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SECTION ONE

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# Introductory Section

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February 28, 2022

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

The state of Texas Annual Comprehensive Financial Report (ACFR) for the fiscal year ended Aug. 31, 2021, 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, 2021, 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 state of Texas are included in this report. These activities provide a range of services in the areas of education, health and human services, public safety and corrections, transportation, natural resources and recreation, regulation, general government, employee benefits and teacher retirement state contributions.

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

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

## Accounting System and Budgetary Controls

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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 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 49-j.

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

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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. 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, 2021, was \$11.6 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 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 3.4 percent, while the economy of the nation as a whole grew at an annual rate of 2.3 percent. However, as a result of economic disruptions related to the COVID-19 pandemic, Texas real GSP and national real Gross Domestic Product both fell in 2020, by an estimated 2.9 and 3.4 percent respectively. The U.S. economy is estimated to have

grown by 5.7 percent in 2021, while Texas real GSP is estimated to have grown by only 5.5 percent. The Texas economy is expected to again grow faster than that of the U.S. in 2022.

After increases of 4.1 percent in 2019 and 4.8 percent in 2020, Texas personal income grew by an estimated 8.1 percent in 2021. That increase was in large part due to increases in transfer payments from 2020 levels, which were in turn much larger than 2019 transfer payments. 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. Total transfer payments are expected to fall in 2022, and personal income growth is expected to be a relatively modest 2.8 percent.

Further underlying recent personal income gains is population growth that has been, and will continue to be, fueled by net migration and a relatively high birth rate. Recent estimates by the U.S. Census Bureau show that 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 0.9 percent in 2020 and is projected to grow by a further 1.1 percent in 2022 to reach 29.8 million.

As of November 2021, the Texas unemployment rate was 5.2 percent, down from 7.2 percent in November 2020. Over that period, the U.S. unemployment rate fell from 6.7 percent to 4.2 percent. The Texas unemployment rate is expected to average 3.9 percent in 2022, while the U.S. rate is expected to average 3.6 percent. Total Texas nonfarm employment rose by an estimated 3.4 percent in 2021 and is expected to increase by a further 4.2 percent in 2022.

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## Texas Industry Performance

All of Texas' 11 major nonfarm industries experienced net job growth from November 2020 to November 2021. Employment in goods-producing industries increased by 4.3 percent, while employment in service-producing industries rose by 5.9 percent. Employment gains in the goods-producing industries (mining and logging, manufacturing and construction) were led by a 31,500 increase in manufacturing employment. Among the service-providing industries, the largest increases were seen in the professional and business services industry (up 200,800) and the leisure and hospitality industry (up 133,100).

## 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 Nov. 2016, Texas exports decreased on a year-over-year basis. Total 2019 exports were still 4.8 percent higher than 2018 exports. 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 has resumed in recent months, with 2021 year-to-date exports up 32.8 percent from the corresponding 2020 total. 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 2020.

## Construction

Total housing construction activity was up over the year. Single-family building permits issued in the past 12 months, at 169,677, were up sharply (by 20.6 percent) from the same period one year earlier. The build-

ing permits for multi-family units were also up by 16.1 percent. Total permits issued were up by 19.1 percent from the corresponding period in 2020.

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 17.2 percent over the last year, from \$269,000 in November 2020 to \$315,450 in November 2021. The inventory of existing homes for sale in November 2021 was just 1.4 months, down from 1.9 in November 2020.

## 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 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 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 3.1 percent in 2021, but is projected to increase by 3.6 percent in 2022.

## Major Legislative Initiatives

Senate Bill (SB) 1, the 2021 *General Appropriations Act* (GAA), appropriated \$116.4 billion in general revenue and \$248.6 billion in all funds for the 2022-23 budget. The biggest share of state general revenue spending went to Education (\$62.7 billion) and Health and Human Services (\$34.3 billion). GAA fully paid for commitments made to public school spending in 2019

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by the 86th Legislature, and it increased formula funding for higher education institutions. In Health and Human Services, it bolstered spending on mental health services.

The 87th Legislature also approved a supplemental spending bill, House Bill (HB) 2, in the regular legislative session. HB 2 included \$1 billion in increased funding for the Employment Retirement System of Texas (ERS) that was tied to SB 321, which made changes to the contribution structure and retirement benefits for members of ERS.

To address the effects of the pandemic, many Texas businesses received federal COVID-19 relief payments in the form of grants or loans, which were then forgiven. HB 1195, approved in the regular session, ensured that those proceeds would not be included in a business' franchise tax calculation, thereby further reducing the financial strain of the pandemic on Texas businesses.

In the second called session, lawmakers increased appropriations by approving HB 5, with allocations including \$701 million in general revenue for a one-time supplemental benefit payment to Teacher Retirement System of Texas retirees. Approval of HB 9 appropriated \$1.8 billion in certification-related funds for fiscal year 2022, including \$1 billion from general revenue to the governor's office for border security grants.

In the third called session, lawmakers appropriated \$16.3 billion in federal funds allocated to Texas under the American Rescue Plan Act (ARPA), a response to the pandemic. The largest appropriations were \$7.2 billion to the Unemployment Compensation Fund and \$3.5 billion for salaries for Texas Department of Criminal Justice and Texas Department of Public Safety employees directly involved in the pandemic response. The bill also appropriated \$2.5 billion to the Texas Department of State Health Services for pandemic related costs, and it included \$500.5 million for the Texas Comptroller of Public Accounts for broadband infrastructure.

The Legislature in 2021 also approved other measures affecting the state's financial and economic health.

## **ERS Reform**

SB 321, approved in the regular session, addressed an important state long-term obligation by strengthening the ERS pension fund. The ERS plan's assets totaled \$28.5 billion as of Aug. 31, 2020, while an estimated \$43.2 billion was required to pay for future pension obligations on the books. The \$14.7 billion difference was the state's Unfunded Actuarial Accrued Liability (UAAL). It was estimated that the ERS plan would never be able to pay for future obligations.

To meet this challenge, lawmakers made two major changes through SB 321.

The bill established a cash balance benefit retirement plan for state employees hired on or after Sept. 1, 2022, while retaining a defined benefit plan for current state employees. The new ERS cash balance plan will provide a lifetime annuity based on the accrued balance in the member's account at retirement rather than a formula including the member's highest salary and years of service.

SB 321 also required the state to make annual amortization payments to ERS to reduce the unfunded liability. Retirement actuaries will calculate the amounts needed to pay off the UAAL by the end of fiscal year 2054, a 33-year funding period that is in line with the three decades recommended by the Texas Pension Review Board. The payments are estimated to be \$510 million per fiscal year.

These changes should improve the financial footing of the state pension plan, an important factor in maintaining Texas' high credit rating.

## **Chapter 313 Non-renewal**

The Texas Economic Development Act, or Chapter 313, was not renewed and is scheduled to expire on Dec. 31, 2022. Chapter 313 allows school districts to

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offer property tax value limitations for the maintenance and operations tax to businesses that build facilities in their boundaries in exchange for direct payments and promises of job creation and increased economic activity. It has been Texas' biggest economic incentive program for corporate expansions and relocations.

As of 2020, the program included 509 active agreements representing \$217 billion in investments. In 2019, the Comptroller's office received 133 applications and 40 amendments to executed agreements; in 2020, 91 applications and 97 amendments and through November 2021, 123 applications and 41 amendments.

All projects' agreements must receive final approval by the school board and be signed by company representatives before the program expires in order to be considered active.

## **Texas Broadband Development Office Establishment**

With the COVID-19 pandemic highlighting the ever-increasing importance of high speed internet to Texan's daily lives, lawmakers approved HB 5 in the regular session to create the Texas Broadband Development Office (BDO) within the Comptroller's office.

The BDO will write a state broadband plan and award grants, low-interest loans and other financial incentives to internet service providers who expand access to broadband service to underserved areas in Texas. The BDO also will serve as a resource to local governments seeking information on federal and state funding opportunities.

The \$500.5 million in ARPA funds directed to the BDO by SB 8 includes \$75 million that is designated for pole replacement efforts in underserved areas. HB 1505, approved in the regular session, established a modernized pole attachment regime that applies to Texas' electric cooperatives to promote consistency, transparency and fairness in the deployment of broadband service to rural Texans while ensuring consistency

with Federal Communications Commission (FCC) rules and regulations for investor-owned utilities.

## **Power Grid Changes**

Texas is the only state in the continental U.S. with its own electric power grid, which serves 90 percent of its population. Independence from the national grid has benefits, but Winter Storm Uri in 2021 was the latest extreme weather event to reveal electricity generation deficiencies and uneven weatherization procedures. Many people lost heat or running water for long periods of time in frigid temperatures when Winter Storm Uri knocked out power for nearly 70 percent of Texans and disrupted water utilities. The storm claimed at least 210 lives. In addition, the Federal Reserve Bank of Dallas stated in April 2021, "Early estimates indicate that the freeze and outage may cost the Texas economy \$80 billion - \$130 billion in direct and indirect economic loss. These initial calculations come with significant uncertainty. Estimates of insured losses, which are easier to quantify, range from \$10 billion to \$20 billion."

The regular legislative session was ongoing when the storm hit, and lawmakers approved measures to address power reliability. SB 3, the omnibus bill, included development of a new statewide alert system to be activated when the Public Utility Commission (PUC) or Electric Reliability Council of Texas (ERCOT) finds that demand may exceed the available power. The 25 member Texas Energy Reliability Council was established in the law and given responsibilities such as ensuring the energy and electric industries meet high priority human needs and address critical infrastructure concerns. Among other provisions, SB 3 required certain energy facilities in Texas to make necessary preparations to maintain electric service during extreme weather conditions.

SB 2, another bill approved in response to the storm, changed ERCOT's governing structure, including the addition of a requirement that board members



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be Texas residents; SB 2154 increased the number of PUC members from three to five and also required them to be state residents.

Other bills addressed financial difficulties, including disruptions in the natural gas market and the default by some electric market participants in payments to ERCOT. SB 1580 and HB 1520 allowed electric cooperatives and gas utilities, respectively, to use securitization to recover extraordinary costs from customers in small payments over a long period of time. HB 4492 required the Comptroller's office to invest up to \$800 million of the Economic Stabilization Fund balance in ERCOT-issued bonds; the Legislative Budget Board fiscal note analysis said this will enable ERCOT to issue debt obligations to finance substantial balances owed by wholesale market participants.

## **Constitutional Amendments Approved**

Lawmakers placed eight state constitutional amendments on the Nov. 2 ballot, and Texas voters approved them all. Two amendments were related to circumstances that arose during the COVID-19 pandemic: One forbids the state or a political subdivision to enact rules that prohibit religious services; the other provides that residents of certain facilities, including nursing and assisted living facilities, have the right to designate an essential caregiver with whom the facility may not prohibit in-person visitation.

## **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, 2020. 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 31 years (fiscal years ended August 1990 through 2020). 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

George P. Bush  
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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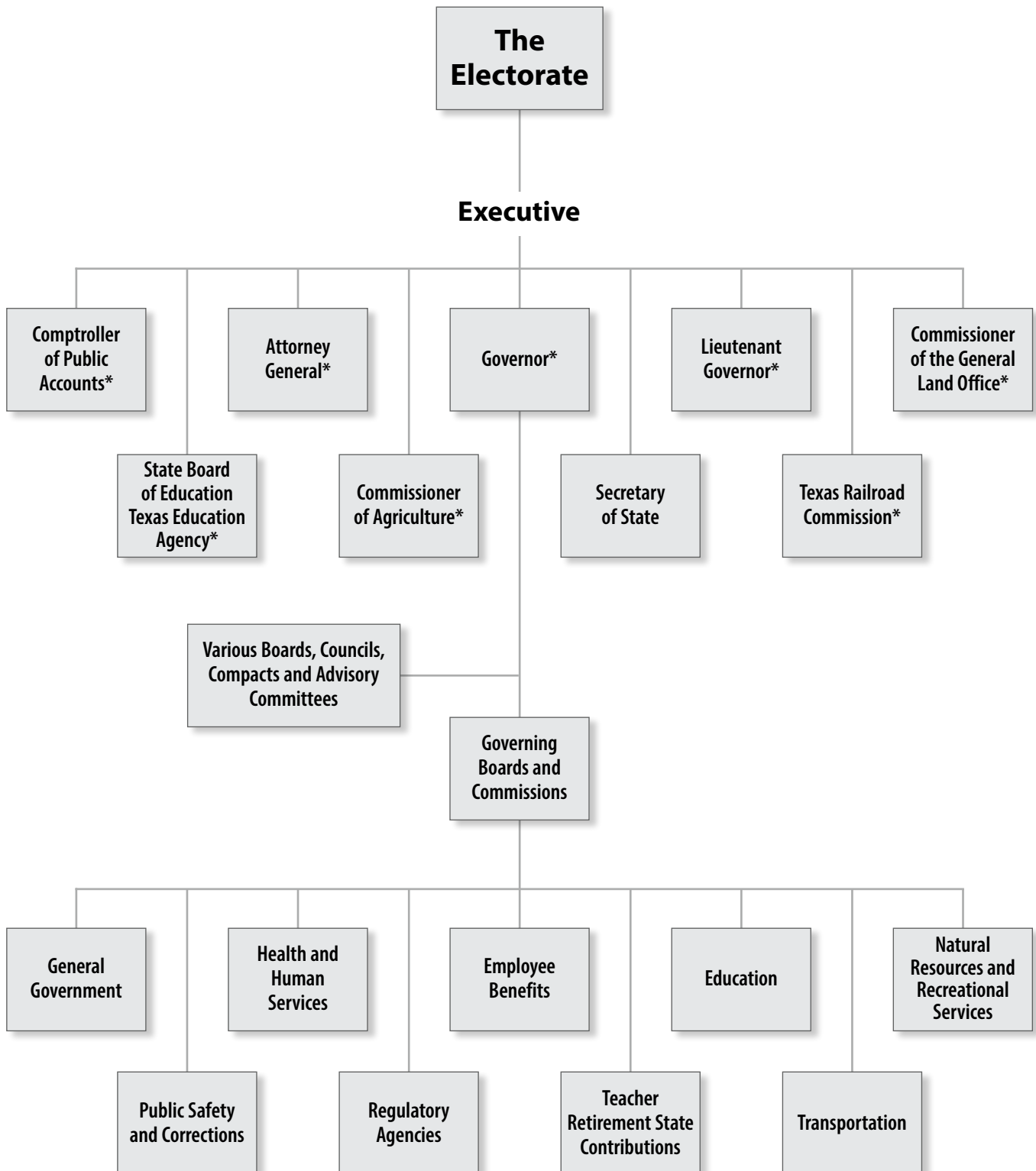
#### **Supreme Court of Texas**

Nathan L. Hecht, Chief Justice  
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**

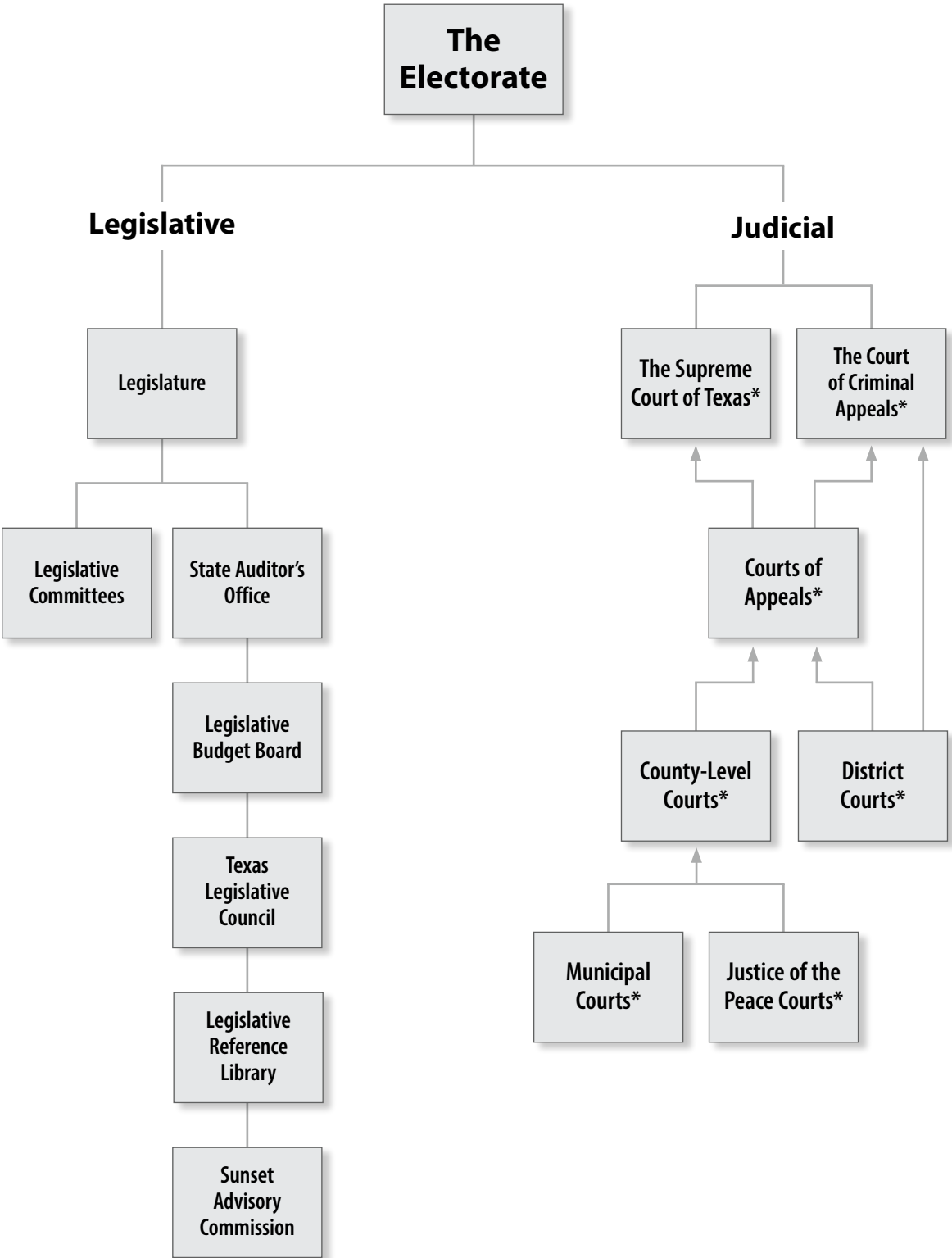
Sharon Keller, Presiding Judge  
Michelle Slaughter, Judge  
Barbara Parker Hervey, Judge  
Scott Walker, Judge  
Jesse McClure III, Judge  
Mary Lou Keel, Judge  
David Newell, Judge  
Bert Richardson, Judge  
Kevin Yeary, Judge

# 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 Annual Comprehensive  
Financial Report  
for the Fiscal Year Ended

August 31, 2020

*Christopher P. Morill*

Executive Director/CEO