



Glenn Hegar Texas Comptroller of Public Accounts

State of Texas Comprehensive Annual Financial Report



For the Fiscal Year Ended
August 31, 2017

The spreadsheets in this publication are available
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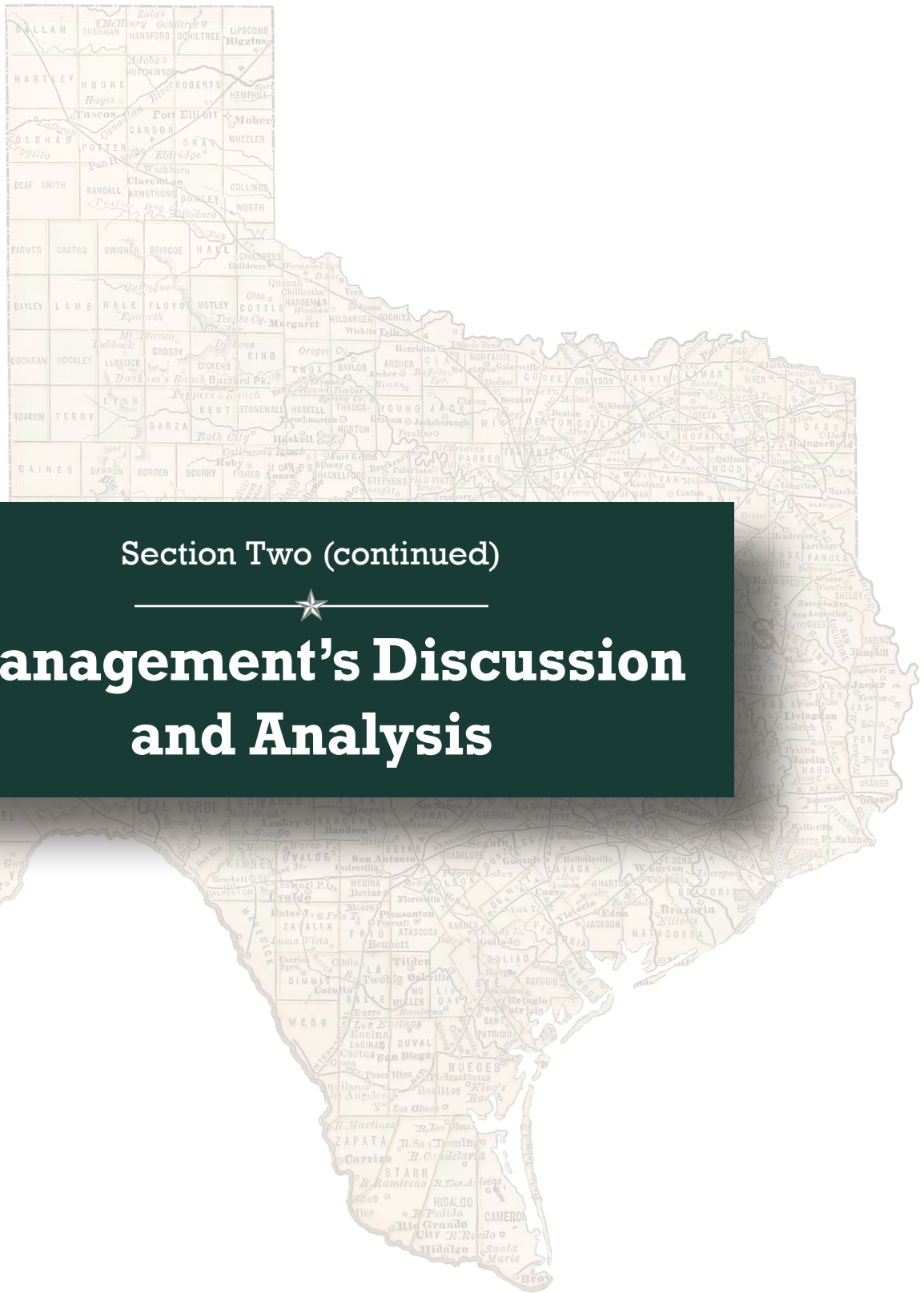
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Section Two (continued)



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, 2017. Use this section in conjunction with the state's basic financial statements. Comparative data is presented for this 2017 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 \$167.7 billion at fiscal 2017 year-end, an increase of \$8.3 billion or 5.2 percent from fiscal 2016. The majority of the increase is primarily due to an increase of \$7.8 billion in restricted net position. The net position is comprised of \$88.7 billion in net investment in capital assets, \$97.5 billion in restricted and negative \$18.5 billion in unrestricted.

Fund Level

Governmental Funds

At fiscal 2017 year-end, the state's governmental funds reported a combined ending fund balance of \$66.7 billion, an increase of \$1.9 billion or 2.9 percent from fiscal 2016, primarily due to an increase in investments. The state reported a positive unassigned fund balance of \$5.5 billion in fiscal 2017.

Proprietary Funds

The proprietary funds reported a net position of \$65.8 billion at fiscal 2017 year-end, an increase of \$5.1 billion or 8.4 percent from fiscal 2016, primarily due to an increase in interest and investment income.

Long-Term Debt

The state's total bonds outstanding increased by \$4 billion or 8.4 percent during fiscal 2017. This amount

represents the net difference between net issuances, payments and refunding of outstanding bond debt. During fiscal 2017, the state issued bonds totaling \$8.3 billion. More detailed information regarding the government-wide, fund level and long-term debt activities can be found 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 25 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 2017 year-end, were \$307.9 billion, an increase of \$17.9 billion or 6.2 percent from fiscal 2016. Total liabilities as of fiscal 2017 year-end, were \$136.9 billion, an increase of \$16 billion or 13.3 percent from fiscal 2016. Net position was affected by a number of factors. Cash and cash equivalents on the Statement of Net Position decreased by \$1.8 billion in governmental activities, but increased by \$1.4 billion in business-type activities from fiscal 2016. Unrestricted noncurrent investments increased by \$5.5 billion. The state's bonded indebtedness was \$51 billion, which included new issuances of \$8.3 billion in state bonds to finance new construction, housing, water conservation and other projects. Approximately \$5 billion in bonded debt was retired or refunded. Net position was \$167.7 billion in fiscal 2017, an increase of \$8.3 billion or 5.2 percent. Of the state's net position, \$88.7 billion was net investment in capital assets, while \$97.5 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 \$18.5 billion. The majority of the net position increase is primarily due to an increase of \$7.8 billion in restricted net position.

Statement of Net Position

Table MDA-1

August 31, 2017 and 2016

(Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
ASSETS						
Assets Other Than Capital Assets	\$ 80,499,779	\$ 76,443,239	\$ 91,146,327	\$ 83,614,887	\$ 171,646,106	\$ 160,058,126
Capital Assets	104,978,345	100,010,365	31,291,666	29,908,475	136,270,011	129,918,840
Total Assets	<u>185,478,124</u>	<u>176,453,604</u>	<u>122,437,993</u>	<u>113,523,362</u>	<u>307,916,117</u>	<u>289,976,966</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>10,959,432</u>	<u>6,183,264</u>	<u>1,836,820</u>	<u>1,654,463</u>	<u>12,796,252</u>	<u>7,837,727</u>
LIABILITIES						
Current Liabilities	14,809,809	12,063,725	12,321,958	11,983,521	27,131,767	24,047,246
Noncurrent Liabilities	64,199,238	54,833,681	45,539,480	41,952,704	109,738,718	96,786,385
Total Liabilities	<u>79,009,047</u>	<u>66,897,406</u>	<u>57,861,438</u>	<u>53,936,225</u>	<u>136,870,485</u>	<u>120,833,631</u>
DEFERRED INFLOWS OF RESOURCES	<u>15,504,980</u>	<u>16,995,010</u>	<u>651,251</u>	<u>593,603</u>	<u>16,156,231</u>	<u>17,588,613</u>
NET POSITION						
Net Investment in Capital Assets	76,925,845	72,247,981	11,755,741	11,847,190	88,681,586	84,095,171
Restricted	50,168,023	46,941,168	47,294,517	42,741,330	97,462,540	89,682,498
Unrestricted	(25,170,339)	(20,444,697)	6,711,866	6,059,477	(18,458,473)	(14,385,220)
Total Net Position	<u>\$ 101,923,529</u>	<u>\$ 98,744,452</u>	<u>\$ 65,762,124</u>	<u>\$ 60,647,997</u>	<u>\$ 167,685,653</u>	<u>\$ 159,392,449</u>

Changes in Net Position

The state's net position for fiscal 2017 increased by \$8.3 billion. The state earned program revenues of \$98.5 billion and general revenues of \$54.2 billion, for total revenues of \$152.7 billion, an increase of \$8.3 billion or 5.8 percent from fiscal 2016. The major components of this increase were tax revenues, which had an increase of \$2.7 billion and operating grants and contributions, with an increase of \$3.8 billion. Federal revenues decreased \$462.1 million and interest and investment income increased \$4.7 billion.

The expenses of the state were \$143.9 billion, an increase of \$3.6 billion or 2.6 percent. The expense fluctuations in governmental activities are largely attributable to a \$2.6 billion increase in general government and a \$306.2 million increase in transportation services. In business-type activities there was a \$1.4 billion increase in education services and a \$461 million decrease in health and human services.

Further discussion of results for changes in the state's financial condition follows in the analysis of the state's funds.

Changes in Net Position

Table MDA-2

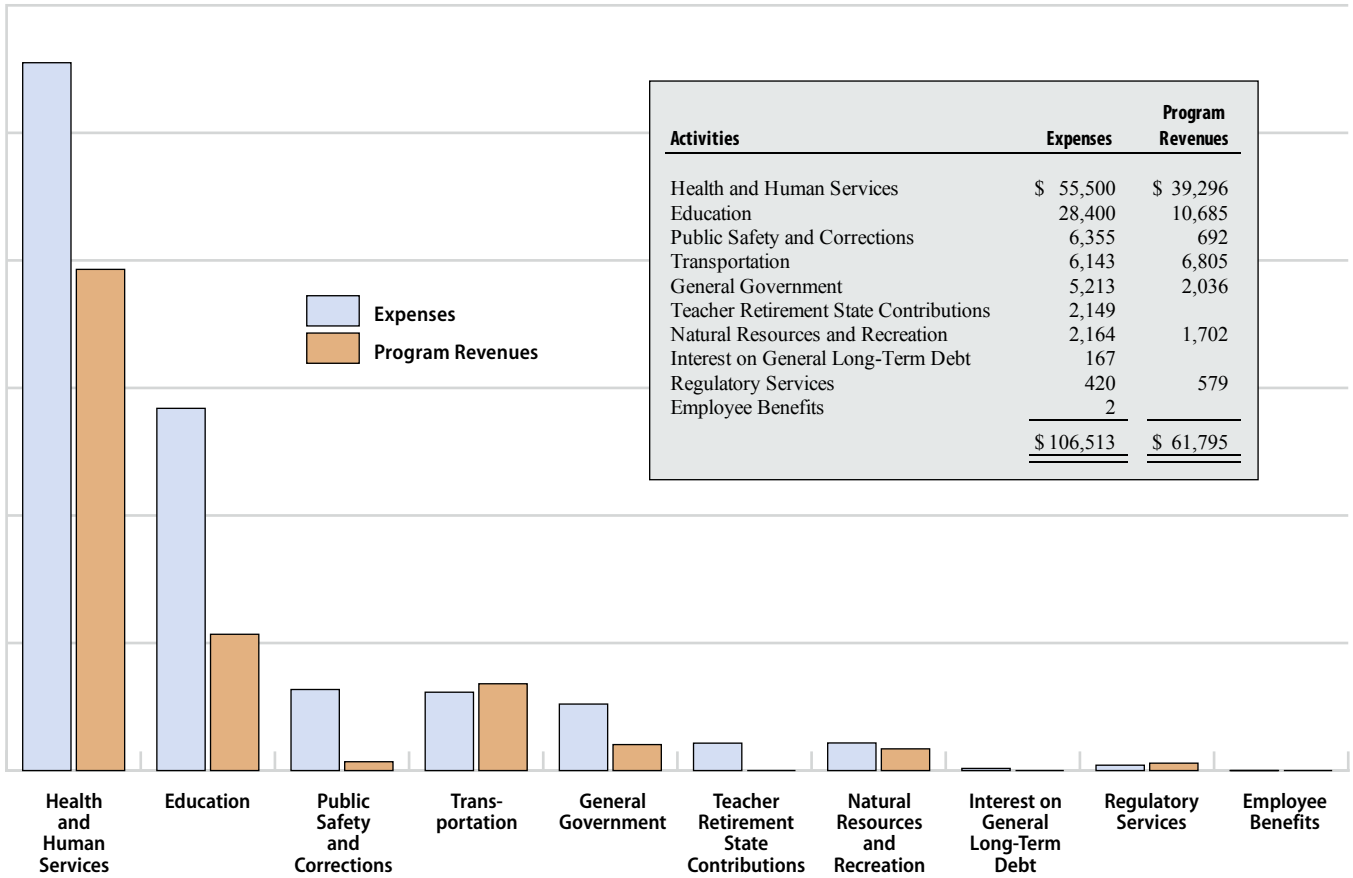
For the Fiscal Years Ended August 31, 2017 and 2016
(Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
REVENUES						
Program Revenues:						
Charges for Services	\$ 10,996,291	\$ 10,967,002	\$ 24,239,708	\$ 23,026,272	\$ 35,235,999	\$ 33,993,274
Operating Grants and Contributions	50,747,993	49,361,737	12,315,252	9,883,197	63,063,245	59,244,934
Capital Grants and Contributions	51,202	47,373	180,782	68,313	231,984	115,686
Total Program Revenues	<u>61,795,486</u>	<u>60,376,112</u>	<u>36,735,742</u>	<u>32,977,782</u>	<u>98,531,228</u>	<u>93,353,894</u>
General Revenues:						
Taxes	50,187,814	47,534,436			50,187,814	47,534,436
Unrestricted Investment Earnings	481,261	282,493	86,447	142,738	567,708	425,231
Settlement of Claims	537,444	670,386	1,213	848	538,657	671,234
Gain on Sale of Capital Assets	1,249	54,797	26	1,044	1,275	55,841
Loss on Other Financial Activity	(3,279)	(59,904)			(3,279)	(59,904)
Other General Revenues	2,721,599	2,259,154	177,799	175,050	2,899,398	2,434,204
Total General Revenues	<u>53,926,088</u>	<u>50,741,362</u>	<u>265,485</u>	<u>319,680</u>	<u>54,191,573</u>	<u>51,061,042</u>
Total Revenues	<u>115,721,574</u>	<u>111,117,474</u>	<u>37,001,227</u>	<u>33,297,462</u>	<u>152,722,801</u>	<u>144,414,936</u>
EXPENSES						
General Government	5,213,330	2,583,707	139,018	121,463	5,352,348	2,705,170
Education	28,400,268	28,775,870	29,952,017	28,555,418	58,352,285	57,331,288
Employee Benefits	1,695	40,546	1,584	1,584	3,279	42,130
Teacher Retirement State Contributions	2,148,958	2,080,935			2,148,958	2,080,935
Health and Human Services	55,499,408	55,584,169	2,684,798	3,145,846	58,184,206	58,730,015
Public Safety and Corrections	6,354,517	6,214,653	99,239	99,414	6,453,756	6,314,067
Transportation	6,143,369	5,837,122	451,780	352,735	6,595,149	6,189,857
Natural Resources and Recreation	2,163,813	2,013,773	356,284	392,417	2,520,097	2,406,190
Regulatory Services	420,273	737,203			420,273	737,203
Interest on General Long-Term Debt	167,115	159,953			167,115	159,953
Lottery			3,749,583	3,665,907	3,749,583	3,665,907
Total Expenses	<u>106,512,746</u>	<u>104,027,931</u>	<u>37,434,303</u>	<u>36,334,784</u>	<u>143,947,049</u>	<u>140,362,715</u>
Excess (Deficiency) Before Contributions and Transfers	<u>9,208,828</u>	<u>7,089,543</u>	<u>(433,076)</u>	<u>(3,037,322)</u>	<u>8,775,752</u>	<u>4,052,221</u>
Capital Contributions	84,619	56,450	5,593	5,854	90,212	62,304
Contributions to Permanent and Term Endowments			209,404	217,683	209,404	217,683
Transfers	(5,345,718)	(4,777,546)	5,345,718	4,777,546		
Change in Net Position	<u>3,947,729</u>	<u>2,368,447</u>	<u>5,127,639</u>	<u>1,963,761</u>	<u>9,075,368</u>	<u>4,332,208</u>
Net Position, Beginning Balance	98,744,452	94,286,652	60,647,997	53,421,004	159,392,449	147,707,656
Restatements	(768,652)	2,089,353	(13,512)	5,263,232	(782,164)	7,352,585
Net Position, Beginning Balance, as Restated	<u>97,975,800</u>	<u>96,376,005</u>	<u>60,634,485</u>	<u>58,684,236</u>	<u>158,610,285</u>	<u>155,060,241</u>
Net Position, Ending Balance	<u>\$ 101,923,529</u>	<u>\$ 98,744,452</u>	<u>\$ 65,762,124</u>	<u>\$ 60,647,997</u>	<u>\$ 167,685,653</u>	<u>\$ 159,392,449</u>

Expenses and Program Revenues: Governmental Activities

Graph MDA-3

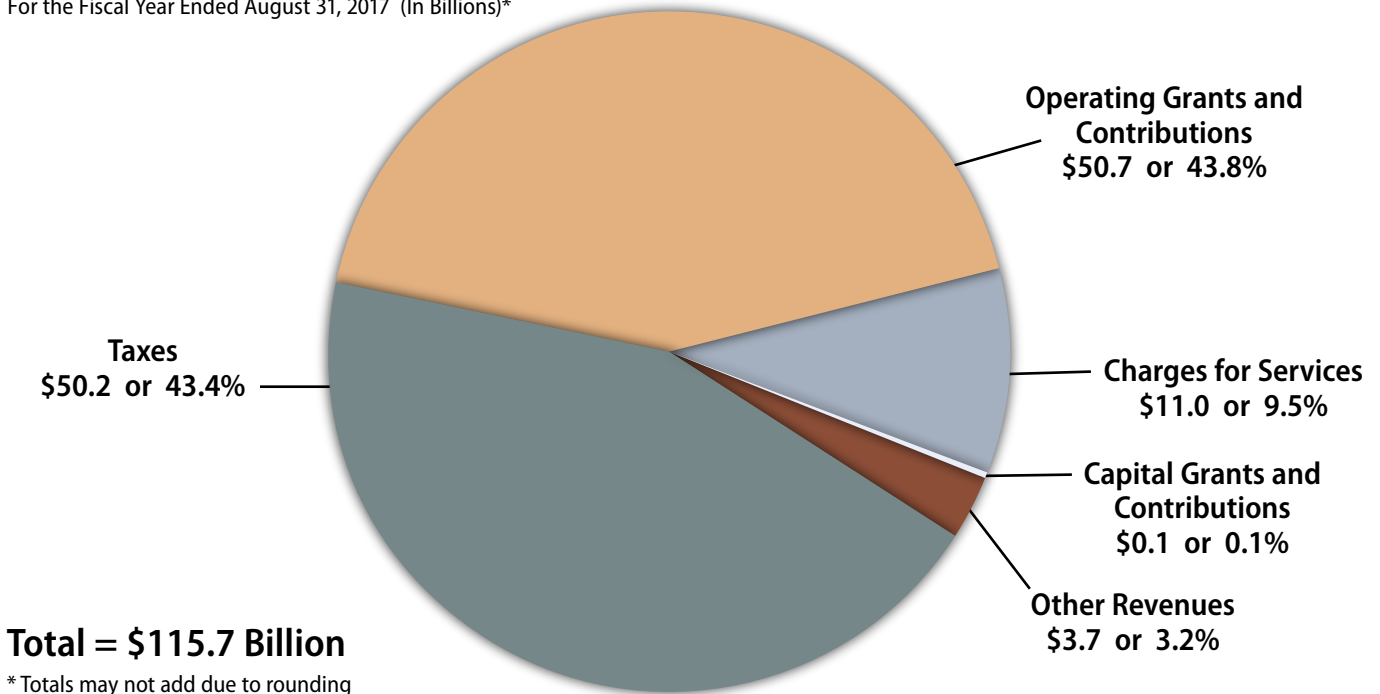
For the Fiscal Year Ended August 31, 2017 (In Millions)



Revenue by Source: Governmental Activities

Graph MDA-4

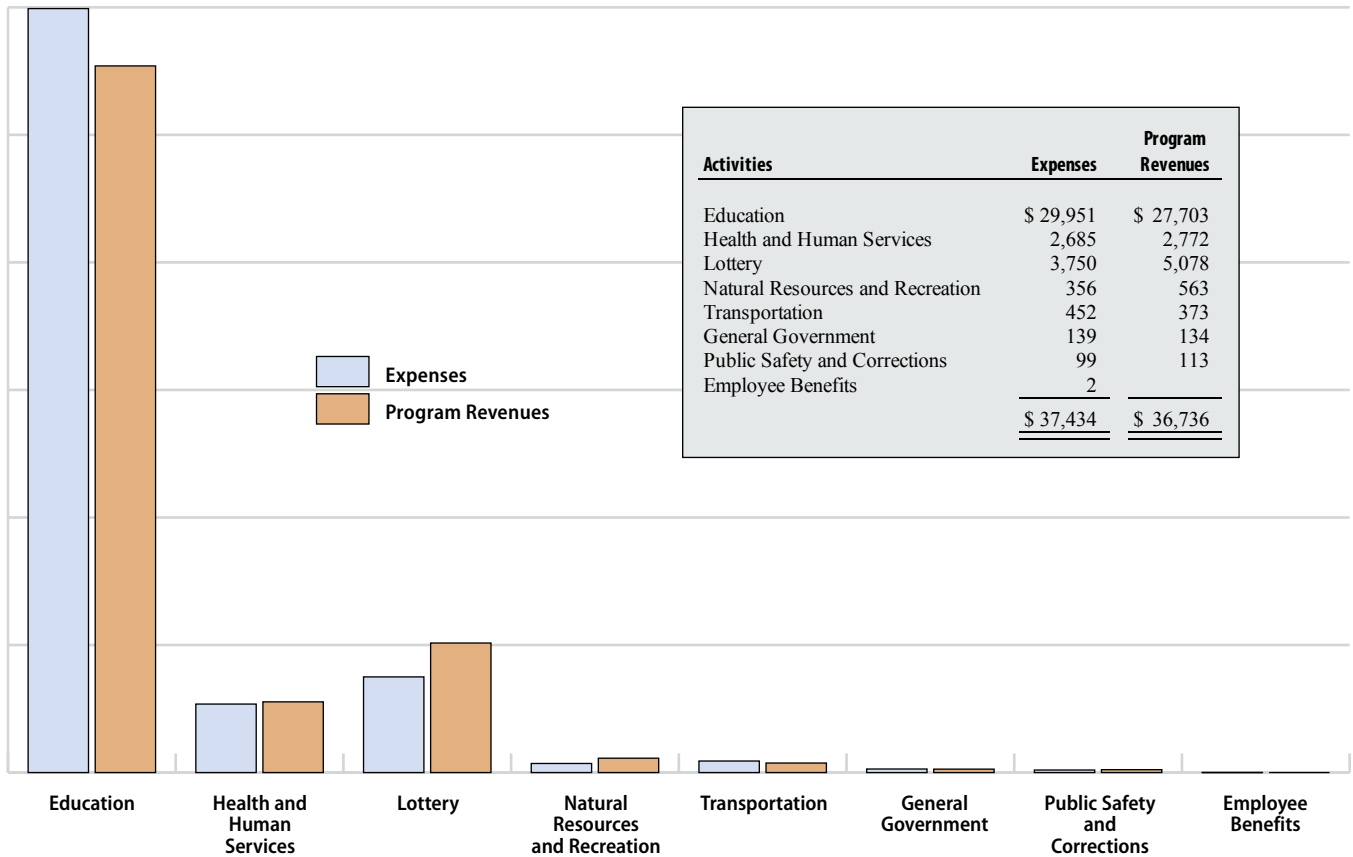
For the Fiscal Year Ended August 31, 2017 (In Billions)*



Expenses and Program Revenues: Business-Type Activities

Graph MDA-5

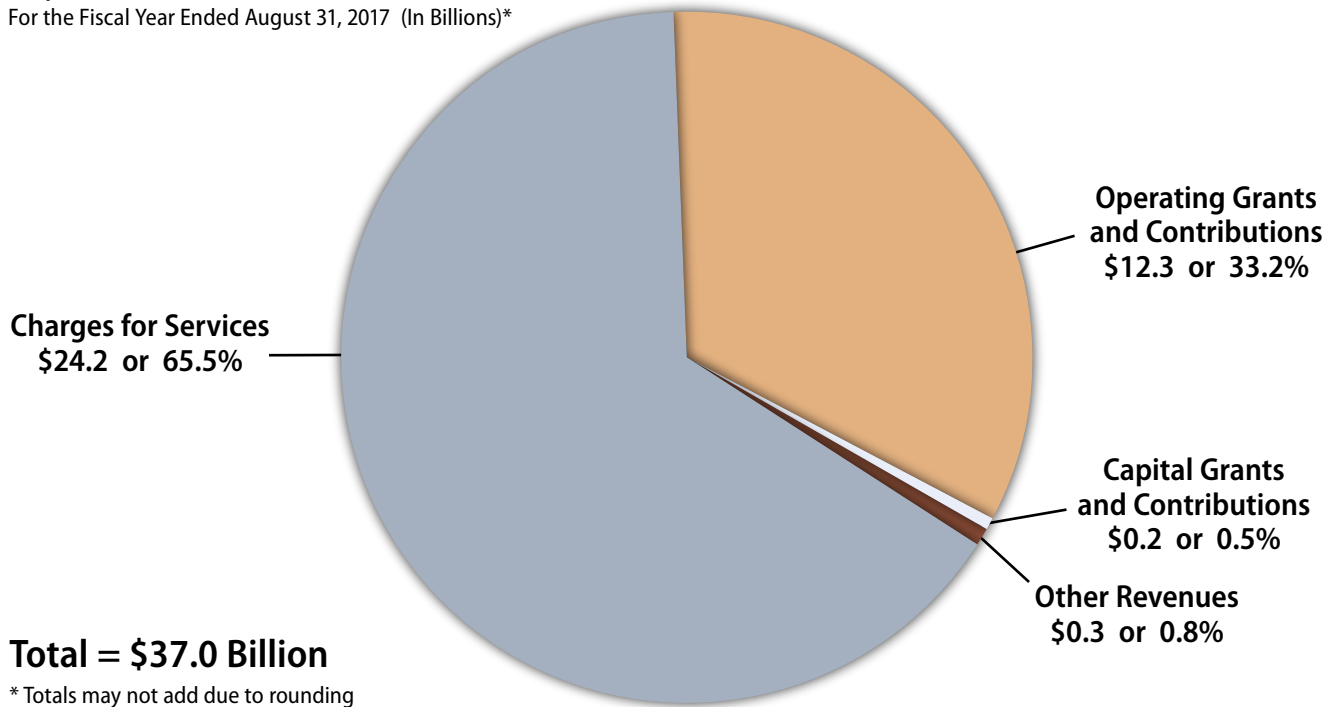
For the Fiscal Year Ended August 31, 2017 (In Millions)



Revenue by Source: Business-Type Activities

Graph MDA-6

For the Fiscal Year Ended August 31, 2017 (In Billions)*



Governmental Activities

The governmental activities program revenue was \$61.8 billion, including charges for services of \$11 billion, operating grants and contributions of \$50.7 billion and capital grants and contributions of \$51.2 million. The largest change, a \$1.4 billion increase, was for operating grants and contributions. Taxes had increases of \$2.7 billion from general revenue sources, with the largest increase in franchise tax revenue.

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

Table MDA-7

For the Fiscal Year Ended August 31, 2017
(Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ 5,213,330	\$ 3,177,377
Education	28,400,268	17,715,323
Employee Benefits	1,695	1,625
Teacher Retirement State Contributions	2,148,958	2,148,958
Health and Human Services	55,499,408	16,202,536
Public Safety and Corrections	6,354,517	5,662,976
Transportation	6,143,369	(661,827)
Natural Resources and Recreation	2,163,813	462,195
Regulatory Services	420,273	(159,018)
Interest on General Long-Term Debt	167,115	167,115
Total	<u>\$ 106,512,746</u>	<u>\$ 44,717,260</u>

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

Table MDA-8

For the Fiscal Year Ended August 31, 2017
(Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ 139,018	\$ 4,909
Education	29,952,017	2,250,513
Employee Benefits	1,584	1,584
Health and Human Services	2,684,798	(87,265)
Public Safety and Corrections	99,239	(14,220)
Transportation	451,780	78,773
Natural Resources and Recreation	356,284	(207,141)
Lottery	3,749,583	(1,328,592)
Total	<u>\$ 37,434,303</u>	<u>\$ 698,561</u>

Governmental activities expenses were \$106.5 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 78.8 percent of governmental activities expenses and 75.8 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 \$36.7 billion, including charges for services of \$24.2 billion, operating grants and contributions of \$12.3 billion and capital grants and contributions of \$180.8 million. The total expenses for business-type activities were \$37.4 billion. The largest changes occurred in education, with a \$1.4 billion increase for colleges and universities, and in the health and human services function, where there was a decrease of \$461 million in health and human services. There was an increase in net position in the government's business-type activities of \$5.1 billion in comparison to the prior year's increase of \$7.2 billion.

Financial Analysis of the State's Funds

Governmental Funds

At fiscal 2017 year-end, governmental funds reported fund balances of \$66.7 billion. The general fund reported a positive \$12 billion fund balance.

General Fund

The fund balance for the general fund as of Aug. 31, 2017, was \$12 billion, a decrease of \$2.7 billion from fiscal 2016, mostly due to a \$1.4 billion decrease in transfers in and \$606 million increase in transfers

out. Tax revenues increased by \$2.6 billion from fiscal 2016. The state constitution, state statute, and federal rule or bond covenants constrain \$5.7 billion. The unassigned fund balance was \$5.6 billion, which includes \$11 billion in the economic stabilization fund, commonly called “the rainy day fund.” Contributing to the lower balance was an increase of \$293.6 million in general government expenditures.

State Highway Fund

The fund balance for the state highway fund for fiscal 2017, was \$5 billion, a decrease of \$15.4 million from \$5.1 billion from fiscal 2016. Cash and cash equivalents decreased \$563.9 million, transfers in increased \$371.7 million, capital outlay increased \$859.2 million and bonds and notes issued increased \$886.2 million.

Permanent School Fund

The fund balance for the permanent school fund (PSF) as of Aug. 31, 2017, totaled \$41.4 billion, an increase of \$4.2 billion from fiscal 2016. This increase was primarily attributable to an increase in valuation of investments of \$3 billion. Value in the fund provided \$1.1 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 2017, a total of \$74.3 billion in school district bond issues were guaranteed at year-end.

Proprietary Funds

Proprietary funds reported net position of \$65.8 billion in fiscal 2017, an increase of \$5.1 billion from fiscal 2016. The state’s public colleges and universities hold 89.7 percent of the reported net position in proprietary funds.

Colleges and Universities

Colleges and universities’ net position for fiscal 2017, totaled \$59 billion, an increase of \$4.5 billion from fiscal 2016. While colleges and universities have a net loss of \$2.4 billion for fiscal 2017, there were increases of \$1.8 billion in net income before capital contributions, endowments and transfers and \$454.8 million in capital contributions and transfers from fiscal 2016. There was an increase in interest and investment income of \$2.4 billion due to improving market performance. There was also \$688.7 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 \$2 billion from \$17.9 billion in fiscal 2016 to \$19.9 billion in fiscal 2017. 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 \$1.4 billion for fiscal 2017, an increase of \$447.9 million from \$982.5 million from the prior fiscal year. During fiscal 2017, unemployment taxes collected increased \$318.3 million from \$2.4 billion in 2016, while federal contributions decreased \$7.9 million in 2017. Benefits payments decreased \$458.4 million as the unemployment rate averaged 4.2 percent as compared to the U.S. average of 4.4 percent.

Lottery Fund

The Texas Lottery Commission operates online and instant ticket lottery games to generate revenue for the state’s foundation school fund. The lottery fund had a net position of \$39.2 million for fiscal 2017, a decrease of 45.4 percent from the \$71.7 million from the prior

fiscal year. There was a decrease in interest and investment income of \$39.6 million due primarily to decreasing market performance. The Commission recorded its highest level of total sales since ticket sales began in 1992 with collections of \$5.1 billion. Transfers to state agencies totaled \$1.3 billion, the fourteenth consecutive year overall that revenue transfers exceeded \$1 billion.

Fiduciary Funds

Fiduciary funds reported \$197.4 billion in net position for fiscal 2017, an increase of \$19.1 billion from \$178.3 billion in fiscal 2016, a 10.7 percent increase.

Pension and Other Employee Benefit Trust Funds

Total net position for pension and other employee benefit trust funds was \$175.7 billion for fiscal 2017, an increase of \$15.2 billion from the \$160.5 billion reported in fiscal 2016. The majority of plan assets are held as investments for the pension funds. In fiscal 2017, additions from all sources increased \$9.8 billion, while benefit payments increased \$602.2 million. Increases in additions are due primarily to more favorable conditions in the financial 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 12.6 percent and 12.15 percent, respectively, compared to the previous year's returns of 7.4 percent and 5.32 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 \$18.4 billion in fiscal 2017, an increase of \$4.1 billion from fiscal 2016. 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 \$3.2 billion in fiscal 2017, a decrease of \$329.5 million from fiscal 2016. Additions from all sources of \$853.5 million and total deductions were \$1.2 billion. The net decrease of \$329.5 million is a decrease of 712.6 percent from the net decrease of \$40.6 million in fiscal 2016.

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 \$1.1 billion.

There was a positive \$1.8 billion variance between the actual and final budget revenues. The largest negative revenue variances occurred with taxes and other revenues, which reported a \$2.1 billion and \$141 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, 2017 and 2016
(Amounts In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Land and Land Improvements	\$ 13,448,576	\$ 12,609,626	\$ 2,131,672	\$ 2,039,730	\$ 15,580,248	\$ 14,649,356
Infrastructure	71,184,460	68,246,142	2,864,114	2,819,656	74,048,574	71,065,798
Construction in Progress	17,177,254	15,838,662	3,202,607	2,733,473	20,379,861	18,572,135
Buildings and Building Improvements	1,974,028	2,037,396	17,587,418	16,954,822	19,561,446	18,992,218
Facilities and Other Improvements	62,364	60,424	1,843,231	1,740,746	1,905,595	1,801,170
Furniture and Equipment	298,948	306,063	1,802,721	1,778,053	2,101,669	2,084,116
Vehicles, Boats and Aircraft	516,273	471,463	89,458	83,800	605,731	555,263
Other Capital Assets	159,535	256,183	1,369,336	1,283,195	1,528,871	1,539,378
Intangible Capital Assets, Net	156,907	184,406	401,109	475,000	558,016	659,406
Total Capital Assets	<u>\$104,978,345</u>	<u>\$100,010,365</u>	<u>\$ 31,291,666</u>	<u>\$ 29,908,475</u>	<u>\$136,270,011</u>	<u>\$129,918,840</u>

Capital Assets and Debt Administration

Capital Assets

For fiscal 2017, the state has \$136.3 billion in net capital assets. This total represents an increase of \$6.4 billion in total capital assets or 4.9 percent from fiscal 2016. Included in this amount are increases to infrastructure of \$4.6 billion and construction in progress of \$1.3 billion by the Texas Department of Transportation (TxDOT). Institutions of higher education also added \$1.9 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 \$27.5 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 2017. During fiscal 2017, Texas' state agencies and institutions of higher education issued \$8.3 billion in state bonds to finance new construction, transportation, housing, water conservation and treatment and other projects. General obligation debt accounted for \$2.4 billion of state bonds issued in fiscal 2017. This debt, which can only be

Outstanding Bonded Debt

Table MDA-10

August 31, 2017 and 2016
(Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
General Obligation Bonds Payable	\$ 15,883,532	\$ 15,059,808	\$ 4,363,308	\$ 4,329,815	\$ 20,246,840	\$ 19,389,623
Revenue Bonds Payable	4,777,468	4,290,384	26,020,440	23,410,697	30,797,908	27,701,081
Total Bonds Payable	<u>\$ 20,661,000</u>	<u>\$ 19,350,192</u>	<u>\$ 30,383,748</u>	<u>\$ 27,740,512</u>	<u>\$ 51,044,748</u>	<u>\$ 47,090,704</u>

authorized by a constitutional amendment, carries the full faith and credit of the state. The remaining \$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 \$678.6 million in general obligation bonds and \$1.2 billion in revenue bonds. Also, \$1 billion in general obligation bonds and \$2.1 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, 2017 was \$20.2 billion. This represents an increase of \$857.2 million or 4.4 percent from fiscal 2016. An additional \$10.9 billion of general obligation bonds were authorized but are unissued. Total revenue bonds outstanding were \$30.8 billion, which is an increase of \$3.1 billion or 11.2 percent from fiscal 2016. 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 2016 to November 2017 the Texas economy added 330,600 nonfarm jobs, an increase of 2.7 percent, to reach 12,445,200. Private-sector employment rose by 2.9 percent while government employment (federal, state and local) grew by 1.9 percent. Texas added more new jobs than any other state over the twelve-month period ending November 2017, and had the lowest unemployment rate among the 10 most populous states at the end of that period (3.8 percent). The state's rate of job growth was the highest among the 10 most populous states and the second highest among all states (just behind Utah at 2.8 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.