,213	576,924	538,657
Gain on Sale of Capital Assets	2,178	1,249	1,706	26	3,884	1,275
Loss on Other Financial Activity		(3,279)				(3,279)
Other General Revenues	2,917,718	2,721,599	169,986	177,799	3,087,704	2,899,398
Total General Revenues	<u>60,167,525</u>	<u>53,926,088</u>	<u>267,165</u>	<u>265,485</u>	<u>60,434,690</u>	<u>54,191,573</u>
Total Revenues	<u>124,439,660</u>	<u>115,721,574</u>	<u>41,348,253</u>	<u>37,001,227</u>	<u>165,787,913</u>	<u>152,722,801</u>
EXPENSES						
General Government	(2,598,195)	5,213,330	152,487	139,018	(2,445,708)	5,352,348
Education	28,653,616	28,400,268	30,864,744	29,952,017	59,518,360	58,352,285
Employee Benefits		1,695		1,584		3,279
Teacher Retirement State Contributions	2,629,099	2,148,958			2,629,099	2,148,958
Health and Human Services	57,710,097	55,499,408	2,243,354	2,684,798	59,953,451	58,184,206
Public Safety and Corrections	6,473,778	6,354,517	102,806	99,239	6,576,584	6,453,756
Transportation	6,262,684	6,143,369	491,228	451,780	6,753,912	6,595,149
Natural Resources and Recreation	2,180,408	2,163,813	417,762	356,284	2,598,170	2,520,097
Regulatory Services	398,150	420,273			398,150	420,273
Interest on General Long-Term Debt	155,172	167,115			155,172	167,115
Lottery			4,181,178	3,749,583	4,181,178	3,749,583
Total Expenses	<u>101,864,809</u>	<u>106,512,746</u>	<u>38,453,559</u>	<u>37,434,303</u>	<u>140,318,368</u>	<u>143,947,049</u>
Excess (Deficiency) Before Contributions and Transfers	<u>22,574,851</u>	<u>9,208,828</u>	<u>2,894,694</u>	<u>(433,076)</u>	<u>25,469,545</u>	<u>8,775,752</u>
Capital Contributions	93,354	84,619	41,343	5,593	134,697	90,212
Contributions to Permanent and Term Endowments			255,688	209,404	255,688	209,404
Distributions from Permanent Fund Term Endowments	(11,010)				(11,010)	
Transfers	(5,043,006)	(5,345,718)	5,043,006	5,345,718		
Change in Net Position	<u>17,614,189</u>	<u>3,947,729</u>	<u>8,234,731</u>	<u>5,127,639</u>	<u>25,848,920</u>	<u>9,075,368</u>
Net Position, Beginning Balance	101,923,529	98,744,452	65,762,124	60,647,997	167,685,653	159,392,449
Restatements	(86,533,546)	(768,652)	(7,462,924)	(13,512)	(93,996,470)	(782,164)
Net Position, Beginning Balance, as Restated	<u>15,389,983</u>	<u>97,975,800</u>	<u>58,299,200</u>	<u>60,634,485</u>	<u>73,689,183</u>	<u>158,610,285</u>
Net Position, Ending Balance	<u>\$ 33,004,172</u>	<u>\$ 101,923,529</u>	<u>\$ 66,533,931</u>	<u>\$ 65,762,124</u>	<u>\$ 99,538,103</u>	<u>\$ 167,685,653</u>

Expenses and Program Revenues: Governmental Activities

Graph MDA-3

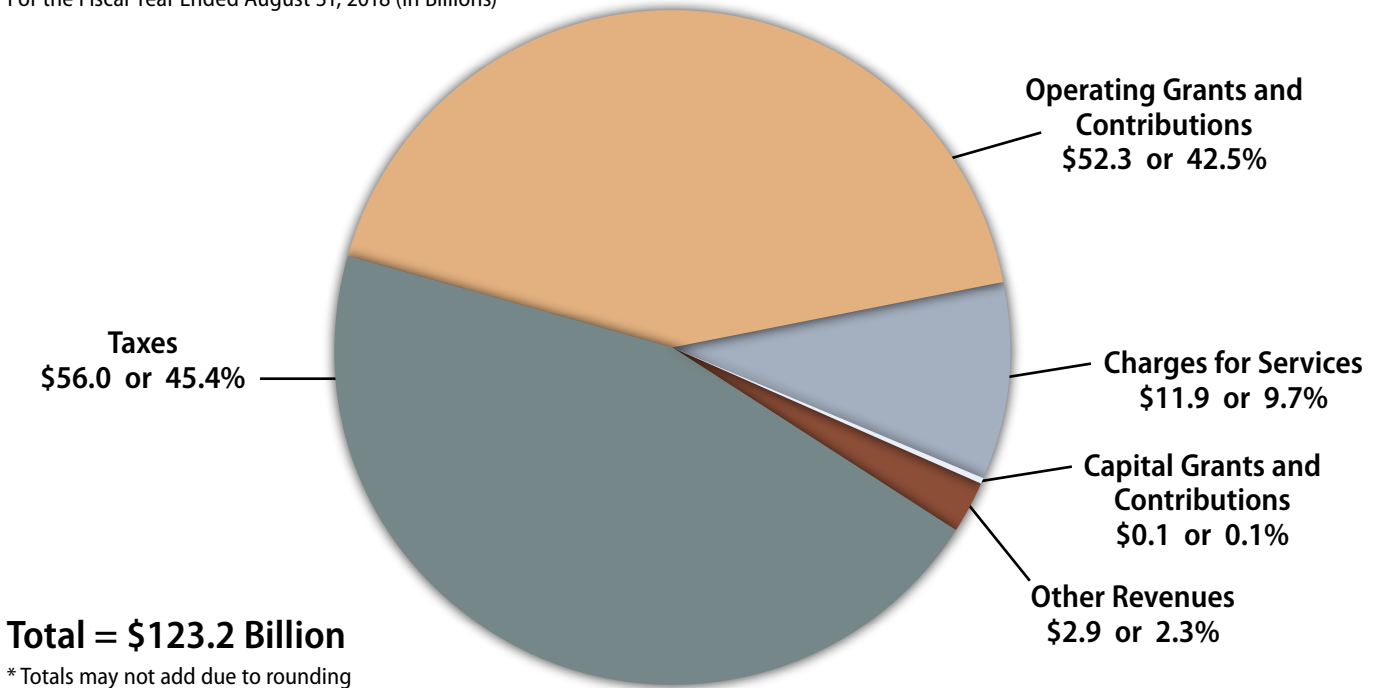
For the Fiscal Year Ended August 31, 2018 (In Millions)



Revenue by Source: Governmental Activities

Graph MDA-4

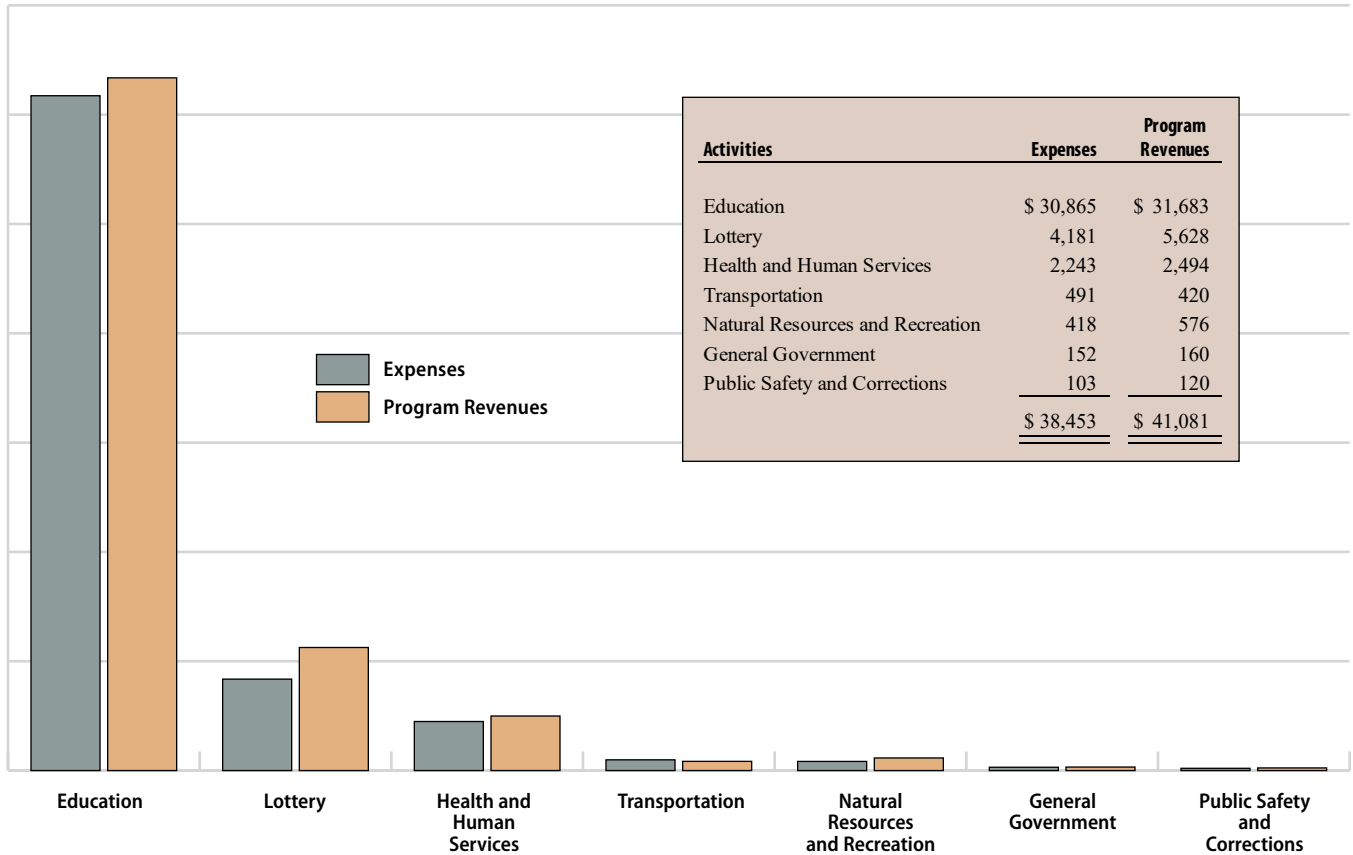
For the Fiscal Year Ended August 31, 2018 (In Billions)*



Expenses and Program Revenues: Business-Type Activities

Graph MDA-5

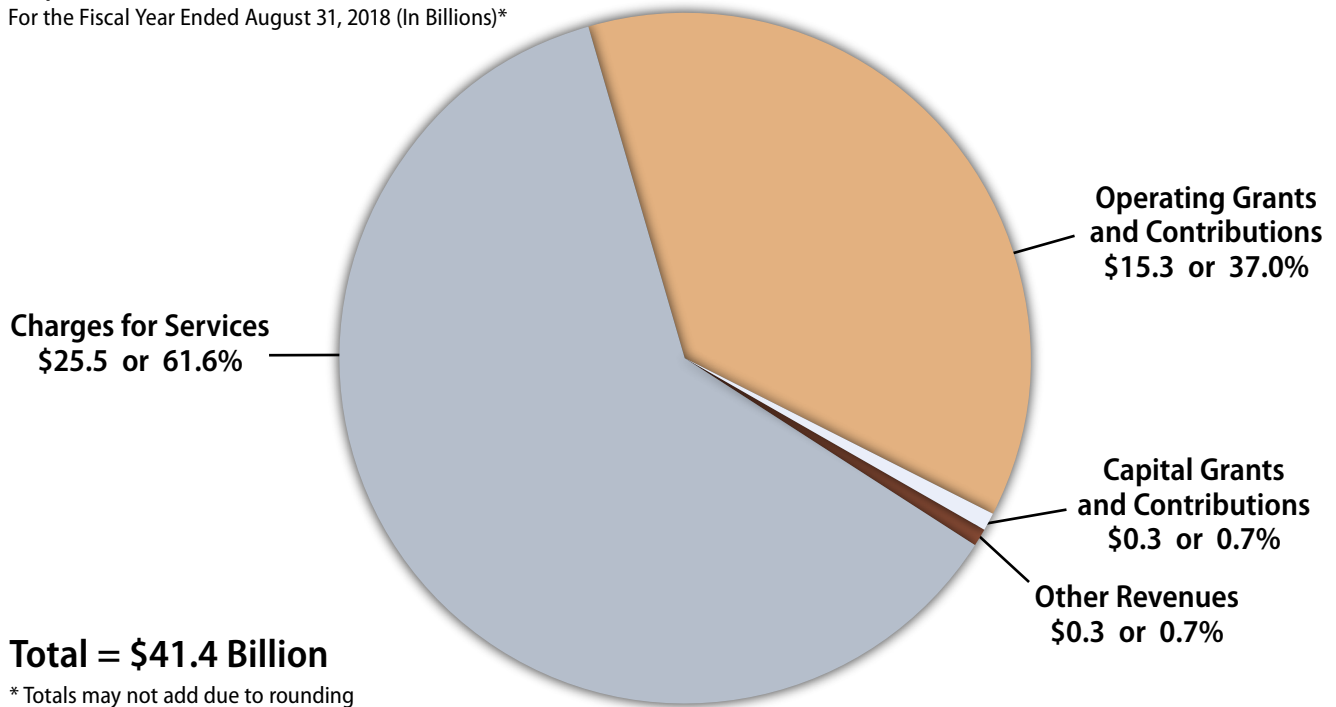
For the Fiscal Year Ended August 31, 2018 (In Millions)



Revenue by Source: Business-Type Activities

Graph MDA-6

For the Fiscal Year Ended August 31, 2018 (In Billions)*



Governmental Activities

The governmental activities program revenue was \$64.3 billion, including charges for services of \$11.9 billion, operating grants and contributions of \$52.3 billion and capital grants and contributions of \$64.2 million. The largest change, a \$1.6 billion increase, was for operating grants and contributions. Taxes had increases of \$5.8 billion from general revenue sources, with the largest increase in sales and use tax revenue.

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

Table MDA-7

For the Fiscal Year Ended August 31, 2018
(Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ (2,598,195)	\$ (4,635,550)
Education	28,653,616	19,025,513
Teacher Retirement State Contributions	2,629,099	2,629,099
Health and Human Services	57,710,097	15,918,224
Public Safety and Corrections	6,473,778	5,160,080
Transportation	6,262,684	(949,667)
Natural Resources and Recreation	2,180,408	481,448
Regulatory Services	398,150	(191,645)
Interest on General Long-Term Debt	155,172	155,172
Total	<u>\$ 101,864,809</u>	<u>\$ 37,592,674</u>

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

Table MDA-8

For the Fiscal Year Ended August 31, 2018
(Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ 152,487	\$ (7,823)
Education	30,864,744	(819,195)
Health and Human Services	2,243,354	(250,961)
Public Safety and Corrections	102,806	(16,714)
Transportation	491,228	71,365
Natural Resources and Recreation	417,762	(157,739)
Lottery	4,181,178	(1,446,462)
Total	<u>\$ 38,453,559</u>	<u>\$ (2,627,529)</u>

Governmental activities expenses were \$101.9 billion. All functions of governmental activities in the government-wide statement of activities have a net cost, except the general government, transportation and regulatory functions which reported slight surpluses. The education function and the health and human services function account for 84.9 percent of governmental activities expenses and 93.1 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 \$41.1 billion, including charges for services of \$25.5 billion, operating grants and contributions of \$15.3 billion and capital grants and contributions of \$289.6 million. The total expenses for business-type activities were \$38.5 billion. The largest changes occurred in education, with a \$9.1 million increase for colleges and universities and a decrease of 441.4 million in health and human services. There was an increase in net position in the government's business-type activities of \$771.8 million.

Financial Analysis of the State's Funds

Governmental Funds

At fiscal 2018 year-end, governmental funds reported fund balances of \$72.2 billion. The general fund reported a positive \$13.2 billion fund balance.

General Fund

The fund balance for the general fund as of Aug. 31, 2018, was \$13.2 billion, an increase of \$1 billion from fiscal 2017, mostly due to a \$3 billion increase in transfers in and \$1.8 billion decrease in transfers out. Tax revenues increased by \$3 billion from fiscal 2017. The state constitution, state statute, and federal rule or

bond covenants constrain \$7.9 billion. The unassigned fund balance was \$5.3 billion, which includes \$12.5 billion in the economic stabilization fund, commonly called “the rainy day fund.” Contributing to the balance was also an increase of \$258.7 million in interest and other investment income.

State Highway Fund

The fund balance for the state highway fund for fiscal 2018, was \$7.4 billion, an increase of \$2.4 billion from \$5 billion from fiscal 2017. Cash and cash equivalents increased \$63.5 million, transfers in increased \$766.4 million, tax revenues increased \$2.6 billion and sales of goods and services increased \$63 million.

Permanent School Fund

The fund balance for the permanent school fund (PSF) as of Aug. 31, 2018, totaled \$44.1 billion, an increase of \$2.6 billion from fiscal 2017. This increase was primarily attributable to an increase in valuation of investments of \$1.7 billion. Value in the fund provided \$1.2 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. In fiscal 2018, a total of \$79.1 billion in school district bond issues were guaranteed at year-end.

Proprietary Funds

Proprietary funds reported net position of \$66.5 billion in fiscal 2018, an increase of \$771.8 million from fiscal 2017. The state’s public colleges and universities hold 88.7 percent of the reported net position in proprietary funds.

Colleges and Universities

Colleges and universities’ net position for fiscal 2018, totaled \$59 billion, an increase of \$20 million from fis-

cal 2017. Colleges and universities had a net income of \$606.6 million for fiscal 2018, increases of \$3 billion in net income before capital contributions, endowments and transfers and \$28 million in capital contributions and transfers from fiscal 2017. There was an increase in interest and investment income of \$2.7 billion due to improving market performance. There was also \$1 billion collected from land mineral income (such as oil royalties) deposited into the Permanent University Fund (PUF) for the benefit of the University of Texas and Texas A&M University Systems. The PUF’s net position after distributions increased by \$2 billion from \$19.9 billion in fiscal 2017 to \$21.9 billion in fiscal 2018. This endowment fund contributes to the support of 15 institutions in the University of Texas System and 15 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 \$1.9 billion for fiscal 2018, an increase of \$434 million from \$1.43 billion from the prior fiscal year. During fiscal 2018, unemployment taxes collected decreased \$278 million from \$2.7 billion, while federal contributions decreased \$107 thousand in 2017. The unemployment rate was 3.9 percent, which is the lowest unemployment rate since November 1986. Unemployment benefits paid for fiscal 2018 totaled 2.2 billion which represents a decrease of 439.6 million or 16.4 percent as compared to fiscal 2017.

Lottery Fund

The Texas Lottery Commission operates draw and scratch ticket lottery games to generate revenue for the state’s foundation school fund. The lottery fund had a net position of \$8 million for fiscal 2018, a decrease of 79.7 percent from the \$39.2 million from the prior fiscal year. The Commission recorded its highest level of

total sales since ticket sales began in 1992 with collections of \$5.6 billion. Transfers to state agencies totaled \$1.4 billion, the fifteenth consecutive year overall that revenue transfers exceeded \$1 billion.

Fiduciary Funds

Fiduciary funds reported \$208.6 billion in net position for fiscal 2018, an increase of \$11.2 billion from \$197.4 billion in fiscal 2017, a 5.7 percent increase.

Pension and Other Employee Benefit Trust Funds

Total net position for pension and other employee benefit trust funds was \$185.2 billion for fiscal 2018, an increase of \$9.4 billion from the \$175.7 billion reported in fiscal 2017. The majority of plan assets are held as investments for the pension funds. In fiscal 2018, additions from all sources decreased \$5.5 billion, while benefit payments decreased \$287.9 million. The year was characterized by moderate global growth and inflation, tightening global monetary policy and outperformance of developed markets versus emerging markets. The return on investments for the state's two largest pension systems, the Teacher Retirement System of Texas and the Employees Retirement System of Texas was 8.2 percent and 9.58 percent, respectively, compared to the previous year's returns of 12.6 percent and 12.2 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 \$20 billion in fiscal 2018, an increase of \$1.6 billion from fiscal 2017. 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 \$3.5 billion in fiscal 2018, an increase of \$249.3 million from fiscal 2017. Additions from all sources of \$744.8 million and total deductions were \$495.8 million. The net increase of \$249 million is an increase of 175.6 percent from the net decrease of \$329.5 million in fiscal 2017.

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 \$5.9 billion.

There was a negative \$1.8 billion variance between the actual and final budget revenues. The largest negative revenue variances occurred with taxes and sales of goods and services, which reported a \$1.3 billion and \$989.3 million difference, respectively.

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

Capital Assets – Net of Depreciation and Amortization

Table MDA-9

August 31, 2018 and 2017
(Amounts In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Land and Land Improvements	\$ 14,228,715	\$ 13,448,576	\$ 2,221,174	\$ 2,131,672	\$ 16,449,889	\$ 15,580,248
Infrastructure	74,987,729	71,184,460	2,966,405	2,864,114	77,954,134	74,048,574
Construction in Progress	18,587,042	17,177,254	4,355,328	3,202,607	22,942,370	20,379,861
Buildings and Building Improvements	1,853,839	1,974,028	18,491,474	17,587,418	20,345,313	19,561,446
Facilities and Other Improvements	65,695	62,364	1,861,346	1,843,231	1,927,041	1,905,595
Furniture and Equipment	273,398	298,948	1,866,371	1,802,721	2,139,769	2,101,669
Vehicles, Boats and Aircraft	510,802	516,273	85,636	89,458	596,438	605,731
Other Capital Assets	157,657	159,535	1,452,446	1,369,336	1,610,103	1,528,871
Intangible Capital Assets, Net	120,020	156,907	315,638	401,109	435,658	558,016
Total Capital Assets	<u>\$ 110,784,897</u>	<u>\$ 104,978,345</u>	<u>\$ 33,615,818</u>	<u>\$ 31,291,666</u>	<u>\$ 144,400,715</u>	<u>\$ 136,270,011</u>

Capital Assets and Debt Administration

Capital Assets

For fiscal 2018, the state has \$144.4 billion in net capital assets. This total represents an increase of \$8.1 billion in total capital assets or 5.9 percent from fiscal 2017. Included in this amount are increases to infrastructure of \$5.6 billion and construction in progress of \$1.2 billion by the Texas Department of Transportation (TxDOT). Institutions of higher education also added \$2.3 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 \$23.7 billion. These commitments extend beyond fiscal year-end 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 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, AAA by Fitch Ratings, and AAA by Kroll Bond Ratings Agency as of August 2018. During fiscal 2018, Texas' state agencies and institutions of higher education issued \$6.5 billion in state bonds to finance new construction, transportation, housing, water conservation and treatment and other projects. General obligation debt accounted for \$727 million of state bonds issued in fiscal 2018. This debt, which can only be authorized by a constitutional amendment, carries the full faith and credit of the state. The remaining \$5.7 billion is due to new issuances of revenue bonds, which

Outstanding Bonded Debt

Table MDA-10

August 31, 2018 and 2017
(Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
General Obligation Bonds Payable	\$ 15,416,099	\$ 15,883,532	\$ 4,409,919	\$ 4,363,308	\$ 19,826,018	\$ 20,246,840
Revenue Bonds Payable	4,495,617	4,777,468	29,967,142	26,020,440	34,462,759	30,797,908
Total Bonds Payable	<u>\$ 19,911,716</u>	<u>\$ 20,661,000</u>	<u>\$ 34,377,061</u>	<u>\$ 30,383,748</u>	<u>\$ 54,288,777</u>	<u>\$ 51,044,748</u>

are serviced by the revenue flows of individual entity projects. Bonds retired during the fiscal year were composed of \$744.9 million in general obligation bonds and \$1.1 billion in revenue bonds. Also, \$318.9 million 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, 2018 was \$19.8 billion. This represents a decrease of \$402.8 million or 2.1 percent from fiscal 2017. An additional \$10.5 billion of general obligation bonds were authorized but are unissued. Total revenue bonds outstanding were \$34.5 billion, which is an increase of \$3.7 billion or 11.9 percent from fiscal 2017. 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

From November 2017 to November 2018 the Texas economy added 365,400 nonfarm jobs, an increase of 3 percent, to reach 12,703,400. Private-sector employ-

ment rose by 3.5 percent while government employment (federal, state and local) grew by 0.1 percent. Texas added more new jobs than any other state over the twelve month period ending November 2018, and had the fourth lowest unemployment rate among the 10 most populous states at the end of that period (behind Florida, Georgia, and North Carolina). The state's rate of job growth was the highest among the 10 most populous states and the fourth highest among all states.

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.