

---

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, 2020. Use this section in conjunction with the state's basic financial statements. Comparative data is presented for this 2020 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 \$117.1 billion as of Aug. 31, 2020, an increase of \$2 billion or positive 1.8 percent from fiscal 2019. The majority of the increase is primarily due to an increase of \$13.1 billion in net investment in capital assets. The net position is comprised of \$107.3 billion in net investment in capital assets, \$119.1 billion in restricted and negative \$109.3 billion in unrestricted.

### Fund Level

#### *Governmental Funds*

As of Aug. 31, 2020, the state's governmental funds reported a combined ending fund balance of \$80.7 billion, an increase of \$778.7 million from fiscal 2019, primarily due to increases in expenses related to COVID-19. The state reported a positive unassigned fund balance of \$7 billion in fiscal 2020.

#### *Proprietary Funds*

The proprietary funds reported a net position of \$66.5 billion as of Aug. 31, 2020, a decrease of \$2.3 billion or 3.4 percent from fiscal 2019, primarily due to increases in payroll related costs and materials and supplies expenses.

## Long-Term Debt

The state's total bonds outstanding increased by \$3 billion or 5.2 percent during fiscal 2020. This amount represents the net difference between net issuances, payments and refunding of outstanding bond debt. During fiscal 2020, the state issued bonds totaling \$11.1 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 22 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

Total assets of the state were \$380.4 billion, an increase of \$24.3 billion or 6.8 percent from fiscal 2019. Total liabilities of the state were \$250.3 billion, an increase of \$27.6 billion or 12.4 percent from fiscal 2019. Cash and cash equivalents increased by \$5.2 billion in governmental activities and increased by \$20 million in business-type activities from fiscal 2019. There was a \$2.7 billion increase in federal receivables primarily due to COVID-19 related funding. There was a \$3.6 billion increase in short-term debt primarily related to paid state benefits. The state's bonded indebtedness was \$59.7 billion, which included new issuances of \$11.1 billion in state bonds to finance new construction, housing, water conservation and other projects. Approximately \$8.1 billion in bonded debt was retired or refunded. Net position was \$117.1 billion in fiscal 2020, an increase of \$2 billion or positive 1.8

percent. Of the state's net position, \$107.3 billion was net investment in capital assets, while \$119.1 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 \$109.3 billion. The majority of the net position increase is primarily due to an increase of \$13.1 billion in net investment of capital assets.

### Changes in Net Position

The state's net position for fiscal 2020 increased by \$2 billion. The state earned program revenues of \$136.7 billion and general revenues of \$63.1 billion, for total revenues of \$199.8 billion, an increase of \$33.1 billion or 19.8 percent from fiscal 2019. The major components of this increase were operating grants and contributions, which had an increase of \$35.3 billion, and tax revenues, with a decrease of \$2.1 billion. Federal revenues increased by \$32.7 billion and interest and investment income increased by \$1.5 billion.

<b>Statement of Net Position</b>						
<b>Table MDA-1</b>						
August 31, 2020 and 2019 (Amounts in Thousands)						
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>ASSETS</b>						
Assets Other Than Capital Assets	\$ 105,451,724	\$ 95,939,505	\$ 114,969,314	\$ 108,017,842	\$ 220,421,038	\$ 203,957,347
Capital Assets	123,261,599	116,365,204	36,678,984	35,697,377	159,940,583	152,062,581
Total Assets	<u>228,713,323</u>	<u>212,304,709</u>	<u>151,648,298</u>	<u>143,715,219</u>	<u>380,361,621</u>	<u>356,019,928</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>27,619,099</u>	<u>19,794,406</u>	<u>7,945,787</u>	<u>7,957,438</u>	<u>35,564,886</u>	<u>27,751,844</u>
<b>LIABILITIES</b>						
Current Liabilities	22,815,011	16,169,637	21,667,576	15,335,543	44,482,587	31,505,180
Noncurrent Liabilities	139,455,997	128,388,163	66,311,781	62,749,375	205,767,778	191,137,538
Total Liabilities	<u>162,271,008</u>	<u>144,557,800</u>	<u>87,979,357</u>	<u>78,084,918</u>	<u>250,250,365</u>	<u>222,642,718</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>43,489,481</u>	<u>41,318,145</u>	<u>5,081,490</u>	<u>4,730,479</u>	<u>48,570,971</u>	<u>46,048,624</u>
<b>NET POSITION</b>						
Net Investment in Capital Assets	93,692,079	80,632,585	13,648,465	13,571,180	107,340,544	94,203,765
Restricted	65,318,313	63,001,887	53,737,569	53,629,080	119,055,882	116,630,967
Unrestricted	<u>(108,438,459)</u>	<u>(97,411,302)</u>	<u>(852,796)</u>	<u>1,657,000</u>	<u>(109,291,255)</u>	<u>(95,754,302)</u>
Total Net Position	<u>\$ 50,571,933</u>	<u>\$ 46,223,170</u>	<u>\$ 66,533,238</u>	<u>\$ 68,857,260</u>	<u>\$ 117,105,171</u>	<u>\$ 115,080,430</u>

## Changes in Net Position

Table MDA-2

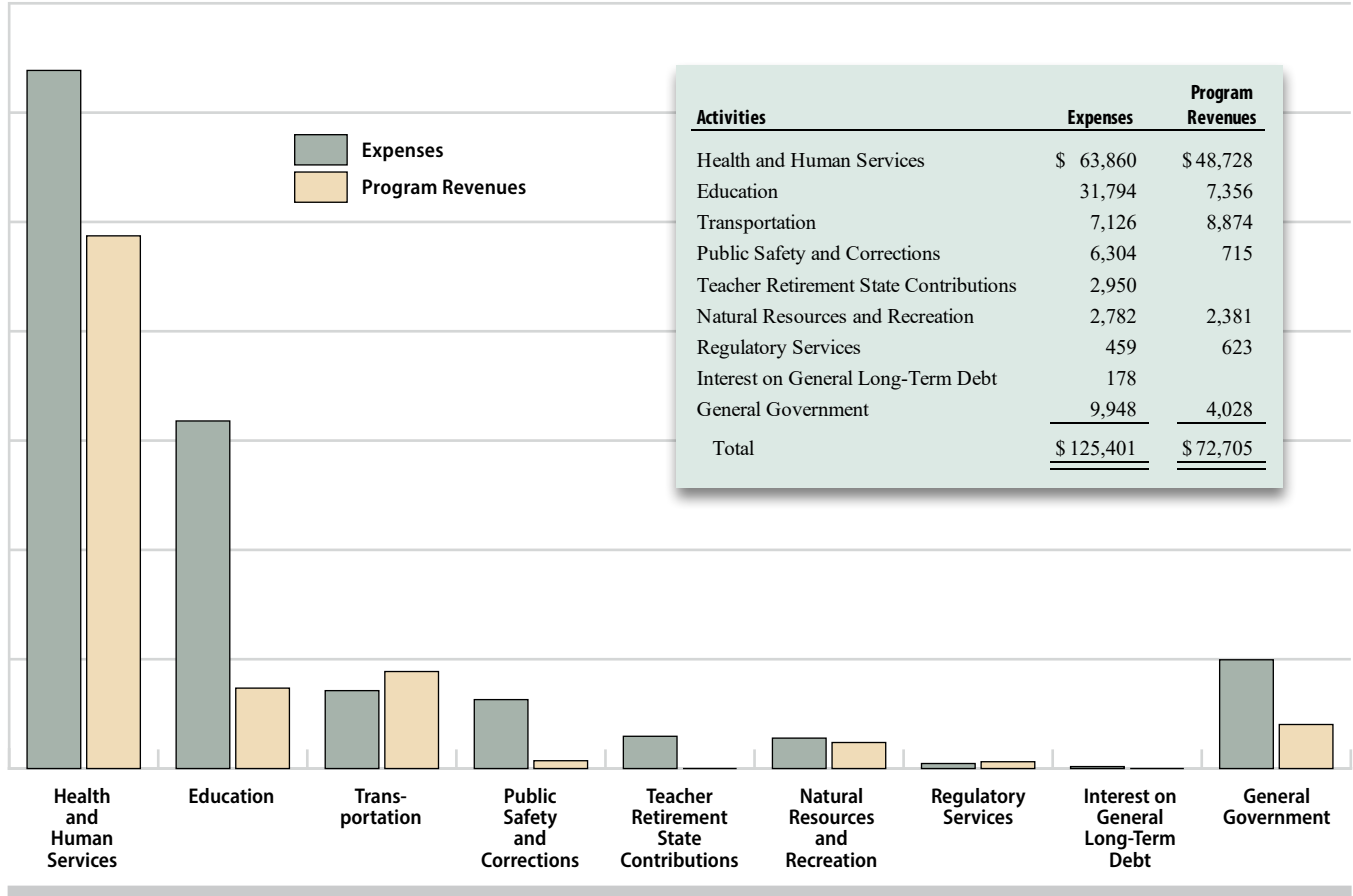
For the Fiscal Years Ended August 31, 2020 and 2019 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
<b>REVENUES</b>						
Program Revenues						
Charges for Services	\$ 11,953,920	\$ 11,897,016	\$ 27,051,085	\$ 27,167,583	\$ 39,005,005	\$ 39,064,599
Operating Grants and Contributions	60,708,011	52,316,910	36,746,088	9,842,091	97,454,099	62,159,001
Capital Grants and Contributions	42,946	120,099	154,756	331,469	197,702	451,568
Total Program Revenues	<u>72,704,877</u>	<u>64,334,025</u>	<u>63,951,929</u>	<u>37,341,143</u>	<u>136,656,806</u>	<u>101,675,168</u>
General Revenues						
Taxes	57,261,681	59,322,452			57,261,681	59,322,452
Unrestricted Investment Earnings	1,030,582	1,174,955	178,862	156,819	1,209,444	1,331,774
Settlement of Claims	657,400	656,055	4,118	2,066	661,518	658,121
Gain on Sale of Capital Assets	20,800	8,030	140	3	20,940	8,033
Loss on Other Financial Activity	(1,675)	(1,348)			(1,675)	(1,348)
Other General Revenues	3,573,380	3,543,038	386,140	145,227	3,959,520	3,688,265
Total General Revenues	<u>62,542,168</u>	<u>64,703,182</u>	<u>569,260</u>	<u>304,115</u>	<u>63,111,428</u>	<u>65,007,297</u>
Total Revenues	<u>135,247,045</u>	<u>129,037,207</u>	<u>64,521,189</u>	<u>37,645,258</u>	<u>199,768,234</u>	<u>166,682,465</u>
<b>EXPENSES</b>						
General Government	9,948,097	5,371,436	186,293	179,604	10,134,390	5,551,040
Education	31,793,760	29,599,638	36,807,305	32,919,256	68,601,065	62,518,894
Teacher Retirement State Contributions	2,949,854	2,991,655			2,949,854	2,991,655
Health and Human Services	63,859,992	56,958,226	30,138,406	2,072,611	93,998,398	59,030,837
Public Safety and Corrections	6,304,563	6,479,379	106,944	109,443	6,411,507	6,588,822
Transportation	7,126,211	6,484,481	593,048	559,047	7,719,259	7,043,528
Natural Resources and Recreation	2,781,955	2,311,393	534,504	538,560	3,316,459	2,849,953
Regulatory Services	458,795	427,790			458,795	427,790
Lottery			5,022,653	4,621,619	5,022,653	4,621,619
Interest on General Long-Term Debt	177,588	164,480			177,588	164,480
Total Expenses	<u>125,400,815</u>	<u>110,788,478</u>	<u>73,389,153</u>	<u>41,000,140</u>	<u>198,789,968</u>	<u>151,788,618</u>
Excess (Deficiency) Before Contributions, Special Items and Transfers						
	<u>9,846,230</u>	<u>18,248,729</u>	<u>(8,867,964)</u>	<u>(3,354,882)</u>	<u>978,266</u>	<u>14,893,847</u>
Capital Contributions	2,630	767	21,015	61,561	23,645	62,328
Contributions to Permanent and Term Endowments			207,888	276,276	207,888	276,276
Distributions from Permanent Fund Principal Special Items	(11,801)	(9,616)	698		(11,801)	(9,616)
Transfers - Internal Activities	(6,316,901)	(5,367,035)	6,316,901	5,367,035	698	
Change in Net Position	<u>3,520,158</u>	<u>12,872,845</u>	<u>(2,321,462)</u>	<u>2,349,990</u>	<u>1,198,696</u>	<u>15,222,835</u>
Net Position, Beginning Balance	46,223,170	33,004,172	68,857,260	66,533,931	115,080,430	99,538,103
Restatements	828,605	346,153	(2,560)	(26,661)	826,045	319,492
Net Position, Beginning Balance, as Restated	<u>47,051,775</u>	<u>33,350,325</u>	<u>68,854,700</u>	<u>66,507,270</u>	<u>115,906,475</u>	<u>99,857,595</u>
Net Position, Ending Balance	<u>\$ 50,571,933</u>	<u>\$ 46,223,170</u>	<u>\$ 66,533,238</u>	<u>\$ 68,857,260</u>	<u>\$ 117,105,171</u>	<u>\$ 115,080,430</u>

## Expenses and Program Revenues: Governmental Activities

Graph MDA-3

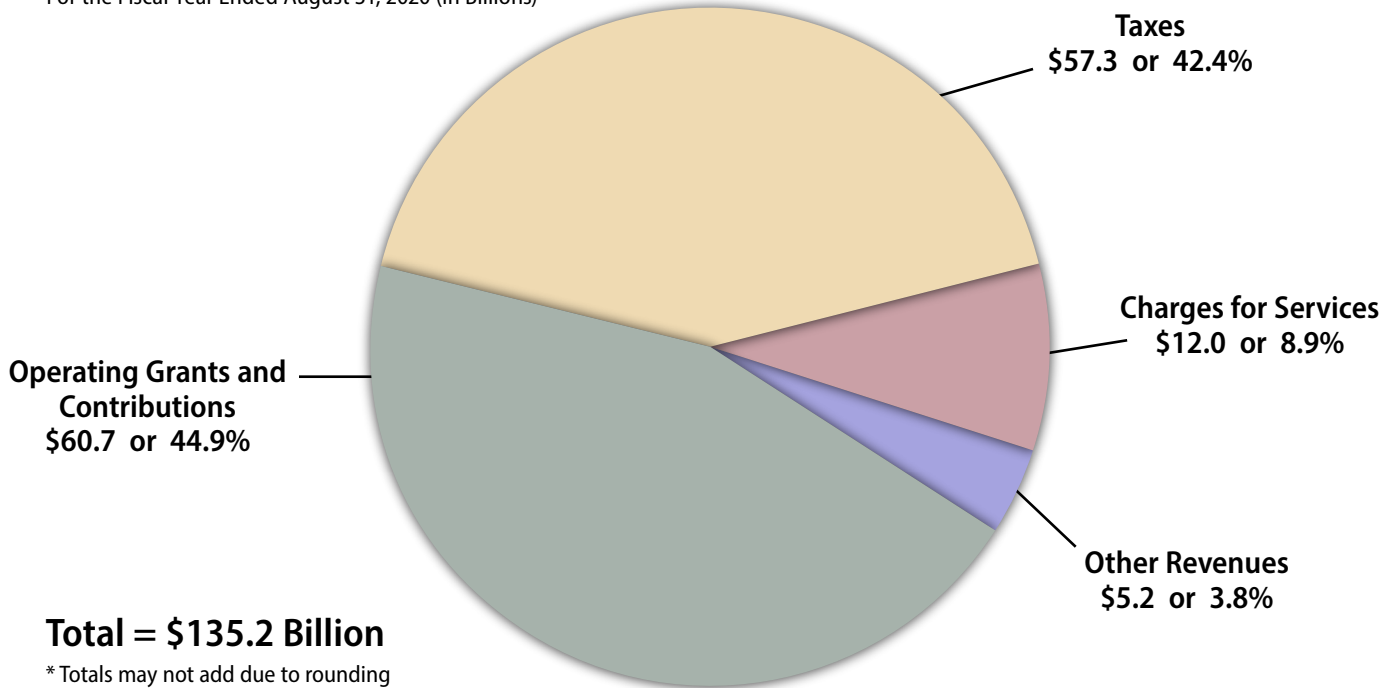
For the Fiscal Year Ended August 31, 2020 (In Millions)



## Revenue by Source: Governmental Activities

Graph MDA-4

For the Fiscal Year Ended August 31, 2020 (In Billions)\*

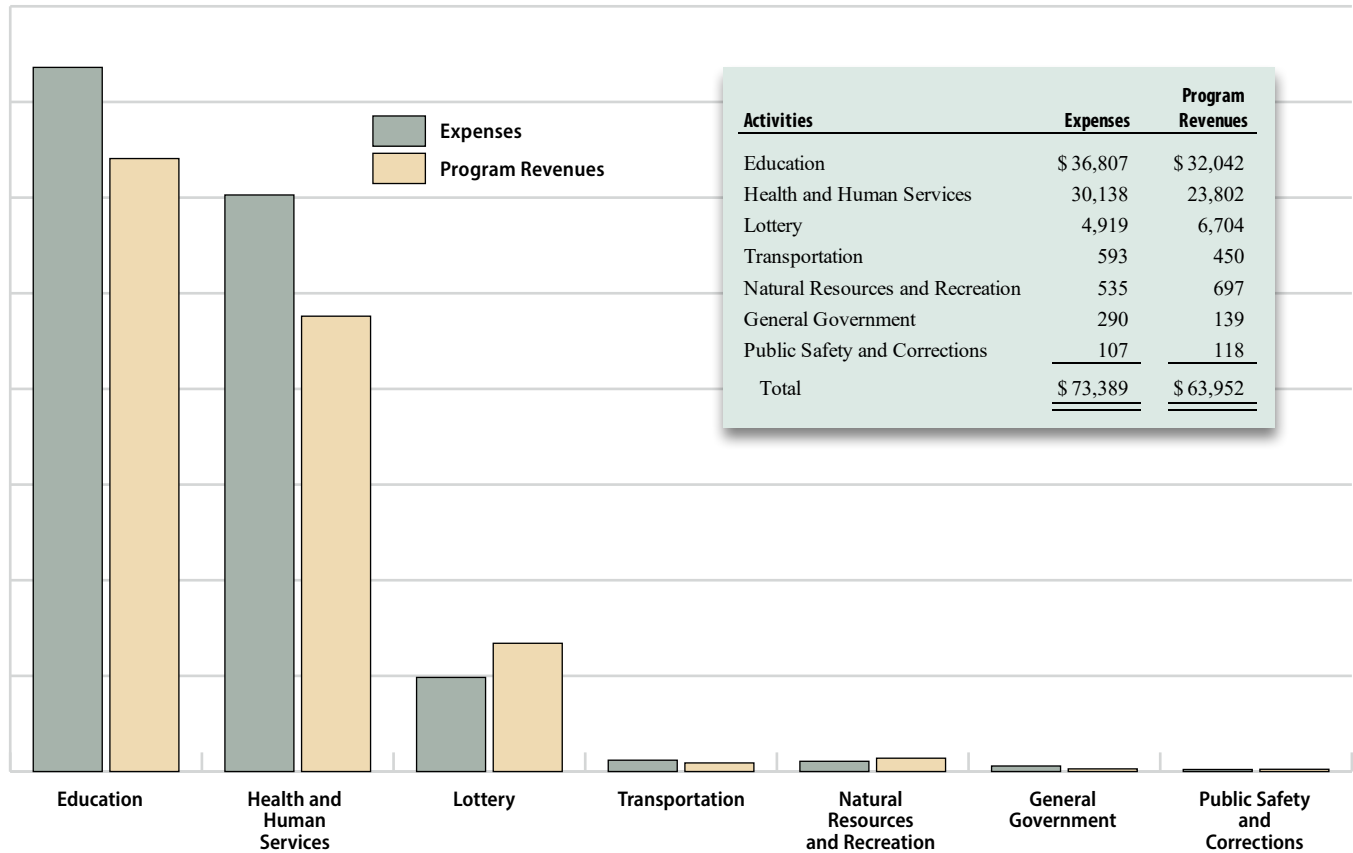




## Expenses and Program Revenues: Business-Type Activities

Graph MDA-5

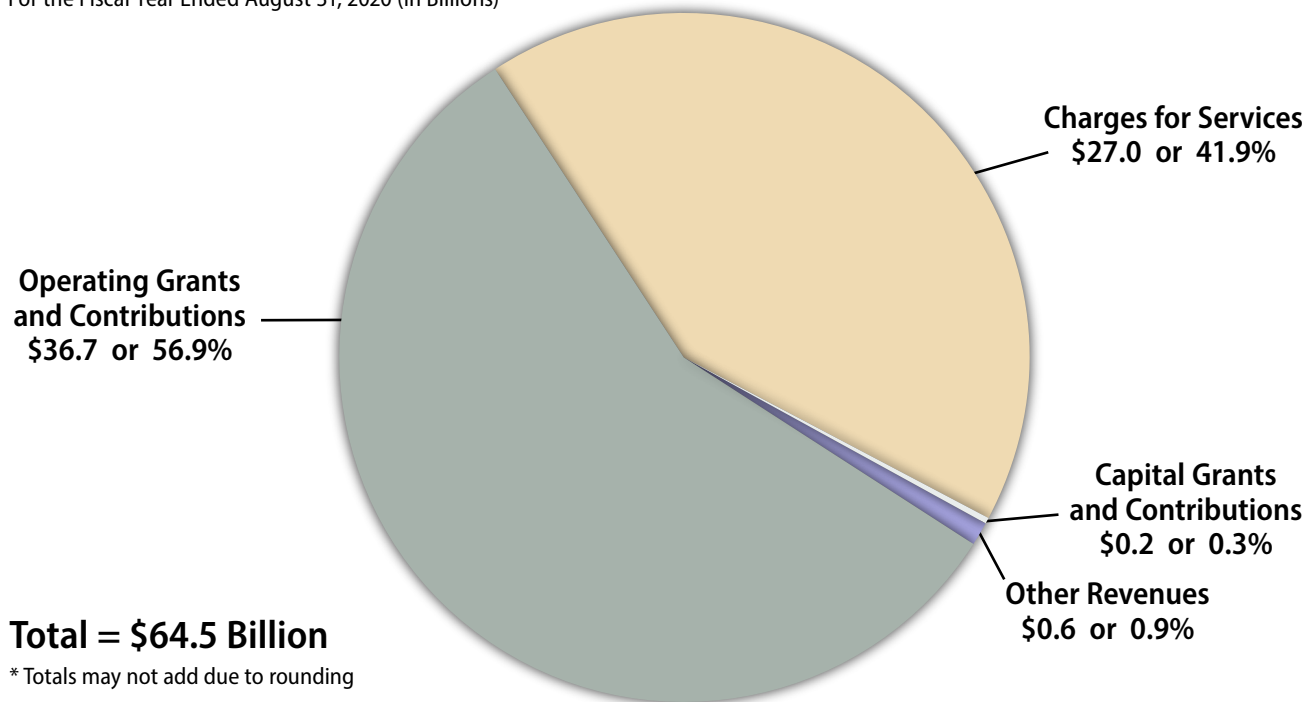
For the Fiscal Year Ended August 31, 2020 (In Millions)



## Revenue by Source: Business-Type Activities

Graph MDA-6

For the Fiscal Year Ended August 31, 2020 (In Billions)\*



The expenses of the state were \$198.8 billion, an increase of \$47 billion or positive 31 percent from fiscal 2019. The expense fluctuations in governmental activities are largely attributable to a \$4.6 billion increase in general government and a \$6.9 billion increase in health in human services. In business-type activities, there was a \$28.1 billion increase in health and human services and a \$3.9 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.

### Governmental Activities

Governmental activities program revenue was \$72.7 billion, including charges for services of \$12 billion, operating grants and contributions of \$60.7 billion and

capital grants and contributions of \$42.9 million. Total program revenues increased by \$8.4 billion for fiscal 2020. Taxes had decreases of \$2.1 billion from general revenue sources, with the largest decrease attributed to oil and natural gas production. Governmental activities expenses were \$125.4 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 76.3 percent of governmental activities expenses and 75.1 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.

<b>Net Cost (Income) of the State's Activities</b>				
<b>Table MDA-7</b>				
For the Fiscal Year Ended August 31, 2020 (Amounts in Thousands)				
<b>Services</b>	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	<b>Total Cost</b>	<b>Net Cost (Income)</b>	<b>Total Cost</b>	<b>Net Cost (Income)</b>
General Government	\$ 9,948,097	\$ 5,919,990	\$ 290,201	\$ 150,804
Education	31,793,760	24,437,771	36,807,305	4,765,727
Teacher Retirement State Contributions	2,949,854	2,949,854		
Health and Human Services	63,859,992	15,132,103	30,138,406	6,336,880
Public Safety and Corrections	6,304,563	5,589,866	106,944	(11,299)
Transportation	7,126,211	(1,747,803)	593,048	143,050
Natural Resources and Recreation	2,781,955	400,804	534,504	(162,268)
Regulatory Services	458,795	(164,235)		
Lottery			4,918,745	(1,785,670)
Interest on General Long-Term Debt	177,588	177,588		
<b>Total of Services Provided</b>	<b>\$ 125,400,815</b>	<b>\$ 52,695,938</b>	<b>\$ 73,389,153</b>	<b>\$ 9,437,224</b>

---

## **Business-Type Activities**

Business-type activities generated program revenue of \$64 billion, including charges for services of \$27.1 billion, operating grants and contributions of \$36.7 billion and capital grants and contributions of \$154.8 million. The total expenses for business-type activities were \$73.4 billion. The largest changes occurred in health and human services, with a \$28.1 billion increase and in education with \$3.9 billion increase for colleges and universities. There was a decrease in net position in the government's business-type activities of \$2.3 billion from \$68.9 billion in fiscal 2019.

## **Financial Analysis of the State's Funds**

### **Governmental Funds**

---

As of Aug. 31, 2020, governmental funds reported fund balances of \$80.7 billion. The general fund reported a positive \$16.8 billion fund balance.

#### **General Fund**

The fund balance for the general fund as of Aug. 31, 2020, was \$16.8 billion, a slight increase of \$533 million from fiscal 2019. The state constitution, state statute and federal rule or bond covenants constrains \$9.8 billion, which includes \$11.3 billion in the economic stabilization fund, commonly called "the rainy day fund." The unassigned fund balance was \$7 billion. Contributing to the balance were increases in spending for education and health and human services of \$2.9 billion and \$6.8 billion, respectively, primarily due to COVID-19 related expenses. There were increases in federal revenues of \$8.4 billion. Supplemental Federal Medical Assistance Percentages (FMAP) and Cares Act grants accounted for \$5.7 billion of this increase.

#### **State Highway Fund**

The fund balance for the state highway fund for fiscal 2020, was \$8.8 billion, a decrease of \$445.3 mil-

lion from \$9.3 billion from fiscal 2019. Cash and cash equivalents increased by \$509.9 million as the net change in fund balance decreased by \$2.3 billion.

#### **Permanent School Fund**

The fund balance for the permanent school fund (PSF) as of Aug. 31, 2020, totaled \$46.7 billion, an increase of \$175.2 million from fiscal 2019. This increase was primarily attributable to an increase in valuation of investments of \$1.5 billion. Value in the fund provided \$1.7 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 2020, a total of \$90.3 billion in school district bond issues were guaranteed at year-end.

#### **Proprietary Funds**

---

Proprietary funds reported net position of \$66.5 billion in fiscal 2020, a decrease of \$2.3 billion from fiscal 2019. The state's public colleges and universities hold 95.7 percent of the reported net position in proprietary funds.

#### **Colleges and Universities**

Colleges and universities' net position for fiscal 2020, totaled \$63.7 billion, an increase of \$3.5 billion from fiscal 2019. Federal revenue and other revenues increased by 1.2 billion and \$53.4 million, respectively, for fiscal 2020. Payroll related costs increased by \$1.1 billion and materials and supplies increased by \$1 billion for fiscal 2020. These revenues and expenses primarily contributed to the net loss before capital contributions, endowments and transfers increase of \$1.1 billion from fiscal 2019. Change in Net Position was \$3.5 billion an increase of \$2.4 billion from fiscal 2019. There was also \$771 million 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 \$1.6 billion from \$22.8 billion in fiscal 2019 to \$24.4 billion in fiscal 2020. 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 negative \$3.7 billion for fiscal 2020, a decrease of \$6.1 billion from positive \$2.3 billion from the prior fiscal year. The effects of COVID-19 caused the unemployment rate to fluctuate during the fiscal year. By the end of the fiscal 2020 the unemployment rate stood at 6.8 percent. Unemployment benefits paid for fiscal 2020 totaled \$30.1 billion, which represents a \$28.1 billion increase compared to fiscal 2019. This was due in part by the U.S. Congress passing the \$2.2 trillion CARES Act in response to the COVID-19 pandemic. At fiscal year end, \$3.8 billion in short-term debt was attributed to the fund insolvency related to paid state benefits.

### **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 \$40.4 million for fiscal 2020, an increase of \$11 million from the prior fiscal year. There was a decrease in interest and investment income of \$15 million due to the change in the market value of investments. Transfers to state agencies totaled \$1.7 billion. The Commission recorded its highest level of total sales since ticket sales began in 1992 with collections of \$6.7 billion.

## **Fiduciary Funds**

Fiduciary funds reported \$234.3 billion in net position for fiscal 2020, an increase of \$17.2 billion from \$217.1 billion in fiscal 2019, a 8 percent increase.

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

Total net position for pension and other employee benefit trust funds was \$197.1 billion for fiscal 2020, an increase of \$8.8 billion from the \$188.3 billion reported in fiscal 2019. The majority of plan assets are held as investments for the pension funds. In fiscal 2020, additions from all sources increased by \$5.5 billion, including a \$4.5 billion increase in total net investment income. Total deductions decreased by \$194.8 million from \$16.7 billion in fiscal 2019. The year presented unprecedented investment challenges due to the global COVID-19 pandemic. Despite an adverse impact to the economy, global markets recovered in the final months of fiscal 2020. 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 7.2 percent and 6.9 percent, respectively, compared to the previous year's returns of 5.2 percent and 3 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 \$29.9 billion in fiscal 2020, an increase of \$4.9 billion from fiscal 2019. The increase in net position is primarily 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 \$3.7 billion in fiscal 2020, a net decrease of

\$116.4 million consisting of \$171.3 million increase in net position and a decrease of \$287.7 in restatements of beginning balance from fiscal 2019. Additions from all sources of \$512.1 million exceeded total deductions of \$340.8 million. The net increase of \$171.3 million is a decrease of 41.3 percent from the net increase of \$292 million in fiscal 2019.

### Custodial Funds

Total net position for custodial funds was \$3.7 billion for the fiscal 2020 implementation year. The restatements balance of \$3.6 billion primarily contributed to the total net position due to the implementation of GASB 84 - *Fiduciary Activities*.

## 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 \$17.8 billion.

There was a negative \$1.3 billion variance between the actual and final budget revenues. The largest negative revenue variances occurred with federal, which reported

a \$1.2 billion difference and with sales of goods and services, which also reported a \$1.2 billion difference.

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

## Capital Assets and Debt Administration

### Capital Assets

For fiscal 2020, the state has \$159.9 billion in net capital assets. This total represents an increase of \$7.9 billion in total capital assets or 5.2 percent from fiscal 2019. Included in this amount are increases to infrastructure of \$6.9 billion and construction in progress of \$1.1 billion by the Texas Department of Transportation (TxDOT). Institutions of higher education also added \$2.4 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 \$26.8 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.

## Capital Assets – Net of Depreciation and Amortization

Table MDA-8

For the Fiscal Years Ended August 31, 2020 and 2019 (Amounts in Thousands)

Capital Asset Type	Governmental Activities		Business-Type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Land and Land Improvements	\$ 16,188,572	\$ 15,142,934	\$ 2,377,315	\$ 2,344,988	\$ 18,565,887	\$ 17,487,922
Infrastructure	83,307,851	78,683,576	2,951,642	3,006,058	86,259,493	81,689,634
Construction in Progress	20,788,207	19,507,418	4,012,875	3,942,271	24,801,082	23,449,689
Land Use Rights – Permanent	69,514	66,892	22,917	22,892	92,431	89,784
Buildings and Building Improvements	1,737,214	1,814,147	21,320,550	20,508,878	23,057,764	22,323,025
Facilities and Other Improvements	73,715	70,445	1,899,604	1,900,030	1,973,319	1,970,475
Furniture and Equipment	261,762	260,663	2,123,184	2,052,763	2,384,946	2,313,426
Vehicles, Boats and Aircraft	626,830	580,417	97,245	84,071	724,075	664,488
Other Capital Assets	124,428	127,526	1,561,048	1,475,554	1,685,476	1,603,080
Intangible Capital Assets, Net	83,506	111,186	312,604	359,872	396,110	471,058
Total Capital Assets	<u>\$ 123,261,599</u>	<u>\$ 116,365,204</u>	<u>\$ 36,678,984</u>	<u>\$ 35,697,377</u>	<u>\$ 159,940,583</u>	<u>\$ 152,062,581</u>

## 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 2020. During fiscal 2020, Texas' state agencies and institutions of higher education issued \$11.1 billion in state bonds to finance new construction, transportation, housing, water conserva-

tion and treatment and other projects. General obligation debt accounted for \$3.7 billion of state bonds issued in fiscal 2020. This debt, which can only be authorized by a constitutional amendment, carries the full faith and credit of the state. The remaining \$7.4 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 \$794 million in general obligation bonds and \$1.3 billion in revenue bonds. Also, \$2.9 billion in general obligation bonds and \$3.2 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, 2020 was \$19.1 billion. This represents a decrease of \$329.1 million or 1.7 percent from fiscal 2019. An additional \$13.3 billion of general obligation bonds were authorized but are unissued. Total revenue bonds outstanding were \$40.7 billion, which is an increase of \$3.3 billion or 8.9 percent from fiscal 2019. Note 5 discloses the details on the state's long-term liabilities and Note 6 provides detailed information on the state's bonded indebtedness.

### Outstanding Bonded Debt

Table MDA-9

For the Fiscal Years Ended August 31, 2020 and 2019 (Amounts in Thousands)

Description of Issue	Governmental Activities		Business-Type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
General Obligation Bonds	\$ 14,733,189	\$ 14,975,560	\$ 3,925,489	\$ 3,978,259	\$ 18,658,678	\$ 18,953,819
General Obligation Bonds –						
Direct Placements	284,927	286,913	106,815	138,825	391,742	425,738
Revenue Bonds	4,077,876	4,356,052	35,978,573	32,347,966	40,056,449	36,704,018
Revenue Bonds - Direct Borrowings/ Placements	150,000	150,000	465,085	511,897	615,085	661,897
Total Bonds Payable	<u>\$ 19,245,992</u>	<u>\$ 19,768,525</u>	<u>\$ 40,475,962</u>	<u>\$ 36,976,947</u>	<u>\$ 59,721,954</u>	<u>\$ 56,745,472</u>

---

## **Economic Condition**

As a result of the economic impacts of the COVID-19 pandemic, as well as a drop in oil prices, from November 2019 to November 2020 the Texas economy lost 474,200 jobs to reach 12,448,200. This decrease of 3.7 percent was the second smallest percentage loss over this period among the ten most populous states (behind Georgia at 2.7 percent) and the fourteenth smallest loss among all states. Private-sector employment fell by 3.9 percent while government employment (federal, state and local) fell by 2.3 percent.

## **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.

