
SECTION ONE

INTRODUCTORY SECTION



February 28, 2025

To the Citizens of Texas, Governor Abbott
and Members of the 89th Texas Legislature:

The state of Texas Annual Comprehensive Financial Report (ACFR) for the fiscal year ended Aug. 31, 2024, is submitted herewith. Responsibility for both the accuracy of the data presented, as well as the completeness and fairness of the presentation, rests with the office of the Texas Comptroller of Public Accounts. To the best of my knowledge, the information presented is accurate in all material respects, and all disclosures necessary for a reasonable understanding of the state's financial activities are included.

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

The State Auditor's Office contracted with Clifton Larson Allen (CLA) to perform portions of the federal audit procedures necessary to meet the requirements

of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The federal portion of the Statewide Single Audit Report for the fiscal year ended Aug. 31, 2024, with the opinion expressed by CLA, will be issued separately.

Profile of the Government

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

All activities generally considered part of the state of Texas are included in this report. These activities provide a range of services in the areas of education, health and human services, public safety and corrections,

transportation, natural resources and recreation, regulation, general government, employee benefits and teacher retirement state contributions.

The state of Texas provides tax abatements to several programs intended to attract new industries, investors and commercial enterprises to the state or encourage the retention and development of existing businesses. These tax abatements can have significant future impacts that include the creation of new jobs, increase in capital investments, strengthening other businesses, reducing unemployment and expanding economic development. Note 29 provides information about the various tax abatement programs in the state.

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

Accounting System and Budgetary Controls

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

Budgetary control is exercised through expenditure budgets for each agency. These budgets are entered into the statewide accounting system after the *General Appropriations Act* (GAA) becomes law. Generally, governmental funds are appropriated for a biennium. The GAA becomes law after passage by the Texas Legislature, certification by my office that the amounts appropriated are within the estimated collections and the signing of the bill by the governor. Controls are maintained first at the agency level, with additional control at the fund and appropriation level to ensure expen-

ditures do not exceed authorized limits. Further detail on budgetary accounting for the state, other than the MD&A section, is found in the required supplementary information.

Financial Policies

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

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

each biennium, from the general revenue fund for one-half of any unencumbered positive balance remaining in the general revenue fund on the last day of the preceding biennium. The ESF also receives transfers, not later than the 90th day of each fiscal year, from the general revenue fund for at least 50 percent of the 75 percent of the prior fiscal year oil or natural gas production net collections that exceeded the amount of collections in fiscal 1987. The transfer amount of each production tax is calculated separately. Until the 2015 session, state law required the Comptroller's office to invest the ESF in relatively low-yield investments. The Legislature amended the statute, and the agency is now allowed to invest the ESF in prudent but higher-yield investments to maintain the fund's purchasing power, subject to requirements for at least 10 percent of the fund to be in liquid investments and for the fund to be invested to meet its cashflow requirements.

The balance in the fund on Aug. 31, 2024, was \$23.8 billion. The ESF is also discussed in Note 13.

Economic Outlook

Texas has advantages such as relatively low living costs, an attractive business climate, a central Sunbelt location and a balanced mix of industries that have enabled its economy to grow faster than the nation's for many years. Over the past 10 years, the Texas economy, as measured by Texas real Gross State Product (GSP), grew at an average annual rate of 3 percent, while the economy of the nation grew by an average 2.3 percent annually. For calendar year 2024 Texas real Gross Domestic Product (GDP) growth is estimated to have been 3.9 percent while that of the nation is estimated to have been 2.6 percent. Although a recession is not expected in calendar 2025, the growth rates for both Texas and the U.S. are projected to be below the 10-year average; 2.5 percent for Texas and 1.7 percent for the U.S.

After increases of 5 percent in 2022 and 6.1 percent in 2023, Texas personal income grew by an estimated 5.3 percent in 2024. It is expected to continue to grow by 5.8 percent in 2025.

Underlying these expected gains is population growth that has been, and will continue to be, fueled by net migration and a relatively high birth rate. Recent estimates by the U.S. Census Bureau show that eight Texas cities were among the nation's 15 most rapidly growing cities from July 2022 to July 2023, including four of the top five. Among the 15 U.S. cities with the highest absolute increases in population, seven were in Texas, including San Antonio at No. 1 and Fort Worth at No. 2. Texas' population is projected to grow by 376,600 in 2025, to reach 31 million.

As of November 2024, the Texas unemployment rate was 4.2 percent, up from 3.9 percent in November 2023. Over that period, the U.S. unemployment rate rose from 3.7 percent to 4.2 percent. The Texas unemployment rate is expected to average 4.2 percent in 2025, while the U.S. rate is expected to average 4.4 percent. Total Texas nonfarm employment rose by an estimated 2.1 percent in 2024 and is expected to increase by a further 1.4 percent in 2025.

Texas Industry Performance

All but one of Texas' 11 major nonfarm industries experienced net job growth from November 2023 to November 2024. Employment in goods-producing industries increased by 2.8 percent, while employment in service-producing industries rose by 1.8 percent. Employment gains in the goods-producing industries (mining and logging, manufacturing and construction) were led by a 32,200 increase in construction employment. Among the service-providing industries, the largest increases were seen in the private education and health services (51,900) and the leisure and hospitality (41,300) industries.

Manufacturing

Texas manufacturing industry employment increased by 2.5 percent over 2023. Durable goods employment was up 19,300. The largest durable goods manufacturing sector, with 142,600 employees in November 2024, is fabricated metal manufacturing. That sector is closely associated with oil and natural gas exploration and production, and employment in the sector usually tracks employment in the mining industry. However, sector employment increased by 8,200, or 6.1 percent over 2023 even while mining employment fell. Nondurable-goods manufacturing employment grew by 5,100, or 1.5 percent, with the largest increase in the chemical manufacturing sector of 2,000, or 2.3 percent. Total manufacturing employment in November 2024 was 984,800.

The value of Texas exports in calendar year 2022 was a record \$485 billion, an increase of 29.4 percent from 2021. In 2023, however, the value of Texas exports fell by 8.4 percent, hurt by falling oil prices. Beginning in January, however, Texas exports began to increase again on a year-over-year basis. Through October of 2024, the value of Texas exports was up by 2.3 percent from the corresponding period of 2023. Texas remains the nation's leading exporting state, as it has been for more than a decade. Texas exports comprised 22 percent of total U.S. exports in 2023.

Construction

Total housing construction activity was down moderately over the year. Single-family building permits issued in the 12-month period ending October 2024, at 157,610, were up by 11.3 percent from the same period one year earlier. Building permits for multi-family units, however, were down by 30.3 percent. Total permits issued were down by 3.6 percent from the corresponding period in 2023.

According to Multiple Listing Service data from the Texas A&M Real Estate Center, the median sales price

for an existing Texas single-family home increased by 2.5 percent over the year to \$333,000 from \$325,000. The inventory of existing homes for sale in November 2024 was 4.6 months, up from 3.7 in November 2023.

Mining

The mining industry was the only one of the 11 major industries to see an employment decline over the past 12 months. November 2024 industry employment was down by 1,100, or 0.5 percent from the November 2023 level. Oil and natural gas production, however, were both up over the year, by an estimated 0.4 percent (oil) and 6.1 percent (natural gas).

Awards and Acknowledgments

Certificate of Achievement

The GFOA of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the state of Texas for its ACFR for the fiscal year ended Aug. 31, 2023. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

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

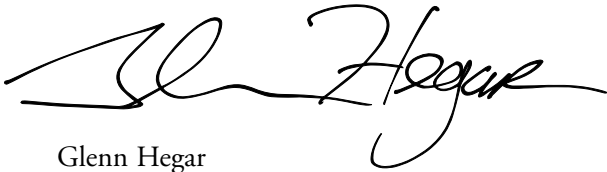
A Certificate of Achievement is valid for a period of one year only. The state of Texas has received a Certificate of Achievement for the last 34 years (fiscal years ended August 1990 through 2023). We believe our current report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

Acknowledgments

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

Sincerely,

A handwritten signature in black ink, appearing to read "Glenn Hegar", written in a cursive style.

Glenn Hegar



Elected State Officials

Executive

Greg Abbott
Governor

Dan Patrick
Lieutenant Governor

Glenn Hegar
Comptroller of Public Accounts

Ken Paxton
Attorney General

Dr. Dawn Buckingham
Land Commissioner

Wayne Christian
Christi Craddick
James Wright
Railroad Commissioners

Sid Miller
Commissioner of Agriculture

Legislative

Lieutenant Governor Dan Patrick
President of the Senate

Dustin Burrows
Speaker of the House of Representatives

Judicial

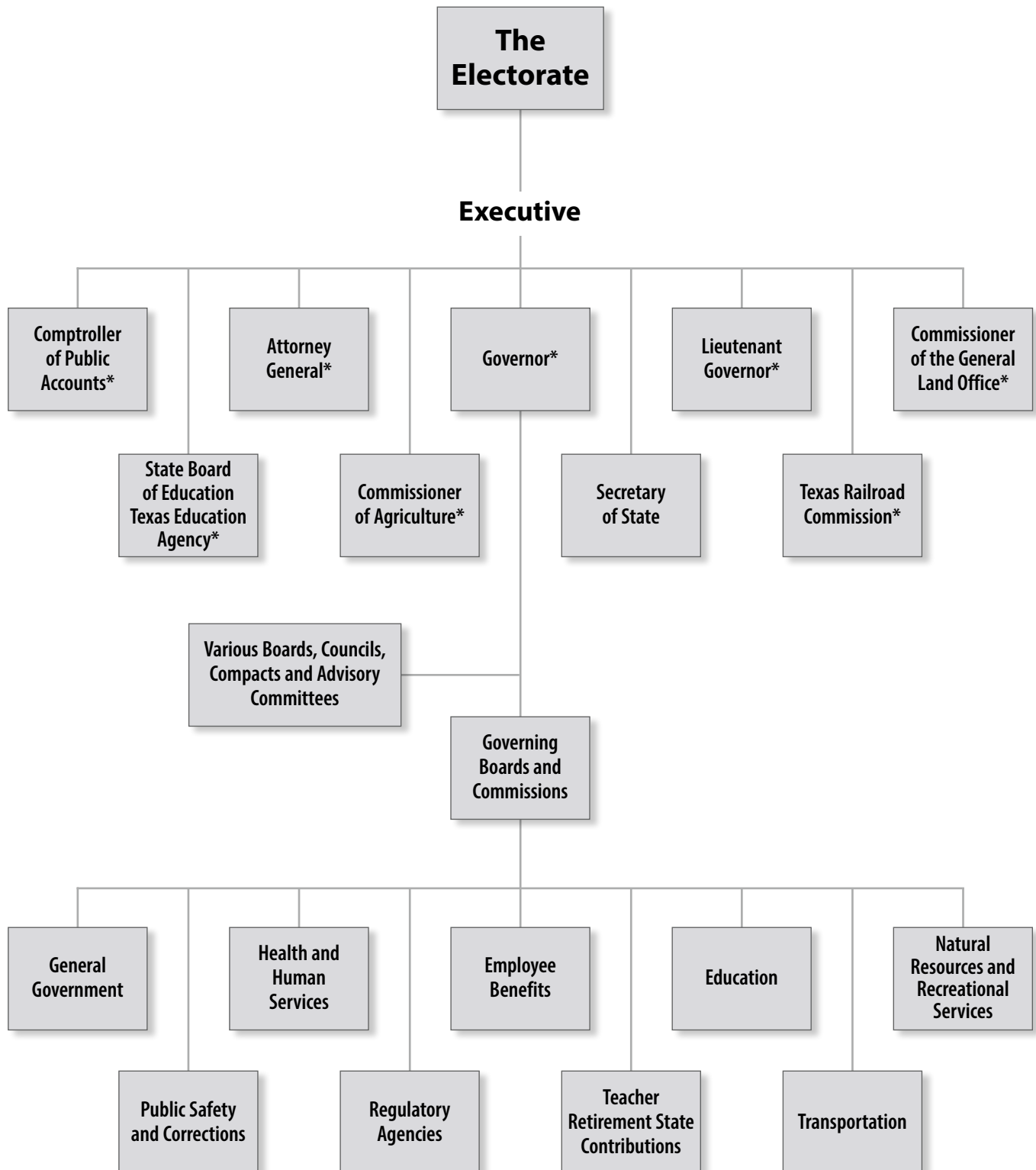
Supreme Court of Texas

Jimmy Blacklock, Chief Justice
James P. Sullivan, Justice
Debra Lehrmann, Justice
John Phillip Devine, Justice
Rebeca Aizpuru Huddle, Justice
Jane Bland, Justice
Jeffrey S. Boyd, Justice
Brett Busby, Justice
Evan A. Young, Justice

Court of Criminal Appeals

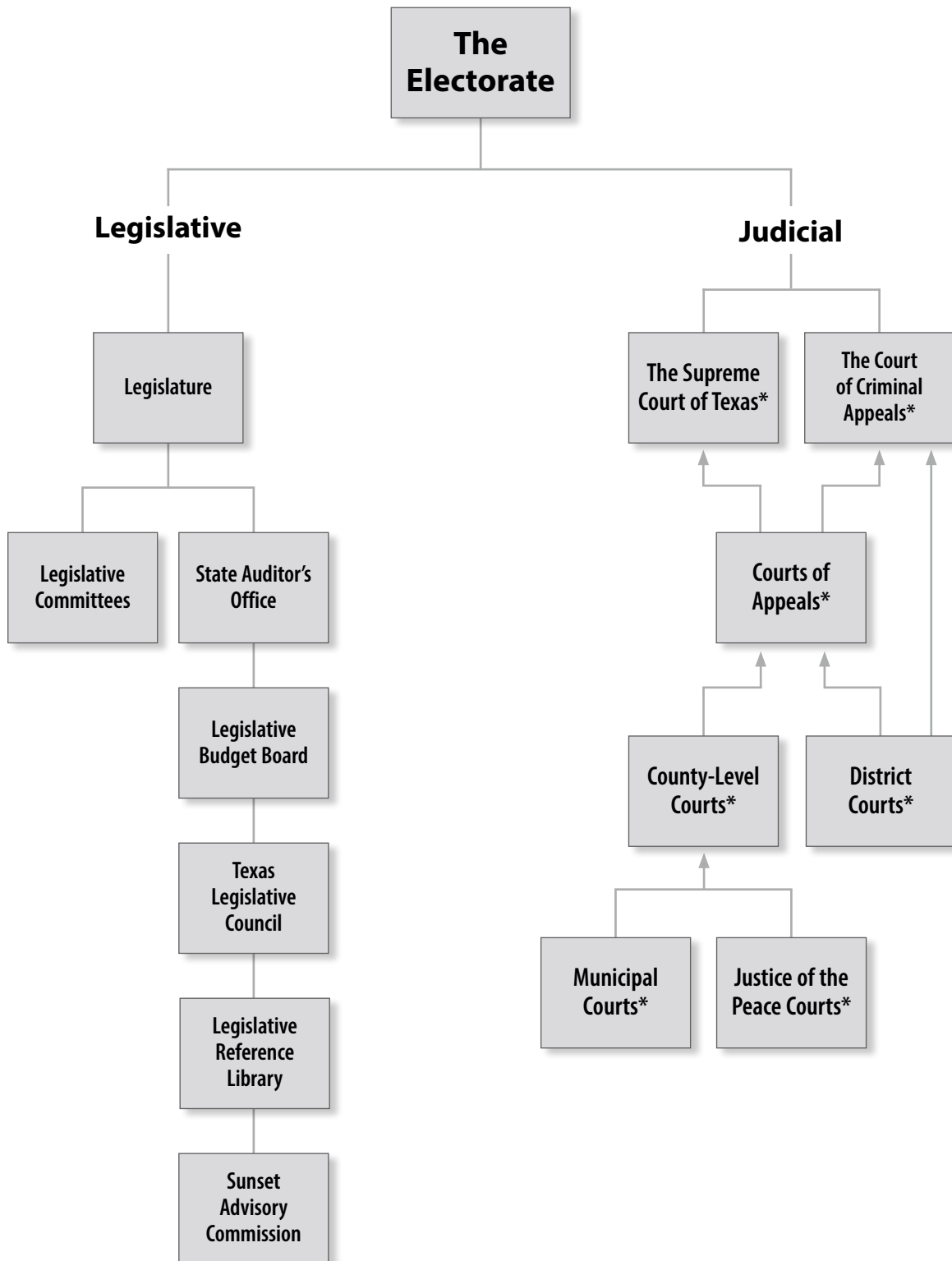
David J. Schenck, Presiding Judge
Mary Lou Keel, Judge
Bert Richardson, Judge
Kevin Yeary, Judge
Scott Walker, Judge
Jesse F. McClure III, Judge
Gina G. Parker, Judge
Lee Finley, Judge
David Newell, Judge

GOVERNMENT STRUCTURE OF TEXAS



* Elected Offices

GOVERNMENT STRUCTURE OF TEXAS (CONCLUDED)



* Elected Offices



Government Finance Officers Association

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

Presented to

State of Texas

For its Annual Comprehensive
Financial Report
for the Fiscal Year Ended

August 31, 2023

Christopher P. Morill

Executive Director/CEO