

State of Texas

Comprehensive Annual Financial Report

For the Fiscal Year Ended August 31, 2019

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

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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, 2019. Use this section in conjunction with the state's basic financial statements. Comparative data is presented for this 2019 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 \$115.1 billion as of Aug. 31, 2019, an increase of \$15.5 billion or positive 15.6 percent from fiscal 2018. The majority of the increase is primarily due to an increase of \$8.6 billion in restricted net position. The net position is comprised of \$94.2 billion in net investment in capital assets, \$116.6 billion in restricted and negative \$95.8 billion in unrestricted.

Fund Level

Governmental Funds

As of Aug. 31, 2019, the state's governmental funds reported a combined ending fund balance of \$79.9 billion, an increase of \$7.7 billion or 10.7 percent from fiscal 2018, primarily due to an increase in tax revenues investments. The state reported a positive unassigned fund balance of \$9 billion in fiscal 2019.

Proprietary Funds

The proprietary funds reported a net position of \$68.9 billion as of Aug. 31, 2019, an increase of \$2.3 billion or 3.5 percent from fiscal 2018, primarily due to an increase in pledged hospital revenue.

Long-Term Debt

The state's total bonds outstanding increased by \$2.5 billion or 4.5 percent during fiscal 2019. This amount represents the net difference between net issuances, payments and refunding of outstanding bond debt. During fiscal 2019, the state issued bonds totaling \$5.9 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 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 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 23 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 ten 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

Net position was \$115.1 billion in fiscal 2019, an increase of \$15.5 billion or positive 15.6 percent. Several factors affected net position. Cash and cash equivalents increased by \$5.6 billion in governmental activities and by \$1.1 billion in business-type activities from fiscal 2018. The state's bonded indebtedness was \$56.7 billion, which included new issuances of \$5.9 billion in state bonds to finance new construction, housing, water conservation and other projects. Approximately \$3.6 billion in bonded debt was retired or refunded. Total assets of the state was \$353 billion, an increase of \$18.9 billion or 5.7 percent from fiscal 2018. Total liabilities for the state was \$222.6 billion, an increase of \$14.5 billion or 7 percent from fiscal 2018. Of the state's net position, \$94.2 billion was net investment in capital

assets, while \$116.6 billion was restricted by the constitution or other legal requirements and was not available to finance day to day operations of the state. Unrestricted net position was negative \$95.8 billion. The majority of the net position increase is primarily due to an increase of \$6.5 billion in restricted net position.

Changes in Net Position

The state's net position for fiscal 2019 increased by \$15.5 billion. The state earned program revenues of \$101.7 billion and general revenues of \$65 billion, for total revenues of \$166.7 billion, an increase of \$894.6 million or one percent from fiscal 2018. The major components of this increase were tax revenues, which had an increase of \$3.4 billion, and unrestricted investment earnings, with an increase of \$528.4 million. Federal revenues increased \$523 million and interest and investment income increased by \$86.5 million.

Statement of Net Position

Table MDA-1

August 31, 2019 and 2018
(Amounts in Thousands)

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---------------------------------------|-------------------------|----------------------|--------------------------|----------------------|--------------------------|----------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| ASSETS | | | | | | |
| Assets Other Than Capital Assets | \$ 95,939,505 | \$ 86,623,179 | \$ 108,017,842 | \$ 103,062,798 | \$ 203,957,347 | \$ 189,685,977 |
| Capital Assets | 116,365,204 | 110,784,897 | 35,697,377 | 33,615,818 | 152,062,581 | 144,400,715 |
| Total Assets | <u>212,304,709</u> | <u>197,408,076</u> | <u>143,715,219</u> | <u>136,678,616</u> | <u>356,019,928</u> | <u>334,086,692</u> |
| DEFERRED OUTFLOWS OF RESOURCES | <u>19,794,406</u> | <u>9,654,909</u> | <u>7,957,438</u> | <u>1,896,074</u> | <u>27,751,844</u> | <u>11,550,983</u> |
| LIABILITIES | | | | | | |
| Current Liabilities | 16,169,637 | 15,612,668 | 15,335,543 | 13,932,205 | 31,505,180 | 29,544,873 |
| Noncurrent Liabilities | 128,388,163 | 123,336,920 | 62,749,375 | 55,290,550 | 191,137,538 | 178,627,470 |
| Total Liabilities | <u>144,557,800</u> | <u>138,949,588</u> | <u>78,084,918</u> | <u>69,222,755</u> | <u>222,642,718</u> | <u>208,172,343</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>41,318,145</u> | <u>35,109,225</u> | <u>4,730,479</u> | <u>2,818,004</u> | <u>46,048,624</u> | <u>37,927,229</u> |
| NET POSITION | | | | | | |
| Net Investment in Capital Assets | 80,632,585 | 80,746,971 | 13,571,180 | 12,705,500 | 94,203,765 | 93,452,471 |
| Restricted | 63,001,887 | 56,896,014 | 53,629,080 | 53,186,622 | 116,630,967 | 110,082,636 |
| Unrestricted | (97,411,302) | (104,638,813) | 1,657,000 | 641,809 | (95,754,302) | (103,997,004) |
| Total Net Position | <u>\$ 46,223,170</u> | <u>\$ 33,004,172</u> | <u>\$ 68,857,260</u> | <u>\$ 66,533,931</u> | <u>\$ 115,080,430</u> | <u>\$ 99,538,103</u> |

The expenses of the state were \$151.8 billion, an increase of \$11.5 billion or positive 8.2 percent from fiscal 2018. The expense fluctuations in governmental activities are largely attributable to a \$8 billion increase in general government and a \$362.6 million increase in

teacher retirement benefits. In business-type activities, there was a \$440.4 million increase in lottery expenses and a \$2.1 billion 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

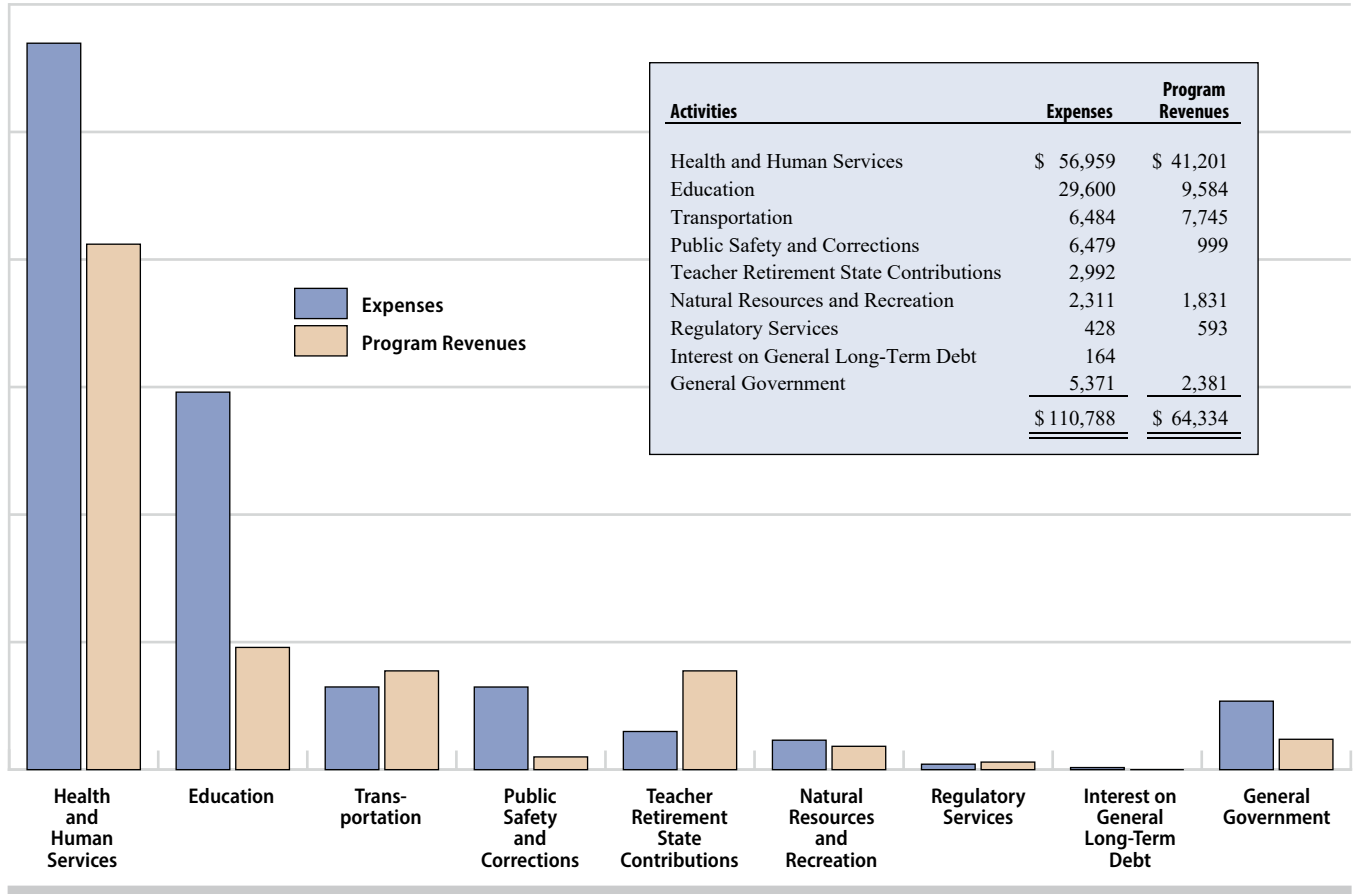
For the Fiscal Years Ended August 31, 2019 and 2018
(Amounts in Thousands)

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|--|-------------------------|----------------------|--------------------------|----------------------|--------------------------|----------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| REVENUES | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 11,897,016 | \$ 11,905,492 | \$ 27,167,583 | \$ 25,490,336 | \$ 39,064,599 | \$ 37,395,828 |
| Operating Grants and Contributions | 52,316,910 | 52,302,464 | 9,842,091 | 15,301,199 | 62,159,001 | 67,603,663 |
| Capital Grants and Contributions | 120,099 | 64,179 | 331,469 | 289,553 | 451,568 | 353,732 |
| Total Program Revenues | <u>64,334,025</u> | <u>64,272,135</u> | <u>37,341,143</u> | <u>41,081,088</u> | <u>101,675,168</u> | <u>105,353,223</u> |
| General Revenues: | | | | | | |
| Taxes | 59,322,452 | 55,962,771 | | | 59,322,452 | 55,962,771 |
| Unrestricted Investment Earnings | 1,174,955 | 724,302 | 156,819 | 79,105 | 1,331,774 | 803,407 |
| Settlement of Claims | 656,055 | 560,556 | 2,066 | 16,368 | 658,121 | 576,924 |
| Gain on Sale of Capital Assets | 8,030 | 2,178 | 3 | 1,706 | 8,033 | 3,884 |
| Loss on Other Financial Activity | (1,348) | | | | (1,348) | |
| Other General Revenues | 3,543,038 | 2,917,718 | 145,227 | 169,986 | 3,688,265 | 3,087,704 |
| Total General Revenues | <u>64,703,182</u> | <u>60,167,525</u> | <u>304,115</u> | <u>267,165</u> | <u>65,007,297</u> | <u>60,434,690</u> |
| Total Revenues | <u>129,037,207</u> | <u>124,439,660</u> | <u>37,645,258</u> | <u>41,348,253</u> | <u>166,682,465</u> | <u>165,787,913</u> |
| EXPENSES | | | | | | |
| General Government | 5,371,436 | (2,598,195) | 179,604 | 152,487 | 5,551,040 | (2,445,708) |
| Education | 29,599,638 | 28,653,616 | 32,919,256 | 30,864,744 | 62,518,894 | 59,518,360 |
| Teacher Retirement State Contributions | 2,991,655 | 2,629,099 | | | 2,991,655 | 2,629,099 |
| Health and Human Services | 56,958,226 | 57,710,097 | 2,072,611 | 2,243,354 | 59,030,837 | 59,953,451 |
| Public Safety and Corrections | 6,479,379 | 6,473,778 | 109,443 | 102,806 | 6,588,822 | 6,576,584 |
| Transportation | 6,484,481 | 6,262,684 | 559,047 | 491,228 | 7,043,528 | 6,753,912 |
| Natural Resources and Recreation | 2,311,393 | 2,180,408 | 538,560 | 417,762 | 2,849,953 | 2,598,170 |
| Regulatory Services | 427,790 | 398,150 | | | 427,790 | 398,150 |
| Interest on General Long-Term Debt | 164,480 | 155,172 | | | 164,480 | 155,172 |
| Lottery | | | 4,621,619 | 4,181,178 | 4,621,619 | 4,181,178 |
| Total Expenses | <u>110,788,478</u> | <u>101,864,809</u> | <u>41,000,140</u> | <u>38,453,559</u> | <u>151,788,618</u> | <u>140,318,368</u> |
| Excess (Deficiency) Before Contributions and Transfers | <u>18,248,729</u> | <u>22,574,851</u> | <u>(3,354,882)</u> | <u>2,894,694</u> | <u>14,893,847</u> | <u>25,469,545</u> |
| Capital Contributions | 767 | 93,354 | 61,561 | 41,343 | 62,328 | 134,697 |
| Contributions to Permanent and Term Endowments | (9,616) | (11,010) | | | (9,616) | (11,010) |
| Transfers | (5,367,035) | (5,043,006) | 276,276 | 255,688 | 276,276 | 255,688 |
| Change in Net Position | <u>12,872,845</u> | <u>17,614,189</u> | <u>2,349,990</u> | <u>8,234,731</u> | <u>15,222,835</u> | <u>25,848,920</u> |
| Net Position, Beginning Balance | 33,004,172 | 101,923,529 | 66,533,931 | 65,762,124 | 99,538,103 | 167,685,653 |
| Restatements | 346,153 | (86,533,546) | (26,661) | (7,462,924) | 319,492 | (93,996,470) |
| Net Position, Beginning Balance, as Restated | <u>33,350,325</u> | <u>15,389,983</u> | <u>66,507,270</u> | <u>58,299,200</u> | <u>99,857,595</u> | <u>73,689,183</u> |
| Net Position, Ending Balance | <u>\$ 46,223,170</u> | <u>\$ 33,004,172</u> | <u>\$ 68,857,260</u> | <u>\$ 66,533,931</u> | <u>\$ 115,080,430</u> | <u>\$ 99,538,103</u> |

Expenses and Program Revenues: Governmental Activities

Graph MDA-3

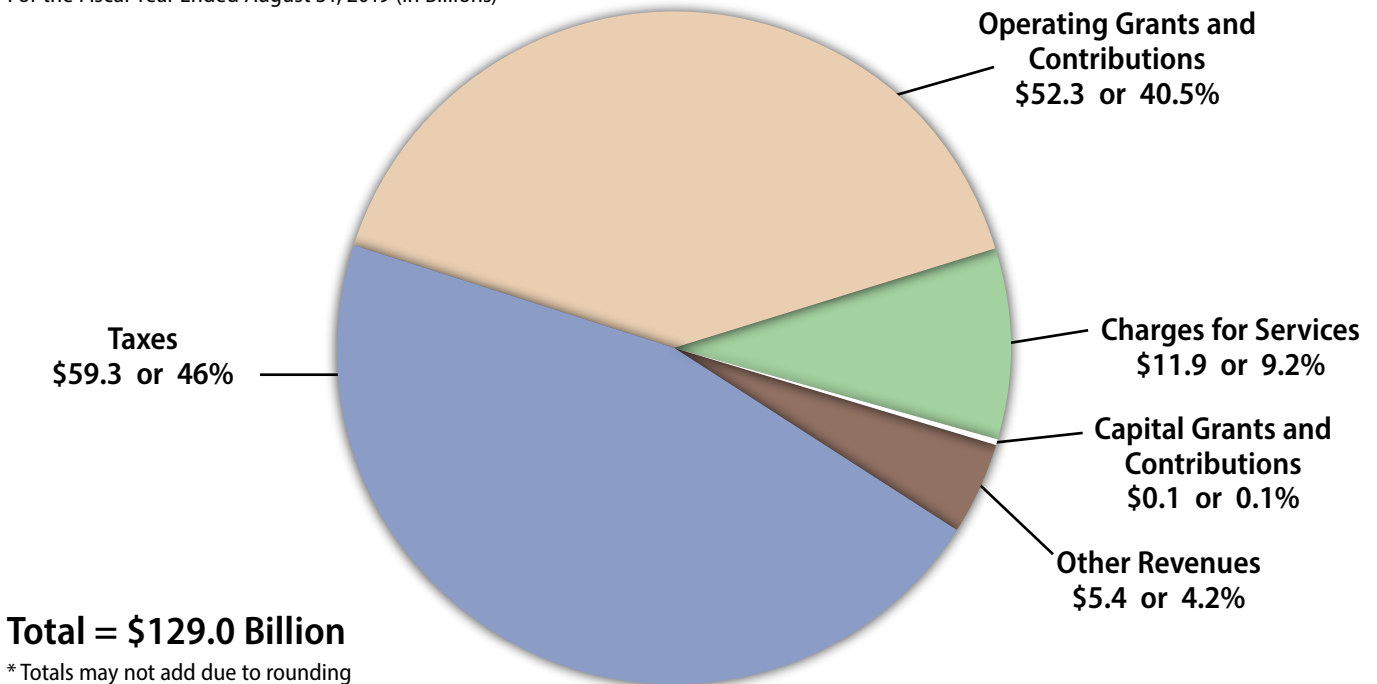
For the Fiscal Year Ended August 31, 2019 (In Millions)



Revenue by Source: Governmental Activities

Graph MDA-4

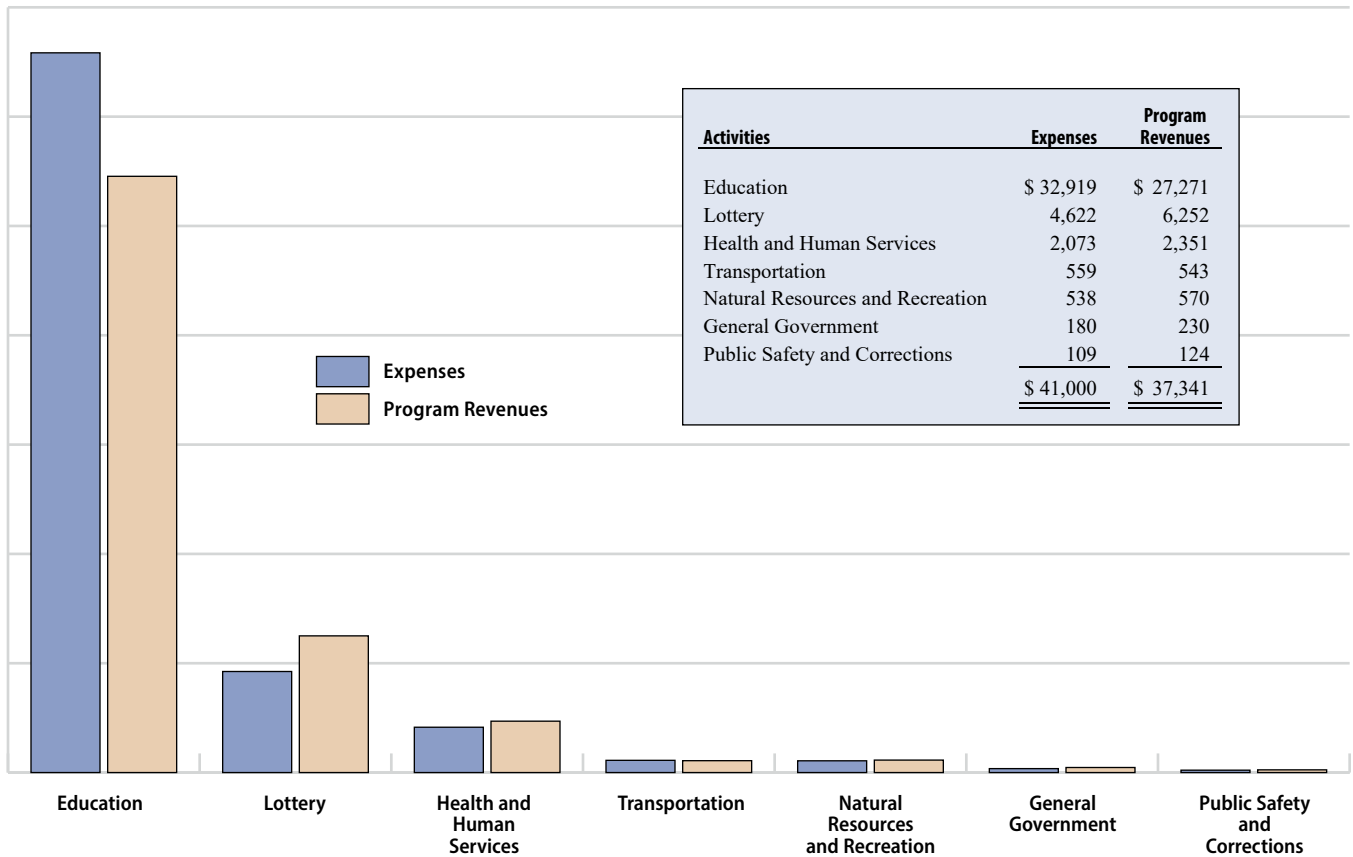
For the Fiscal Year Ended August 31, 2019 (In Billions)*



Expenses and Program Revenues: Business-Type Activities

Graph MDA-5

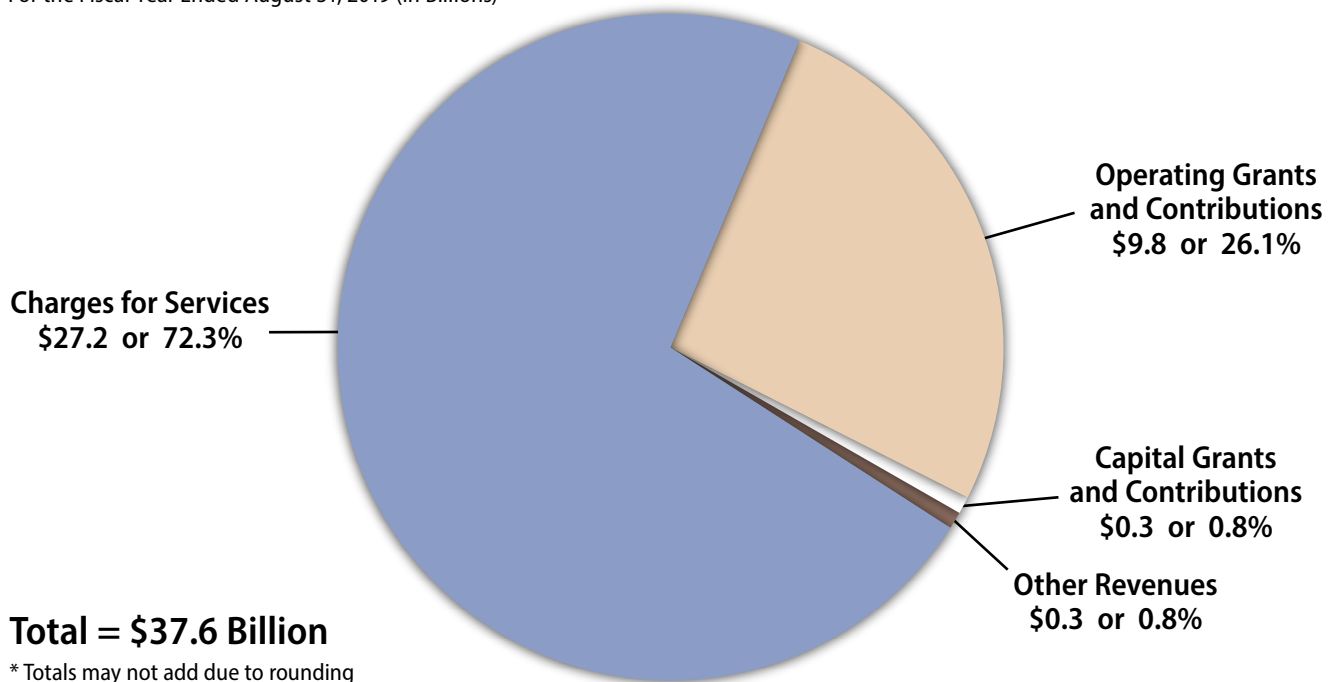
For the Fiscal Year Ended August 31, 2019 (In Millions)



Revenue by Source: Business-Type Activities

Graph MDA-6

For the Fiscal Year Ended August 31, 2019 (In Billions)*



Governmental Activities

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 \$120.1 million. The largest change, a \$55.9 million increase, was for capital grants and contributions. Taxes had increases of \$3.4 billion from general revenue sources, with the largest increase attributed to sales and use tax revenue.

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

Table MDA-7

For the Fiscal Year Ended August 31, 2019
(Amounts in Thousands)

| | Total Cost of Services | Net Cost (Income) of Services |
|--|---------------------------|-------------------------------------|
| General Government | \$ 5,371,436 | \$ 2,990,857 |
| Education | 29,599,638 | 20,014,835 |
| Teacher Retirement State Contributions | 2,991,655 | 2,991,655 |
| Health and Human Services | 56,958,226 | 15,756,713 |
| Public Safety and Corrections | 6,479,379 | 5,480,458 |
| Transportation | 6,484,481 | (1,260,321) |
| Natural Resources and Recreation | 2,311,393 | 480,629 |
| Regulatory Services | 427,790 | (164,853) |
| Interest on General Long-Term Debt | 164,480 | 164,480 |
| Total | <u>\$ 110,788,478</u> | <u>\$ 46,454,453</u> |

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

Table MDA-8

For the Fiscal Year Ended August 31, 2019
(Amounts in Thousands)

| | Total Cost of Services | Net Cost (Income) of Services |
|----------------------------------|---------------------------|-------------------------------------|
| General Government | \$ 179,604 | \$ (50,289) |
| Education | 32,919,256 | 5,648,192 |
| Health and Human Services | 2,072,611 | (277,723) |
| Public Safety and Corrections | 109,443 | (14,808) |
| Transportation | 559,047 | 15,744 |
| Natural Resources and Recreation | 538,560 | (31,391) |
| Lottery | 4,621,619 | (1,630,728) |
| Total | <u>\$ 41,000,140</u> | <u>\$ 3,658,997</u> |

Governmental activities expenses were \$110.8 billion. All functions of governmental activities in the government-wide statement of activities have a net cost, except the transportation and regulatory functions which reported slight surpluses. The education function and the health and human services function account for 78.1 percent of governmental activities expenses and 77 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 \$37.3 billion, including charges for services of \$27.2 billion, operating grants and contributions of \$9.8 billion and capital grants and contributions of \$331.5 million. The total expenses for business-type activities were \$41 billion. The largest changes occurred in education, with a \$2.1 billion increase for colleges and universities, and in lottery, with an increase of \$440.4 million. There was an increase in net position in the government's business-type activities of \$2.3 billion from \$66.5 billion in fiscal 2018.

Financial Analysis of the State's Funds

Governmental Funds

As of Aug. 31, 2019, governmental funds reported fund balances of \$79.9 billion. The general fund reported a positive \$16.3 billion fund balance.

General Fund

The fund balance for the general fund as of Aug. 31, 2019, was \$16.3 billion, an increase of \$3.1 billion from fiscal 2018, mostly due to increases in revenues. Tax revenues increased by \$2.7 billion from fiscal 2018. Also, interest and other investment income and land income revenues increased by \$429.2 million and \$13.2

million, respectively. The state constitution, state statute and federal rule or bond covenants constrain \$7.2 billion. The unassigned fund balance was \$9 billion, which includes \$11.7 billion in the economic stabilization fund, commonly called “the rainy day fund.”

State Highway Fund

The fund balance for the state highway fund for fiscal 2019, was \$9.3 billion, an increase of \$1.8 billion from \$7.4 billion from fiscal 2018. Cash and cash equivalents increased \$3.2 billion as unearned revenues decreased \$61.3 million. Interest and other investment income totaled \$145.3 million, an increase of \$71.3 million from fiscal 2018.

Permanent School Fund

The fund balance for the permanent school fund (PSF) as of Aug. 31, 2019, totaled \$46.5 billion, an increase of \$2.4 billion from fiscal 2018. This increase was primarily attributable to an increase in valuation of investments of \$2.1 billion. Value in the fund provided \$1.5 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 2019, a total of \$84.4 billion in school district bond issues were guaranteed at year-end.

Proprietary Funds

Proprietary funds reported net position of \$68.9 billion in fiscal 2019, an increase of \$2.3 billion from fiscal 2018. The state’s public colleges and universities hold 87.3 percent of the reported net position in proprietary funds.

Colleges and Universities

Colleges and universities’ net position for fiscal 2019, totaled \$60.1 billion, an increase of \$1.1 billion

from fiscal 2018. Hospital revenue and professional fees discounts and allowances decreased by \$951.7 million and \$655.4 million, respectively for fiscal 2019. Salaries and wages increased by \$768 million and material and supplies increased by \$475.8 million for fiscal 2019. These revenues and expenses primarily contributed to the net loss before capital contributions, endowments and transfers decrease of \$6.5 billion from fiscal 2018. Change in net position decreased by \$6.3 billion or negative 84.5 percent for fiscal 2019. 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 \$953 million from \$21.9 billion in fiscal 2018 to \$22.8 billion in fiscal 2019. 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 fund reported a net position of \$2.3 billion for fiscal 2019, an increase of \$457.6 million from \$1.9 billion from the prior fiscal year. During fiscal 2019, unemployment taxes collected decreased by \$117.2 million from \$2.4 billion in 2018. The unemployment rate was 3.4 percent. Unemployment benefits paid for fiscal 2019 totaled \$2.1 billion, which represents a decrease of \$170.7 million or negative 7.6 percent as compared to fiscal 2018.

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 \$29.3 million for fiscal 2019, an increase of \$21.4 million from the prior fiscal year. There was

an increase in interest and investment income of \$54.8 million due to the change in the market value of investments. Transfers to state agencies totaled \$1.6 billion. The Commission recorded its highest level of total sales since ticket sales began in 1992 with collections of \$6.3 billion.

Fiduciary Funds

Fiduciary funds reported \$217.1 billion in net position for fiscal 2019, an increase of \$8.5 billion from \$208.6 billion in fiscal 2018, a 4.1 percent increase.

Pension and Other Employee Benefit Trust Funds

Total net position for pension and other employee benefit trust funds was \$188.3 billion for fiscal 2019, an increase of \$3.2 billion from the \$185.2 billion reported in fiscal 2018. The majority of plan assets are held as investments for the pension funds. In fiscal 2019, additions from all sources decreased by \$5.1 billion, while benefit payments increased by \$1 billion. The year was characterized by exceptional returns from US Treasuries as well as the US dollar, while moderate returns from US equities outperformed international equities, which contracted amidst moderately slowing global growth expectations and inflation. 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 5.2 percent and 3 percent, respectively, compared to the previous year's returns of 8.2 percent and 9.6 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 \$25 billion in fiscal 2019, an increase of \$5 billion from fiscal 2018. The increase in net position is pri-

marily due to an increase in both TexPool and TexPool Prime investment balances.

Private-Purpose Trust Funds

Total net position for private-purpose trust funds was \$3.8 billion in fiscal 2019, an increase of \$292 million from fiscal 2018. Additions from all sources of \$829.7 million exceeded total deductions of \$537.6 million. The net increase of \$292 million is an increase of 17.3 percent from the net increase of \$249 million in fiscal 2018.

Budgetary Highlights

Variations 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 \$6 billion.

There was a positive \$1.6 billion variance between the actual and final budget revenues. The largest negative revenue variances occurred with sales of goods and services and other revenue, which reported a \$1.3 billion and \$867.6 million difference, respectively.

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

Capital Assets and Debt Administration

Capital Assets

For fiscal 2019, the state has \$152.1 billion in net capital assets. This total represents an increase of \$7.7 billion in total capital assets or 5.3 percent from fiscal 2018. Included in this amount are increases to infrastructure of \$5.5 billion by the Texas Department of

Capital Assets – Net of Depreciation and Amortization

Table MDA-9

August 31, 2019 and 2018
(Amounts In Thousands)

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|-------------------------------------|-------------------------|----------------------|--------------------------|----------------------|--------------------------|----------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Land and Land Improvements | \$ 15,142,934 | \$ 14,228,715 | \$ 2,344,988 | \$ 2,221,174 | \$ 17,487,922 | \$ 16,449,889 |
| Infrastructure | 78,683,576 | 74,987,729 | 3,006,058 | 2,966,405 | 81,689,634 | 77,954,134 |
| Construction in Progress | 19,507,418 | 18,587,042 | 3,942,271 | 4,355,328 | 23,449,689 | 22,942,370 |
| Buildings and Building Improvements | 1,814,147 | 1,853,839 | 20,508,878 | 18,491,474 | 22,323,025 | 20,345,313 |
| Facilities and Other Improvements | 70,445 | 65,695 | 1,900,030 | 1,861,346 | 1,970,475 | 1,927,041 |
| Furniture and Equipment | 260,663 | 273,398 | 2,052,763 | 1,866,371 | 2,313,426 | 2,139,769 |
| Vehicles, Boats and Aircraft | 580,417 | 510,802 | 84,071 | 85,636 | 664,488 | 596,438 |
| Other Capital Assets | 194,418 | 157,657 | 1,517,239 | 1,452,446 | 1,711,657 | 1,610,103 |
| Intangible Capital Assets, Net | 111,186 | 120,020 | 341,079 | 315,638 | 452,265 | 435,658 |
| Total Capital Assets | <u>\$116,365,204</u> | <u>\$110,784,897</u> | <u>\$ 35,697,377</u> | <u>\$ 33,615,818</u> | <u>\$152,062,581</u> | <u>\$144,400,715</u> |

Transportation (TxDOT). Institutions of higher education also added \$3.5 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 \$17.8 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 Bank Ratings Agency as of August 2019. During fiscal 2019, Texas' state agencies and institutions of higher education issued \$5.9 billion in state bonds to finance new construction, transportation, housing, water conservation and treatment and other projects. General obligation debt accounted for \$1.3 billion of state bonds issued in fiscal 2019. This debt, which can only be authorized by a constitutional amendment, carries the full faith and credit of the state. The remaining \$4.6 billion is due to new issuances of revenue bonds, which are serviced by the revenue flows of individual entity projects. Bonds retired during the fiscal year were composed of \$795.2 million in general obligation bonds and \$1.2 billion in revenue bonds. Also, \$840.4 million in general obligation bonds and \$820.5 million in revenue bonds were refunded. The total outstanding general obligation debt of the state after new issuances, retirements and refundings as of Aug. 31, 2019 was \$19.4 billion. This represents a decrease of \$446.5 million or negative 2.3 percent from fiscal 2018. An

Outstanding Bonded Debt

Table MDA-10

August 31, 2019 and 2018
(Amounts in Thousands)

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|-----------------------------------|-------------------------|---------------------|--------------------------|---------------------|--------------------------|---------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| General Obligation Bonds | \$14,975,560 | \$15,416,099 | \$3,978,259 | \$4,409,919 | \$18,953,819 | \$19,826,018 |
| General Obligation Bonds – | | | | | | |
| Direct Placements | 286,913 | | 138,825 | | 425,738 | |
| Revenue Bonds | 4,356,052 | 4,495,617 | 32,347,964 | 29,967,142 | 36,704,016 | 34,462,759 |
| Revenue Bonds – Direct Placements | 150,000 | | 511,897 | | 661,897 | |
| Total Bonds Payable | <u>\$19,768,525</u> | <u>\$19,911,716</u> | <u>\$36,976,945</u> | <u>\$34,377,061</u> | <u>\$56,745,470</u> | <u>\$54,288,777</u> |

additional \$10.2 billion of general obligation bonds were authorized but are unissued. Total revenue bonds outstanding were \$37.4 billion, which is an increase of \$2.9 billion or 8.4 percent from fiscal 2018. 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 2018 to November 2019 the Texas economy added 336,700 nonfarm jobs, an increase of 2.7 percent, to reach 12,951,400. Private-sector employment rose by 3 percent while government employment (federal, state and local) grew by 0.8 percent. Texas added more new jobs than any other state over the twelve-month period ending November 2019 and had the third lowest unemployment rate among

the 10 most populous states at the end of that period (behind Florida and Georgia). The state's rate of job growth was the highest among the 10 most populous states and the second highest among all states (behind Utah).

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.