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SECTION ONE

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Introductory Section

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February 28, 2023

To the Citizens of Texas, Governor Abbott and Members of the 88th Texas Legislature:

The state of Texas Annual Comprehensive Financial Report (ACFR) for the fiscal year ended Aug. 31, 2022, 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. Their 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, 2022, 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.

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All activities generally considered part of the Texas state government 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

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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 appro-

priated 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 expenditures 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

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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. House Bill No. 903 of the 84th Legislature allowed the agency to move a portion of the ESF into prudent but higher-yield investments that would maintain the fund's purchasing power. Senate Bill No. 69 of the 86th Legislature further increased the amount of the ESF subject to the new investment standard, while requiring liquid investments for at least one quarter of the fund.

The balance in the fund on Aug. 31, 2022, was \$14.4 billion. The ESF is also discussed in Note 13.

## **Economic Outlook**

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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 ten 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 as a whole grew at an annual rate of 2.1 percent, although U.S. growth did outpace that of Texas in 2021 (5.9 percent and 3.9 percent respectively). For calendar year 2022 Texas real Gross Domestic Prod-

uct (GDP) growth is estimated to have been 2.6 percent while that of the nation is estimated to have been 1.9 percent. Both the U.S. and Texas economies are expected to enter into a mild recession in early 2023. Full year real GDP growth, however, is expected to be positive; 1 percent for Texas and 0.3 percent for the U.S.

After increases of 4.1 percent in 2020 and 8.8 percent in 2021, Texas personal income grew by an estimated 5 percent in 2022. It is expected to continue to grow in 2023 and through the coming biennium, by 4.4 percent in 2023, 5.4 percent in 2024 and 5.3 percent in 2025. Personal income is made up of various components with wage and salary being the largest component but also includes dividends, rental income, proprietor income and transfer payments. Transfer payments are payments from governmental entities that include social security, unemployment benefits and most recently, COVID-19 pandemic relief payments.

Further underlying recent personal income gains is population growth that has been, and is expected to continue to be, fueled by net migration and a relatively high birth rate. Recent estimates by the U.S. Census Bureau show that three Texas cities were among the nation's five most rapidly growing large cities from 2020 to 2021: Georgetown (1), Leander (2) and New Braunfels (5). Among the fifteen U.S. cities with the highest absolute increases in population, eight were in Texas. Texas' population is projected to grow by an average 360,900 annually from 2023 to 2025, to reach 31 million.

As of November 2022, the Texas unemployment rate was 4 percent, down from 4.9 percent in November 2021. Over that period, the U.S. unemployment rate fell from 4.2 percent to 3.7 percent. The Texas unemployment rate is expected to average 5.8 percent in 2023, while the U.S. rate is expected to average 4.6 percent. Total Texas nonfarm employment rose by an estimated 5.7 percent in 2022 and is expected to increase by a further 2.2 percent in 2023.

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## Texas Industry Performance

All of Texas' 11 major nonfarm industries experienced net job growth from November 2021 to November 2022. Employment in goods-producing industries increased by 6.5 percent, while employment in service-producing industries rose by 4.8 percent. Employment gains in the goods-producing industries (mining and logging, manufacturing and construction) were led by a 47,100 increase in manufacturing employment. Among the service-providing industries, the largest increases were seen in the education and health services (89,500) and the leisure and hospitality industries (162,500).

### Manufacturing

Texas manufacturing industry employment increased by 5.3 percent over 2021. Durable goods employment was up 26,800, or 4.8 percent, with the largest increase in the fabricated metals manufacturing sector of 15,100, or 12.5 percent. That sector is closely associated with oil and natural gas exploration and production, and employment in the sector has been increasing along with that in the mining industry. Nondurable-goods manufacturing employment grew by 20,200, or 6.2 percent, with the largest increase in the food manufacturing sector of 8,200, or 7.7 percent. Total manufacturing employment in November 2022 was 933,600.

The value of Texas exports in calendar year 2014 was a record \$289 billion, an increase of 3.3 percent from 2013. Those exports provided a substantial boost to manufacturing, notably for companies producing chemicals, computers and electronics, petroleum products, industrial machinery and transportation equipment. In 2015, the value of Texas exports fell sharply, hurt by falling oil prices and a stronger dollar, to \$251 billion, down 13.1 percent. Texas exports continued to fall in 2016, down another 7.4 percent. However, Texas 2017 exports were up 13.5 percent from the 2016 level, increased by another 19.4 percent in 2018, and by a

further 4.8 percent in 2019. As a result of the COVID-19 pandemic and a fall in oil prices, exports fell sharply in 2020, down 15.5 percent from 2019 to \$279 billion. Export growth resumed in 2021, up 34.4 percent from 2020 and reaching a new high of \$375 billion. Through October 2022, Texas exports were up a further 29 percent from the corresponding period of 2021. Texas remains the nation's leading exporting state, as it has been for more than a decade. Texas exports comprised 21 percent of total U.S. exports in 2021.

### Construction

Total housing construction activity was up over the year. Single-family building permits issued in the 12-month period ending October 2022, at 166,637, were down somewhat by 2.8 percent from the same period one year earlier. However, building permits for multi-family units were up sharply by 33.4 percent. Total permits issued were up by 8.9 percent from the corresponding period in 2021.

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 rose 4.8 percent over the last year, from \$315,000 in November 2021 to \$330,000 in November 2022. The inventory of existing homes for sale in November 2022 was 2.9 months, up from 1.4 in November 2021.

### Mining

Texas oil production peaked more than 40 years ago in 1972, when calendar year production reached 1,263 million barrels. Production volumes reached a low of 341 million barrels in calendar 2007. From that low point, oil production has increased steadily, in large part due to the development and widespread use of enhanced fracturing techniques. Calendar 2019 production increased by more than 15 percent from 2018 levels, to reach a new record of 1.7 billion barrels. Decreased demand as a result of COVID-19 related

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economic disruptions combined with increases in Saudi Arabian and Russian production in the early part of 2020 led to a sharp decrease in oil prices and a resulting decrease in production. Calendar 2020 production was down by an estimated 7.0 percent from 2019. Oil production declined by an estimated further 2 percent in 2021, but is projected to increase by 3.7 percent in 2022 to 1.6 billion barrels.

## Awards and Acknowledgments

### Certificate of Achievement

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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, 2021. 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 32 years (fiscal years ended August 1990 through 2021). 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

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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,



Glenn Hegar







## Elected State Officials

### Executive

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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

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Lieutenant Governor Dan Patrick  
President of the Senate

Dade Phelan  
Speaker of the House of Representatives

### Judicial

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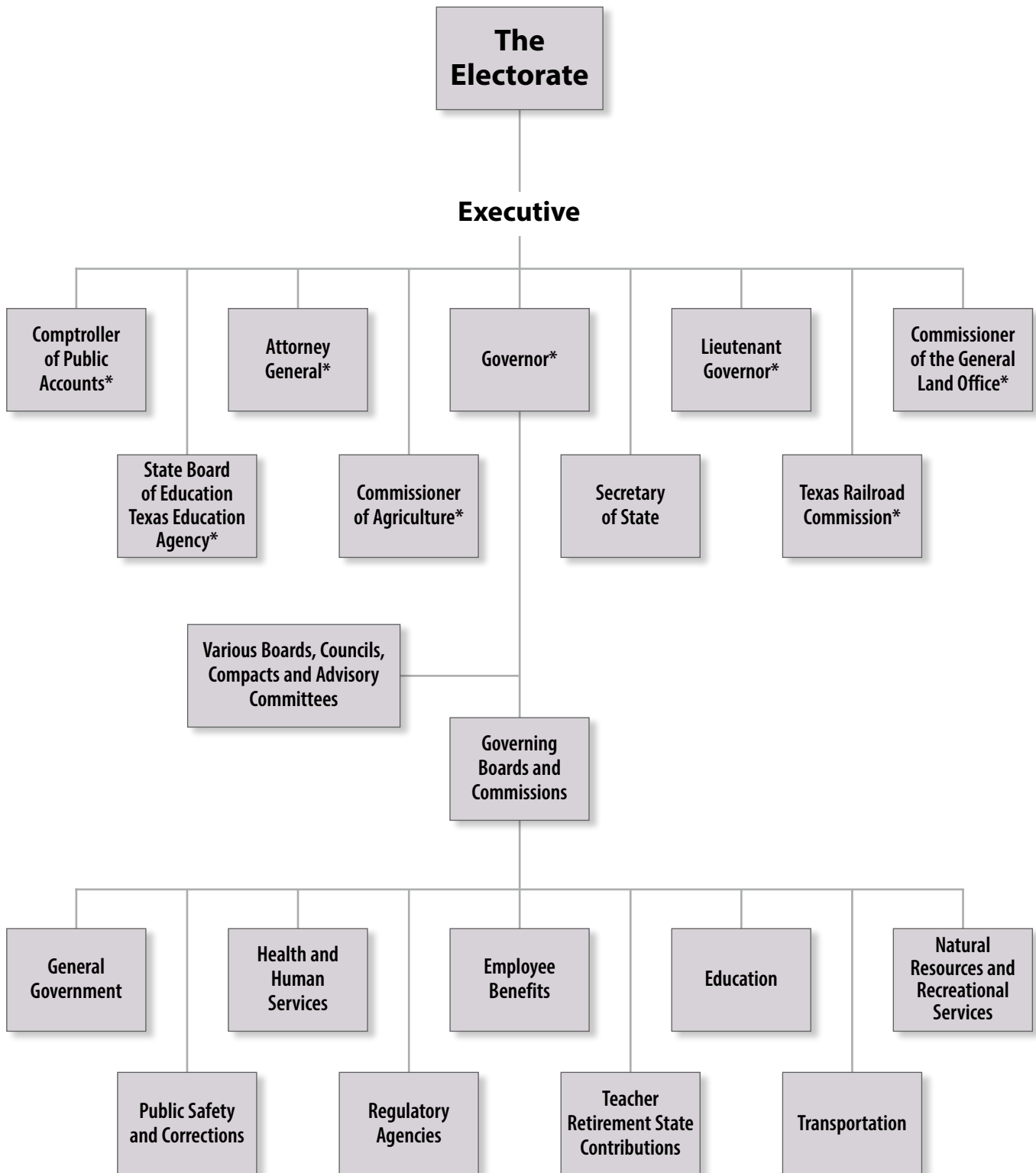
#### **Supreme Court of Texas**

Nathan L. Hecht, Chief Justice  
Jimmy Blacklock, Justice  
Debra Lehrmann, Justice  
John Devine, Justice  
Rebecca Aizpuru Huddle, Justice  
Jane Bland, Justice  
Jeffrey S. Boyd, Justice  
Brett Busby, Justice  
Evan A. Young, Justice

#### **Court of Criminal Appeals**

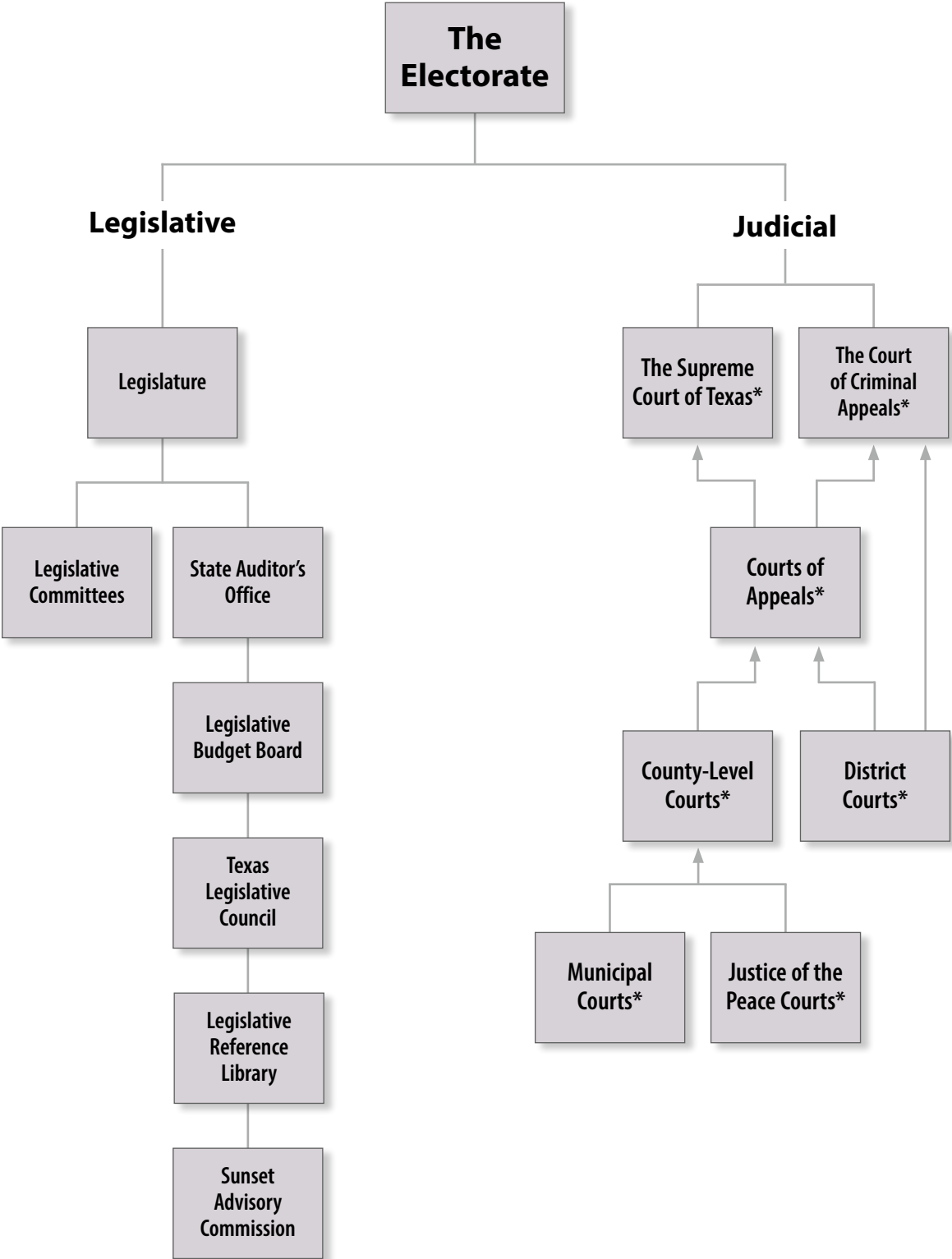
Sharon Keller, Presiding Judge  
Mary Lou Keel, Judge  
Bert Richardson, Judge  
Kevin Yeary, Judge  
Scott Walker, Judge  
Jesse F. McClure III, Judge  
Barbara Parker Hervey, Judge  
Michelle Slaughter, Judge  
David Newell, Judge

# 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, 2021

*Christopher P. Morill*

Executive Director/CEO