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SECTION TWO (CONTINUED)

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Management's  
Discussion  
and Analysis

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## 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, 2022. Use this section in conjunction with the state’s basic financial statements. Comparative data is presented for this 2022 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 \$205.4 billion as of Aug. 31, 2022, an increase of \$49 billion or 31.3 percent from fiscal 2021. The majority of the increase is primarily due to an increase of \$35.6 billion in unrestricted net position and \$7.3 billion in net investment in capital assets. The net position is comprised of \$124.5 billion in net investment in capital assets, \$151 billion in restricted and negative \$70.1 billion in unrestricted.

### Fund Level

#### Governmental Funds

As of Aug. 31, 2022, the state’s governmental funds reported a combined ending fund balance of \$123.4 billion, an increase of \$23.4 billion from fiscal 2021, primarily due to increases in federal revenue related to COVID-19. The state reported a positive unassigned fund balance of \$33.9 billion in fiscal 2022.

#### Proprietary Funds

The proprietary funds reported a net position of \$92 billion as of Aug. 31, 2022, an increase of \$8.3 billion or 9.9 percent from fiscal 2021, primarily due to increases in federal revenues, pledged revenues and other revenues.

## Long-Term Debt

The state’s total bonds outstanding increased by \$688.8 million or 1.2 percent during fiscal 2022. This amount represents the net difference between net issuances, payments and refunding of outstanding bond debt. During fiscal 2022, the state issued bonds totaling \$4.3 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

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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 26 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**

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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**

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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.

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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**

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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, the lottery fund and the water development board funds are reported as major proprietary funds.

### **Reporting on the State's Fiduciary Responsibilities**

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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 \$475.4 billion, an increase of \$31.3 billion or 7.1 percent from fiscal 2021. Total liabilities of the state were \$221.2 billion, a decrease of \$52.8 billion or (19.3) percent from fiscal 2021. Cash and cash equivalents increased by \$8.6 billion in governmental activities and increased by \$2.7 billion in business-type activities from fiscal 2021.

There was a \$2.3 billion increase in federal receivables primarily due to COVID-19 related funding. There was a \$7.0 billion decrease in short-term debt primarily related to paid state unemployment benefits accrued from fiscal 2021. The state's bonded indebtedness was \$60.6 billion, which included new issuances of \$4.3 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. Net position was \$205.4 billion in fiscal 2022, an increase of \$49 billion or 31.3 percent. Of the

state's net position, \$124.5 billion was net investment in capital assets, while \$151 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 \$70.1 billion, a 33.6 percent increase from fiscal 2021. The majority of the net position increase is primarily due to an increase of 35.4 billion in unrestricted net position and \$7.3 billion in net investment in capital assets.

### Changes in Net Position

The state's net position for fiscal 2022 increased by \$49 billion. The state earned program revenues of \$161 billion and general revenues of \$86.4 billion, for total revenues of \$247.3 billion, a decrease of \$6.3 billion or negative 2.5 percent from fiscal 2021. The major components of this decrease were operating grants and contributions, which had a decrease of \$30.2 billion, and tax revenues, with an increase of \$18 billion. Federal revenues increased by \$46.1 billion and interest and investment income decreased by \$9.3 billion.

<b>Statement of Net Position</b>						
<b>Table MDA-1</b>						
August 31, 2022 and 2021 (Amounts in Thousands)						
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
<b>ASSETS</b>						
Assets Other Than Capital Assets	\$ 157,297,634	\$ 139,224,543	\$ 139,152,273	\$ 135,956,812	\$ 296,449,907	\$ 275,181,355
Capital Assets	140,537,306	131,922,924	38,462,665	37,002,787	178,999,971	168,925,711
Total Assets	<u>297,834,940</u>	<u>271,147,467</u>	<u>177,614,938</u>	<u>172,959,599</u>	<u>475,449,878</u>	<u>444,107,066</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>21,806,304</u>	<u>27,877,636</u>	<u>8,523,774</u>	<u>8,591,338</u>	<u>30,330,078</u>	<u>36,468,974</u>
<b>LIABILITIES</b>						
Current Liabilities	31,626,149	37,745,704	17,906,681	23,390,329	49,532,830	61,136,033
Noncurrent Liabilities	102,338,167	142,736,700	69,303,857	70,076,665	171,642,024	212,813,365
Total Liabilities	<u>133,964,316</u>	<u>180,482,404</u>	<u>87,210,538</u>	<u>93,466,994</u>	<u>221,174,854</u>	<u>273,949,398</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>72,288,283</u>	<u>45,789,982</u>	<u>6,931,927</u>	<u>4,412,035</u>	<u>79,220,210</u>	<u>50,202,017</u>
<b>NET POSITION</b>						
Net Investment in Capital Assets	110,800,734	103,334,319	13,654,730	13,828,372	124,455,464	117,162,691
Restricted	80,532,659	77,148,269	70,464,877	67,574,933	150,997,536	144,723,202
Unrestricted	<u>(77,944,748)</u>	<u>(107,729,871)</u>	<u>7,876,640</u>	<u>2,268,603</u>	<u>(70,068,108)</u>	<u>(105,461,268)</u>
Total Net Position	<u>\$ 113,388,645</u>	<u>\$ 72,752,717</u>	<u>\$ 91,996,247</u>	<u>\$ 83,671,908</u>	<u>\$ 205,384,892</u>	<u>\$ 156,424,625</u>

## Changes in Net Position

Table MDA-2

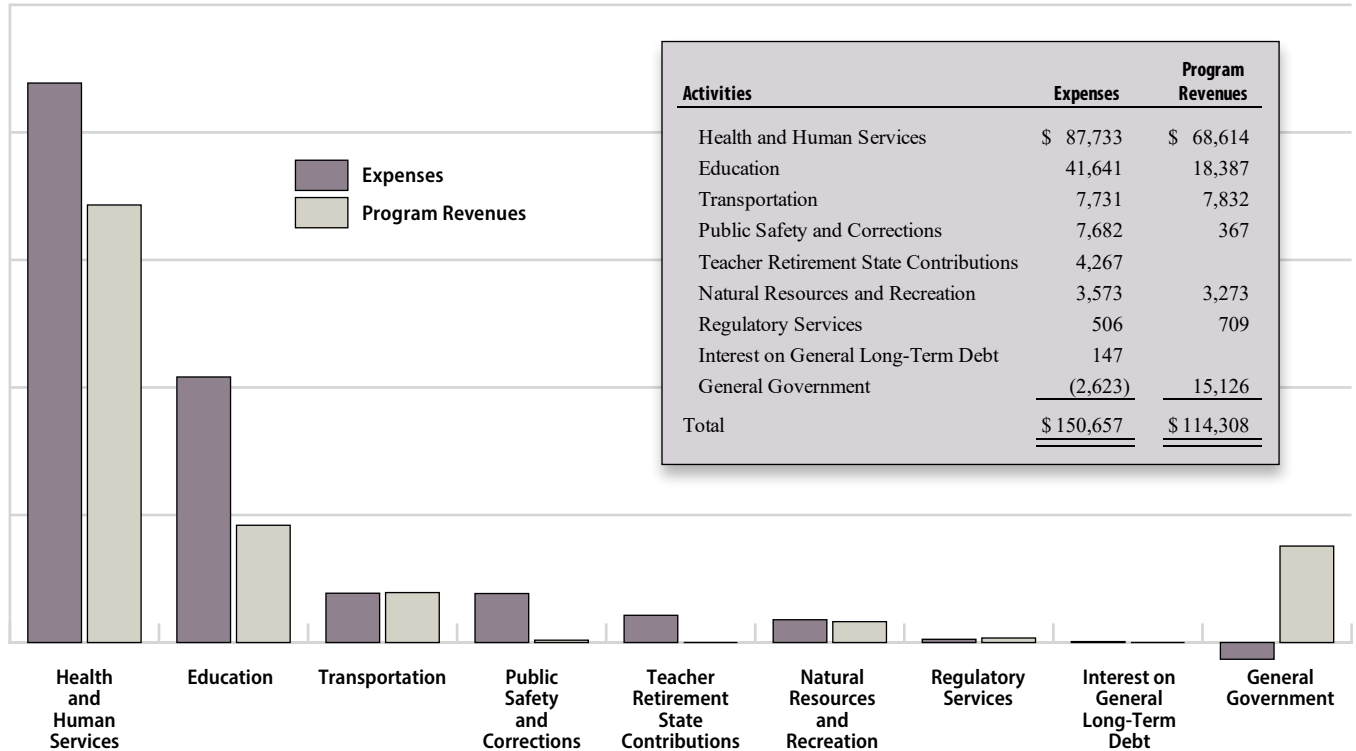
For the Fiscal Years Ended August 31, 2022 and 2021 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
<b>REVENUES</b>						
Program Revenues						
Charges for Services	\$ 15,349,104	\$ 12,352,642	\$ 32,447,069	\$ 29,589,596	\$ 47,796,173	\$ 41,942,238
Operating Grants and Contributions	98,895,680	84,402,547	13,748,930	58,405,771	112,644,610	142,808,318
Capital Grants and Contributions	62,953	58,687	272,484	143,359	335,437	202,046
Total Program Revenues	<u>114,307,737</u>	<u>96,813,876</u>	<u>46,468,483</u>	<u>88,138,726</u>	<u>160,776,220</u>	<u>184,952,602</u>
General Revenues						
Taxes	79,543,742	61,539,040			79,543,742	61,539,040
Unrestricted Investment Earnings	(177,703)	1,065,761	(148,182)	195,884	(325,885)	1,261,645
Settlement of Claims	647,729	797,352	2,425	3,085	650,154	800,437
Gain on Sale of Capital Assets	5,983	28,662	18,442	549	24,425	29,211
Loss on Other Financial Activity	(5,436)	(12,894)			(5,436)	(12,894)
Other General Revenues	6,197,723	4,274,476	360,334	804,660	6,558,057	5,079,136
Total General Revenues	<u>86,212,038</u>	<u>67,692,397</u>	<u>233,019</u>	<u>1,004,178</u>	<u>86,445,057</u>	<u>68,696,575</u>
Total Revenues	<u>200,519,775</u>	<u>164,506,273</u>	<u>46,701,502</u>	<u>89,142,904</u>	<u>247,221,277</u>	<u>253,649,177</u>
<b>EXPENSES</b>						
General Government	(2,612,809)	9,399,446	297,264	215,119	(2,315,545)	9,614,565
Education	41,640,966	33,975,101	40,335,100	40,353,505	81,976,066	74,328,606
Teacher Retirement State Contributions	4,266,932	2,766,221			4,266,932	2,766,221
Health and Human Services	87,732,567	77,473,428	1,993,906	26,084,927	89,726,473	103,558,355
Public Safety and Corrections	7,682,429	6,250,456	132,361	114,972	7,814,790	6,365,428
Transportation	7,731,490	6,488,617	710,006	607,473	8,441,496	7,096,090
Natural Resources and Recreation	3,572,620	3,727,228	539,464	551,445	4,112,084	4,278,673
Regulatory Services	506,166	488,535			506,166	488,535
Lottery			6,187,899	6,119,219	6,187,899	6,119,219
Interest on General Long-Term Debt	147,235	148,969			147,235	148,969
Total Expenses	<u>150,667,596</u>	<u>140,718,001</u>	<u>50,196,000</u>	<u>74,046,660</u>	<u>200,863,596</u>	<u>214,764,661</u>
Excess (Deficiency) Before Contributions, Special Items and Transfers						
	<u>49,852,179</u>	<u>23,788,272</u>	<u>(3,494,498)</u>	<u>15,096,244</u>	<u>46,357,681</u>	<u>38,884,516</u>
Capital Contributions	2,473	55	95,804	43,489	98,277	43,544
Contributions to Permanent and Term Endowments			410,448	380,675	410,448	380,675
Distributions from Permanent Fund Principal	(15,457)	(11,914)			(15,457)	(11,914)
Extraordinary Items				86,141		86,141
Transfers - Internal Activities	(9,708,156)	(1,542,142)	9,708,156	1,542,142		
Change in Net Position	<u>40,131,039</u>	<u>22,234,271</u>	<u>6,719,910</u>	<u>17,148,691</u>	<u>46,850,949</u>	<u>39,382,962</u>
Net Position, Beginning Balance	72,752,717	50,571,933	83,671,908	66,533,238	156,424,625	117,105,171
Restatements	504,889	(53,487)	1,604,429	(10,021)	2,109,318	(63,508)
Net Position, Beginning Balance, as Restated	<u>73,257,606</u>	<u>50,518,446</u>	<u>85,276,337</u>	<u>66,523,217</u>	<u>158,533,943</u>	<u>117,041,663</u>
Net Position, Ending Balance	<u>\$113,388,645</u>	<u>\$ 72,752,717</u>	<u>\$91,996,247</u>	<u>\$ 83,671,908</u>	<u>\$ 205,384,892</u>	<u>\$ 156,424,625</u>

## Expenses and Program Revenues: Governmental Activities

Graph MDA-3

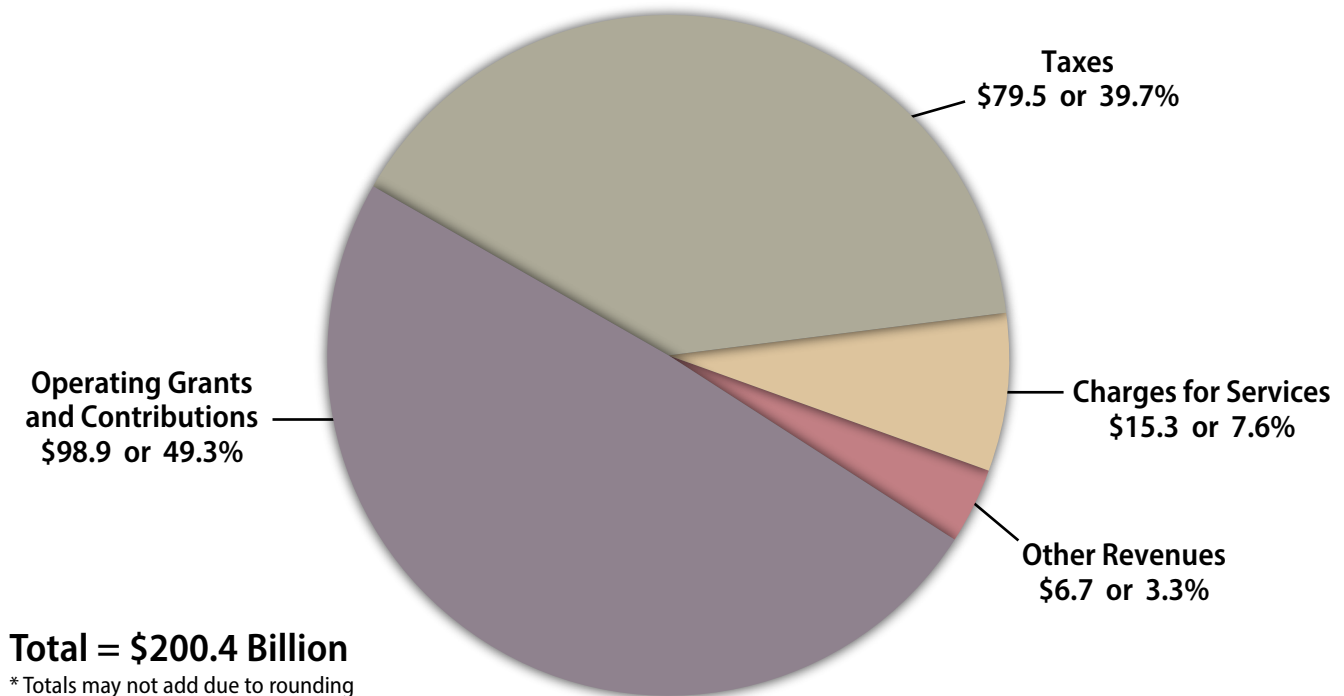
For the Fiscal Year Ended August 31, 2022 (In Millions)



## Revenue by Source: Governmental Activities

Graph MDA-4

For the Fiscal Year Ended August 31, 2022 (In Billions)\*

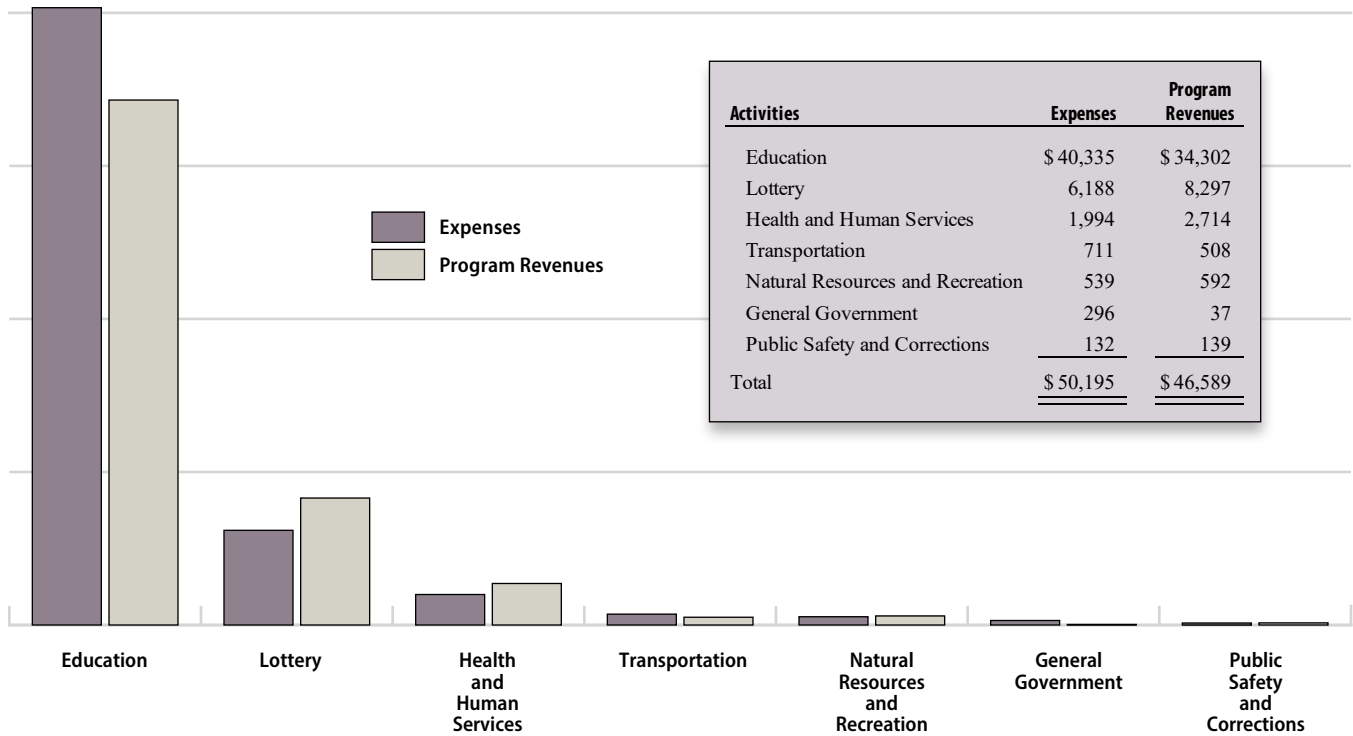




## Expenses and Program Revenues: Business-Type Activities

Graph MDA-5

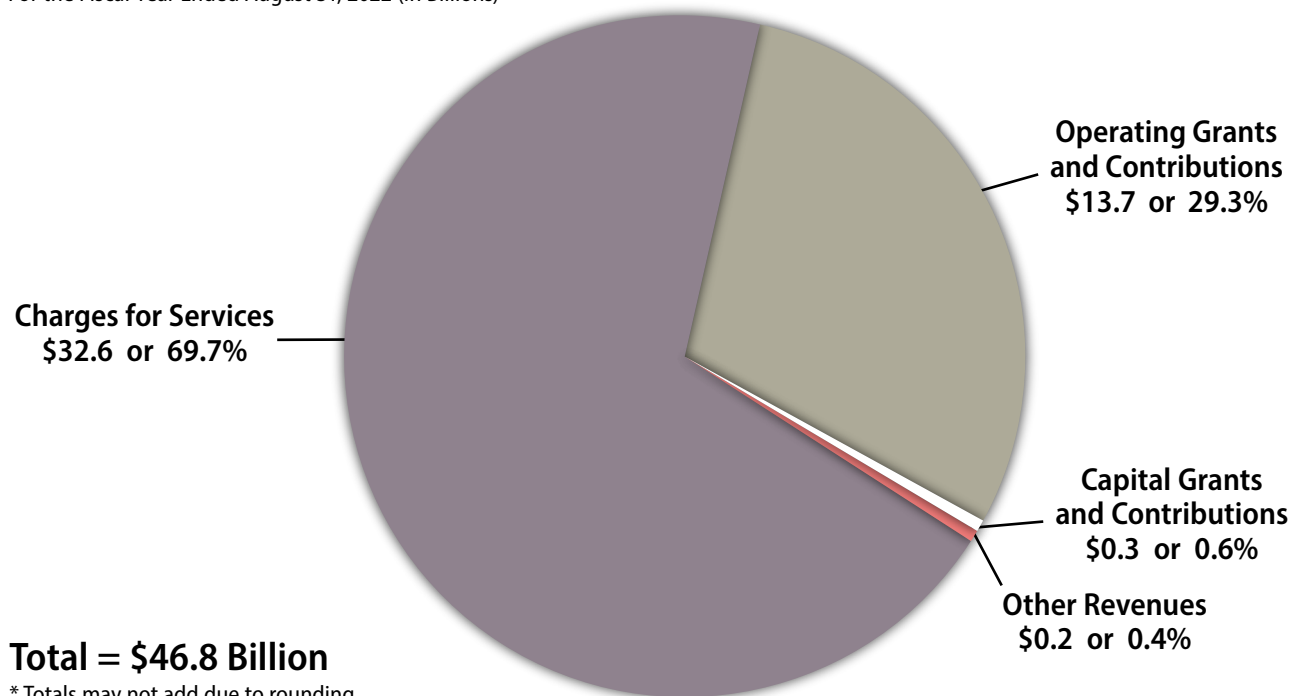
For the Fiscal Year Ended August 31, 2022 (In Millions)



## Revenue by Source: Business-Type Activities

Graph MDA-6

For the Fiscal Year Ended August 31, 2022 (In Billions)\*



The expenses of the state were \$200.9 billion, a decrease of \$13.9 billion, down 6.5 percent from fiscal 2021. The expense fluctuations in governmental activities are largely attributable to a \$10.3 billion increase in health and human services and an increase of \$7.7 billion in education services. In business-type activities, there was a \$24.1 billion decrease in health and human services and a \$18.4 million decrease in education services. Business-type activities also recorded a \$102.5 million increase in transportation activity.

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 \$114.3 billion, including charges for services of \$15.3 billion, operating grants and contributions of \$98.9 billion and capital grants and contributions of \$63 million. Total program revenues increased by \$17.5 billion for fiscal 2022. Taxes had an increase of \$18 billion from general revenue sources, with the largest increase attributed to sales and use tax. Governmental activities

expenses were \$150.7 billion. All functions of governmental activities in the government-wide statement of activities have a net cost, except the general government and regulatory services which reported slight surpluses. The education function and the health and human services function account for 85.9 percent of governmental activities expenses and 116.5 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 \$46.6 billion, including charges for services of \$32.6 billion, operating grants and contributions of \$13.7 billion and capital grants and contributions of \$272.5 million. The total expenses for business-type activities were \$50.2 billion. The largest changes occurred in health and human services, with a \$24.1 billion decrease and in transportation with a \$102.5 million increase for turnpike and parkway construction. There was an increase in net position in the government's business-type activities of \$8.4 billion from \$83.7 billion in fiscal 2021.

<b>Net Cost (Income) of the State's Activities</b>				
<b>Table MDA-7</b>				
For the Fiscal Year Ended August 31, 2022 (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	\$ (2,612,809)	\$ (17,738,312)	\$ 297,264	\$ 259,829
Education	41,640,966	23,253,722	40,335,100	6,154,208
Teacher Retirement State Contributions	4,266,932	4,266,932		
Health and Human Services	87,732,567	19,118,382	1,993,906	(720,116)
Public Safety and Corrections	7,682,429	7,316,184	132,361	(7,048)
Transportation	7,731,490	(100,566)	710,006	202,137
Natural Resources and Recreation	3,572,620	299,035	539,464	(52,104)
Regulatory Services	506,166	(202,753)		
Lottery			6,187,899	(2,109,389)
Interest on General Long-Term Debt	147,235	147,235		
<b>Total of Services Provided</b>	<b>\$ 150,667,596</b>	<b>\$ 36,359,859</b>	<b>\$ 50,196,000</b>	<b>\$ 3,727,517</b>

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## Financial Analysis of the State's Funds

### Governmental Funds

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As of Aug. 31, 2022, governmental funds reported fund balances of \$123.4 billion. The general fund reported a positive \$45.1 billion fund balance, 36.6 percent of overall fund balance.

#### **General Fund**

The fund balance for the general fund as of Aug. 31, 2022, was \$45.1 billion, an increase of \$20.4 billion from fiscal 2021. The state constitution, state statute and federal rule or bond covenants constrain \$11.1 billion. The unassigned fund balance was \$34.1 billion, which includes \$14.4 billion in the economic stabilization fund, commonly called “the rainy day fund.” Contributing to the fund balance were increases in spending for education and health and human services of \$7.5 billion and \$10.1 billion, respectively, primarily due to COVID-19 related expenses. There were increases in federal revenues of \$22.3 billion and \$16.3 billion in tax revenues. COVID-19–Coronavirus State and Local Fiscal Recovery Funds (CSFRF) accounted for \$15.8 billion of this increase. Sales and Use Tax and Oil and Natural Gas Production Taxes increased 24.4 percent and 119.4 percent, respectively, due to the easing up of COVID-19 restrictions.

#### **State Highway Fund**

The fund balance for the state highway fund for fiscal 2022, was \$12.6 billion, an increase of \$2.9 billion from \$9.6 billion in fiscal 2021. This increase was primarily attributable to an increase in tax revenue of \$205.4 million and \$47.5 million in licenses, fees and permits revenue. The increase in tax revenues is the result of an improving economy and the relaxation of COVID-19 restrictions. The increase of statewide sales tax and gas tax collections impacted the allocations to the fund required by statute. The increase in revenues to licenses, fees and permits is the result of outdoor advertising fees,

toll collections and highway beautification fees. Cash and cash equivalents increased by \$746.8 million as the net change in fund balance increased by \$2.0 billion.

#### **Permanent School Fund**

The fund balance for the permanent school fund (PSF) as of Aug. 31, 2022, totaled \$56.8 billion, an increase of \$1.2 billion from fiscal 2021. This increase was primarily attributable to an increase in valuation of investments of \$1.6 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 2022, a total of \$103.2 billion in school district bond issues were guaranteed at year-end.

#### **Proprietary Funds**

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Proprietary funds reported net position of \$92 billion in fiscal 2022, an increase of \$8.3 billion from fiscal 2021. The state’s public colleges and universities hold 90.4 percent of the reported net position in proprietary funds.

#### **Colleges and Universities**

Colleges and universities’ net position for fiscal 2022 totaled \$83.2 billion, an increase of \$861.8 million from fiscal 2021. Federal revenue and other revenues increased by \$212.7 million and \$201.5 million, respectively, for fiscal 2022. Pledged revenues increased \$3.6 billion, an increase of 11.4 percent. Payroll related costs decreased by \$462.9 million and professional fees and services decreased by \$387.6 million for fiscal 2022. Salaries and wages increased by 6.7 percent to \$1.1 billion. These revenues and expenses primarily contributed to the net loss before capital contributions, endowments and transfers increase of \$21.5 billion from fiscal 2021. Change in net position was a negative

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\$904.7 billion, a negative decrease of \$19.6 billion from fiscal 2021. There was also \$2.1 million, a 116.9 percent increase, 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 decreased by \$1.1 billion from \$32 billion in fiscal 2021 to \$30.9 billion in fiscal 2022. 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 \$2.2 billion for fiscal 2022, an increase of \$7.8 billion from negative \$5.5 billion from the prior fiscal year. Due to increased economic improvement the unemployment rate has declined during 2022. By the end of November 2022, the unemployment rate stood at 4.1 percent. Unemployment benefits paid for fiscal 2022 totaled \$2 billion, which represents a \$24.1 billion decrease or negative 92.5 percent compared to fiscal 2021. During fiscal 2022, federal revenue decreased \$21 billion in proportion to the decrease in unemployment benefit payments.

### ***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 negative net position of \$20.8 million for fiscal 2022, an increase of \$35.2 million from the prior fiscal year. There was an decrease in interest and investment income of \$21.2 million due to the change in the fair value of investments. Transfers to state agencies totaled \$2 billion. The commission recorded its highest level of total sales since ticket sales began in 1992 with collections of \$8.3 billion.

### ***Water Development Board Funds***

The Water Development Board Funds reports activities from statewide water related projects that provide assistance to political subdivisions. The funds reported a net position of \$5.3 billion for fiscal 2022, an increase of \$63.4 million from fiscal 2021. An increase of \$975.8 million, or 11.1 percent, in overall bond liabilities occurred during fiscal 2022. The activities in these funds during fiscal 2022 resulted in a realignment of the Water Development Board Funds moving from a nonmajor reporting status to a discretely reported major fund in the proprietary fund financial statements.

### ***Fiduciary Funds***

Fiduciary funds reported \$262.5 billion in net position for fiscal 2022, a decrease of \$15.4 billion from \$277.9 billion in fiscal 2021, a 5.5 percent decrease.

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

Total net position for pension and other employee benefit trust funds was \$221.3 billion for fiscal 2022, a decrease of \$18.7 billion from the \$240.1 billion reported in fiscal 2021. The majority of plan assets are held as investments for the pension funds. In fiscal 2022, additions from all sources decreased by \$59.8 billion, including a \$62.0 billion decrease in total net investment income. Total deductions increased by \$1.9 billion from \$17.3 billion in fiscal 2021. 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 (6.7) percent and (1.55) percent, respectively, compared to the previous year's returns of 24.9 percent and 25.5 percent. The decrease is primarily from poor performance of investments.

### ***External Investment Trust Fund***

The Treasury Pool, managed by the Texas Treasury Safekeeping Trust Company (Trust Company) is the only external investment trust fund. The Trust Compa-

ny 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 Company reported a total net position of \$32.4 billion in fiscal 2022, an increase of \$2.7 billion from fiscal 2021. The increase in net position is primarily due to an increase in interest, dividend and other investment income as well as a net increase in participant investments.

### Private-Purpose Trust Funds

Total net position for private-purpose trust funds was \$4.4 billion in fiscal 2022, an increase of \$6.2 million from fiscal 2021. Additions from all sources and all deductions were \$1.5 billion in each category and therefore had a minimal effect on the change in net position. The net increase in net position of \$4.1 million is a decrease of 99.4 percent from the net increase of \$743.7 million in fiscal 2021.

### Custodial Funds

Total net position for custodial funds was \$4.4 billion for fiscal 2022, which includes \$529.9 million in nonexternal investment pool custodial funds. The total net position increased by \$581.8 million from fiscal 2021 primarily due to increases in member contributions and other contributions.

## 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 negative net change of \$11.1 billion.

There was a negative \$31.8 billion variance between the actual and final budget revenues. The largest negative revenue variances occurred with federal revenues, which reported a negative \$31.9 billion difference and with sales of goods and services, which reported a negative \$2.1 billion difference.

The largest expenditure variances occurred in the general government and education functions, \$22.5 billion and \$3.8 billion, respectively. The net change in these functions comprise 87.2 percent of the overall expenditure variance of \$30.1 billion.

## Capital Assets – Net of Depreciation and Amortization

Table MDA-8

For the Fiscal Years Ended August 31, 2022 and 2021 (Amounts in Thousands)

Capital Asset Type	Governmental Activities		Business-Type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
Land and Land Improvements	\$ 18,522,819	\$ 17,372,642	\$ 2,586,241	\$ 2,420,861	\$ 21,109,060	\$ 19,793,503
Infrastructure	92,679,749	87,886,624	3,143,977	3,038,356	95,823,726	90,924,980
Construction in Progress	25,190,689	23,815,981	3,283,297	3,405,315	28,473,986	27,221,296
Land Use Rights – Permanent	90,870	88,981	22,918	22,919	113,788	111,900
Buildings and Building Improvements	2,002,980	1,629,513	22,149,681	22,006,045	24,152,661	23,635,558
Facilities and Other Improvements	78,433	75,213	1,917,893	1,973,197	1,996,326	2,048,410
Furniture and Equipment	278,859	255,747	2,127,706	2,113,812	2,406,565	2,369,559
Vehicles, Boats and Aircraft	570,511	589,267	89,650	93,104	660,161	682,371
Other Capital Assets	120,397	121,176	1,704,738	1,580,878	1,825,135	1,702,054
Intangible Capital Assets, Net	207,372	87,780	265,588	348,300	472,960	436,080
Total Capital Assets	<u>\$ 139,742,679</u>	<u>\$ 131,922,924</u>	<u>\$ 37,291,689</u>	<u>\$ 37,002,787</u>	<u>\$ 177,034,368</u>	<u>\$ 168,925,711</u>

## Capital Assets and Debt Administration

### Capital Assets

For fiscal 2022, the state has \$177 billion in net capital assets. This total represents an increase of \$8.1 billion in total capital assets or 4.8 percent from fiscal 2021. Included in this amount are increases to infrastructure of \$4.9 billion and land purchases and improvements of \$1.2 billion primarily by the Texas Department of Transportation (TxDOT). Institutions of higher education also added \$165.4 million to land and land 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 \$14.3 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 2022. During fiscal 2022, Texas' state agencies and institutions of higher education issued \$4.3 billion in state bonds to finance new construction, transportation, housing,

## Outstanding Bonded Debt

Table MDA-9

For the Fiscal Years Ended August 31, 2022 and 2021 (Amounts in Thousands)

Description of Issue	Governmental Activities		Business-Type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
General Obligation Bonds	\$ 13,955,727	\$ 14,057,687	\$ 3,884,198	\$ 3,899,210	\$ 17,839,925	\$ 17,956,897
General Obligation Bonds –						
Direct Placements	280,956	282,942	58,050	81,010	339,006	363,952
Revenue Bonds	4,300,470	4,498,868	37,388,647	36,469,882	41,689,117	40,968,750
Revenue Bonds - Direct Borrowings/ Placements		150,000	691,149	430,823	691,149	580,823
Total Bonds Payable	<u>\$ 18,537,153</u>	<u>\$ 18,989,497</u>	<u>\$ 42,022,044</u>	<u>\$ 40,880,925</u>	<u>\$ 60,559,197</u>	<u>\$ 59,870,422</u>

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water conservation and treatment and other projects. General obligation debt accounted for \$1.7 billion of state bonds issued in fiscal 2022. This debt, which can only be authorized by a constitutional amendment, carries the full faith and credit of the state. The remaining \$2.7 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 \$878.1 million in general obligation bonds and \$1.5 billion in revenue bonds. Also, \$838.7 million in general obligation bonds and \$389.4 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, 2022 was \$18.2 billion. This represents a decrease of \$141.9 million or 0.8 percent from fiscal 2021. An additional \$16.0 billion of general obligation bonds were authorized but are unissued. Total revenue bonds outstanding were \$42.4 billion, which is an increase of \$831 million or 2.0 percent from fiscal 2021. Note 5 discloses the details on the state's long-term liabilities and Note 6 provides detailed information on the state's bonded indebtedness.

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## **Economic Condition**

The Texas economy added 657,600 nonfarm jobs from November 2021 to November 2022, an increase of 5.1 percent, to reach 13,672,900. Texas added more new jobs than any other state except California (675,000) over those 12 months. Private-sector employment rose by 5.8 percent while government employment (federal, state, and local) grew by 1.1 percent. The state's rate of job growth was the highest among the fifty states.

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## **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.