
SECTION ONE

Introductory Section



February 26, 2021

To the Citizens of Texas, Governor Abbott
and Members of the 87th Texas Legislature:

The state of Texas Comprehensive Annual Financial Report (CAFR) for the fiscal year ended Aug. 31, 2020, 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, 2020, 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 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. All governmental funds are appropriated for a biennium, except for appropriations related to construction, which are appropriated for five years. 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 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 an unwavering 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 49a, 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 49j.

The economic stabilization fund (ESF), commonly called the rainy day fund, authorized in 1988 by the *Texas Constitution*, Article III, Section 49g, 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 that barely kept pace with inflation. 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, while requiring liquid investments for at least one quarter of the fund. Senate Bill No. 69 of the 86th Legislature further increased the amount of the ESF subject to investment allowing up to 75 percent of the balance.

The balance in the fund on Aug. 31, 2020, was \$11.3 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 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 2.9 percent, while the economy of the nation as a whole grew at an annual rate of 1.7 percent. However, Texas real GSP and national real Gross Domestic Product both fell in 2020, by an estimated 3.3 and 3.6 percent, respectively. The U.S. economy is projected to grow by 3.1 percent in 2021, while Texas real GSP is projected to grow by only 0.7 percent. The Texas economy is expected to again grow faster than that of the U.S. in 2022.

After increases of 6.9 percent in 2018 and 4.6 percent in 2019, Texas personal income grew by an estimated 4.4 percent in 2020. However, personal income is expected to fall by 2.6 percent in 2021, with less federal economic support related to the pandemic.

Texas personal income growth is expected to resume in 2022. Underlying this income growth is growth in the Texas population. Recent estimates by the U.S. Census Bureau show that six of the nation's 15 most rapidly growing large cities from 2010 through 2019 were in Texas, including three of the top four: Frisco (first), New Braunfels (third) and McKinney (fourth). Texas' population is estimated to have grown by 1.1 percent in 2020 and is projected to grow by a further 1.2 percent in 2021 to reach 29.7 million.

As of November 2020, the Texas unemployment rate was 8.1 percent, up from 3.5 percent in November 2019. Over that period, the U.S. unemployment rate rose from 3.5 percent to 6.7 percent. The Texas unemployment rate is expected to average 7 percent in 2021, while the U.S. rate is expected to average 5.7. Total Texas nonfarm employment fell by an estimated 3.6 percent in 2020 but is expected to increase by 1.2 percent in 2021.

Texas Industry Performance

Nine of Texas' 11 major nonfarm industries experienced net job losses from November 2019 to November 2020. Employment in goods-producing industries decreased by 5.9 percent, while employment in service-producing industries fell by 3.3 percent. All three of the goods-producing industries (mining and logging, manufacturing, and construction) decreased employment. Employment was led by a 49,600 decrease in mining and logging, which also had the highest rate of contraction (20.5 percent) among all industries.

The service-providing industries were the only sector to see employment growth over the past 12 months. Among the service providing industries, employment in financial activities increased by 2.4 percent (up 19,300) while employment in professional and business services increased by 1.1 percent (up 19,600).

Manufacturing

According to the U.S. Census Bureau, the value of Texas exports in 2015 fell sharply (to \$251 billion, down 13.1 percent), hurt by falling oil prices and a stronger dollar. 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 and increased by another 19.4 percent in 2018. In November 2019, for the first time since October 2016, monthly Texas exports decreased on a year-over-year basis. Total 2019 exports were still 4.8 percent higher than 2018 exports. However, exports have fallen sharply since March. For the period January 2020 to November 2020, the value of Texas exports was 16 percent lower than that of the corresponding period of 2019. Texas, however, remains the nation's leading exporting state, as it has been for more than a decade. Texas exports comprised 20 percent of total U.S. exports in 2019.

Construction

Total housing construction activity was up over the year. Single-family building permits issued in the past 12 months, at 143,389, were up sharply (by 19.3 percent) from the same period one year earlier. However, building permits for multi-family units fell by 11.4 percent. Total permits issued were up by 7.2 percent from the corresponding period in 2019.

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 12.8 percent over the last year, from \$239,000 in November 2019 to \$269,500 in November 2020. The inventory of existing homes for sale in November 2020 was just 2 months, the lowest level since at least 1990.

Mining and Logging

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 343 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-related 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 7.9 percent from 2019.

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 CAFR for the fiscal year ended Aug. 31, 2019. 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 CAFR 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 30 years (fiscal years ended August 1990 through 2019). 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". The signature is fluid and cursive, with a long horizontal stroke extending to the left.

Glenn Hegar



Elected State Officials

Executive

Greg Abbott
Governor

Dan Patrick
Lieutenant Governor

Glenn Hegar
Comptroller of Public Accounts

Ken Paxton
Attorney General

George P. Bush
Land Commissioner

Wayne Christian
Christi Craddick
James Wright
Railroad Commissioners

Sid Miller
Commissioner of Agriculture

Legislative

Lieutenant Governor Dan Patrick
President of the Senate

Dade Phelan
Speaker of the House of Representatives

Judicial

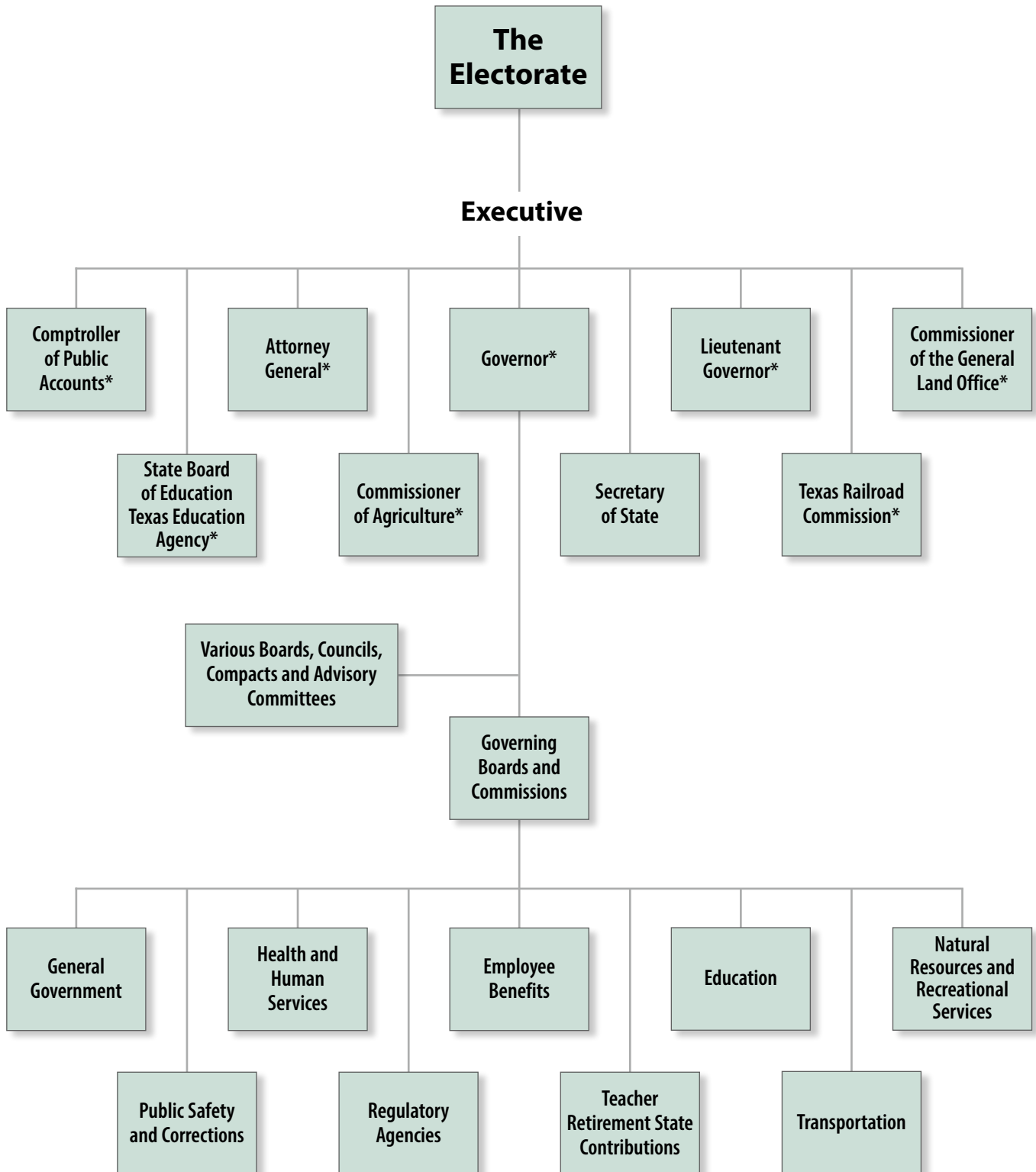
Supreme Court of Texas

Nathan L. Hecht, Chief Justice
Jeffrey S. Boyd, Justice
John Devine, Justice
Rebeca Huddle, Justice
Eva M. Guzman, Justice
Debra Lehrmann, Justice
Jimmy Blacklock, Justice
Brett Busby, Justice
Jane Bland, Justice

Court of Criminal Appeals

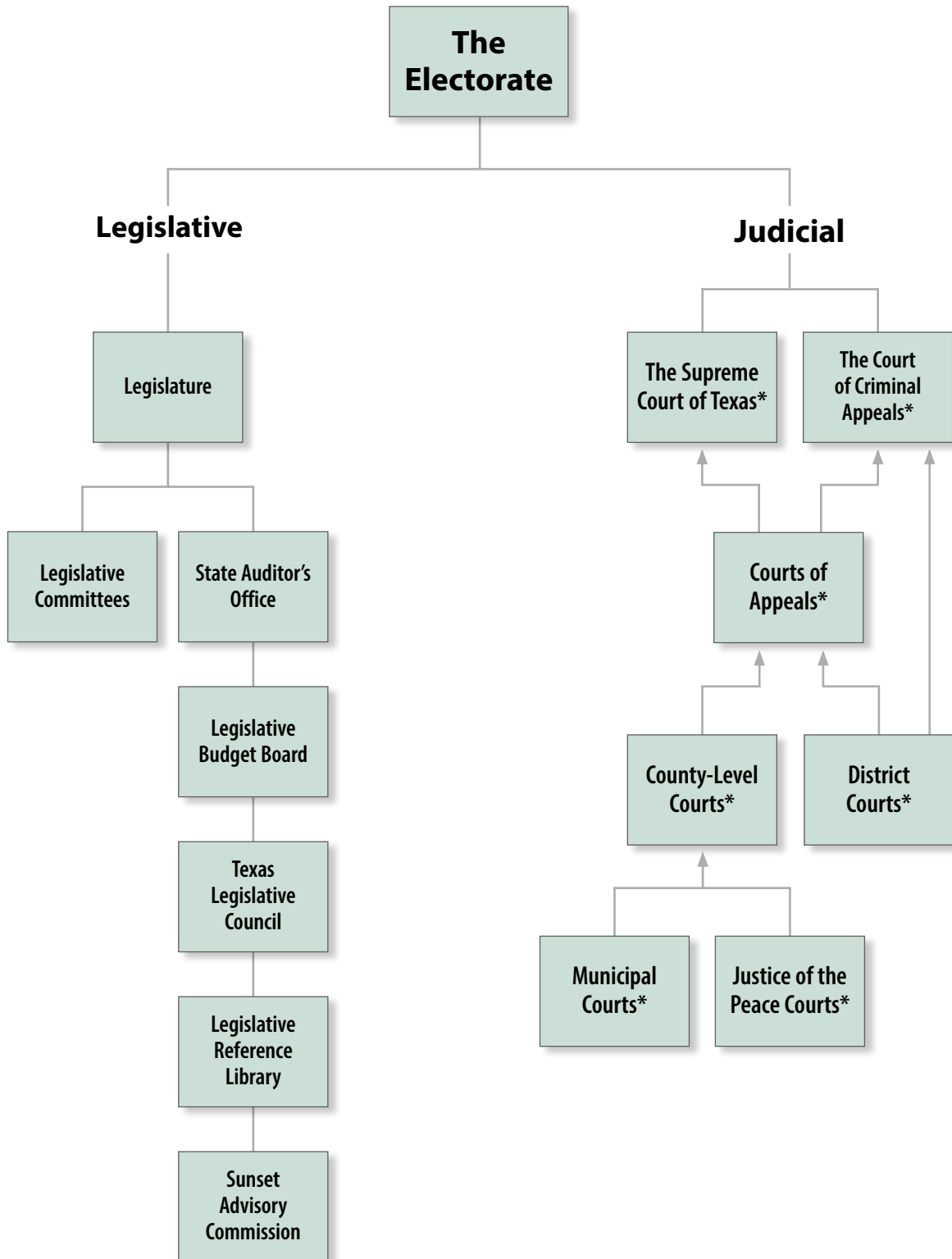
Sharon Keller, Presiding Judge
Michelle Slaughter, Judge
Barbara Parker Hervey, Judge
Scott Walker, Judge
Jesse McClure III, Judge
Mary Lou Keel, Judge
David Newell, Judge
Bert Richardson, Judge
Kevin Yeary, Judge

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 Comprehensive Annual
Financial Report
for the Fiscal Year Ended

August 31, 2019

Christopher P. Morill

Executive Director/CEO