
Appendix A

The State of Texas

November 2016

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The data represented in this report is available in accessible data form (Excel):
<https://www.comptroller.texas.gov/programs/systems/treasury-ops/docs/bond-appendix.xlsx>

About this Bond Appendix

This Appendix A (this “Bond Appendix”) provides a general description of the State of Texas (the “State”) and certain information relevant to the financial condition of the State. Information is provided as of the date this Bond Appendix is issued, except as otherwise expressly noted herein.

This Bond Appendix is intended (a) to be attached to or incorporated by reference in offering documents (“Official Statements”) prepared by State agencies to offer bonds or other securities, when authorized by the Comptroller of Public Accounts (the “Comptroller”), and (b) to be provided to the Municipal Securities Rulemaking Board (“MSRB”) in satisfaction of contractual annual continuing disclosure obligations of the Comptroller made in connection with prior State agency bond offerings. The Bond Appendix is not intended to be exhaustive.

State financial information is provided by State agencies and officials from official records. Other information has been derived from sources which the Comptroller deems reliable. The State makes no representation regarding the accuracy or completeness of any information in this Bond Appendix, or the absence of changes in such information or adverse events after the date of the information. Descriptions of general revenue of the State or revenue from any particular source in this Bond Appendix does not imply that any specific securities are payable from such revenues. As a result of rounding, certain tables in this Bond Appendix may contain immaterial inaccuracies.

Historical information in this Bond Appendix is not intended to predict future events or continuing trends, and the State makes no representation that past experience will continue in the future. Statements in this Bond Appendix that do not describe past or present events, conditions, or other facts are forward-looking statements. Forward-looking statements include forecasts, projections, predictions, expectations, anticipation, hopes, beliefs, intentions, and strategies for the future. All forward-looking statements in this Bond Appendix are based on available information, assumptions and estimates as of the date of the forecast or other forward looking statement. They are inherently subject to various known and unknown risks and uncertainties, including the possible invalidity of underlying assumptions and estimates; possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions; force majeure; and actions taken or omitted to be taken by third parties, including consumers, taxpayers, and legislative, judicial, and other governmental authorities and officials. Assumptions may involve judgments about future economic and market conditions and future legislative, executive, and business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the State. The Comptroller assumes no obligation to update any such forward-looking statements. Actual results could differ from those in forward-looking statements, and the difference could be material. Accordingly, readers should not place undue reliance on forward-looking statements included in this Bond Appendix.

Bond Appendix references to website addresses are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless otherwise stated, such websites and the related information or links are not incorporated into, and are not part of, this Bond Appendix, including for purposes of Rule 15c2-12 of the U.S. Securities and Exchange Commission. The Comptroller does not control or guarantee the accuracy, completeness, or currency of any website not maintained by the Comptroller.

1. STATE GOVERNMENT

ORGANIZATION

The State was admitted to the Union as the 28th State on December 29, 1845, approximately nine years after its secession from the Republic of Mexico in 1836. The current Constitution of the State of Texas (the “Constitution”) was adopted in 1876, succeeding earlier Constitutions of 1845, 1861, 1866 and 1869.

DIVISION OF POWERS

The Constitution divides the powers of the government of the State into three distinct departments: the legislative, the executive and the judicial. Under the terms of the Constitution, no person in any one department may exercise any power attached to another department unless specifically authorized to do so by the Constitution.

THE LEGISLATIVE DEPARTMENT

The legislative power of the State is vested in a House of Representatives and a Senate, which together constitute the Legislature of the State. The House of Representatives consists of 150 members who are elected for terms of two years each, and the Senate consists of 31 members who are elected for four-year terms. After congressional and legislative redistricting, which occurs every 10 years, each member must run for re-election. At that time, the members must draw lots to determine which half of the Senate serves on a 2-4-4 or 4-4-2 year term rotation until the next redistricting. Proceedings in the House of Representatives are presided over by the Speaker of the House, who is selected by the members of the House of Representatives from among their ranks. Proceedings in the Senate are presided over by the Lieutenant Governor, who is elected by a statewide vote, as described under the caption “The Executive Department,” below. In the absence of the Lieutenant Governor, the President pro tempore of the Senate, a position determined by Senate members at the start of each session, presides over the Senate.

Regular sessions of the Legislature are held every two years in odd numbered years and may not exceed 140 days in duration. Special sessions of the Legislature may be convened by the Governor at any time. A special session of the Legislature may not exceed 30 days in duration and may address only those subjects designated by the Governor.

The November 8, 2016 election will determine which candidates will serve in the Legislature for the upcoming Legislative Session beginning in January 2017.

THE EXECUTIVE DEPARTMENT

The Executive Department of the State is composed of the Governor, the Lieutenant Governor, the Comptroller of Public Accounts, the Commissioner of the General Land Office, the Attorney General and the Secretary of State, all of whom are elected with the exception of the Secretary of State, who is appointed by the Governor.

There are other elected State officials, including the Commissioner of the Department of Agriculture and the three Commissioners of the Railroad Commission, which has regulatory jurisdiction over certain public utilities, transportation and the oil and gas industry.

The *Governor* is elected for a term of four years and is eligible to seek re-election for an unlimited number of terms. The Constitution requires the Governor to cause the laws of the State to be faithfully executed and to conduct all business of the State with other states and the United States. The Constitution also requires the Governor to present a message on the condition of the State to the Legislature at the commencement of each session of the Legislature and at the end of the term in office, and to recommend to the Legislature measures deemed expedient. The Governor has the power to veto any bill or concurrent resolution passed by the Legislature and to veto specific items in appropriation bills, but the Legislature may override any veto, including a line item veto of an appropriation, by a two-thirds vote within a certain time frame. If the Governor's office becomes vacant, he is succeeded in office by the Lieutenant Governor, who continues as Governor until the next general election. The current Governor is Greg Abbott who was sworn-in for his first term as Governor in January 2015.

The *Lieutenant Governor* is elected for a term of four years and is eligible to seek re-election for an unlimited number of terms. The Governor and the Lieutenant Governor are elected separately and may be members of different political parties. The Lieutenant Governor is the President of the Senate and is empowered to cast the deciding vote in the event the Senate is equally divided on any question. The Lieutenant Governor determines Senate committees, appoints committee chairs and members, and decides the order of bill consideration and parliamentary questions. The Lieutenant Governor also performs the duties of the Governor during any period that the Governor is unable or refuses to do so or is absent from the State. If the office of the Lieutenant Governor becomes vacant, a successor is elected by the members of the Senate from their ranks. Until a successor is elected, or if the Lieutenant Governor is absent or temporarily unable to act, the duties of the Lieutenant Governor are performed by the President pro tempore of the Senate. The current Lieutenant Governor is Dan Patrick who was sworn-in for his first term as Lieutenant Governor in January 2015.

The *Comptroller of Public Accounts* (Comptroller) is elected for a term of four years and is the chief accounting officer of the State. The Comptroller is generally responsible for maintaining the accounting records of the State and collecting taxes and other revenues due to the State, although other State officials share responsibility for both of these functions. The Comptroller is required by statute to prepare an annual statement of the funds of the State and of the State's revenues and expenditures for the preceding fiscal year. In addition, the Constitution requires the Comptroller to submit to the Governor and the Legislature, at the commencement of each regular session of the Legislature, an itemized estimate of the anticipated revenues that will be received by the State during the succeeding biennium based upon existing laws. The Constitution also requires the Comptroller to submit supplemental statements at any special session of the Legislature and at such other times as may be necessary to show probable changes. The State Constitution also requires the Comptroller to certify that any appropriations bill passed by the Legislature falls within available revenues before the bill goes to the Governor for his signature. The Comptroller's responsibilities have been expanded by the Legislature and/or the voters to include the following: the Property Value Study and Methods and Assistance Program review of appraisal districts, the administration of the Texas Tuition Promise Fund, Treasury

Operations, the State Energy Conservation Office, administration of the Texas ABLE program, and the establishment and oversight of the Texas Bullion Depository. The current Comptroller is Glenn Hegar who was sworn-in for his first term as Comptroller in January 2015.

The *Commissioner of the General Land Office* is elected for a term of four years. The Commissioner of the General Land Office is generally responsible for administering the public lands owned by the State. The Commissioner of the General Land Office serves as the chairman of the School Land Board, which has authority over the sale and lease of State owned lands, and as chairman of the Veterans' Land Board. The Commissioner of the General Land Office also serves as the chairman of boards that control the exploration for oil, gas and other minerals on State lands. The current Commissioner of the General Land Office is George P. Bush who was sworn-in for this first term as Land Commissioner in January 2015.

The *Attorney General* is elected for a term of four years and is the chief legal officer of the State. The Attorney General is required to prosecute and defend all actions in the Supreme Court or the Courts of Appeals in which the State may be interested. The Attorney General also is required, upon request, to advise the Governor, the head of any department of the State government and certain other State and county officials upon any question touching the public interest or concerning their official duties. The Attorney General is the exclusive representative of State agencies, and other attorneys may be retained only if the Attorney General is unable to provide the specific service in question. The current Attorney General is Ken Paxton who was sworn-in for his first term as Attorney General in January 2015.

The *Secretary of State* is appointed by the Governor, with the advice and consent of the Senate, and serves during the term of service of the Governor by whom he or she is appointed. The Secretary of State is required to maintain official records of all laws and all official acts of the Governor and to perform such other duties as are required by law. The Legislature has made the Secretary of State generally responsible for the supervision of elections and for corporate and other similar filings. In January of 2015, Governor Abbott appointed Secretary of State Carlos Cascos.

THE JUDICIAL DEPARTMENT

The judicial power of the State is vested in a Supreme Court, a Court of Criminal Appeals, 14 courts of appeals, numerous district courts and various lower courts. The Supreme Court is the appellate court of last resort in all cases except criminal matters and, in addition, has original jurisdiction over actions for mandamus against State officials and certain other matters. The Court of Criminal Appeals has final appellate jurisdiction over all criminal matters. The courts of appeals are intermediate level appellate courts and have jurisdiction over both civil and criminal cases. The justices and judges of all courts in the State are elected. Terms of office are six years in the case of the members of the Supreme Court, the Court of Criminal Appeals and the courts of appeals, and four years for judges of lower courts.

2. FISCAL MATTERS

ACCOUNTING SYSTEM

The State operates on a fiscal year basis, which begins on September 1 and ends on August 31. The State's appropriation period is a biennium covering two fiscal years.

During the 1987 session, the Legislature imposed uniform accounting and financial reporting procedures on all State agencies and provided that accounting for State agencies is reported in accordance with generally accepted accounting principles ("GAAP"). Sections 2101.012 through 2101.014, Government Code, require the Comptroller, with the review of the State Auditor, to prescribe uniform accounting and financial reporting procedures. The Comptroller is also required by section 403.013, Government Code, to prepare a report to the Governor containing financial information of all State agencies prepared in accordance with GAAP. This report is due annually on the last day of February and is in addition to the cash report also required under this section that is due annually on the first Monday in November. The cash report contains a statement of State funds and accounts, revenues and expenditures during the preceding fiscal year on a cash basis. An audited *Texas Comprehensive Annual Financial Report* was produced for the first time in 1990 and will continually be used for the February report cited. The 1990-2015 reports all received the "Certificate of Achievement for Excellence in Financial Reporting" awarded by the Government Finance Officers Association.

The State is required by law to maintain its accounting and reporting on a cash basis, under which revenues are recorded when received and expenditures are recognized as disbursements when made. However, implementation of the Uniform Statewide Accounting System (USAS) on September 1, 1993 provided the ability for State agencies to maintain the State accounting system on a modified accrual basis in accordance with GAAP, as well as on a cash basis.

The State's central accounting system, USAS, records financial information both on a cash basis and under GAAP. USAS is the primary source of fiscal control and financial information for the State. Some agencies utilize USAS as their internal accounting system, while others are required to reconcile internal accounting records and record the information in the State system via reporting requirements.

APPROPRIATIONS AND BUDGETING

The Constitution requires an appropriation for any funds to be drawn out of the treasury. Certain appropriations are made by the Constitution and do not require further legislative action, although the Legislature frequently makes a parallel appropriation. All other appropriations must be made through a bill passed by the Legislature and approved by the Governor or passed by the Legislature over the Governor's veto. Legislative appropriations are limited by the Constitution to a period of two years. Generally, appropriations are made by the Legislature separately for each fiscal year of the biennium, but an appropriation can be made for the biennium or for a part of the biennium other than a fiscal year. Claims must be filed against an appropriation within two years after the end of the fiscal year for which the appropriation is

made, except for construction appropriations, against which claims may be made for up to four years.

Article III, section 49a of the Constitution, the so-called “pay-as-you-go” provision, provides that an appropriation is not valid if it exceeds the amount of cash and estimated revenues of the fund from which such appropriation is to be paid.

The Constitution requires the Comptroller to submit to the Governor and the Legislature, at the commencement of each regular session of the Legislature, a statement that contains, among other things, an itemized estimate of anticipated revenues, based on laws then in effect, that will be received by the State during the succeeding biennium. The Constitution also requires the Comptroller to submit supplementary statements at any special session of the Legislature and at such other times as may be necessary to show probable changes. No appropriations bill passed by the Legislature may be sent to the Governor for consideration until the Comptroller has certified that the amounts appropriated are within the amounts estimated to be available in the affected funds.

Budgeting for the State is handled through the Governor’s Office of Budget, Planning, and Policy (GOBPP) and the Legislative Budget Board (LBB). By statute, the Governor has been made the chief budget officer of the State, which is a function carried out by staff members who constitute the GOBPP. The Legislature has its own budget agency in the LBB. The GOBPP and the LBB generally cooperate with respect to matters pertaining to preparation of budgets and prepare uniform instructions and forms for budget requests. The Governor and the LBB each make separate submissions to the Legislature—the Governor’s usually in the form of a budget proposal and the LBB’s in the form of a draft appropriations bill to be submitted for consideration by the Legislature. The Governor is authorized by statute to submit a draft appropriations bill, or the bill may be introduced in the Legislature along with the bill prepared by the LBB.

In an effort to improve the budgeting process, a performance-based budget preparation process, which appropriates funds at the strategy level, was implemented and utilized to prepare proposed budgets beginning with the 1994-95 biennium. Agency budgets are tied to goals and objectives that include strategies to meet these goals and objectives with measurable outputs and efficiencies. The system provides the State’s decision makers with enhanced knowledge to maximize State funds.

LEGISLATIVE BUDGET BOARD

The Legislative Budget Board is composed of the Lieutenant Governor, the Speaker of the House of Representatives, four members of the House of Representatives (including the chairs of the House Appropriations Committee and the House Ways and Means Committee) and four members of the Senate (including the chairs of the Senate Finance Committee and the Senate State Affairs Committee). The traditional role of the LBB has been to formulate a proposed budget for presentation to the Legislature as discussed under “Appropriations and Budgeting” above. In recent years, however, the role of the LBB has been expanded by statute and by practice. It now frequently carries out quasi-legislative functions relating to State finances when the Legislature is not in session.

NON-LEGISLATIVE POWERS WITH RESPECT TO APPROPRIATIONS

The Governor is authorized by statute to make findings of any fact specified by the Legislature in any appropriations bill as a contingency to the expenditure of funds. Accordingly, the Governor has some minimal discretion to prevent the expenditure of funds, exercisable in situations in which an appropriation made by the Legislature is conditioned upon the occurrence of a given event or the existence of a given fact.

The Legislature has provided a means of dealing with fiscal emergencies under which the Governor is empowered to authorize expenditures from a general appropriation made by the Legislature specifically for emergencies. The Legislature is not obligated to appropriate any amount for such purpose, but customarily does so.

The Governor may not authorize the expenditure of the emergency funds unless a certification is made to the Comptroller that an emergency and imperative public necessity requiring the use of such funds exists and the Comptroller determines that no other funds are available for such purpose. Any expenditure so authorized by the Governor may only be used in those instances in which no other funds are available due to exhaustion of appropriations and for specific purposes previously appropriated by the Legislature.

The Legislature, in the second called session held during the summer of 1987, enacted a budget execution law which gave the Governor, subject to the review of the LBB the ability to make changes in legislative appropriations during periods when the Legislature is not in session. The statute was amended in 1991, giving both the Governor and the LBB the authority to make proposals which require that a State agency be prohibited from spending an appropriation, which require that an agency be obligated to expend an appropriation, or which affect the manner in which part or all of an appropriation made by the Legislature to an agency may be distributed or redistributed. In addition, the Governor or LBB, upon making a determination that an emergency exists, may propose that an appropriation made to a State agency be transferred to another agency, that an appropriation be retained by the agency but used for a different purpose or that the time when an appropriation be made available to a State agency be changed. Funds that are dedicated by the Constitution may be withheld upon the Governor's or LBB's proposal, but may not be transferred to other State agencies except an agency which is entitled to receive appropriations from those funds under the terms of the Constitution. Federal funds appropriated by the Legislature may be transferred only as permitted by federal law.

The Governor's or LBB's use of the budget execution provision is subject to publication and, in certain instances, public hearing requirements. In addition, before the Governor's proposal may be executed, it must be ratified by action of the LBB or if proposed by the LBB, by action of the Governor. During the LBB's ratification process, the proposal may be changed and ratified or rejected, or recommendations for changes in the proposal may be made. The affirmative vote of a majority of the members of the LBB from each house of the Legislature is necessary for the adoption of any budget execution order.

Except under the circumstances described in preceding paragraphs, appropriations or adjustments of appropriations may be authorized only by the Legislature.

INTERFUND BORROWING

Under Texas Government Code, Section 403.092, the Comptroller is authorized to make interfund transfers of available cash, excluding constitutionally dedicated revenues, between funds that are managed by or in the custody of the Comptroller in order to avoid temporary cash deficiencies in the General Revenue Fund. This procedure effectively allows the Comptroller to borrow against cash balances held in special funds to finance deficiencies in the General Revenue Fund caused by timing differences between cash receipts and cash expenditures. Any available cash transferred to the General Revenue Fund must be returned to the fund from which it was taken as soon as practicable. To maintain the equity of the fund from which available cash was transferred, earned interest is allocated as if the transfer had not been made. Data on the amount of interfund borrowing may be found in Table A-15.

TAX AND REVENUE ANTICIPATION NOTES

The Comptroller is authorized to issue Tax and Revenue Anticipation Notes on behalf of the State under legislation, which became effective in October 1986. Under Texas Government Code, Subchapter H (§404.121 et. seq), notes may be issued solely to coordinate the State's cash flow within a fiscal year and must mature and be paid in full during the biennium in which the notes are issued.

Before issuing any notes, the Comptroller must prepare a forecast of the cash flow shortfall for the State's General Revenue Fund based on the most recent estimate of revenues prepared by the Comptroller and must submit the forecast to the State's Cash Management Committee.

The Cash Management Committee is composed of the Governor, Lieutenant Governor, and the Comptroller of Public Accounts as voting members, and the Speaker of the House of Representatives as a non-voting member. The amount of notes issued by the Comptroller may not exceed the amount approved by the Cash Management Committee, which, in turn, may not approve the issuance of notes in an amount in excess of the temporary cash shortfall projections. Data on Tax and Revenue Anticipation Notes issued may be found in Table A-15.

AUDITS

The State Auditor is appointed by the Legislative Audit Committee, composed of the Lieutenant Governor, the Speaker of the House of Representatives, the chairmen of the House Appropriations Committee and the House Ways and Means Committee, the chairman of the Senate Finance Committee and one member of the Senate appointed by the Lieutenant Governor. The State Auditor serves at the will of the Legislative Audit Committee. The State Auditor is charged with the responsibility of devising and recommending the audit plan for the State for each fiscal year to the Audit Committee for approval. The Auditor may conduct financial audits, compliance audits, economy and efficiency audits, effectiveness audits, special audits and investigations of State agencies and institutions of higher education. The State Auditor shall prepare a written report for each audit conducted and file a copy with the Governor, Lieutenant Governor, Speaker of the House of Representatives, Secretary of State, Legislative Reference Library, each member of the governing body and administrative head of the audited entity and

members of the Legislature on a committee with oversight responsibility for the entity or program that is the subject of the report. If improprieties are found, the State Auditor, after consulting with the agency head, shall immediately report to the Governor, the committee and the appropriate legal authority. The State Auditor does not audit the constitutionally required “cash basis” report prepared by the Comptroller. However, since fiscal 1987, the Comptroller is required by law to issue a statewide annual financial report that conforms to generally accepted accounting principles (GAAP) for state governments. The Texas Comprehensive Annual Financial Report is required to be audited by the State Auditor. The audited version of the 2015 report was issued on February 29, 2016. Copies of the audited annual financial report are available to the public by writing to the Fiscal Integrity Division, Comptroller of Public Accounts, P.O. Box 13528, Austin, TX 78711 or by visiting the State Comptroller’s website at: <https://comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/>.

GENERAL INVESTMENT AUTHORITY AND PORTFOLIO

The Comptroller is responsible for holding and investing State funds and other funds as required by law. The Comptroller invests funds in investments authorized by statute and consistent with the Texas State Comptroller Investment Policy, dated October 2015. The size of the Treasury investment pool ranges from approximately \$25 billion to \$41 billion depending on seasonal variations in revenues and expenditures.

AUTHORIZED INVESTMENTS

- a) The Comptroller may determine and designate the amount of State funds to be deposited in time deposits in State depositories. The percentage of State funds to be deposited in State depositories shall be based on the interest rates available in competing investments, the demand for funds from Texas banks, and the State's liquidity requirements.
- b) State funds not deposited in State depositories shall be invested by the Comptroller in:
 - (1) direct security repurchase agreements;
 - (2) reverse security repurchase agreements;
 - (3) direct obligations of or obligations the principal and interest of which are guaranteed by the United States;
 - (4) direct obligations of or obligations guaranteed by agencies or instrumentalities of the United States government;
 - (5) bankers' acceptances that: (A) are eligible for purchase by the Federal Reserve System; (B) do not exceed 270 days to maturity; and (C) are issued by a bank whose other comparable short-term obligations are rated in the highest short-term rating category, within which there may be subcategories or gradations indicating relative standing including such subcategories or gradations as “rating category” or “rated” by a nationally recognized statistical rating organization, as defined by Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 by the Securities and Exchange Commission;
 - (6) commercial paper that: (A) does not exceed 270 days to maturity; and (B) except as provided by Subsection (i), is issued by an entity whose other comparable short-term obligations are rated in the highest short-term rating category by a nationally recognized statistical rating organization;
 - (7) contracts written by the Treasury in which the Treasury grants the purchaser the right to purchase securities in the Treasury's marketable securities portfolio at a specified price over a specified period and for which the treasury is paid a fee and

specifically prohibits naked-option or uncovered option trading; (8) direct obligations of or obligations guaranteed by the Inter-American Development Bank, the International Bank for Reconstruction and Development (the World Bank), the African Development Bank, the Asian Development Bank, and the International Finance Corporation that have received the highest long-term rating categories for debt obligations by a nationally recognized statistical rating organization; (9) bonds issued, assumed, or guaranteed by the State of Israel; (10) obligations of a state or an agency, county, city, or other political subdivision of a state; (11) mutual funds secured by obligations that are described by Subdivisions (1) through (6) or by obligations consistent with Rule 2(a)-7 (17 C.F.R. Section 270.2(a)-7, promulgated by the Securities and Exchange Commission, including pooled funds: (A) established by the Texas Treasury Safekeeping Trust Company; (B) operated like a mutual fund; (C) with portfolios consisting only of dollar-denominated securities; (12) foreign currency for the sole purpose of facilitating investment by state agencies that have the authority to invest in foreign securities; (13) asset-backed securities, as defined by the Securities and Exchange Commission in Rule 2a-7 (17 C.F.R. Section 270.2a-7), that are rated at least A or its equivalent by a nationally recognized statistical rating organization and that have a weighted-average maturity of five years or less; and (14) corporate debt obligations that are rated at least A or its equivalent by a nationally recognized statistical rating organization and mature in five years or less from the date on which the obligations were “acquired,” as defined by the Securities and Exchange Commission in Rule 2a-7 (17 C.F.R. Section 270.2a-7).

- c) Investments in direct security repurchase agreements and reverse security repurchase agreements may be made with state or national banks doing business in this state or with primary dealers as approved by the Federal Reserve System. Notwithstanding any other law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered. Money received under the terms of a reverse security repurchase agreement may be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.
- d) The Comptroller may contract with a depository for the payment of interest on time or demand deposits at a rate not to exceed a rate that is lawful under an Act of Congress and rules and regulations of the board of governors of the Federal Reserve System, the board of directors of the Federal Deposit Insurance Corporation, the National Credit Union Administration Board, and the Federal Home Loan Banking Board.
- e) The Treasury may not purchase any of the following types of investments: (1) obligations the payment of which represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations the payment of which represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

- f) The Comptroller by rule may define derivative investments other than those described by Subsection (e). The Treasury may not purchase investments defined by rule adopted under this subsection in an amount that at the time of purchase will cause the aggregate value of the investments to exceed five percent of the Treasury's total investments.
- g) To the extent practicable, the Comptroller shall give first consideration to Texas banks when investing in direct security repurchase agreements.
- h) The Comptroller may not use State funds to invest in or purchase obligations of a private corporation or other private business entity doing business in Northern Ireland unless the corporation or other entity: (1) adheres to fair employment practices; and (2) does not discriminate on the basis of race, color, religion, sex, national origin, or disability.
- i) Notwithstanding Subsection (b)(6)(B), the Comptroller may purchase commercial paper with a rating lower than the rating required by that paragraph to provide liquidity for commercial paper issued by the Comptroller or an agency of the State.
- j) If the Comptroller is required by law to invest funds other than as provided by this section, and if other law does not establish a conflicting standard governing that investment, the Comptroller shall invest those funds under the restrictions and procedures for making the investments that persons of ordinary prudence, discretion, and intelligence, exercising the judgment and care under the prevailing circumstances, would follow in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital.
- k) The Comptroller may contract with private professional investment managers to assist the Comptroller in investing funds under the care, custody, and control of the Comptroller.
- l) The Comptroller may lend securities under procedures established by the Comptroller. The procedures must be consistent with industry practice and must include a requirement to fully secure the loan with cash, obligations described by Subsections (b) (1)-(6), or a combination of cash and the described obligations. Notwithstanding any law to the contrary, cash may be reinvested in the items permitted under Subsection (b) or mutual funds, as defined by the Securities and Exchange Commission in Rule 2a-7 (17 C.F.R. Section 270.2a-7).
- m) In entering into a direct security repurchase agreement or a reverse security repurchase agreement, the Comptroller may agree to accept cash on an overnight basis in lieu of the securities, obligations, or participation certificates identified in Section 404.001 (3). Cash held by the state under this subsection is not a deposit of state or public funds for purposes of any statute, including this subchapter or Subchapter D, that requires a deposit of state or public funds to be collateralized by eligible securities.
- n) Notwithstanding any other law to the contrary, any government investment pool created to function as a money market mutual fund and managed by the Comptroller or the Texas

Treasury Safekeeping Trust Company may invest the funds it receives in investments that are “eligible securities,” as defined by the Securities and Exchange Commission in Rule 2a-7 (17 C.F.R. Section 270.2a-7), if it maintains a dollar-weighted average portfolio maturity of 90 days or less, with the maturity of each portfolio security calculated in accordance with Rule 2a-7 (17 C.F.R. Section 270.2a-7), and meets the diversification requirements of Rule 2a-7.

INVESTMENT POLICIES

The Comptroller’s principal investment and management objectives are as follows: (1) preservation of capital and protection of principal, first; (2) maintenance of sufficient liquidity to meet operating needs, second; and (3) maximization of return, third. The Comptroller will preserve capital and protect principal by investing in a diversified pool of assets of high credit quality. Interest rate risk will be managed by maintaining a weighted-average maturity of no more than two (2) years.

Whenever practicable, the Comptroller and the Texas Treasury Safekeeping Trust Company will award investment transactions on a competitive basis by soliciting at least two bids and then placing purchase and sale orders with brokers to achieve best execution. All transactions will be fully documented by the individual executing the trade and confirmed by a second investment staff member.

The Comptroller enters into only fully collateralized repurchase agreements. The Comptroller’s Master Repurchase Agreement governs all transactions. Repurchase agreement collateral is limited to those securities authorized for outright purchase by the Comptroller. All such collateral is held for safekeeping at the Federal Reserve Bank of Dallas, San Antonio Branch, in the name of the Comptroller of Public Accounts or at an approved third party institution with which the Comptroller has executed a custodial undertaking agreement in connection with a master repurchase agreement. Collateral is monitored daily to ensure that margin requirements are maintained. Margin excesses or deficits will be corrected on a timely basis, generally no later than the next business day. Repurchase agreement transactions must be placed only with primary government securities dealers approved by the Federal Reserve System or state or national banks doing business in the State of Texas.

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

In addition, the Comptroller of Public Accounts is the sole director, officer and shareholder of the Texas Treasury Safekeeping Trust Company (the "Trust Company"). The Trust Company was established to provide direct access to the services of the Federal Reserve System and to enable the Comptroller to manage and invest public funds and securities more efficiently and economically. The Trust Company also enters into contracts to provide funds management services to State agencies and local governments. In accordance with section 404.115 of the Texas Government Code, the Comptroller has appointed Paul Ballard as Chief Executive Officer of the Trust Company. His appointment became effective February 1, 2003.

The Comptroller currently manages numerous separate portfolios by and through the Trust Company which is authorized to operate the TexPool portfolios, the local government investment pools comprised of TexPool, the largest, and TexPool Prime. The State Treasurer organized TexPool in 1989, and its balances have ranged from \$11 billion to \$21 billion in the last few years. Since May 12, 1997, the day-to-day administration of TexPool has been outsourced. These activities are currently managed for the Comptroller by Federated Investors Inc. The types of authorized investments within TexPool are U.S. Government Securities, Agencies and Instrumentalities, Repurchase Agreements, Reverse Repurchase Agreements and Money Market Mutual Funds. The types of authorized investments within TexPool Prime are U.S. Government Securities, Agencies and Instrumentalities, Repurchase Agreements, Reverse Repurchase Agreements, Certificates of Deposit, Commercial Paper and Money Market Mutual Funds. As of November 1, 2016, TexPool had 2,374 members and a fund balance of \$13.2 billion; TexPool Prime had 218 members and a fund balance of \$2.4 billion. TexPool and TexPool Prime are AAAM money market funds rated by Standard and Poor's. TexPool's average maturity is 41 days and TexPool Prime is 46 days as of November 1, 2016.

3. STATE REVENUES AND EXPENDITURES

CURRENT TREASURY INVESTMENTS

As of November 1, 2016, the beginning balance in the Treasury was \$23.1 billion, of which \$3.2 billion is invested by the Comptroller at the discretion of the State Permanent School Fund, Permanent University Fund, and employee pension funds. As of such date, the fair value of Treasury investments by category was as follows:

Table A-1
Current Treasury Investments

Investment Type	Fair Value (in millions)	Percent of Total
Bank Deposits	585	2.53
Treasury Bills	0	0.00
Treasury Notes	605	2.62
Treasury TIPS	372	1.61
Treasury FRNs	0	0.00
Corporate Bonds	2,104	9.12
Covered Bonds	422	1.83
Asset Backed Securities	2,573	11.15
Money Market Funds	575	2.49
Agency Notes	889	3.86
Agency Discount Notes	299	1.30
Supranational	1,953	8.47
Supranational Discount Notes	0	0.00
Repurchase Agreements	2,320	10.06
Lottery Award Annuities	639	2.77
Mortgage Backed Securities	2,339	10.14
SBA Securities	29	0.12
Commercial Paper	7,343	31.84
Israel Bond	58	0.25
Cash	0	0.00
Trust Stock	1	0.00
Reverse Repurchase Agreements	-43	-0.19
Totals (1)	23,063	100.00

(1) Totals may not sum due to rounding

Source: Texas Treasury Safekeeping Trust Company

These securities do not include any prohibited securities. The average remaining term of these securities (excluding securities matched to State lottery prize liabilities) is 522 days. Information on the Trust Company Investment Policies and Investments may be found on the Trust Company's website at www.ttstc.com.

IDENTITY OF FUNDS

An understanding of the relative importance of each of the State's revenue sources requires a brief explanation of the State's fund accounting process. As stated above, there are several hundred different funds within the Treasury. The General Revenue Fund, due to its character and the large number of programs financed through it, provides an indication of the State's financial condition. In fiscal 2016, Consolidated General Revenue accounted for most of the State's total net revenue (see Table A-4). The category of State funds that provides a broader understanding of the State's financial condition consists of non-trust funds, which includes the General Revenue Fund, other operating and disbursing funds, constitutionally created funds, federal funds, pledged and bond funds and other special funds. The remaining funds consist of trust funds and accounts that are held in trust for specific State programs, such as sales tax revenues that must be distributed to local governments in the State and suspense accounts to hold money pending identification of where the actual deposit should be made. Trust and suspense accounts are generally excluded from the discussion of revenues and expenditures.

To provide the maximum use of State funds, the 72nd Legislature Regular Session, 1991 (72nd Legislature) enacted legislation mandating State fund consolidation. The Comptroller of Public Accounts, with the concurrence of the Treasurer, was directed to abolish or merge eligible funds into the General Revenue Fund on or before August 31, 1993. Under § 403.094, Government Code, numerous State funds, excluding constitutionally dedicated, bond related and trust funds, were consolidated into accounts within the General Revenue Fund on August 31, 1993. The consolidated funds maintained their identity through account numbers. Although the merged funds became referred to as "accounts," they experienced no substantive changes from consolidation. Merging the funds provided a one-time gain of approximately \$1.2 billion for the General Revenue Fund.

In addition, the 72nd Legislature, by law, required that the consolidated accounts retain their statutory dedications for specific purposes until August 31, 1995, at which time they would be abolished. This allowed revenues that were removed from statutory dedication to become available for spending through the Legislative general appropriation process. In 1995, the 74th Legislature, Regular Session, enacted House Bill 3050, which re-dedicated certain funds, accounts and revenues that were scheduled for abolishment at the end of fiscal 1995. Subsequent Legislatures have enacted bills providing for the abolishment or dedication of newly created or rededicated funds and accounts in an effort to limit the creation of excessive dedications of revenue and allow the Legislature the maximum use of State revenues.

REVENUE SOURCES

Federal receipts provided the State's primary source of income in fiscal 2016 (see Table A-5). The sales tax (which accounted for 58.3% of total tax revenue) came in second, while licenses,

fees, fines and penalties provided a distant third largest revenue source to the State. Motor vehicle sales/rental taxes, franchise taxes and motor fuels taxes came in as the fourth, fifth and sixth largest respectively. The remainder of the State's revenue was derived primarily from insurance taxes, net lottery proceeds, oil production tax, cigarette and tobacco taxes, interest and investment income, alcoholic beverages taxes, land income, and other revenue sources. The State has no personal or corporate income tax, although the State does impose a franchise tax based on taxable margin, defined as gross receipts less either cost of goods sold or compensation.

Table A-2 shows the rates and tax bases for major State taxes collected in the State of Texas for the fiscal year beginning September 1, 2016.

Table A-2

Major State Taxes

<u>Tax</u>	<u>Rate and Base</u>
Sales Taxes	<p>Limited Sales and Use: 6.25 percent of the retail sale price of taxable tangible personal property and selected services.</p> <p>Boat and Boat Motor: 6.25 percent of the total consideration paid for a boat or boat motor; \$15 tax for each boat or boat motor brought into the State by a new resident.</p> <p>Texas Emissions Reduction Plan Surcharge: 1.5 percent of the sale or lease price of all off-road, heavy-duty diesel equipment (other than some implements of husbandry).</p>
Natural Gas Production Tax	<p>7.5 percent of the market value of natural gas produced in the State;</p> <p>4.6 percent of the market value of condensate produced in the State</p>
Oil Production Tax	4.6 percent of the market value of oil produced in the State.
Motor Fuel Taxes	<p>Motor Fuel: 20¢ per gallon of gasoline or diesel fuel (eligible transit companies qualify for a refund of 1¢ per gallon on gasoline and 1/2¢ per gallon on diesel fuel).</p> <p>Compressed Natural Gas and Liquefied Natural Gas: 15¢ per gallon.</p>
Motor Vehicle Sales and Use, Rental, and Manufactured Housing Sales Taxes	<p>Sales and Use: 6.25 percent of vehicle sales price, less any trade-in; \$90 tax for each motor vehicle brought into the State by a new resident; \$10 tax paid by donee for each gift of a motor vehicle; \$5 tax paid by each party in an even exchange of two motor vehicles; 1.0 percent or 2.5 percent Texas Emissions Reduction Plan surcharge on certain diesel truck purchases.</p> <p>Rental: 10 percent of gross receipts on rentals of 30 days or less; 6.25 percent on rentals of 31 to 180 days.</p> <p>Manufactured Housing Sales: 5 percent of 65 percent of the sales price on the initial sale or use of a new manufactured home.</p>

Tax Rate and Base

Cigarette, Cigar and Tobacco Products Taxes

Cigarettes:

\$70.50 per 1,000 cigarettes weighing 3 pounds or less per 1,000 (\$1.41 per pack of 20).

Cigars and Tobacco Products:

(1) Cigar rates vary with weight per 1,000 cigars, constituents, and price: From 1¢ per 10 cigars weighing 3 pounds or less per 1,000 to \$15 per 1,000 cigars weighing over 3 pounds per 1,000.

(2) Snuff, chewing tobacco, pipe tobacco, and roll-your-own tobacco: \$1.22 per ounce based on the manufacturer's list weight.

Franchise Tax

Rates applicable to reports due on or after January 1, 2016: 0.75 percent of taxable margin (for taxable entities not primarily engaged in wholesale or retail trade), or 0.375 percent of taxable margin (for taxable entities primarily engaged in wholesale or retail trade). Taxpayers with total revenue of \$20 million or less may elect to pay tax on revenue apportioned to Texas at a rate of 0.331 percent.

Alcoholic Beverage Taxes

Beer: \$6.00 per 31 gallon barrel.

Liquor: \$2.40 per gallon.

Wine:

Alcohol volume 14 percent or less – 20.4¢ per gallon.

More than 14 percent – 40.8¢ per gallon.

Sparkling wine – 51.6¢ per gallon.

Malt Liquor (Ale): 19.8¢ per gallon.

Mixed Beverage: 6.7 percent of the permittees gross receipts and a retail sales tax of 8.25 percent.

Insurance Premium Taxes

Life Insurance and Health Maintenance Organizations: 0.875 percent of the first \$450,000 in taxable gross life premiums or HMO taxable gross receipts, and 1.75 percent of taxable gross life premiums or HMO taxable gross receipts in excess of \$450,000.

Property and Casualty Insurance: 1.6 percent of gross premiums written in Texas.

Accident and Health Insurance: 1.75 percent of gross premiums written in Texas.

Unauthorized, Independently Procured, and Surplus Lines Insurance: 4.85 percent of gross premiums written for insureds whose home state is Texas.

Tax Rate and Base

Licensed Captive Insurance Companies: 0.5 percent of gross premiums written to insure the operational risks of affiliates and controller unaffiliated businesses. The minimum amount due is \$7,500 per tax report year. The maximum amount due is \$200,000 per tax report year.

Inheritance Taxes **Title Insurance:** 1.35 percent of gross premiums written in Texas.

None: Federal Law incrementally phased out the state's share of the federal tax until it was fully eliminated for deaths occurring in calendar 2005 and beyond.

Utility Taxes **Public Utility Gross Receipts Assessment:** One sixth of 1.0 percent of gross receipts

Gas, Electric and Water Utility:

- (1) Cities 1,000 – 2,499 population – 0.581 percent of gross receipts;
- (2) Cities 2,500 – 9,999 population – 1.070 percent of gross receipts;
- (3) Cities 10,000 population or more – 1.997 percent of gross receipts.

Gas Utility Pipeline: 0.5 percent of gross income (gross receipts less the cost of natural gas sold) of gas utilities.

Hotel Occupancy Tax 6 percent of room rate paid by occupant.

Source: Texas Comptroller of Public Accounts.

LIMITATIONS ON TAXING POWERS

The Constitution prohibits the State from levying ad valorem taxes on property.

The Constitution also limits the rate of growth of appropriations from tax revenues not dedicated by the Constitution during any biennium to the estimated rate of growth for the State's economy. The Legislature may avoid the constitutional limitation if it finds, by a majority vote of both houses, an emergency exists.

The Constitution authorizes the Legislature to provide by law for the implementation of this restriction, and the Legislature, pursuant to such authorization, has defined the estimated rate of growth in the State's economy to mean the estimated increase in State personal income.

CONSTITUTIONAL AND LEGISLATIVE CHANGES IMPACTING FUTURE FISCAL YEARS

On November 3, 2015 voters approved a constitutional amendment which, beginning in fiscal year 2018, directs the Comptroller to deposit to the credit of the State Highway Fund \$2.5 billion of the net revenue derived from the state sales and use tax in excess of \$28 billion. This amendment also directs the Comptroller, beginning in fiscal year 2020, to deposit to the credit of the State Highway Fund thirty-five percent (35%) of the revenues collected from the tax imposed on the sale, use or rental of a motor vehicle that exceeds \$5 billion. These provisions expire August 31, 2032 and August 31, 2029 respectively, however, the legislature may extend the allocations in ten year increments by adopting a resolution approved by a majority of each house.

HISTORICAL REVENUES, EXPENDITURES, AND CASH CONDITION

Table A-3 contains information concerning the cash position for the Consolidated General Revenue Fund for the State's five latest fiscal years.

Table A-3
Statement of Cash Position for the Consolidated General Revenue Fund ⁽¹⁾
Years Ended August 31

	2012	2013	2014	2015	2016
CASH BALANCE –					
September 1					
Cash in State Treasury	\$ 2,629,414,943	\$ 1,988,757,273	\$ 8,556,426,230	\$ 10,969,399,328	\$ 11,119,548,910
Cash in Petty Cash Accounts	7,927,699	8,439,483	9,198,291	9,225,505	9,907,225
Prior Period Adjustments (2)	1,509,396	0	0	0	0
	<u>2,638,852,038</u>	<u>1,997,196,756</u>	<u>8,565,624,521</u>	<u>10,978,624,834</u>	<u>11,129,456,136</u>
NET REVENUE					
Tax Collections	41,337,350,053	44,768,843,583	48,284,058,834	48,910,385,502	46,546,681,772
Federal Income	28,266,640,222	29,201,753,868	30,706,433,285	33,485,449,644	35,445,562,721
Licenses, Fees, Fines and Penalties	5,663,241,533	5,822,455,657	6,491,811,542	7,640,263,095	9,492,111,901
Interest and Investment Income	19,878,041	73,947,085	100,775,663	86,454,292	69,895,550
Net Lottery Proceeds	1,830,916,003	1,893,285,121	1,878,111,901	1,893,534,374	2,219,964,919
Sales of Goods and Services	159,978,391	165,488,179	188,676,366	192,450,242	179,866,335
Settlements of Claims	558,112,743	596,085,184	559,966,966	523,923,121	597,125,634
Land Income	41,027,874	53,908,881	52,913,987	43,444,568	18,187,457
Contribution to Employees Benefits	126,448	86,521	86,983	55,560	54,779
Other Revenue	4,160,635,102	4,444,476,477	4,233,233,798	5,130,881,159	5,415,240,054
TOTAL NET REVENUE	<u>82,037,906,412</u>	<u>87,020,330,557</u>	<u>92,496,069,325</u>	<u>97,906,841,557</u>	<u>99,984,691,121</u>
OTHER SOURCES					
Bond and Note Proceeds	5,000,000	0	(5,000,000)	5,000,000	0
Sale/Redemption of Investments	2,307,555	1,170,587	4,244,799	14,137,500	1,500,000
Deposits to Trust and Suspense	8,805,350	14,548,649	6,714,348	9,941,537	9,109,735
Departmental Transfers	833,075,596	906,739,261	922,255,896	930,410,898	1,094,453,914
Operating Fund Transfers	36,665,253,329	36,457,770,469	37,159,830,709	37,658,886,639	39,911,599,686
Residual Equity Transfers	1,551	4,311	1,000	5,368	-
Other Sources	116,421	233,264	11,689	13,480	32,000
TOTAL OTHER SOURCES	<u>37,514,559,801</u>	<u>37,380,466,541</u>	<u>38,088,058,441</u>	<u>38,618,395,423</u>	<u>41,016,695,335</u>
TOTAL NET REVENUE AND OTHER SOURCES	<u>\$ 119,552,466,213</u>	<u>\$ 124,400,797,098</u>	<u>\$ 130,584,127,766</u>	<u>\$ 136,525,236,980</u>	<u>\$ 141,001,386,456</u>

(1) Consolidated General Revenue contains activity and balances for the General Revenue Fund and dedicated accounts in General Revenue.

(2) Beginning cash balances have been restated due to reclassification of funds and accounts.

Totals may not sum due to rounding.

Source: Comptroller of Public Accounts Annual Cash Report, Table 1

Table A-3
Statement of Cash Position for the Consolidated General Revenue Fund ⁽¹⁾ (concluded)
Years Ended August 31

	2012	2013	2014	2015	2016
NET EXPENDITURES					
General Government	\$ 2,611,650,991	\$ 2,515,040,533	\$ 2,668,044,568	\$ 2,792,569,096	\$ 2,951,241,935
Education	30,547,883,536	26,680,189,159	30,569,780,490	32,614,156,305	33,755,752,153
Employee Benefits	2,922,005,611	3,003,422,510	3,350,471,668	3,558,029,086	4,111,415,789
Health and Human Services	38,005,054,577	38,653,634,026	41,613,552,318	46,205,690,550	50,597,763,208
Public Safety and Corrections	3,752,373,282	3,716,507,835	3,964,111,744	4,129,026,730	4,772,232,611
Transportation	18,145,866	22,337,163	89,568,506	78,401,973	98,756,700
Natural Resources/ Recreational Services	1,613,580,272	1,579,566,322	1,644,422,915	1,897,895,250	1,834,636,958
Regulatory Agencies	288,992,399	299,974,585	541,833,821	421,476,662	553,275,730
Lottery Winnings Paid (3)	619,034,021	661,198,706	602,686,641	554,014,258	672,822,128
Debt Service – Interest	201,768,977	205,957,882	222,169,619	240,504,933	244,891,511
Capital Outlay	287,166,396	338,109,453	265,499,101	254,072,795	381,817,555
TOTAL NET EXPENDITURES	80,867,655,928	77,675,938,174	85,532,141,390	92,745,837,638	99,974,606,277
OTHER USES					
Purchase of Investments	144,432	9,220,419	5,494,079	6,693,165	1,583,825
Trust and Suspense Payments	9,511	8,316	18,115	10,438	16,649
Teacher and Employee Retirement Payments	2,532,409	2,693,264	2,415,216	2,328,052	3,855,214
Departmental Transfers	757,747,799	812,797,457	866,400,841	866,500,662	1,023,625,103
Operating Fund Transfers	38,370,757,444	39,102,429,705	41,498,094,357	42,451,898,711	44,696,985,338
Residual Equity Transfers	15	4,311	0	0	0
Other Uses	11,518,205	20,475,731	21,883,903	17,435,200	16,255,642
Debt Service – Principal	184,267,537	209,560,764	244,706,767	284,383,532	301,776,721
TOTAL OTHER USES	39,326,977,351	40,157,189,967	42,639,013,277	43,629,249,760	46,044,098,493
TOTAL NET EXPENDITURES	120,194,633,280	117,833,128,141	128,171,154,667	136,375,087,399	146,018,704,770
Net Increase/(Decrease)	511,784	758,808	27,214	681,720	(14,358)
CASH BALANCE –	\$ 1,997,196,755	\$ 8,565,624,521	\$ 10,978,624,834	\$ 11,129,456,136	\$ 6,112,123,464
CASH IN STATE TREASURY	1,988,757,273	8,556,426,230	10,969,399,328	11,119,548,910	6,102,230,596
CASH IN PETTY CASH	8,439,483	9,198,291	9,225,505	9,907,225	9,892,868

(1) Consolidated General Revenue contains activity and balances for the General Revenue Fund and dedicated accounts in General Revenue.

(2) Beginning cash balances have been restated due to reclassification of funds and accounts.

(3) Does not include payments made by retailers.

Totals may not sum due to rounding.

Source: Comptroller of Public Accounts Annual Cash Report, Table 1

Table A-4 provides information concerning the cash condition of the State's Consolidated General Revenue Fund, special revenue funds and trust and suspense funds for the State's latest fiscal year ending August 31, and for the total of all of the State's funds and accounts as of such date. The information in the table does not include cash held in certain funds maintained by State-operated institutions of higher education (see "Education—Higher Education") or certain other funds that are not accounted for through the Comptroller of Public Accounts.

Table A-4
Statement of Cash Position
Year Ended August 31, 2016

	Total Consolidated			
	General Revenue(1)	Special Revenue	All Other Funds	Total All Funds
CASH BALANCE –				
SEPTEMBER 1, 2015				
Cash in State Treasury	\$ 11,119,548,910	\$ 19,363,995,364	\$ 6,668,825,180	\$ 37,152,369,454
Cash in Petty Cash Accounts	9,907,225	698,808	79,000	10,685,033
	<u>11,129,456,136</u>	<u>19,364,694,172</u>	<u>6,668,904,180</u>	<u>37,163,054,487</u>
NET REVENUE				
Tax Collections	46,546,681,772	1,929,544,452	2,145,019,914	50,621,246,138
Federal Income	35,445,562,721	4,028,272,459	283,334,711	39,757,169,891
Licenses, Fees, Fines and Penalties	9,492,111,901	2,124,678,220	142,997,248	11,759,787,369
Interest and Investment Income	69,895,550	1,292,400,172	218,730,285	1,581,026,006
Net Lottery Proceeds	2,219,964,919	0	0	2,219,964,919
Sales of Goods and Services	179,866,335	113,180,588	545,956,507	839,003,430
Settlements of Claims	597,125,634	54,848,396	5,605,634	657,579,663
Land Income	18,187,457	1,121,348,736	0	1,139,536,193
Contribution to Employees Benefits	54,779	0	8,167,082,980	8,167,137,759
Other Revenue	5,415,240,054	631,907,012	5,231,402,663	11,278,549,728
TOTAL NET REVENUE	<u>99,984,691,121</u>	<u>11,296,180,034</u>	<u>16,740,129,942</u>	<u>128,021,001,097</u>
OTHER SOURCES				
Bond and Note Proceeds	0	2,267,743,463	0	2,267,743,463
Sale/Redemption of Investments	1,500,000	2,742,448,578	6,335,055,855	9,079,004,433
Deposits to Trust and Suspense	9,109,735	118,916,772	12,102,419,881	12,230,446,387
Departmental Transfers	1,094,453,914	23,772,817	494,595	1,118,721,326
Operating Fund Transfers	39,911,599,686	22,007,402,410	13,398,660,665	75,317,662,761
Residual Equity Transfers	0	0	0	0
Other Sources	32,000	1,658	0	33,658
TOTAL OTHER SOURCES	<u>41,016,695,335</u>	<u>27,160,285,697</u>	<u>31,836,630,996</u>	<u>100,013,612,028</u>
TOTAL NET REVENUE AND OTHER SOURCES	<u>\$ 141,001,386,456</u>	<u>\$ 38,456,465,731</u>	<u>\$ 48,576,760,938</u>	<u>\$ 228,034,613,125</u>

(1) Consolidated General Revenue contains activity and balances for the General Revenue Fund and dedicated accounts in General Revenue.

Totals may not sum due to rounding.

Source: Comptroller of Public Accounts Annual Cash Report, Table 1

Table A-4
Statement of Cash Position
Year Ended August 31, 2016
(concluded)

	Consolidated General			
	Revenue(1)	Special Revenue	All Other Funds	Total All Funds
NET EXPENDITURES				
General Government	\$ 2,951,241,935	\$ 120,570,083	\$ 4,962,267,711	\$ 8,034,079,729
Education	33,755,752,153	2,208,846,117	229,140,404	36,193,738,673
Employee Benefits	4,111,415,789	391,166,184	5,686,239,131	10,188,821,103
Health and Human Services	50,597,763,208	137,191,575.55	3,154,439,815.73	53,889,394,599.02
Public Safety and Corrections	4,772,232,611	56,874,487.22	30,876.84	4,829,137,974.70
Transportation	98,756,700	9,509,981,748.64	0.00	9,608,738,448.44
Natural Resources/Recreational Services	1,834,636,958	1,013,041,264.90	377,452.18	2,848,055,675.09
Regulatory Agencies	553,275,730	58,211,488.32	2,174,927.72	613,662,145.68
Lottery Winnings Paid(2)	672,822,128	0.00	0.00	672,822,128.22
Debt Service – Interest	244,891,511	882,715,229.23	27,711,084.85	1,155,317,825.03
Capital Outlay	381,817,555	217,283,951.18	5,903,981.07	605,005,487.66
TOTAL NET EXPENDITURES	99,974,606,277	14,595,882,129.29	14,068,285,383.77	128,638,773,790.12
OTHER USES				
Purchase of Investments	1,583,825	4,944,277,813.08	3,804,608,346.81	8,750,469,984.89
Trust and Suspense Payments	16,649	0	8,292,084,980.78	8,292,101,629.82
Teacher and Employee Retirement Payments	3,855,214	0.00	12,221,037,726.01	12,224,892,940.32
Departmental Transfers	1,023,625,103	68,788,936	1,575,745	1,093,989,783
Operating Fund Transfers	44,696,985,338	17,967,091,451	11,481,910,346	74,145,987,135
Residual Equity Transfer	0	0	0	0
Other Uses	16,255,642	0	0	16,255,642
Debt Service – Principal	301,776,721	1,585,115,498	334,550,000	2,221,442,220
TOTAL OTHER USES	46,044,098,493	24,565,273,699	36,135,767,144	106,745,139,335
TOTAL NET EXPENDITURES AND OTHER USES	146,018,704,770	39,161,155,828	50,204,052,528	235,383,913,126
Net Increase/(Decrease) To Petty Cash Accounts	(14,358)	(1,658)	0	(16,015)
CASH BALANCE – AUGUST 31, 2016	\$ 6,112,123,464	\$ 18,660,002,417	\$ 5,041,612,590	\$ 29,813,738,471
CASH IN STATE TREASURY	6,102,230,596	18,659,305,267	5,041,533,590	29,803,069,453
CASH IN PETTY CASH ACCOUNTS	9,892,868	697,150	79,000	10,669,018

(1) Consolidated General Revenue contains activity and balances for the General Revenue Fund and dedicated accounts in General Revenue.

(2) Does not include payments made by retailers.

Totals may not sum due to rounding.

Source: Comptroller of Public Accounts Annual Cash Report, Table 1

Table A-5 provides information concerning net revenues and opening balances for State funds, other than trust or suspense funds, for each of the State’s five latest fiscal years. The information in the table does not include certain revenues collected by State-operated institutions of higher education (see “Education—Higher Education”) and certain other revenues that are not accounted for through the Comptroller.

Table A-5
NET REVENUE BY SOURCE
All Funds Excluding Trust
Years Ended August 31

	2012	% Change	2013	% Change	2014	% Change
TAX COLLECTIONS BY MAJOR TAX						
Sales Taxes	\$ 24,191,240,632	12.6%	\$ 25,943,807,086	7.2%	\$ 27,385,709,242	5.6%
Motor Vehicle Sales / Rental Taxes	3,559,231,370	19.5	3,878,379,684	9.0	4,209,952,925	8.5
Motor Fuel Taxes	3,169,239,669	2.1	3,221,502,038	1.6	3,315,952,089	2.9
Franchise Tax	4,564,730,635	16.1	4,798,699,188	5.1	4,732,261,872	(1.4)
Insurance Taxes	1,496,251,178	10.9	1,764,153,450	17.9	1,947,908,252	10.4
Natural Gas Production Tax	1,534,630,438	38.3	1,495,202,962	(2.6)	1,899,581,526	27.0
Cigarette and Tobacco Taxes	1,428,102,956	(8.4)	1,598,089,091	11.9	1,342,454,822	(16.0)
Alcoholic Beverages Taxes	929,700,476	7.8	976,893,685	5.1	1,053,231,009	7.8
Oil Production Tax	2,103,268,285	42.8	2,990,890,113	42.2	3,874,070,862	29.5
Inheritance Tax	(483,557)	(126.8)	(10,293,450)	2,028.7	11,543	100.1
Utility Taxes	450,907,026	(1.5)	434,870,937	(3.6)	478,188,876	10.0
Hotel Occupancy Tax	401,411,015	15.1	441,131,849	9.9	485,384,563	10.0
Other Taxes	250,888,626	24.7	247,719,032	(1.3)	267,853,959	8.1
TOTAL TAX COLLECTIONS	\$ 44,079,118,749	13.4%	\$ 47,781,045,666	8.4%	\$ 50,992,561,539	6.7%
REVENUE BY SOURCE						
Total Tax Collections	\$ 44,079,118,749	13.4%	\$ 47,781,045,666	8.4%	\$ 50,992,561,539	6.7%
Federal Income	32,922,040,458	(14.3)	32,530,326,029	(1.2)	34,266,042,884	5.3
Licenses, Fees, Fines and Penalties	7,607,685,311	(3.4)	7,919,704,761	4.1	8,497,084,352	7.3
Interest and Investment Income	1,098,930,226	6.2	1,182,874,186	7.6	1,463,131,137	23.7
Net Lottery Proceeds	1,830,916,003	9.3	1,893,285,121	3.4	1,878,111,901	(0.8)
Sales of Goods and Services	362,751,310	28.1	225,926,149	(37.7)	262,340,778	16.1
Settlements of Claims	559,831,674	(4.8)	609,960,852	9.0	575,202,495	(5.7)
Land Income	1,372,263,670	(6.1)	1,325,664,892	(3.4)	1,863,363,858	40.6
Contributions to Employee Benefits	126,448	(19.9)	86,521	(31.6)	86,983	0.5
Other Revenue Sources	4,827,723,946	18.8	5,574,338,463	15.5	5,144,367,991	(7.7)
TOTAL NET REVENUE	\$ 94,661,387,794	0.4%	\$ 99,043,212,641	4.6%	\$104,942,293,918	6.0%

Totals may not sum due to rounding.

Source: Comptroller of Public Accounts Annual Cash Report, Table 3

Table A-5
NET REVENUE BY SOURCE
All Funds Excluding Trust
Years Ended August 31
(concluded)

	2015	% Change	2016	% Change
TAX COLLECTIONS BY MAJOR TAX				
Sales Taxes	\$ 28,910,857,486	5.6%	\$ 28,245,800,650	(2.3)%
Motor Vehicle Sales / Rental Taxes	4,514,186,360	7.2	4,616,081,586	2.3
Motor Fuel Taxes	3,446,156,816	3.9	3,513,716,269	2.0
Franchise Tax	4,656,286,107	(1.6)	3,881,176,449	(16.6)
Insurance Taxes	2,049,417,265	5.2	2,226,724,848	8.7
Natural Gas Production Tax	1,280,409,939	(32.6)	578,798,864	(54.8)
Cigarette and Tobacco Taxes	1,532,414,267	14.2	1,388,362,823	(9.4)
Alcoholic Beverages Taxes	1,138,775,576	8.1	1,182,548,508	3.8
Oil Production Tax	2,879,054,654	(25.7)	1,704,282,653	(40.8)
Inheritance Tax	(3,816,952)	(33,166.9)	0	(100.0)
Utility Taxes	480,765,529	0.5	434,964,944	(9.5)
Hotel Occupancy Tax	525,819,090	8.3	521,152,526	(0.9)
Other Taxes	272,733,754	1.8	182,616,105	(33.0)
TOTAL TAX COLLECTIONS	\$ 51,683,059,891	1.4%	\$ 48,476,226,223	(6.2)%
REVENUE BY SOURCE				
Total Tax Collections	\$ 51,683,059,891	1.4%	\$ 48,476,226,223	(6.2)%
Federal Income	36,700,990,373	7.1	39,473,835,181	7.6
Licenses, Fees, Fines and Penalties	9,649,624,204	13.6	11,616,790,121	20.4
Interest and Investment Income	1,393,600,949	(4.8)	1,362,295,721	(2.2)
Net Lottery Proceeds	1,893,534,374	0.8	2,219,964,919	17.2
Sales of Goods and Services	428,665,103	63.4	293,046,923	(31.6)
Settlements of Claims	541,070,879	(5.9)	651,974,029	20.5
Land Income	1,547,830,695	(16.9)	1,139,536,193	(26.4)
Contributions to Employee Benefits	55,560	(36.1)	54,779	(1.4)
Other Revenue Sources	5,589,826,274	8.7	6,047,147,065	8.2
TOTAL NET REVENUE	\$109,428,258,302	4.3%	\$111,280,871,155	1.7%

Totals may not sum due to rounding.

Source: Comptroller of Public Accounts Annual Cash Report, Table 3

Table A-6 sets forth information concerning per capita tax collections from all sources for all funds, other than trust or suspense funds, the percentage change in tax collections from year to year, and the relationship between tax collections and personal income.

Table A-6
TEXAS PER CAPITA STATE TAX COLLECTIONS
All Funds Excluding Trust
Years Ended August 31

Fiscal Year	Total State Tax Collections	Average State Population	Per Capita State Tax Collections	Percent Change	Taxes as a Percent of Personal Income
2012	\$ 44,079,118,749	26,038,000	\$ 1,693	11.6%	4.0%
2013	47,781,045,666	26,456,000	1,806	6.7	4.1
2014	50,992,561,539	26,920,000	1,894	4.9	4.2
2015	51,683,059,891	27,407,500	1,886	(0.4)	4.1
2016	48,476,226,223	27,888,100	1,738	(7.8)	3.7

Sources:

Tax collection data were compiled by the Texas Comptroller of Public Accounts from the Annual Cash Reports.

Population estimates and personal income figures are from the Comptroller's Fall 2016 state economic forecast data bank.

Table A-7 sets forth information concerning expenditures by the State, categorized by function, for each of the State’s five latest fiscal years. The information in the table refers to State funds other than trust or suspense funds. It does not include certain expenditures of State-operated institutions of higher education (see “Education—Higher Education”) or certain other expenditures that are not accounted for through the Comptroller.

Table A-7
NET EXPENDITURES BY FUNCTION
All Funds Excluding Trust
Years Ended August 31

	2012	% Change	2013	% Change	2014	% Change
General Government						
Executive	\$ 2,622,286,326	(33.2)%	\$ 2,303,450,209	(12.2)%	\$ 2,386,437,913	3.6%
Legislative	121,712,840	(12.4)	135,437,227	11.3	129,077,528	(4.7)
Judicial	281,530,839	0.9	270,101,181	(4.1)	315,190,797	16.7
Total	<u>\$ 3,025,530,004</u>	<u>(30.3)</u>	<u>\$ 2,708,988,616</u>	<u>(10.5)</u>	<u>2,830,706,238</u>	<u>4.5</u>
Education	33,702,731,818	0.4	31,530,983,505	(6.4)	32,759,971,140	3.9
Employee Benefits	3,320,609,573	(2.6)	3,478,190,888	4.7	3,816,192,022	9.7
Health and Human Services	38,127,434,438	(1.5)	38,735,710,434	1.6	41,700,503,246	7.7
Public Safety and Corrections	4,294,741,113	(5.6)	4,295,903,947	0.0	4,360,158,907	1.5
Transportation	6,889,846,846	2.7	7,603,809,915	10.4	8,840,676,490	16.3
Natural Resources/Recreational Services	2,163,123,685	19.6	2,303,753,622	6.5	2,342,372,676	1.7
Regulatory Services	335,761,544	7.5	357,731,982	6.5	614,381,953	71.7
Lottery Winnings Paid (1)	619,034,021	14.3	661,198,706	6.8	602,686,641	(8.8)
Debt Service – Interest	1,286,093,706	31.3	1,334,549,422	3.8	1,292,905,123	(3.1)
Capital Outlay	492,013,466	(7.6)	556,153,797	13.0	494,548,661	(11.1)
TOTAL NET EXPENDITURES	<u>\$ 94,256,920,213</u>	<u>(1.3)%</u>	<u>\$ 93,566,974,834</u>	<u>(0.7)%</u>	<u>\$ 99,655,103,098</u>	<u>6.5%</u>

(1) Does not include payments made by retailers.

Totals may not sum due to rounding.

Source: Comptroller of Public Accounts Annual Cash Report, Table 7

Table A-7
NET EXPENDITURES BY FUNCTION
All Funds Excluding Trust
Years Ended August 31
(concluded)

	2015	% Change	2016	% Change
General Government				
Executive	\$ 2,463,422,823	3.2%	\$ 2,599,457,941	5.5%
Legislative	142,174,259	10.1	138,688,336	(2.5)
Judicial	317,728,982	0.8	333,665,741	5.0
Total	<u>\$ 2,923,326,065</u>	<u>3.3</u>	<u>\$ 3,071,812,018</u>	<u>5.1</u>
Education	34,790,149,681	6.2	35,964,598,270	3.4
Employee Benefits	4,049,746,382	6.1	4,502,581,973	11.2
Health and Human Services	46,299,828,040	11.0	50,734,954,783	9.6
Public Safety and Corrections	4,564,634,568	4.7	4,829,107,098	5.8
Transportation	8,507,819,726	(3.8)	9,608,738,448	12.9
Natural Resources/Recreational Services	2,600,573,157	11.0	2,847,678,223	9.5
Regulatory Services	483,942,587	(21.2)	611,487,218	26.4
Lottery Winnings Paid (1)	554,014,258	(8.1)	672,822,128	21.4
Debt Service – Interest	1,177,619,065	(8.9)	1,127,606,740	(4.2)
Capital Outlay	413,934,894	(16.3)	599,101,507	44.7
TOTAL NET EXPENDITURES	<u><u>\$ 106,365,588,422</u></u>	<u><u>6.7%</u></u>	<u><u>\$ 114,570,488,406</u></u>	<u><u>7.7%</u></u>

(1) Does not include payments made by retailers.

Totals may not sum due to rounding.

Source: Comptroller of Public Accounts Annual Cash Report, Table 7

Table A-8 sets forth information concerning State expenditures, for all funds, other than trust or suspense funds, categorized by category, for each of the State's five latest fiscal years. The information in the table does not include certain expenditures of State-operated institutions of higher education (see "Education—Higher Education") or certain other expenditures not accounted for through the Comptroller.

Table A-8
NET EXPENDITURES BY EXPENDITURE CATEGORY
All Funds Excluding Trust
Years Ended August 31

EXPENDITURE CATEGORY	2012	% Change	2013	% Change	2014	% Change
Public Assistance Payments	\$ 34,916,037,739	(2.8)%	\$ 35,278,179,465	1.0%	\$ 38,394,471,847	8.8%
Intergovernmental Payments						
Foundation School Program Grants	19,222,015,479	8.8	18,377,961,414	(4.4)	19,449,620,788	5.8
Other Public Education Grants	6,329,470,849	(16.0)	5,093,224,305	(19.5)	5,191,099,146	1.9
Grants to Higher Education	1,143,310,454	(4.2)	1,108,973,166	(3.0)	1,142,128,238	3.0
Other Grants	2,628,761,369	(10.6)	2,709,068,572	3.1	2,863,947,131	5.7
Highway Construction and Maintenance	4,186,493,637	10.9	4,491,601,827	7.3	5,305,157,884	18.1
Capital Outlay	492,013,466	(7.6)	556,153,797	13.0	494,548,661	(11.1)
Cost of Goods Sold	466,004,486	(5.2)	632,350,393	35.7	655,985,866	3.7
Salaries and Wages	10,255,623,349	(0.7)	10,346,565,842	0.9	10,821,911,893	4.6
Employee Benefits						
Employee Benefit Payments	2,267,659,536	(11.0)	2,317,792,873	2.2	2,414,163,002	4.2
Payroll Related Costs	2,709,221,497	(2.3)	2,838,062,295	4.8	3,055,062,555	7.6
Professional Service and Fees	2,079,300,952	(9.6)	2,303,561,478	10.8	2,531,522,778	9.9
Travel	143,551,689	(0.3)	155,258,506	8.2	162,945,107	5.0
Supplies and Materials	1,079,339,070	5.0	1,075,658,705	(0.3)	1,088,134,316	1.2
Communication and Utilities	472,565,322	(5.8)	469,907,673	(0.6)	506,248,399	7.7
Repairs and Maintenance	927,318,700	11.1	946,547,331	2.1	898,526,905	(5.1)
Rentals and Leases	265,513,723	(0.0)	265,368,409	(0.1)	278,816,389	5.1
Printing and Reproduction	38,311,087	1.3	42,049,339	9.8	49,906,224	18.7
Debt Service – Interest	1,286,093,706	31.3	1,334,549,422	3.8	1,292,905,123	(3.1)
Lottery Winnings Paid (1)	619,034,021	14.3	661,198,706	6.8	602,686,641	(8.8)
Claims and Judgments	105,704,021	3.9	81,696,564	(22.7)	100,384,952	22.9
Other Expenditures	2,623,576,063	(12.6)	2,481,244,752	(5.4)	2,354,929,253	(5.1)
TOTAL NET EXPENDITURES	\$ 94,256,920,213	(1.3)%	\$ 93,566,974,834	(0.7)%	\$ 99,655,103,099	6.5%

(1) Does not include payments made by retailers.

Totals may not sum due to rounding.

Source: Comptroller of Public Accounts Annual Cash Report, Table 8

Table A-8
NET EXPENDITURES BY EXPENDITURE CATEGORY
All Funds Excluding Trust
Years Ended August 31
(concluded)

EXPENDITURE CATEGORY	2015	% Change	2016	% Change
Public Assistance Payments	\$ 42,772,072,519	11.4%	\$ 47,199,171,876	10.4%
Intergovernmental Payments				
Foundation School Program Grants	20,258,100,591	4.2	21,226,715,279	4.8
Other Public Education Grants	5,130,637,183	(1.2)	5,560,238,970	8.4
Grants to Higher Education	1,153,105,767	1.0	1,179,636,083	2.3
Other Grants	2,735,090,158	(4.5)	2,595,439,367	(5.1)
Highway Construction and Maintenance	5,192,846,124	(2.1)	6,159,245,504	18.6
Capital Outlay	413,934,894	(16.3)	599,101,507	44.7
Cost of Goods Sold	611,143,018	(6.8)	934,425,952	52.9
Salaries and Wages	11,284,217,829	4.3	11,883,608,742	5.3
Employee Benefits				
Employee Benefit Payments	3,450,389,437	42.9	3,090,727,327	(10.4)
Payroll Related Costs	3,274,164,567	7.2	3,531,498,523	7.9
Professional Service and Fees	2,839,037,528	12.1	2,883,550,745	1.6
Travel	185,255,823	13.7	185,670,997	0.2
Supplies and Materials	1,086,329,750	(0.2)	1,052,401,921	(3.1)
Communication and Utilities	499,651,115	(1.3)	506,577,734	1.4
Repairs and Maintenance	941,783,948	4.8	1,111,411,681	18.0
Rentals and Leases	296,465,337	6.3	316,728,047	6.8
Printing and Reproduction	48,935,446	(1.9)	53,698,330	9.7
Debt Service – Interest	1,177,619,065	(8.9)	1,127,606,740	(4.2)
Lottery Winnings Paid (1)	554,014,258	(8.1)	672,822,128	21.4
Claims and Judgments	86,345,467	(14.0)	75,536,418	(12.5)
Other Expenditures	2,374,448,598	0.8	2,624,674,533	10.5
TOTAL NET EXPENDITURES	\$106,365,588,422	6.7%	\$114,570,488,406	7.7%

(1) Does not include payments made by retailers.

Totals may not sum due to rounding.

Source: Comptroller of Public Accounts Annual Cash Report, Table 8

2016-17 BUDGET:

In January 2015, the State Legislature began its Eighty-fourth Regular Session (the “84th Legislature”). During the Regular Session, the 84th Legislature adopted a budget totaling \$209.1 billion in all-funds appropriations for the 2016-17 biennium, resulting in a \$5.8 billion, or 2.9 percent, overall budget increase.

Each biennium there are circumstances which result in variances to state agency expenditures (i.e., expended and budgeted amounts) from the amounts appropriated by the Legislature. Typically these result from shifts in population, client demands, or unforeseen events such as natural disasters, changes to federal formulas, grant requirements, and/or additional or reduced available revenue or balances supporting legislative appropriations. Often, these incremental changes to the current biennial budget are authorized by existing law, either through the Texas Constitution or the General Appropriations Act, and do not require legislative action. However some expenditure changes require further action by the Legislature in the form of a supplemental appropriations bill.

To address such supplemental adjustment needs, the 84th Legislature adopted House Bill 2. This bill included adjustments associated with Medicaid, the Teacher Retirement System and the correctional managed health care at the Department of Criminal Justice. After the adjustments authorized by HB 2, the adjusted All Funds amount for the 2014-15 biennium was \$203.3 billion.

Table A-9 compares the budget for the 2016-2017 biennium to the actual budgeted expenditures for the 2014-2015 biennium. The budget for the 2018-19 biennium is currently being developed. Texas Governor Greg Abbott, Lieutenant Governor Dan Patrick and Speaker Joe Straus sent a letter to all state agencies directing them to limit, with certain exceptions, their 2018-19 biennial baseline GR budget request to 96% of 2016-17 spending.

Table A-9
The Budget for Texas State Government for the 2016-2017 Biennium
Compared to Actual Budgeted Expenditures for the 2014-2015 Biennium
All Funds (In Millions)

All Functions	Expended/ Budgeted 2014-15	Appropriated 2016-17	Biennial Change	Percentage Change
Article I – General Government	\$5,321.5	\$6,252.6	\$931.1	17.5%
Article II – Health and Human Services	\$74,751.5	\$77,199.8	\$2,448.3	3.3%
Article III – Agencies of Education	\$74,724.5	\$78,570.1	\$3,845.7	5.1%
Public Education	\$56,171.9	\$58,556.2	\$2,384.3	4.2%
Higher Education	\$18,552.6	\$20,013.9	\$1,461.3	7.9%
Article IV – The Judiciary	\$764.5	\$807.8	\$43.3	5.7%
Article V – Public Safety and Criminal Justice	\$11,869.0	\$12,432.6	\$563.7	4.7%
Article VI – Natural Resources	\$6,933.5	\$4,367.5	(\$2,566.0)	(37.0)%
Article VII – Business and Economic Development	\$27,429.5	\$27,762.2	\$332.6	1.2%
Article VIII – Regulatory	\$1,132.6	\$934.2	(\$198.3)	(17.5)%
Article IX – General Provisions	\$0.0	\$390.2	\$390.2	N/A
Article X – The Legislature	\$374.0	\$386.1	\$12.0	3.2%
TOTAL, ALL FUNCTIONS	\$203,300.5	\$209,103.0	\$5,802.5	2.9%

Notes:

(1) Article totals exclude Interagency Contracts.

(2) Biennial change and percentage change are calculated on actual amounts before rounding. Therefore, figure totals may not sum due to rounding.

Source: Legislative Budget Board, Summary of Appropriations for the 2016-17 Biennium, Figure 2; Comptroller of Public Accounts.

REVENUE FORECASTS: FISCAL YEARS 2013-2017

Table A-10 sets forth information concerning estimated revenues for the State’s 2017 fiscal year, along with actual collections for comparable revenues for the State’s 2013 - 2016 years. The information is for all funds, excluding trust and local funds.

Table A-10
Actual and Forecasted Revenue, All Funds Excluding Trust and Local Funds (1)
Fiscal Year Ending August 31
(Amounts in Thousands)

Tax Collection by Major Tax	2013 Actual	2014 Actual	2015 Actual	2016 Actual (2)	2017 Estimated
Tax Collections					
Sales Taxes	25,943,807	27,385,709	28,910,857	28,245,801	30,663,502
Motor Vehicle Sales and Rental Taxes	3,878,380	4,209,953	4,514,186	4,616,082	5,078,806
Motor Fuels Taxes	3,221,502	3,315,952	3,446,157	3,513,716	3,556,862
Franchise Tax	4,798,699	4,732,262	4,656,286	3,881,176	3,547,819
Insurance Taxes	1,764,153	1,947,908	2,049,417	2,226,725	2,238,275
Natural Gas Production Tax	1,495,203	1,899,582	1,280,410	578,799	1,044,002
Cigarette and Tobacco Taxes	1,598,089	1,342,455	1,532,414	1,388,363	1,470,832
Alcoholic Beverage Taxes	976,894	1,053,231	1,138,776	1,182,549	1,249,382
Oil Production and Regulation Taxes	2,990,890	3,874,071	2,879,055	1,704,283	2,062,105
Inheritance Tax	(10,293)	12	(3,817)	0	0
Utility Taxes	434,871	478,189	480,766	434,965	486,900
Hotel Occupancy Tax	441,132	485,385	525,819	521,153	582,700
Other Taxes	247,719	267,854	272,734	182,616	180,491
Total Tax Collections	\$47,781,046	\$50,992,562	\$51,683,060	\$48,476,226	\$52,161,676
Revenue By Source					
Tax Collections	47,781,046	50,992,562	51,683,060	48,476,226	52,161,676
Federal Income	32,530,326	34,266,043	36,700,990	39,473,835	35,047,132
Licenses, Fees, Fines, and Penalties	7,919,649	8,497,084	9,649,624	11,616,790	7,102,356
Interest and Investment Income	1,182,874	1,463,131	1,393,601	1,362,296	1,444,987
Lottery Proceeds	1,893,285	1,878,112	1,893,534	2,219,965	1,899,864
Sales of Goods & Services	225,926	262,341	428,665	293,047	419,697
Settlements of Claims	609,961	575,202	541,071	651,974	537,044
Land Income	1,325,665	1,863,364	1,547,831	1,139,536	1,055,857
Contributions to Employee Benefits	87	87	56	55	87
Other Revenue Sources	5,567,563	5,144,365	5,589,826	6,047,147	6,275,386
Total Net Revenue	\$99,036,382	\$104,942,290	\$109,428,258	\$111,280,871	\$105,944,086

Note: Excludes local funds and deposits by certain semi-independent agencies. Includes certain state revenues that are deposited in the State Treasury but not appropriated.

Totals may not sum due to rounding.

Sources:

(1) Texas Comptroller of Public Accounts, 2016-2017 Certification Revenue Estimate.

(2) Monthly State Revenue Watch, Historical Data: <https://www.comptroller.texas.gov/transparency/revenue/watch/>

The revenue estimate released in October 2015 for the current 2016-2017 biennium was prepared in accordance with the Texas Government Code, Section 403.0131. This revised estimate is available on the Comptroller's website at:

<https://www.comptroller.texas.gov/transparency/reports/certification-revenue-estimate/2016-17/>

The revenue estimate is based on an econometric model of the Texas economy created by the Comptroller, using extensive databases relating to State and local economic conditions and demographic statistics. These models are supplemented by economic services such as IHS Global Insight, which provide the national economic data used in the State forecast. Similar models have been used in preparing prior revenue estimates.

The State of Texas finished fiscal 2016 with a \$6.1 billion positive cash balance in the Consolidated General Revenue Fund. Since fiscal year 1993, Texas has ended each fiscal year with a positive balance in its Consolidated General Revenue Fund.

Table A-11 sets forth information concerning cash balances for the five latest fiscal years.

Table A-11
ENDING CASH BALANCE
All Funds
Years Ended August 31 (Amounts in Thousands)

	2012	2013	2014	2015	2016
General Revenue Fund 0001	\$ (3,705,935)	\$ 2,750,862	\$ 5,116,926	\$ 5,607,950	\$ 524,858
General Revenue Dedicated	5,694,693	5,805,564	5,852,474	5,511,599	5,577,372
Consolidated General Revenue	1,988,757	8,556,426	10,969,399	11,119,549	6,102,231
Non-Consolidated Funds and Petty Cash Accounts	30,276,007	19,983,484	20,588,303	26,043,506	23,711,508
All Funds	\$ 32,264,764	\$ 28,539,911	\$ 31,557,702	\$ 37,163,055	\$ 29,813,739

ANNUAL PERCENTAGE CHANGE IN ENDING CASH BALANCES

General Revenue Fund 0001	(34.7)%	174.2%	(86.0)%	(9.6)%	(90.6)%
General Revenue Dedicated	6.9	1.9	0.8	(5.8)	1.2
Consolidated General Revenue	(24.4)	330.2	28.2	1.4	(45.1)
Non-Consolidated Funds and Petty Cash Accounts	52.2	(34.0)	3.0	26.5	(9.0)
All Funds	43.3%	(11.5)%	10.6%	17.8%	(19.8)%

Ending non-consolidated balances on August 31, 2012 include \$9.8 billion in Tax and Revenue Anticipation Notes received on August 30, 2012.

Totals may not sum due to rounding.

Source: Comptroller of Public Accounts Annual Cash Report, Table 2

4. STATE DEBT

INTRODUCTION

Except as specifically authorized, the Constitution generally prohibits the creation of debt by or on behalf of the State, with certain exceptions: (i) debt created to supply casual deficiencies in revenues which do not total more than \$200,000 at any time, (ii) debt to repel invasion, suppress insurrection, defend the State in war, and (iii) as authorized by the Constitution. In addition, the Constitution prohibits the Legislature from lending the credit of the State to any person, including municipalities, or pledging the credit of the State in any manner for the payment of the liabilities of any individual, association of individuals, corporation or municipality. The limitations of the Constitution do not prohibit the issuance of revenue bonds, since the Texas courts (like the courts of most states) have held that certain obligations do not create a “debt” within the meaning of the Constitution. State agencies have issued revenue bonds payable from the revenues produced by various facilities or from lease payments appropriated by the Legislature. Furthermore, obligations which are payable from funds expected to be available during the current budget period do not constitute “debt” within the meaning of the Constitution. Short-term obligations, like the Tax and Revenue Anticipation Notes issued by the Comptroller which mature within the biennial budget period in which they were issued, are not deemed to be debt within the meaning of the State constitutional prohibition.

By constitutional amendment, from time to time the voters of the State may authorize the issuance of general obligation (G.O.) indebtedness for which the full faith, credit and taxing power of the State are pledged. For self-supporting G.O. debt, no further legislative action is required after the legislature and voters authorize the debt issuance. For not self-supporting G.O. debt, the legislature must appropriate funds for debt service before the debt can be issued.

Various state agencies have the authority to issue G.O. debt. The Texas Veterans’ Land Board (VLB) is authorized to issue G.O. bonds to finance the purchase of land and housing by veterans. The Texas Water Development Board (TWDB) is authorized to issue G.O. bonds to make funds available to municipalities and certain other governmental units for the conservation and development of water resources; the acquisition and development of water storage facilities for the filtration, treatment and transportation of water; water quality enhancement purposes; flood control purposes and water-efficient irrigation systems. Additionally, TWDB is authorized to incur unlimited contractual obligations to the United States (U.S.) for the acquisition and development of water storage facilities in reservoirs constructed by the U.S. These contractual obligations are declared by the Constitution to be general obligations of the State.

The Texas Agricultural Finance Authority (TAFA) is authorized to issue G.O. bonds to provide financial assistance for the expansion, development and diversification of production, processing and marketing of Texas agricultural products. Additionally, TAFA is authorized to issue G.O. bonds for a farm and ranch land acquisition program. The 81st Legislature transferred the TAFA issuance authority to the Texas Public Finance Authority (TPFA). The Texas Parks and Wildlife Department (TPWD) is authorized to issue G.O. bonds to finance the acquisition and development of State parks. The Texas Higher Education Coordinating Board is authorized to issue G.O. bonds to finance student loans.

The TPFA is authorized to issue G.O. bonds to finance the acquisition, construction and equipping of new facilities as well as major repair or renovation of existing facilities, for certain state agencies.

TPFA is also authorized to issue G.O. bonds on behalf of the Texas Parks and Wildlife Department, the Texas Military Preparedness Commission and the Cancer Prevention Research Institute of Texas.

The Texas Economic Development and Tourism Office, within the Office of the Governor, is authorized to issue G.O. bonds to provide loans to finance the commercialization of new or improved products or processes developed in Texas and to stimulate the development of small businesses in Texas.

The Texas Transportation Commission (TTC) is authorized to issue G.O. bonds on behalf of the Texas Department of Transportation (TXDOT) to finance the acquisition, construction, maintenance, reconstruction and expansion of state highways, and the participation by the State in the costs of constructing publicly owned toll roads.

Certain public colleges and universities are authorized to issue Constitutional Appropriation Bonds, the debt service for which is payable from the Higher Education Assistance Fund appropriations as required by the Constitution, without limitation as to principal amount, except that the debt service on the bonds may not exceed 50 percent of the amount appropriated each year.

STATE GENERAL OBLIGATION DEBT—ANNUAL DEBT SERVICE REQUIREMENTS

Much of the State's outstanding general obligation bonded indebtedness is designed to be self-supporting, even though the full faith and credit of the State is pledged for its repayment. Revenues from land and housing programs are expected to be sufficient to repay principal and interest on all outstanding VLB bonds.

Although they are G.O. bonds, revenues from student loans are pledged to repay the principal and interest on outstanding THECB bonds. Debt service requirements for the Texas Economic Development bonds will be paid from revenues received from the program's loans and debt service requirements for the Texas Military Preparedness Commission's Texas Military Value Revolving Loan Fund will be paid from revenues received from the program's loans. The TXDOT G.O. bonds (Mobility Fund) will be paid from dedicated revenue; however, if revenues are insufficient, the debt will be paid from the State's general revenues.

The G.O. bonds issued by TPFA are not self-supporting. All debt service on these bonds is paid from the State's general revenue fund. Although Constitutional Appropriation Bonds are not explicitly a general obligation or full faith and credit bond, the stated pledge has the same effect. Debt service for these bonds is paid from an annual constitutional appropriation to qualified institutions of higher education from the first monies coming into the State Treasury not otherwise dedicated by the Constitution.

STATE REVENUE BONDS

The TPFAs are authorized to issue revenue bonds payable from general revenue including both lease-revenue bonds to finance the construction, acquisition or renovation of State office buildings as well as equipment revenue bonds. Additionally, the TPFAs are authorized to issue revenue bonds payable from general revenue on behalf of the TPWD and the Military Facilities Commission. The 81st Legislature authorized the TPFAs to issue up to \$2.5 billion to finance excess losses of the Texas Wind Insurance Association resulting from a catastrophic event.

In addition to the foregoing revenue obligations issued by State agencies, other State programs may be financed with revenue bonds or similar obligations payable from revenues generated by the specific authorized programs rather than from the general revenues of the State or its taxing power. Among the State entities authorized to issue such revenue bonds are the TWDB, the Texas Agricultural Finance Authority, the Texas Department of Housing and Community Affairs, the Texas Department of Economic Development – Office of the Governor, the TPFAs, VLB and Texas colleges and universities (described below). The TXDOT is also authorized to issue revenue bonds for the Texas Turnpike Authority and the State Highway Fund.

Texas colleges and universities are authorized to issue tuition revenue bonds (TRBs) payable from certain revenues of the applicable college or university; however, historically the state has appropriated funds to the schools in an amount equal to all, or a portion of, the debt service on revenue bonds issued.

In addition to authorized tuition revenue bonds, The University of Texas System and The Texas A&M University System are authorized to issue Permanent University Fund (PUF) bonds payable from the interest in the Available University Fund.

RECENT DEVELOPMENTS AFFECTING STATE DEBT

While the 77th Legislature authorized the TTC to issue debt for the Texas Mobility Fund, the 84th Legislature passed HB 122 which limits future issuance of debt secured by the Texas Mobility Fund solely to refundings or issuances that replace outstanding variable rate debt.

Additionally, the 84th Legislature passed HB 100 which authorized \$3.1 billion in TRBs; historically the state has appropriated funds to the schools in an amount equal to all or a portion of the debt service on revenue bonds issued.

In the General Appropriations Act, the 84th Legislature authorized the issuance of \$767.7 million of revenue bonds and appropriated those bond proceeds to the Texas Facilities Commission for the North Austin and Capitol Complex projects. The bonds are anticipated to be repaid with lease payments and are subject to biennial appropriation by the Legislature of funds available for payment. Lease payments were appropriated to the Texas Facilities Commission for the 2016-2017 biennium.

The 83rd Legislature authorized, and voters approved, the creation of the State Water Implementation Fund for Texas and the State Water Implementation Revenue Fund for Texas to

assist in the financing of priority projects in the state water plan to ensure the availability of adequate water resources.

In September 2013, Standard & Poor's (S&P) raised its credit rating on Texas to AAA based primarily on its budgetary and cash management discipline, which allowed the state to preserve a strong level of reserves throughout the recession.

The 82nd Legislature authorized additional G.O. debt that was approved by the voters at the November 2011 general election. These include SJR 4 for \$6 billion in evergreen bonding authority for water projects; and SJR 50 for \$1.86 billion in evergreen bonding authority to finance educational loans to students.

In April 2010, Moody's and Fitch recalibrated their municipal rating scales to align with their global rating scales. These recalibrations were not rating upgrades. Moody's rating for the state's GO was recalibrated from Aa1 to Aaa, and Fitch's rating was recalibrated from AA+ to AAA. Moody's recalibration was designed "to enhance the comparability of ratings across the Moody's rated universe," and Fitch's "intent of the recalibration is to ensure a greater degree of comparability across Fitch's global portfolio of credit ratings." S&P announced that its municipal ratings were comparable and recalibration was not necessary.

The 80th Legislature authorized additional G.O. debt that was approved by the voters at the November 2007 general election. These include HJR 90 for \$3 billion to finance cancer research; SJR 65 for \$1 billion to finance capital projects for certain state agencies; SJR 57 for \$500 million to finance student loans; SJR 64 to finance \$5 billion for transportation projects and SJR 20 for \$250 million for water projects.

During the 78th Legislature, SJR 55 and SB 652 were passed along with a constitutional amendment authorizing TPFA to issue up to \$250 million in G.O. bonds or notes for the benefit of the Texas Military Preparedness Commission, in conjunction with the Office of Defense Affairs to fund loans for economic development programs that enhance the military value of military facilities in the State. HB 3324 authorized TPFA, at the request of the Texas Workforce Commission to issue up to \$2 billion in revenue bonds secured by an assessment of certain businesses, if the cost of issuing bonds is less than the cost of borrowing from the federal government.

The 77th Legislature also authorized the TTC to issue debt for the State Highway Fund in an amount not to exceed \$3 billion with no more than \$1 billion to be issued per year. This authority was amended by SB 792, Acts, 80th Legislature authorizing the program in an amount not to exceed \$6 billion with no more than \$1.5 billion to be issued per year.

Article III, Section 49-j of the Texas Constitution prohibits the Legislature from authorizing additional State debt payable from general revenues, including authorized but unissued bonds and lease purchase contracts in excess of \$250,000 or for a term of greater than five years, if the resulting annual debt service exceeds five percent of an amount equal to the average amount of general revenue for the three immediately preceding years, excluding revenues constitutionally dedicated for purposes other than payment of debt service. The debt service ratio for outstanding debt was 1.36% as of August 31, 2016. With the inclusion of authorized but unissued debt, the ratio was 2.37%. Although backed by the full faith and credit of the State, debt service for self-

supporting G.O. bonds are reasonably expected to be paid from other revenue sources and is therefore not expected to create a draw on general revenue.

SELECTED DATA CONCERNING STATE DEBT

Table A-12 (see following page), sets forth certain information concerning the debt service requirements of general obligation and other constitutionally authorized indebtedness of the State as well as revenue bonds payable from the State's General Revenue Fund for fiscal years 2017 and beyond.

**General Obligation Bond Debt Service and Revenue Bond
Debt Service Payable from General Revenue (1)
Reported as of August 31, 2016 (2)**

**Table A-12
(in thousands)**

Fiscal Year	General Obligation Bonds Self Supporting (3)		General Obligation Bonds Payable from General Revenue		Total G.O. Bonds (4)	Revenue Bonds Payable from General Revenue (5)		Total Revenue Bonds	Total
	Principal	Interest	Principal	Interest		Principal	Interest		
2017	347,895	468,174	345,604	294,120	1,455,794	21,105	2,475	23,580	1,479,373
2018	362,770	455,572	343,979	284,963	1,447,284	18,330	1,524	19,854	1,467,138
2019	398,660	442,399	346,375	270,779	1,458,214	9,185	868	10,053	1,468,266
2020	397,070	427,855	320,614	256,913	1,402,452	4,960	525	5,485	1,407,937
2021	404,545	413,597	321,014	242,953	1,382,108	2,505	349	2,854	1,384,962
2022	405,965	398,834	323,605	228,505	1,356,909	2,245	236	2,481	1,359,390
2023	405,900	383,739	324,814	213,807	1,328,260	1,305	154	1,459	1,329,719
2024	448,430	367,222	323,025	198,876	1,337,553	1,345	96	1,441	1,338,994
2025	460,370	349,287	298,117	184,483	1,292,257	455	36	491	1,292,748
2026	473,340	330,441	294,412	170,654	1,268,847	455	12	467	1,269,314
2027	444,775	311,630	286,533	157,012	1,199,950	-	-	-	1,199,950
2028	453,565	293,380	286,888	143,381	1,177,214	-	-	-	1,177,214
2029	464,530	274,722	282,423	130,005	1,151,680	-	-	-	1,151,680
2030	452,770	256,430	259,833	116,961	1,085,994	-	-	-	1,085,994
2031	466,970	237,501	238,988	105,104	1,048,562	-	-	-	1,048,562
2032	452,225	217,880	211,153	94,637	975,895	-	-	-	975,895
2033	462,930	198,603	198,618	85,512	945,662	-	-	-	945,662
2034	523,815	180,276	194,183	76,775	975,049	-	-	-	975,049
2035	465,805	158,763	182,618	68,295	875,480	-	-	-	875,480
2036	477,835	138,884	181,708	59,519	857,945	-	-	-	857,945
2037	493,515	120,508	152,450	51,118	817,591	-	-	-	817,591
2038	549,035	104,007	156,065	43,640	852,747	-	-	-	852,747
2039	579,540	75,464	159,830	35,985	850,820	-	-	-	850,820
2040	214,750	41,787	163,760	28,147	448,445	-	-	-	448,445
2041	222,515	35,036	116,815	20,117	394,483	-	-	-	394,483
2042	194,915	30,828	119,530	14,277	359,549	-	-	-	359,549
2043	193,720	24,849	62,500	8,300	289,369	-	-	-	289,369
2044	195,760	16,246	62,500	5,175	279,681	-	-	-	279,681
2045	243,285	7,189	20,500	2,050	273,024	-	-	-	273,024
2046	3,845	165	20,500	1,025	25,535	-	-	-	25,535
2047	1,610	70	-	-	1,680	-	-	-	1,680
2048	-	-	-	-	-	-	-	-	-
2049	-	-	-	-	-	-	-	-	-
2050	-	-	-	-	-	-	-	-	-
2051	-	-	-	-	-	-	-	-	-
	\$ 11,662,655	\$ 6,761,337	\$ 6,598,954	\$ 3,593,088	\$ 28,626,034	\$ 61,890	\$ 6,275	\$ 68,165	\$ 28,684,199

1 For capital appreciation bonds, the accretion amounts are shown as interest payments in the year the bonds mature.

2 Pursuant to Texas Administrative Code, Title 34, Part IX, Chapter 181, Subchapter A, Rule 181.5 issuers are required to submit a final report within 60 days after the delivery of state securities and receipt of state security proceeds. As a result, reported data may not include certain issues due to timing.

3 As of August 31, 2016, the Texas Agricultural Finance Authority had outstanding \$5.3 million in general obligation commercial paper. The debt service on the commercial paper is not included in the figures shown in this table. Debt service is not known since the paper will be refunded periodically. The Authority's program is not expected to rely on the state's general revenue for debt service.

Debt service figures for the Veterans Land and Housing Assistance Bonds include the estimated payments on \$2.65 billion of variable-rate debt outstanding as of August 31, 2016.

4 As of August 31, 2016, \$12.10 billion of general obligation bonds were authorized but unissued, \$9.15 billion of which are designed to be self-supporting.

Debt service in any year for Higher Education Constitutional Appropriation bonds may not exceed 50% of the amount appropriated to the Higher Education Fund by the legislature.

5 On August 31, 2016, the Texas Public Finance Authority had \$44.5 million in revenue commercial paper outstanding that is payable from general revenue.

Source: Texas Bond Review Board, Office of the Executive Director

Table A-13 sets forth information concerning the principal amount of G.O. bonds and revenue bonds payable from the State's General Revenue Fund for selected years and the amount of debt service paid from the General Revenue Fund on such bonds. The table does not include debt service information (data) on outstanding G.O. or revenue bonds paid from sources other than State general revenue. The information contained in the table does not reflect outstanding PUF

bonds or bonds guaranteed by the Texas Permanent School Fund or the debt service on such bonds. The State's Tax and Revenue Anticipation Notes do not constitute debt within the meaning of the State Constitution and are therefore not shown in the Table.

Table A-13
General Obligation Bonds and Revenue Bonds
Payable from General Revenue
Fiscal Year Ending August 31, 2016

	2012	2013	2014	2015	2016
Principal Amount Outstanding (Millions) ⁽¹⁾	\$14,526	\$15,574	\$15,274	\$17,444	\$18,373
Principal Amount Per Capita ⁽¹⁾	\$555	\$599	\$570	\$636	\$659
Principal Amount as a Percentage of Personal Income ⁽¹⁾	1.35%	1.36%	1.25%	1.42%	1.40%
Annual Debt Service Paid from General Revenue (Millions) ⁽²⁾	\$386	\$416	\$467	\$525	\$547
Debt Service Paid from General Revenue as a Percentage of Available General Revenue Fund Revenues ⁽²⁾	0.91%	0.92%	0.97%	1.06%	1.08%
Annual Debt Service Paid from General Revenue Per Capita ⁽²⁾	\$14.76	\$15.98	\$17.43	\$19.15	\$19.60
Debt Service Paid from General Revenue as a Percentage of Personal Income ⁽²⁾	0.036%	0.036%	0.038%	0.043%	0.042%

(1) Includes general obligation bonds which, although legally secured by the State's taxing authority, are expected to be repaid with sources outside of the State's general fund. Due to statutory or contractual restrictions, these amounts are dedicated for specific purposes and are not considered available.

(2) Includes debt service which is paid out of the State's general revenue fund.

Source: Texas Comprehensive Annual Financial Report for the Year Ended August 31, 2016

Table A-14 shows the amount of General Revenue that is available after constitutional allocations and other restrictions. The Total Unrestricted Revenues Available supports bond debt service payments and general revenue appropriations.

All allocations and transfers are shown in the year in which the actual allocation or transfer occurred. Restrictions for transfers to the Economic Stabilization Fund are classified as constitutional on a separate line item.

Article III, Section 49-j of the Texas Constitution provides that the maximum annual debt service in any fiscal year on state debt payable from the general revenue fund, including authorized but unissued bonds, shall not exceed 5 percent of an amount equal to the average of the amount of general revenue funds, excluding revenues constitutionally dedicated for purposes other than payment of state debt, for the three preceding fiscal years.

Table A-14
General Revenue Fund Revenues Available After
Constitutional Allocations and Other Restrictions
Years Ended August 31, 2016

REVENUE SOURCE	General Revenue Fund 0001 ⁽¹⁾	Restrictions From Constitutional Allocations	Other Restrictions ⁽²⁾	Unrestricted Revenues Available
Sales Taxes	\$ 28,136,563,454	\$	\$ 133,889,596	\$ 28,002,673,858
Motor Vehicle Sales/Rental Taxes	4,576,834,059			4,576,834,059
Motor Fuel Taxes	3,513,716,269	3,472,879,888	18,569,375	22,267,005
Franchise Tax	2,845,291,000	-	-	2,845,291,000
Insurance Taxes	2,225,585,569	507,578,642	140,781,370	1,577,225,557
Natural Gas Production Tax	578,798,864	153,471,863		425,327,001
Cigarette and Tobacco Products Taxes	561,916,481			561,916,481
Alcoholic Beverages Taxes	1,182,548,508			1,182,548,508
Oil Production Tax	1,704,282,653	438,968,431		1,265,314,222
Inheritance Tax				
Utility Taxes	434,964,944	78,276,830		356,688,115
Hotel Occupancy Tax	521,152,526		43,604,616	477,547,910
Other Taxes	79,219,107	20,500,830		58,718,277
TOTAL TAX COLLECTIONS	\$ 46,360,873,434	\$ 4,671,676,485	\$ 336,844,957	\$ 41,352,351,992
Total Tax Collections (above)	\$ 46,360,873,434	\$ 4,671,676,485	\$ 336,844,957	\$ 41,352,351,992
Federal Income	27,049,059,995		26,971,690,921	77,369,074
Licenses, Fees, Fines and Penalties	7,176,700,566	2,145,490	424,758	7,174,130,318
Interest and Investment Income	47,856,453			47,856,453
Sales of Goods and Services	173,703,945			173,703,945
Settlements of Claims	594,496,478			594,496,478
Land Income	14,403,638			14,403,638
Contributions to Employee Benefits	54,779			54,779
Other Revenue Sources	3,453,970,822			3,453,970,822
Highway Fund / ESF Transfer (3)		2,269,336,429		(2,269,336,429)
TOTAL NET REVENUE, ALLOCATIONS AND RESTRICTIONS	\$ 84,871,120,109	\$ 6,943,158,404	\$ 27,308,960,636	\$ 50,619,001,070

(1) Tobacco suit settlement receipts and other revenues received in General Revenue Account 5040 are included in the General Revenue Fund 0001 totals. Account 5040 was created to receive settlement money resulting from the final judgment in the State of Texas v. the American Tobacco Company et. al. All monies received are considered unrestricted.

(2) Due to statutory or contractual restrictions, these amounts are dedicated for specific purposes and are not considered available.

(3) As required by Article III, Section 49-g of the Texas Constitution, transfers to the State Highway Fund 0006 and to the Economic Stabilization Fund 0599 totaling \$2,269,336,428.90 were made in fiscal 2016.

Totals may not sum due to rounding.

Source: Comptroller of Public Accounts Annual Cash Report, Table 11

Table A-15 contains information concerning the amount of short term obligation for cash management purposes issued by the Comptroller, and the amount of interfund borrowing utilized for the last eight fiscal years, including the current fiscal year. Tax and Revenue Anticipation Notes and commercial paper issued by the Comptroller, which mature within the biennial budget period in which they were issued, do not constitute “debt” within the meaning of the Constitution.

Table A-15
Cash Management

Fiscal Year	Series	Tax and Revenue	Commercial Paper	Interfund Borrowing ⁽¹⁾	Total
		Anticipation Notes	Notes Issued		
		Issued			
		(in millions)	(in millions)	(in millions)	(in millions)
2010	2009	5,500	-	-	5,500
2011	2010	7,800	-	-	7,800
2012	2011A/2011B	9,800	500	-	10,300
2013	2012	9,800	-	-	9,800
2014	2013	7,200	-	-	7,200
2015	2014	5,400	-	-	5,400
2016	n/a	-	-	1,900	0
2017 ⁽²⁾	n/a	-	-	1,800	1,800

(1) Numerous funds were consolidated into General Revenue Fund 0001 on August 31, 1993. Intrafund and interfund borrowing remain options to address daily cash flow deficits as needed. See "State Revenues and Expenditures-Identity of Funds" for a description of funds consolidation.

(2) Tax and Revenue Anticipation Notes are not expected to be issued for the remainder of fiscal 2017. Total Interfund Borrowing from the Economic Stabilization Fund 0599 as of October 31, 2016 was \$1.8 billion. The State has utilized intrafund and interfund borrowing in fiscal 2017.

Source: Texas Comptroller of Public Accounts, Treasury Operations

5. ECONOMIC INFORMATION

Within the Economic Information section, references to “the past year” and “the last 12 months” refer to the 12 month period ending August 31, 2016.

BUSINESS ACTIVITIES

The State of Texas was identified in its early history with agriculture and ranching, and with the oil and gas industry through much of the last century. The growth of service-providing industries and exports has left a diversified Texas economy more similar to, and more subject to, the ups and downs of the national economy.

With diverse economic engines and a comparatively stable housing market, Texas has remained ahead of the nation in economic performance. However, even with diversification, Texas’ mix of industries retains substantial concentration in energy.

Notwithstanding continuing weakness in the oil and natural gas and related industries over the past year, the Texas economy added 190,600 non-farm jobs in the 12 month period ending August 2016, for an annual increase of 1.6 percent. Private-sector employment rose by 1.5 percent while government employment (federal, state and local) grew by 2.1 percent.

Texas added more new jobs than all other states except California and Florida over the year, and had the lowest unemployment rate among the 10 most populous states as of August 2016 (4.7 percent, tied with Florida). The Texas unemployment rate remained below the national rate over the past 12 months, as it has since January 2007. As of August 2016, Texas total nonfarm employment stood at 12,053,400. The Comptroller’s econometric forecast predicts that the Texas economy will grow by 3.2 percent annually over the period from 2015 through 2045, outpacing forecasts of national economic growth from IHS Global Insight of 2.3 percent.

GEOGRAPHIC VARIATIONS

The vast size of the State, together with cultural, climatic, and geological differences within its borders, has produced great variations in the economies of different regions of Texas. East Texas is a largely non-metropolitan region, in which the primary economy is based on agricultural activities and the production and processing of coal, petroleum and wood. The Dallas-Fort Worth Metroplex is mostly metropolitan, with diversified manufacturing, financial, communications, and commercial sectors. The Panhandle, Permian Basin and Concho Valley are relatively sparsely populated areas of the State, with economies still drawing heavily from agriculture and petroleum production. The border area stretching from El Paso to Brownsville is characterized by agriculture, tourism, and its economic ties to Mexico. The Gulf Coast is the most populous region of the State and has an economy centered on energy and health services, petrochemical industries, and commercial activities resulting from maritime trade, manufacturing, and agriculture. The economy of central Texas is grounded in the public and private service sectors, technology, communications, and recreation/tourism.

Because the economic bases differ from region to region, economic developments, such as the strength of the U.S. economy, international politics and export markets, or changes in oil prices or defense spending, affect the economy of each region differently.

Table A-16
Texas Economic History and Outlook for Calendar Years
Fall 2015 Economic Forecast

TEXAS ECONOMY	2011	2012	2013	2014	2015*	2016*	2017*
Real Gross State Product (Billion 2009\$)	1,245.7	1,323.2	1,395.4	1,467.3	1,499.0	1,531.7	1,577.6
Annual % Change	3.7	6.2	5.5	5.2	2.2	2.2	3.0
Gross Domestic Product (Billion Current \$)	1,350.8	1,449.4	1,557.2	1,648.0	1,645.3	1,710.1	1,795.7
Annual % Change	8.3	7.3	7.4	7.4	2.7	4.4	6.0
Personal Income (Billion Current \$)	1,051.7	1,127.7	1,160.1	1,223.9	1,275.0	1,341.1	1,424.4
Annual % Change	9.4	7.2	2.9	5.5	4.2	5.2	6.2
Nonfarm Employment (Thousands)	10,569.4	10,879.1	11,206.7	11,551.3	11,815.8	12,025.2	12,262.6
Annual % Change	2.2	2.9	3.0	3.1	2.3	1.8	2.0
Resident Population (Thousands)	25,713.3	26,143.7	26,564.0	27,013.1	27,461.0	27,910.9	28,397.4
Annual % Change	1.6	1.7	1.6	1.7	1.7	1.6	1.7
Unemployment Rate (%)	7.7	6.6	6.0	5.0	4.4	4.3	4.4
U. S. ECONOMY	2011	2012	2013	2014	2015*	2016*	2017*
Gross Domestic Product (Billion 2009\$)	15,020.6	15,354.6	15,583.3	15,961.7	16,320.5	16,772.9	17,249.8
Annual % Change	1.6	2.2	1.5	2.4	2.2	2.8	2.8
Consumer Price Index (1982-84=100)	225.0	230.0	233.0	237.0	237.0	241.0	247.0
Annual % Change	3.2	2.2	1.3	1.7	0.0	1.7	2.5
Prime Interest Rate (%)	3.3	3.3	3.3	3.3	3.3	4.2	5.5

*Projected, based on actual or historical periods and growth rates from the Texas Comptroller's Fall 2015 Economic Forecast.

Source: Texas Comptroller of Public Accounts and HIS Global Insight, Inc.

EMPLOYMENT AND UNEMPLOYMENT—HISTORICAL REVIEW

Since the end of the recession, Texas has generally added jobs at a faster rate than other large states. However, over the 12-month period ending August 2016, Texas employment growth was the sixth highest among the ten largest states. (See Table A-17).

Table A-17 shows the 10 most populous states. Among all states, Texas ranked twenty-fourth in the rate of job creation over the past year.

Table A-17
Nonfarm Employment Change in the
Ten most Populous States
Thousands of Jobs

State	<u>Number of Nonfarm Jobs</u>		<u>Job Change</u>	
	Aug-15	Aug-16	Jobs Added	Annual Change (%)
Florida	8,132.6	8,392.4	259.8	3.19%
Georgia	4,283.2	4,387.2	104.0	2.43%
California	16,156.3	16,534.3	378.0	2.34%
Michigan	4,248.8	4,324.6	75.8	1.78%
North Carolina	4,252.4	4,327.2	74.8	1.76%
Texas	11,862.8	12,053.4	190.6	1.61%
Ohio	5,425.1	5,503.4	78.3	1.44%
New York	9,283.4	9,385.9	102.5	1.10%
Pennsylvania	5,843.7	5,899.5	55.8	0.95%
Illinois	5,968.6	6,008.7	40.1	0.67%

Source: U.S. Bureau of Labor Statistics

Table A-18 sets forth information concerning civilian employment in the State, as well as comparable information for the United States as a whole.

Table A-18
Historical Review of State and U.S. Unemployment Rates

Year	Texas			U.S.		
	Texas Civilian Labor Force (1)	Texas Total Employment (1)	Unemployment Rate (%)	U.S Civilian Labor Force (1)	U.S. Total Employment (1)	Unemployment Rate (%)
2000	10,374,053	9,929,387	4.3	142,583,000	136,891,000	4.0
2001	10,532,732	10,011,046	5.0	143,734,000	136,933,000	4.7
2002	10,748,810	10,065,870	6.4	144,863,000	136,485,000	5.8
2003	10,914,664	10,185,312	6.7	146,510,000	137,736,000	6.0
2004	10,992,359	10,338,484	5.9	147,401,000	139,252,000	5.5
2005	11,124,240	10,523,257	5.4	149,320,000	141,730,000	5.1
2006	11,327,995	10,774,490	4.9	151,428,000	144,427,000	4.6
2007	11,431,631	10,941,413	4.3	153,124,000	146,047,000	4.6
2008	11,664,390	11,104,115	4.8	154,287,000	145,362,000	5.8
2009	11,910,799	11,008,903	7.6	154,142,000	139,877,000	9.3
2010	12,241,970	11,244,632	8.1	153,889,000	139,064,000	9.6
2011	12,504,498	11,535,095	7.8	153,617,000	139,869,000	8.9
2012	12,682,204	11,830,356	6.7	154,975,000	142,469,000	8.1
2013	12,891,255	12,090,501	6.2	155,389,000	143,929,000	7.4
2014	13,022,851	12,358,703	5.1	155,922,000	146,305,000	6.2
2015	13,078,304	12,494,350	4.5	157,130,000	148,834,000	5.3

(1) In thousands.

Source: U.S. Bureau of Labor Statistics

Texas avoided three of the nation's six recessions since the early 1970s, though the state had its own recession in 1986. In 2015, Texas' nominal gross domestic product (GDP) was \$1.59 trillion, a 1.0 percent decrease from 2014, based on estimates from the U.S. Bureau of Economic Analysis (BEA). Texas, if it were a nation, would be the tenth largest economy in the world.

Largely because of the state's comparatively youthful workforce and an international border region with particularly high unemployment rates, Texas' statewide jobless rate exceeded the national average in most years from 1985 through 2006. However, with an economy that avoided the worst part of the nation's downturn, the Texas unemployment rate inched below the national unemployment rate in early 2007 and has remained below the national rate since. Twenty-two of the state's 25 metropolitan areas had unemployment rates at or below 7 percent (not seasonally adjusted) in August 2016. Amarillo (3.4 percent) had the lowest urban unemployment rate in the state, while McAllen-Edinburg-Mission, at 8.4 percent, had the highest.

Table A-19 shows monthly Texas non-agricultural employment by industry and unemployment since January 2012.

Table A-19
Nonfarm Employment by Month
(In Thousands)

Year	Month	Mining and Logging	Construction	Manufacturing	Trade, Transportation and Utilities	Information	Financial Activities	Professional and Business Services	Education and Health Services	Leisure and Hospitality and Other Services	Government	Total	Unemployment Rate
2012	January	255.6	573.7	859.1	2,140.4	197.0	651.5	1,381.7	1,431.6	1,436.0	1,789.4	10,716.0	7.1
	February	258.3	572.8	861.6	2,142.6	197.0	652.8	1,389.1	1,434.4	1,438.2	1,791.2	10,738.0	6.9
	March	262.2	576.2	864.7	2,150.3	197.3	654.5	1,397.2	1,438.7	1,447.1	1,791.7	10,779.9	6.9
	April	263.9	578.1	867.8	2,156.6	197.2	656.6	1,405.5	1,435.6	1,454.1	1,791.8	10,807.2	6.8
	May	265.7	582.3	867.8	2,162.0	196.9	658.5	1,411.8	1,439.3	1,460.4	1,790.5	10,835.2	6.8
	June	267.5	583.2	870.8	2,168.7	197.2	660.4	1,415.5	1,443.6	1,467.5	1,790.4	10,864.8	6.7
	July	269.6	582.3	873.4	2,173.9	197.0	661.7	1,417.3	1,442.7	1,468.3	1,793.4	10,879.6	6.6
	August	270.6	586.6	874.5	2,178.3	196.8	663.5	1,427.8	1,450.4	1,478.4	1,795.4	10,922.3	6.5
	September	272.1	590.3	875.6	2,182.0	197.5	665.3	1,433.1	1,455.9	1,486.8	1,796.7	10,955.3	6.5
	October	273.7	595.2	874.9	2,187.7	197.5	668.8	1,437.1	1,459.0	1,489.4	1,796.7	10,980.0	6.4
	November	274.4	596.0	875.1	2,198.8	197.8	670.2	1,442.5	1,462.3	1,495.6	1,796.6	11,009.3	6.4
	December	276.9	597.9	875.0	2,199.6	197.5	672.2	1,445.5	1,468.3	1,505.1	1,799.4	11,037.4	6.4
2013	January	278.6	599.6	875.2	2,203.1	197.8	673.2	1,443.6	1,466.8	1,508.0	1,796.0	11,041.9	6.4
	February	280.5	606.7	876.1	2,211.5	198.6	676.0	1,455.4	1,474.7	1,517.4	1,800.7	11,097.6	6.4
	March	282.8	609.9	876.9	2,214.8	199.2	677.9	1,460.8	1,479.5	1,521.7	1,803.5	11,127.0	6.4
	April	284.1	609.2	876.2	2,223.1	199.8	679.5	1,462.7	1,480.5	1,524.2	1,804.8	11,144.1	6.3
	May	285.1	609.1	875.4	2,228.6	200.6	681.0	1,466.2	1,480.8	1,529.4	1,805.6	11,161.8	6.2
	June	285.9	613.0	875.8	2,233.3	200.9	683.6	1,473.3	1,484.0	1,535.9	1,806.0	11,191.7	6.1
	July	286.0	614.4	874.9	2,239.7	201.3	686.1	1,477.0	1,485.8	1,540.0	1,811.9	11,217.1	6.1
	August	287.5	616.4	875.6	2,246.7	202.1	687.5	1,482.4	1,490.7	1,544.2	1,810.9	11,244.0	6.0
	September	289.1	618.4	875.4	2,253.6	202.0	688.7	1,492.0	1,493.5	1,548.8	1,816.8	11,278.3	5.9
	October	288.8	618.6	875.7	2,259.1	202.5	689.3	1,497.4	1,497.3	1,549.8	1,814.4	11,292.9	5.9
	November	289.7	621.8	876.6	2,264.9	202.7	690.9	1,502.1	1,500.0	1,558.5	1,816.9	11,324.1	5.8
	December	291.6	624.1	875.7	2,270.7	203.0	690.8	1,505.2	1,500.6	1,559.0	1,814.3	11,335.0	5.7
2014	January	295.4	628.0	874.5	2,277.7	203.2	691.7	1,505.4	1,502.4	1,571.0	1,818.9	11,368.2	5.6
	February	298.8	632.2	878.4	2,283.3	203.2	693.0	1,513.6	1,506.9	1,575.8	1,820.5	11,405.7	5.5
	March	300.5	635.4	879.0	2,287.2	203.0	693.5	1,521.4	1,509.1	1,580.7	1,822.7	11,432.5	5.4
	April	302.6	644.4	883.3	2,293.9	202.8	695.8	1,537.2	1,513.3	1,585.8	1,822.4	11,481.5	5.3
	May	304.8	648.4	886.8	2,299.9	201.9	697.3	1,544.0	1,516.7	1,591.9	1,825.3	11,517.0	5.2
	June	306.1	649.0	887.6	2,307.3	202.1	698.7	1,547.3	1,519.8	1,597.9	1,827.1	11,542.9	5.1
	July	308.4	654.4	888.6	2,314.0	201.7	700.4	1,552.9	1,521.9	1,599.4	1,828.1	11,569.8	5.0
	August	311.5	657.1	890.6	2,321.0	201.1	702.7	1,558.8	1,526.4	1,603.5	1,827.7	11,600.4	4.9
	September	314.0	661.8	891.2	2,329.2	201.4	704.4	1,564.1	1,530.0	1,609.5	1,830.5	11,636.1	4.8
	October	316.4	666.9	894.6	2,339.6	200.7	707.8	1,572.3	1,535.5	1,617.5	1,833.3	11,684.6	4.7
	November	319.3	670.3	896.4	2,351.0	200.6	709.1	1,577.7	1,542.1	1,619.8	1,836.2	11,722.5	4.6
	December	319.5	674.3	899.0	2,358.8	200.6	710.5	1,582.3	1,546.6	1,624.4	1,839.4	11,755.4	4.5
2015	January	315.4	675.4	899.1	2,364.2	200.2	712.7	1,586.7	1,553.8	1,628.3	1,839.3	11,775.1	4.4
	February	304.1	679.6	895.4	2,371.3	200.1	713.7	1,588.0	1,560.6	1,638.2	1,842.5	11,793.5	4.4
	March	294.9	676.8	891.8	2,374.5	200.1	714.2	1,582.8	1,562.8	1,632.6	1,843.5	11,774.0	4.4
	April	280.5	675.8	886.9	2,378.9	200.5	716.9	1,585.6	1,568.5	1,642.8	1,843.9	11,780.3	4.4
	May	273.3	677.8	883.3	2,385.8	201.3	718.4	1,588.2	1,575.0	1,647.1	1,851.7	11,801.9	4.4
	June	269.9	681.7	880.1	2,391.8	201.1	720.0	1,590.9	1,578.3	1,654.1	1,848.3	11,816.2	4.4
	July	264.2	682.6	877.2	2,398.3	201.6	721.1	1,596.8	1,586.2	1,663.9	1,856.6	11,848.5	4.4
	August	260.2	684.8	873.2	2,403.4	201.7	722.3	1,598.3	1,591.3	1,668.8	1,858.8	11,862.8	4.4
	September	257.2	686.1	869.8	2,408.1	201.5	723.2	1,598.5	1,595.4	1,676.1	1,862.1	11,878.0	4.5
	October	255.9	690.3	865.4	2,406.1	199.9	726.0	1,599.6	1,598.3	1,690.4	1,861.9	11,893.8	4.5
	November	256.0	696.5	866.4	2,408.9	200.0	728.2	1,602.5	1,600.9	1,692.9	1,863.2	11,915.5	4.6
	December	255.3	698.2	858.7	2,413.6	199.7	728.4	1,607.1	1,604.4	1,698.7	1,867.0	11,931.1	4.6
2016	January	252.6	694.3	862.6	2,419.7	199.1	733.9	1,609.6	1,614.4	1,706.0	1,870.1	11,962.3	4.5
	February	244.5	688.0	856.7	2,423.9	201.3	731.7	1,615.4	1,623.8	1,712.6	1,873.1	11,971.0	4.3
	March	236.6	688.5	852.7	2,430.1	200.4	730.1	1,609.7	1,621.1	1,713.4	1,879.0	11,961.6	4.3
	April	230.4	689.9	848.2	2,431.8	200.0	731.4	1,614.2	1,633.2	1,713.5	1,880.9	11,973.5	4.4
	May	227.4	686.8	845.4	2,430.0	202.7	735.6	1,610.2	1,643.3	1,710.7	1,888.0	11,980.1	4.4
	June	225.5	685.4	846.4	2,434.2	203.7	737.5	1,605.2	1,646.9	1,716.6	1,896.5	11,997.9	4.5
	July	224.6	692.3	844.5	2,436.9	201.8	740.3	1,621.9	1,654.9	1,719.2	1,895.6	12,032.0	4.6
	August	224.4	693.6	844.3	2,440.9	203.6	746.5	1,624.3	1,652.8	1,724.5	1,898.5	12,053.4	4.7

Notes:
All figures are seasonally adjusted.
Source: Texas Workforce Commission

Information concerning historical average annual Texas non-agricultural employment by industry and unemployment rates is contained in Table A-20 and Table A-21.

Table A-20
Total Non-Agricultural Employment and Unemployment
(In Thousands)

Year	Natural Resources & Mining	Construction	Manufacturing	Transportation, Trade, Utilities	Information	Financial Activities	Professional & Business Services	Education & Health Services	Leisure, Hospitality, & Other Services	Government	Total	Unemployment Rate
1990	162.3	345.8	946.2	1,575.1	176.8	458.6	640.9	675.9	856.1	1,261.0	7,098.6	6.3
1991	167.3	348.3	935.5	1,576.9	177.5	450.2	655.4	711.2	870.5	1,285.1	7,177.9	6.9
1992	156.7	345.5	927.3	1,583.8	175.5	447.4	665.7	744.3	894.6	1,331.6	7,272.4	7.6
1993	154.4	355.0	941.4	1,623.6	177.7	456.7	700.1	779.4	923.5	1,373.3	7,485.0	7.2
1994	152.7	379.1	965.4	1,675.0	183.2	469.3	752.2	811.5	955.2	1,411.6	7,755.2	6.5
1995	148.6	409.5	994.7	1,722.9	194.8	472.0	795.7	851.7	993.7	1,443.4	8,027.0	6.0
1996	148.9	437.4	1,016.4	1,760.2	205.7	483.7	843.9	887.7	1,021.5	1,455.5	8,260.8	5.7
1997	158.5	468.4	1,045.2	1,803.4	227.0	505.7	923.4	934.1	1,064.9	1,481.2	8,611.8	5.3
1998	159.2	505.1	1,078.9	1,864.7	239.7	535.4	997.1	961.1	1,098.0	1,501.0	8,940.1	4.9
1999	140.0	536.7	1,067.0	1,914.7	251.4	557.7	1,048.5	976.9	1,132.5	1,531.6	9,157.0	4.7
2000	142.7	566.8	1,072.1	1,971.2	272.0	567.5	1,109.3	1,002.6	1,165.5	1,559.1	9,428.9	4.3
2001	152.5	580.2	1,029.9	1,981.3	269.8	577.5	1,105.9	1,041.0	1,189.7	1,583.2	9,510.9	5.0
2002	144.8	567.8	952.2	1,943.6	249.3	579.7	1,067.5	1,082.6	1,202.7	1,622.7	9,412.7	6.4
2003	146.0	551.6	903.6	1,910.6	233.7	585.5	1,060.1	1,119.2	1,214.0	1,642.8	9,366.9	6.7
2004	151.8	544.5	894.3	1,939.9	224.9	595.4	1,103.1	1,150.2	1,237.9	1,652.2	9,494.1	5.9
2005	164.5	567.1	901.1	1,988.0	223.1	609.5	1,164.6	1,184.5	1,254.5	1,680.6	9,737.5	5.4
2006	184.0	605.6	928.4	2,043.2	221.7	628.2	1,244.5	1,216.6	1,288.2	1,703.4	10,063.6	4.9
2007	205.5	648.1	939.1	2,107.1	221.0	643.9	1,306.2	1,255.4	1,335.5	1,731.3	10,393.1	4.3
2008	227.1	673.3	929.1	2,137.0	217.2	647.0	1,341.5	1,289.5	1,369.4	1,775.7	10,606.7	4.8
2009	198.6	597.9	842.8	2,054.7	204.2	627.9	1,258.0	1,336.4	1,366.4	1,817.9	10,304.7	7.6
2010	202.6	564.4	817.0	2,045.7	195.7	625.4	1,280.8	1,381.0	1,368.2	1,856.6	10,337.4	8.1
2011	233.6	563.9	841.4	2,103.2	195.7	640.8	1,346.1	1,413.6	1,408.9	1,820.7	10,567.9	7.8
2012	267.7	584.3	870.1	2,170.9	197.4	661.6	1,416.7	1,446.6	1,469.0	1,794.1	10,878.3	6.7
2013	285.8	613.1	875.8	2,238.0	201.0	683.9	1,476.1	1,486.0	1,536.5	1,808.7	11,204.8	6.2
2014	307.9	651.5	887.5	2,313.6	201.9	700.5	1,548.0	1,522.5	1,597.8	1,828.1	11,559.2	5.1
2015	273.7	684.1	879.0	2,390.7	200.6	720.2	1,594.1	1,581.9	1,661.0	1,853.0	11,838.3	4.5

Notes:

Totals may not sum due to rounding.

Source: Texas Workforce Commission

Table A-21
Distribution of Non-Agricultural Employment
(In Percent)

Year	Natural Resources & Mining	Construction	Manufacturing	Transportation, Trade, Utilities	Information	Financial Activities	Professional & Business Services	Education & Health	Leisure, Hospitality, & Other Services	Government	Total
1990	2.29	4.87	13.33	22.19	2.49	6.46	9.03	9.52	12.06	17.76	100.00
1991	2.33	4.85	13.03	21.97	2.47	6.27	9.13	9.91	12.13	17.90	100.00
1992	2.16	4.75	12.75	21.78	2.41	6.15	9.15	10.23	12.30	18.31	100.00
1993	2.06	4.74	12.58	21.69	2.37	6.10	9.35	10.41	12.34	18.35	100.00
1994	1.97	4.89	12.45	21.60	2.36	6.05	9.70	10.46	12.32	18.20	100.00
1995	1.85	5.10	12.39	21.46	2.43	5.88	9.91	10.61	12.38	17.98	100.00
1996	1.80	5.30	12.30	21.31	2.49	5.86	10.22	10.75	12.37	17.62	100.00
1997	1.84	5.44	12.14	20.94	2.64	5.87	10.72	10.85	12.37	17.20	100.00
1998	1.78	5.65	12.07	20.86	2.68	5.99	11.15	10.75	12.28	16.79	100.00
1999	1.53	5.86	11.65	20.91	2.75	6.09	11.45	10.67	12.37	16.73	100.00
2000	1.51	6.01	11.37	20.91	2.88	6.02	11.76	10.63	12.36	16.54	100.00
2001	1.60	6.10	10.83	20.83	2.84	6.07	11.63	10.95	12.51	16.65	100.00
2002	1.54	6.03	10.12	20.65	2.65	6.16	11.34	11.50	12.78	17.24	100.00
2003	1.56	5.89	9.65	20.40	2.49	6.25	11.32	11.95	12.96	17.54	100.00
2004	1.60	5.74	9.42	20.43	2.37	6.27	11.62	12.11	13.04	17.40	100.00
2005	1.69	5.82	9.25	20.42	2.29	6.26	11.96	12.16	12.88	17.26	100.00
2006	1.83	6.02	9.23	20.30	2.20	6.24	12.37	12.09	12.80	16.93	100.00
2007	1.98	6.24	9.04	20.27	2.13	6.20	12.57	12.08	12.85	16.66	100.00
2008	2.14	6.35	8.76	20.15	2.05	6.10	12.65	12.16	12.91	16.74	100.00
2009	1.93	5.80	8.18	19.94	1.98	6.09	12.21	12.97	13.26	17.64	100.00
2010	1.96	5.46	7.90	19.79	1.89	6.05	12.39	13.36	13.24	17.96	100.00
2011	2.21	5.34	7.96	19.90	1.85	6.06	12.74	13.38	13.33	17.23	100.00
2012	2.46	5.37	8.00	19.96	1.81	6.08	13.02	13.30	13.50	16.49	100.00
2013	2.55	5.47	7.82	19.97	1.79	6.10	13.17	13.26	13.71	16.14	100.00
2014	2.66	5.64	7.68	20.02	1.75	6.06	13.39	13.17	13.82	15.82	100.00
2015	2.31	5.78	7.43	20.19	1.69	6.08	13.47	13.36	14.03	15.65	100.00

Notes:

Totals may not sum due to rounding.

Source: Texas Workforce Commission

PERSONAL INCOME

After increasing by 6.0 percent in 2014, Texas personal income grew by 4.3 percent in 2015 and is projected to grow by a further 4.0 percent in 2016. Underlying this income growth is growth in Texas population. Recent estimates by the U.S. Census Bureau show that five of the nation's 15 most rapidly growing large incorporated cities are in Texas. Texas' population is expected to grow by 1.7 percent in 2016 to average 27.9 million.

Information concerning total personal income for residents of the State is set forth in Table A-22.

Table A-22
Personal Income of Texas Residents

Year	Personal Income (Millions)	Percent Change From Prior Year
1991	309,983	5.0%
1992	335,302	8.2%
1993	354,794	5.8%
1994	375,107	5.7%
1995	401,483	7.0%
1996	431,653	7.5%
1997	470,315	9.0%
1998	514,024	9.3%
1999	543,695	5.8%
2000	594,097	9.3%
2001	633,553	6.6%
2002	636,108	0.4%
2003	661,144	3.9%
2004	695,947	5.3%
2005	759,204	9.1%
2006	830,523	9.4%
2007	881,583	6.1%
2008	969,740	10.0%
2009	918,587	-5.3%
2010	966,448	5.2%
2011	1,057,983	9.5%
2012	1,135,226	7.3%
2013	1,161,134	2.3%
2014	1,231,085	6.0%
2015	1,283,752	4.3%

Source: U.S. Bureau of Economic Analysis

Information on per capita personal income for residents of Texas and the United States follows in Table A-23.

Table A-23
Per Capita Personal Income

Year	Texas Per Capita Personal Income	Texas Percent Change From Prior Year	U.S. Per Capita Personal Income	U.S. Percent Change From Prior Year	Texas as a Percentage of U.S.
1990	\$17,366	6.4%	\$19,591	5.1%	88.6%
1991	\$17,817	2.6%	\$19,985	2.0%	89.2%
1992	\$18,880	6.0%	\$21,060	5.4%	89.6%
1993	\$19,535	3.5%	\$21,698	3.0%	90.0%
1994	\$20,206	3.4%	\$22,538	3.9%	89.7%
1995	\$21,177	4.8%	\$23,568	4.6%	89.9%
1996	\$22,319	5.4%	\$24,728	4.9%	90.3%
1997	\$23,825	6.7%	\$25,950	4.9%	91.8%
1998	\$25,500	7.0%	\$27,510	6.0%	92.7%
1999	\$26,447	3.7%	\$28,627	4.1%	92.4%
2000	\$28,365	7.3%	\$30,602	6.9%	92.7%
2001	\$29,717	4.8%	\$31,540	3.1%	94.2%
2002	\$29,327	-1.3%	\$31,815	0.9%	92.2%
2003	\$30,010	2.3%	\$32,692	2.8%	91.8%
2004	\$31,077	3.6%	\$34,316	5.0%	90.6%
2005	\$33,330	7.2%	\$35,904	4.6%	92.8%
2006	\$35,554	6.7%	\$38,144	6.2%	93.2%
2007	\$36,992	4.0%	\$39,821	4.4%	92.9%
2008	\$39,892	7.8%	\$41,082	3.2%	97.1%
2009	\$37,037	-7.2%	\$39,376	-4.2%	94.1%
2010	\$38,282	3.4%	\$40,277	2.3%	95.0%
2011	\$41,235	7.7%	\$42,453	5.4%	97.1%
2012	\$43,505	5.5%	\$44,266	4.3%	98.3%
2013	\$43,807	0.7%	\$44,438	0.4%	98.6%
2014	\$45,669	4.3%	\$46,049	3.6%	99.2%
2015	\$46,745	2.4%	\$47,669	3.5%	98.1%

Source: U.S. Bureau of Economic Analysis

Table A-24
Sources of Personal Income
Quarter II of 2016

Source Wages and Salaries:	Sources of Personal Income (Texas) Total (Billion \$)	Sources of Personal Income (Texas) Percent	Sources of Personal Income (U.S.) Total (Billion \$)	Sources of Personal Income (U.S.) Percent
Agricultural Services and Farm	8,143.1	0.6	109,993.7	0.7
Mining	75,185.5	5.7	145,100.6	0.9
Utilities	7,512.6	0.6	89,390.1	0.6
Construction	76,034.0	5.8	680,610.9	4.3
Manufacturing	87,893.1	6.7	1,077,047.0	6.8
Trade	117,909.8	9.0	1,233,105.0	7.8
Transportation and Warehousing	46,019.1	3.5	421,313.4	2.6
Information	20,732.8	1.6	396,603.1	2.5
Finance and Insurance	60,715.0	4.6	768,388.3	4.8
Real Estate	22,067.8	1.7	268,405.6	1.7
Professional and Technical Services	95,859.0	7.3	1,170,808.9	7.4
Management Services	17,566.6	1.3	306,958.0	1.9
Administrative and Waste Services	45,670.6	3.5	464,998.6	2.9
Educational Services	9,087.0	0.7	189,046.7	1.2
Health Care and Social Assistance	91,677.3	7.0	1,269,219.6	8.0
Arts, Entertainment, and Recreation	6,787.1	0.5	134,955.3	0.8
Accommodation and food services	33,582.0	2.6	388,185.0	2.4
Other Services	34,820.0	2.6	419,137.9	2.6
Government				
Federal Civilian	22,001.8	1.7	327,882.2	2.1
Military	12,742.7	1.0	133,415.1	0.8
State and Local	107,861.5	8.2	1,421,052.7	8.9
Property and Interest Income	213,151.7	16.2	2,954,116.0	18.6
Transfer Payments	201,455.5	15.3	2,765,034.0	17.4
Contributions for Social Insurance	(96,184.6)	(7.3)	(1,237,746.0)	(7.8)
Residence Adjustment	(1,588.8)	(0.1)	3,857.6	0.0
Total Personal Income	1,316,702.1	100.0	15,900,879.3	100.0

Notes:

Totals may not sum due to rounding.

Data presented as annual averages.

Source: U.S. Bureau of Economic Analysis

OIL AND GAS

Table A-25 sets forth historical information concerning oil and natural gas production within the State and average taxable prices paid for oil and gas produced within the State.

Table A-25
Oil and Natural Gas Production

Year	Texas Oil Production (Million Bbl)	Percentage Change in Texas Oil Production	Percentage of United States Oil Production	Average Taxable Price Per Bbl	Texas Gas Production (Trillion SCF)	Percentage Change in Texas Gas Production	Percentage of US Gas Marketed Production	Average Taxable Price Per MCF
1993	619	(4.8)	24.8	16.23	4.97	3.3	26.2	1.89
1994	591	(4.6)	24.3	15.08	5.05	1.5	25.6	1.61
1995	560	(5.3)	23.4	16.45	5.05	0.0	25.9	1.45
1996	543	(2.9)	23.0	20.41	5.13	1.7	25.9	2.07
1997	537	(1.2)	22.8	18.76	5.17	0.7	26.0	2.17
1998	505	(5.9)	22.1	12.36	5.23	1.2	26.2	1.83
1999	449	(11.0)	20.9	17.39	5.05	(3.3)	25.5	2.08
2000	443	(1.3)	20.8	28.72	5.28	4.5	26.1	3.75
2001	424	(4.3)	20.0	23.74	5.28	0.0	25.7	3.85
2002	406	(4.4)	19.4	24.36	5.14	(2.7)	25.9	2.89
2003	401	(1.3)	19.4	29.38	5.24	2.0	26.3	4.71
2004	393	(2.0)	19.7	38.95	5.07	(3.4)	26.0	5.44
2005	393	0.0	20.8	52.77	5.28	4.1	27.9	7.27
2006	392	0.0	21.1	61.52	5.55	5.1	28.6	6.17
2007	391	(0.3)	21.1	68.53	6.12	10.4	30.3	6.30
2008	406	3.8	22.2	96.57	6.96	13.7	33.0	7.85
2009	399	(1.6)	20.4	57.48	6.82	(2.0)	31.5	3.32
2010	427	6.8	21.3	76.10	6.72	(1.5)	30.0	4.12
2011	529	23.9	25.7	91.72	7.11	5.9	29.6	4.27
2012	722	36.5	30.5	92.22	7.48	5.1	29.6	2.95
2013	924	27.9	33.9	96.18	7.63	2.1	29.9	3.67
2014	1,156	25.1	36.4	86.79	7.99	4.6	29.0	4.39
2015	1,262	9.2	36.7	44.93	7.88	(1.3)	27.4	2.01

Note: Oil Production includes condensates

MCF = 1,000 cubic feet

SCF = standard cubic feet

Sources:

Texas Comptroller of Public Accounts and U.S. Energy Information Administration

Two frequently used barometers of oil and gas exploration activity are rotary drilling rig usage and the number of wells drilled. The following table sets forth historical information concerning these two statistics. In 1990, drilling activity showed a significant increase in Texas for the first time since 1984. This increase reflected the success of horizontal drilling in South Texas, but the level of rig activity declined again in 1991, to 315 operating rigs. In 1992, the Texas rig count

dropped to historical lows bottoming out in June with 209 rigs. By December 1992, the rig count had risen to 328 because of a rush to drill before the yearend expiration of a federal tax break for certain natural gas wells. During January 1994, the Texas rig count fell to 253 before rising to 281 by December. In March 1995, the Texas rig count fell to a low of 233; the rig count peaked for the year in August with 265 rigs operating. The Texas rig count increased during the 1996-1997 time period, and in 1997 peaked in October at 386 after a minimum of 306 in January 1997.

The 1998 rig count topped out in February at 382 and dropped to a low of 218 in December as the taxable crude oil price dropped below \$10 per barrel. The average Texas rig count for 1999 was 227 (see Table A-26). The rig count bottomed out in April 1999 at 180 and rebounded to a high of 293 in December 1999. The catalyst for the rebound was attributable to the taxable crude oil price that surpassed \$24 per barrel by the end of the year. In 2000, the average rig count was 343 with a low of 285 in January and a high of 413 in December as the oil price continued to ascend toward the low \$30 per barrel range. According to Baker Hughes, the rig count continued to climb each month in 2001 starting with an average of 429 in January and peaking with an average of 509 in July, even though oil prices had already begun to soften since the beginning of the year to the mid \$20s. However, the September 11 event exerted downward pressure on the price, and it dropped below \$20 by November 2001 before rebounding to the low \$20s by March 2002 staying above \$25 for the last half of 2002. Consequently, rig counts dropped to an average of 306 by April 2002 before rising again to an average of 369 in December 2002.

The prolonged Venezuelan crude oil supply disruption and the supply uncertainty before and during the war in Iraq primarily pushed the price of crude oil past \$30 per barrel during the first quarter of 2003.

The crude oil price temporarily dropped back to the \$26 range after the war in Iraq in April and May. However, prices quickly advanced and averaged more than \$28 per barrel for the rest of 2003 when restoration of the Iraqi oil production to the pre-war level in the short term was out of reach. In the meantime, the rig count continued to climb and averaged 449 in 2003.

In 2004, continuing threats of oil supply disruption from Iraq, Saudi Arabia, Russia, Nigeria, and Norway, damages to the oil and gas infrastructure in the Gulf of Mexico from the Hurricane Ivan, and questionable availability of OPEC spare capacity to meet the stronger world oil demand led by China and United States largely pushed the average oil price above \$49 per barrel in October before dropping back below \$40 per barrel in December 2004.

In 2005, the growing belief of oil production peaking in the near future along with tight inventory, stronger demand, and losses of production from the Gulf of Mexico caused by Hurricanes Katrina and Rita, helped move Texas average oil price above \$60 per barrel by August and the average for the year to \$52.69. High oil prices also helped increase Texas rig count by 21 percent over 2004.

In 2006, steady demand growth and fear of losses of supplies from the Persian Gulf over the fighting in Lebanon and Iran's pursuit of nuclear-arms inherently pushed oil prices to an all-time high of \$69.82 per barrel by July. However, prices began to soften and averaged \$61.53 for the year as risk premium diminished while inventory levels continued to build and remain above the historical norm. Contrary to the downward price movement since the all-time high, monthly rig

counts steadily climbed higher to 780 by December and averaged 746 for the year, a 21 percent increase over 2005.

In 2007, the decline of the oil price that began in 2006 eventually bottomed in January and reversed its course aiming for the all-time high. Rising oil demand in spite of record prices since 2006, geopolitical pressure, declining inventory, and the precipitous drop of the dollar helped pushed prices closer to the century mark by the end of the year. At the same time, drilling activities continued the upward trend averaging 834 for the year, a 12 percent increase over 2006.

In 2008, NYMEX crude oil futures continued to set records after surpassing the psychological century-mark in February 2008. Unabated rising oil consumption from India, China, Russia, Middle East and other emerging markets, geopolitical tension over Iran's nuclear weapon program, and ongoing supply disruption in Nigeria working in concert with the decline of the U.S. dollar have been major contributors to record oil prices. However, after topping \$145 in July, prices began a precipitous decline to a \$33 range, a level last seen in 2004, by the end of the year in equally dramatic fashion because of a strengthening dollar, deepening credit crisis, looming recession, slowing demand, and growing excess supply. Texas rig counts also rose and fell in similar fashion after peaking in September at 946, a level last seen in December 1983, and closed out the year at 826 in December.

In 2009, NYMEX crude oil futures again dropped to the \$33 level in February creating another steep contango since December 2008 with storage reaching capacity in the midst of a once in a lifetime credit crisis. The futures eventually recovered to the \$70 range by the fourth quarter with the help of the OPEC production cuts, easing credit crisis, expected recovering demand with improving global economy led by the fast-resurging China and other emerging markets, and the much anticipated further decline of the U.S. dollar. Since September 2008, Texas active rig counts dropped by almost two third to average 329 by June 2009 but has since rebounded to 470 by December 2009.

In 2010, NYMEX crude oil futures managed to reach the \$90 range by the end of the year drawing on the persistent weakness of the dollar and acknowledging the insatiable energy consumption of China who has taken the lead from the U.S. as the number one energy consumer. Because of the huge disparity in prices between oil and gas, oil rig counts continued to rise and reached parity with gas rigs by the year end. In turn, total Texas rig counts rose 52 percent from the 2009 level to 656 rigs.

In 2011, the disruption of Libya oil production along with rising demand that has tighten the global spare capacity, the unabated geopolitical turmoil in the Middle East and North Africa, diminishing excess storage levels, the narrowing differentials between the Brent and the West Texas Intermediate (WTI) pricing benchmarks on NYMEX crude oil futures, and the weakness of the dollar elevated NYMEX crude oil futures above \$110 level by April. However, as the European financial crisis continues to deepen, fear of its contagion along with the possible slowing of China's economy brought oil prices down to the mid \$70s by October. By this time, the threat of crude supply disruption through Strait of Hormuz intensified and caused prices to rise to \$100 level by year's end.

In 2012, NYMEX crude oil futures continued to rise through spring 2012 to \$110 level. As fear of supply disruption gave way to the on-going European financial crisis, prices subsequently declined and retested mid \$70 level by June 2012 and remained below \$100 through the first half of 2013. However, the continuing growth of global demand, tightening spare capacity, and the additional market access transporting crude oil in storage at Cushing, Oklahoma to the Gulf Coast refineries largely pushed prices beyond the \$110 level for most of the third quarter of 2013. By the fourth quarter, concerns with the potential economic impact of the U.S. government shut-down in conjunction with the surging domestic oil production from unconventional oil plays brought prices back to the \$90 level.

While concerns of the Iranian nuclear threat had abated, the potential Middle East supply disruption associated with the civil war in Syria helped push oil prices above \$100 by the end of the first quarter of 2014. In the second half of 2014, the weakened global demand growth, the return of the production from certain geopolitical conflict countries, and the surging North American production, driven largely by the shale plays, helped create a supply imbalance that drove oil prices to the \$40 levels by January 2015.

With China's weakening economy, unrelenting U.S. crude oil production, continuing OPEC high output levels, and the imminent return of Iran's production, oil prices continued to decline below the key psychological mark of \$30 per barrel in January 2016 for the first time since 2003. On a positive note, the lifting of the U.S. crude oil export ban by the end of 2015 helped reduce the WTI crude's price discount to Brent, a major international benchmark crude.

In Texas, the production surge was driven largely by the unconventional oil plays of the Eagle Ford Shale and, to a lesser extent, the Permian Basin that helped triple Texas crude output in five years. Texas crude oil production began to grow in fiscal 2009, trended higher in 2010, and accelerated in 2011 confirming the reversal of a nearly four-decade production decline that began when Texas oil production peaked in 1972.

With the price decline that began in the middle of 2014, statewide average rig counts eventually dropped from the recent high of 904 in November 2014 to 324 in December 2015. However, Texas output remained resilient and did not decline until it climbed to a monthly average of 3.2 million barrels per day in March 2015, a production level not seen since 1976. Texas production has since dropped to an average of 2.7 million barrels per day in May 2016 as the availability of cheap credit to fund costly shale developments disappeared while prices remained below break-even levels. In the first half of 2016, although average prices have rebounded from the \$30 levels in February to upper \$40 levels in May, Texas rig counts continued to drop further to a May average of 179. Rig counts have since rebounded to an average of 244 in September, while oil prices continue to build strength around the \$40 levels.

With capital expenditures and drilling activities dropping off in response to low oil prices, U.S. production is expected to decline further in 2016 except for the output from the Permian Basin. Recent acquisitions, and the discovery of new oil reserves in the Permian Basin, have re-established the basin as the premier producing region with tremendous growth going forward. However, it will take much more investment today to prevent future price spikes for the expected future demand.

Looking forward with an extended low oil price environment, cutting costs, reducing capital expenditures, and divesting assets may not be enough for many companies with high levels of debt to survive the downturn. On the other hand, mergers and acquisitions may well be a good strategy for some not only to prosper under the current price environment, but to be in a stronger position for the future price recovery in the longer term. Particularly for those producers that have managed to reduce well costs and increase well productivity, the recent downturn would just be a short-lived setback.

The natural gas rig count and prices followed oil on the downward path that began in 2008 and remained in check. The number of operating natural gas drilling rigs in Texas swung from a high of 756 during September 2008 to a low of 243 during July 2009. With the accelerated development of the Barnett Shale, Texas natural gas production has been on an upward path since 2006 and exceeded 7 trillion cubic feet of gas from 2008 forward, production levels not seen since the 70s. With production increases, (largely from technological advances), industrial consumption decline, and gas storage reaching capacity, NYMEX natural gas prices eventually declined from over \$13 in July 2008 to less than \$4 by the end of March 2009 and eventually touching the \$2 level by the end of August 2009. Prices subsequently rebounded to the \$5 level by December 2009 as fear of a price collapse due to overflowing supply subsided along with reductions in storage levels helped by the much needed colder-than-normal weather. In 2010, NYMEX natural gas prices averaged \$4.40 riding on the strong rebound of the industrial consumption and the electric power generation partly caused by a summer heat wave in certain populated areas of the U.S. and countered by a mild hurricane season with storage levels remaining above their 5-year average.

For 2011, NYMEX natural gas prices averaged near the \$4.00 level. Although much of the US experienced record breaking temperatures during the summer, particularly in Texas, increased consumption was not enough to compensate for the increase in production nationwide. The production increase in combination with a mild winter ultimately led to record storage levels and suppressed prices to the just above the \$3 level by the end of the year. Because of the steep discount relative to oil, natural gas rig counts remained in the low 300s, while rig counts for crude oil rose to just under 600. The relatively higher crude oil prices increased drilling for natural gas liquids and condensates, contributing to higher overall volumes of liquids production and associated tax revenues.

In 2012, NYMEX natural gas prices continued their downward trend averaging \$2.82 for the year. While the rig count for natural gas had rebounded somewhat from the low seen in 2009, it subsequently fell to an average count of 222 for 2012. However, due primarily to shale play activity (inclusive of casinghead gas), production remained stable.

Throughout 2013 and 2014 natural gas rig counts continued their slide with average counts of 132 and 85 for these years, respectively. While rig counts fell, NYMEX prices trended upwards averaging \$3.73 for 2013, and \$4.26 for 2014. Because of a late start to the 2014-2015 Winter Season with an excess inventory and a weak demand, prices fell to an average of \$2.63 for 2015. In turn, average rig counts fell to 54 for the year.

The 2015-2016 winter was again a record warm year for the lower 48 states. With warm temperatures, natural gas in storage has remained above the normal range since the storage

injection season (April through October). Consequently, prices declined to the \$1.60 levels in March. Lower than expected injections in recent months helped boost natural gas prices to \$3.20 levels by mid-October.

With oil prices still commanding a premium, although a much lower one, over natural gas, the development of high-volume natural gas plays and rich in liquids such as the Eagle Ford shale in Texas are expected to continue, although at a much slower pace in a low-price environment. While production from the Barnett Shale had reached a plateau and started a gradual decline, production from the Eagle Ford Shale still has great potential. With abundant resources, natural gas has asserted itself as an ideal bridge fuel for power generation, transportation, petrochemical and agricultural feed stocks, as well as residential and commercial heating. LNG exports have just begun and are expected to provide a relief and possibly bring prices closer to the international market. As such, production from shale formations such as Eagle Ford, Barnett, Haynesville, Marcellus and Utica is expected to remain a significant portion of overall U.S. production.

Table A-26 sets forth historical information concerning annual rotary rig activity and total wells drilled with the State.

**Table A-26
Petroleum Drilling Activity**

Year	Texas Average Annual Rotary Rig Activity	Rig Activity Percent Change	Total Wells Drilled	Wells Completed Oil	Wells Completed Gas
1998	303	(15.4)	11,057	4,509	4,907
1999	227	(25.4)	6,658	2,049	3,566
2000	343	51.8	8,854	3,111	4,580
2001	462	34.7	10,005	3,082	5,787
2002	338	(26.8)	9,877	3,268	5,474
2003	449	32.8	10,420	3,111	6,336
2004	506	12.7	11,587	3,446	7,118
2005	614	21.2	11,726	3,454	7,197
2006	746	21.6	13,854	4,761	8,534
2007	834	11.8	13,778	5,084	8,643
2008	898	7.7	16,615	6,208	10,361
2009	432	(51.9)	14,585	5,860	8,706
2010	659	52.5	9,477	5,392	4,071
2011	838	27.5	8,391	5,380	3,008
2012	899	7.3	14,535	10,936	3,580
2013	835	(7.1)	24,166	19,249	4,917
2014	882	5.6	28,585	24,999	3,585
2015	433	(50.9)	18,383	15,578	2,787

Sources: Texas Railroad Commission and Baker Hughes Incorporated

Table A-27 sets forth information concerning the number of producing wells and the estimated proven reserves of oil and natural gas within the State.

Table A-27
Texas Natural Gas and Oil-Producing Wells
And Estimated Proven Reserves

Year	Producing Oil Wells	Estimated Oil	Producing Gas Wells	Estimated Dry Gas
		Proved Reserves (Million Bbl)		Proved Reserves (Trillion CF)
1988	196,580	7,043	49,577	38.167
1989	190,821	6,966	50,017	38.381
1990	194,962	7,106	49,989	38.192
1991	196,292	6,797	49,825	36.174
1992	193,310	6,441	49,839	35.093
1993	186,342	6,171	50,794	34.718
1994	179,955	5,847	52,614	35.974
1995	177,397	5,743	53,612	36.542
1996	175,277	5,736	55,052	38.270
1997	175,475	5,687	56,736	37.761
1998	170,288	4,927	58,436	37.584
1999	162,620	5,339	59,088	40.157
2000	161,097	5,273	60,486	42.082
2001	159,357	4,944	63,598	43.527
2002	155,865	5,015	65,686	44.297
2003	153,461	4,583	68,488	45.730
2004	151,205	4,613	72,237	49.955
2005	151,286	4,919	76,510	56.507
2006	151,832	4,871	83,218	61.836
2007	153,223	5,122	88,311	72.091
2008	156,588	4,555	96,502	77.546
2009	157,807	5,006	101,097	80.424
2010	158,451	5,674	101,653	88.997
2011	161,402	7,014	101,831	98.165
2012	167,864	9,614	102,218	86.924
2013	179,797	10,468	103,445	90.349
2014	190,331	12,272	104,074	97.154
2015	193,807	n/a*	103,526	n/a*

*Not available

Note: Reserves are as of December 31 of each year.

Sources: Texas Railroad Commission and U.S. Energy Information Administration

AN OVERVIEW OF TEXAS INDUSTRIES BY NAICS SECTOR

Nine of the 11 major nonfarm industries in the Texas economy experienced net job growth from August 2015 to August 2016. The total number of jobs in the goods-producing industries (mining and logging, construction, and manufacturing) declined by 3.1 percent, while service-providing employment increased by 2.5 percent. Construction was the only goods-producing industry to experience net job growth over the past year. Among service-providing industries, the education and health services industry was the leader, adding 61,500 jobs. The private sector, with 84 percent of nonfarm jobs in August 2016, accounted for 79 percent of the year's job growth.

MINING AND LOGGING

As a result of the precipitous decline in oil and natural gas prices — the monthly average NYMEX price for oil fell from \$102.39 per barrel in July 2014 to \$44.80 in August 2016, a decrease of 56 percent — the Texas mining and logging industry lost 35,800 jobs over the past twelve months. Industry employment peaked in December 2014 at 319,600 and has declined steadily since then, reaching 224,400 in August 2016.

In addition to substantial exploration activities within the state and in the Gulf of Mexico, Texas is the headquarters for many of the nation's largest oil and natural gas refining and distribution companies, and has a large number of energy-related jobs in other industries. The recent fall in oil and natural gas prices had significant negative effects on those industries, as well.

CONSTRUCTION

Construction was the only one of the three goods-producing industries to have a net increase in employment over the year, adding 8,800 jobs (1.3 percent) to reach 693,600 in August 2016. Employment in the construction of buildings sector increased the most of any construction sector, growing by 9,700 (6.1 percent). The other specialty trade contractors sector had the largest decline, down 6,500 (9.2 percent).

Housing construction activity is down moderately from last year. Total single-family building permits issued in the year ending August 2016, at 101,287, were up slightly (0.5) percent from the same period one year earlier, but multi-family permits fell by 6.7 percent. 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 by 7.5 percent, from \$200,000 in August 2015 to \$215,000 in August 2016. In August 2016, Texas had a 3.7-month inventory of existing homes for sale, slightly higher than a year before and a substantial improvement from the recent high of 8.7 months in mid-2011.

TRADE, TRANSPORTATION, AND UTILITIES

The trade, transportation and utilities industry, the state's largest employer with 20 percent of total nonfarm jobs in August 2016, added 37,500 jobs (1.6 percent) during the year. Employment in two of the three industry sectors — retail trade, wholesale trade and transportation, warehousing and utilities — rose during the past 12 months. Employment in retail trade increased by 28,300 (up 2.6 percent), with the largest net increases in food and beverage stores (6,800) and motor vehicle and parts dealers (6,400). Employment in clothing and clothing accessories stores fell by 3.0 percent (3,500 jobs) during the year. Wholesale trade employment rose by 2.3 percent in 2015, or 14,000 additional jobs. Transportation, warehousing and utilities sector employment, however, decreased by 4,800 (1.0 percent). In all, the trade, transportation and utilities industry provided 2,440,900 Texas jobs in August.

As evidence of the importance of trade to the state economy, the Port of Houston had total shipment volume of 234.3 million tons in the most recently reported year (2014). Houston's port nearly matched the Port of South Louisiana (267.4 million tons), the nation's busiest port. The Port of Houston is the nation's largest port for foreign trade, handling 27 percent more value than the second largest port. Among the ten busiest U.S. ports in 2014, three were in Texas. After Houston, the other two were Beaumont at 4th and Corpus Christi at 6th.

The Dallas/Fort Worth area is a major regional distribution center for Texas and surrounding states and has the fourth busiest airport in the nation and ninth busiest in the world, with 31.6 million passenger enplanements during 2015. Houston's IAH is the twelfth busiest airport in the U.S., with passenger enplanements of 20.6 million in 2015.

Sales tax collections, of which more than 50 percent come from households, are an indicator of retail sales activity in the state. Texas sales tax collections, after its first decline since 2002 in 2009, have increased in every year since. Calendar 2015 sales tax revenue was \$28.7 billion, a 1.9 percent increase over 2014 collections. However, in recent months sales tax collections have been declining on a year-over-year basis, largely due to spending reductions in oil and gas related sectors.

Table A-28 shows annual historical retail sales data for 1995 through 2016. The Census Bureau no longer publishes retail sales numbers for states, so the Texas numbers below are from the Texas Comptroller's office, and are based on gross retail sales, including hotel/motel accommodation and food services.

Table A-28
Retail Sales

Year	Texas Gross	
	Retail Sales Total (Millions)	Percent Change from Prior Year
1995	198,835	5.4
1996	216,302	8.8
1997	232,711	7.6
1998	244,911	5.2
1999	265,074	8.2
2000	298,614	12.7
2001	307,070	2.8
2002	290,719	(5.3)
2003	306,342	5.4
2004	340,363	11.1
2005	364,788	7.2
2006	380,303	4.3
2007	394,884	3.8
2008	435,256	10.2
2009	389,524	(10.5)
2010	399,398	2.5
2011	432,915	8.4
2012	460,846	6.5
2013	487,031	5.7
2014	523,112	7.4
2015	526,674	0.7
2016*	119,905	1.2

*2016 Sales total and percent change are for the first quarter of 2016 compared to the first quarter of 2015.

Notes: Amounts and growth rates for 1995 through 2002 are based on the SIC-based definition of gross retail sales.

Amounts and growth rates from 2003 onward are based on the NAICS-based definition.

Source: Glenn Hegar, Texas Comptroller

The value of Texas exports in 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 (to \$251 billion, down 13.1 percent), hurt by falling oil prices and a stronger dollar. Texas exports have continued to fall through August of 2016, down 10.2 percent from the corresponding period of 2015. Still, Texas remains the nation's leading exporting state, as it has been for more than a decade. Texas exports comprised 16 percent of total U.S. exports through the first 8 months of 2016.

Texas' exports to neighboring Mexico, at \$94 billion in 2015, were 38 percent of all Texas exports and 40 percent of total U.S. exports to Mexico. Some major U.S. corporations have sister plant operations known as maquiladoras along the Texas-Mexico border, where goods are partly

manufactured in Mexico and partly in the United States, and these substantially affect Texas/Mexico export trade. Exports to Canada in 2015 were just over 10 percent of Texas exports, and exports to China and Taiwan totaled 5.9 percent of Texas exports.

MANUFACTURING

The manufacturing segment of the State's economy has diversified substantially, but the predominant sectors remain technology manufacturing and the recovery and processing of natural resources, including oil and gas instruments and equipment. In general, manufacturing employment shifted toward computer and electronics industries in the 1990s and back toward energy-focused activities after 2000.

The Texas manufacturing industry lost 28,900 jobs over the year, a decline of 3.3 percent, reaching 844,300 in August 2016. Durable goods employment was down 34,700, led by declines in machinery manufacturing (down 15,100) and fabricated metal manufacturing (down 10,500). Both of those sectors are closely associated with the oil and natural gas industry. In all, durable goods employment fell by 6.1 percent. Nondurable goods manufacturing, however, increased by 5,800 (1.9 percent), led by food manufacturing (up 6,300).

Productivity gains have allowed Texas manufacturers to produce more with fewer workers, allowing the value of output to grow even with the outsourcing of jobs to lower-wage countries. Manufacturing output in Texas, as measured by real gross state product, rose 54 percent from 2005 to 2015. This growth occurred despite a 2.5 percent decline in Texas manufacturing employment over this period.

Table A-29 shows Texas manufacturing employment by industry in August 2016.

Table A-29
Manufacturing Employment by Industry

Manufacturing Sector	Employment (Thousands)	Percentage of Manufacturing Employment
Durable Goods		
Wood Products	21.9	2.6
Minerals (nonmetallic) and Concrete	36.7	4.3
Primary Metals	20.2	2.4
Fabricated Metals	120.5	14.2
Machinery, except Computers	87.9	10.4
Computers and Electronics	90.0	10.6
Electrical Equipment & Appliances	19.2	2.3
Transportation Equipment	89.0	10.5
Furniture	23.0	2.7
Miscellaneous Durables	29.7	3.5
Total Durable Goods	538.1	63.6
Nondurable Goods		
Food Manufacturing	93.9	11.1
Beverages	14.5	1.7
Paper	17.0	2.0
Printing	25.7	3.0
Petroleum and Coal Products	22.8	2.7
Chemicals	79.9	9.4
Plastics and Rubber	37.1	4.4
Other Nondurables, incl. Apparel	17.4	2.1
Total Nondurable Goods	308.3	36.4
Total	846.4	100.0

Notes:

Data in this table not seasonally adjusted.

Totals may not sum due to rounding.

Source: Texas Workforce Commission

INFORMATION

The information industry is a collection of diverse sectors, representing established sectors of the economy (newspaper publishing, data processing, television broadcasting, and wired telephone services) as well as some newer sectors (cellphone service providers, Internet providers, and software). Industry employment was 203,600 in August 2016, an increase of 1,900 (0.9 percent) from August 2015. Job growth was led by data processing, hosting, and related services (up 5.6 percent), while publishing industries employment decreased by 2.9 percent.

PROFESSIONAL AND BUSINESS SERVICES

The professional and business services industry added 26,000 jobs (up 1.6 percent) over the year. Employment changes varied considerably among industry sectors, with the largest increases in management, scientific, and technical consulting services (9.9 percent) and computer systems design and related services (5.5 percent). The largest percentage decrease was in the architectural, engineering, and related services sector (2.2 percent). Employment services employment declined by 1.5 percent. This sector includes temporary help agencies and many of its jobs represent temporary and/ or part-time positions. Total professional and business services employment was 1,624,300 in August 2016.

EDUCATION AND HEALTH SERVICES

The education and health services industry, composed of the educational services and health care and social assistance sectors, added 61,500 jobs over the year, a growth rate of 3.9 percent. The relatively small educational services sector saw an increase of 9,400 jobs (5.0 percent). The much larger health care and social assistance sector grew at a 3.7 percent rate (52,100 jobs). Within the health care and social assistance sector, home health care services had the highest absolute increase (15,500), while offices of physicians had the largest percentage gain (6.6 percent). In all, Texas education and health services employment reached 1,652,800 in August 2016.

FINANCIAL ACTIVITIES

Over the past 12 months, overall employment in the financial activities industry grew by 3.4 percent (24,200 jobs). The finance and insurance sector grew by 17,100 (3.3 percent) while real estate and rental and leasing sector employment grew by 7,100 (3.5 percent). Depository credit intermediation (financial institutions, such as banks) is the industry's largest subsector, employing 150,200 as of August 2016. Total financial activities industry employment in Texas reached 746,500 in August 2016.

LEISURE AND HOSPITALITY SERVICES

Along with education and health services, the leisure and hospitality industry saw the highest rate of job growth among all industries over the year, adding 48,400 jobs for a 3.9 percent increase. The majority of the industry's job gains occurred in the food services and drinking

places sector, which added 38,800 jobs (up 3.9 percent). The largest percentage increase was in the amusement, gambling, and recreation industries sector, which increased by 15.3 percent (15,700 jobs). Total leisure and hospitality employment in August 2016 was 1,296,700, representing about 11 percent of total employment.

OTHER SERVICES

The other services industry is a varied mix of business activities including repair and maintenance services; laundry services; religious, political and civic organizations; funeral services; parking garages; beauty salons and a wide range of personal services. Personal and laundry services led employment gains in this industry, with a 3.5 percent growth rate over the year. In all, other services industry employment rose by 7,300 (1.7 percent) to 427,800 in August 2016.

GOVERNMENT

Government employment increased by 2.1 percent (39,700) over the year. Federal government employment increased by 4,600, state government employment by 12,100, and local government employment by 23,000. Total government employment in Texas was 1,898,500 in August 2016.

REGIONAL METROPOLITAN VARIATIONS

The economic mix of industries is distributed unevenly across the State, and consequently, the State's metropolitan areas are affected differently by economic changes in the nation and the world.

Houston-area employment growth over the past twelve months lagged that of the state as a whole, increasing by only 0.5 percent. Employment in the mining and logging industry decreased by 11.5 percent (11,300) over the past twelve months and manufacturing employment decreased by 5.3 percent (12,800). Employment losses in the machinery manufacturing (9,200) and fabricated metal product manufacturing (3,600) were responsible for almost the entire manufacturing industry employment decline. As was noted above, both sectors are closely associated with the oil and gas industry. Most service-providing industries saw employment gains over the year, with leisure and hospitality (7.0 percent, 21,300 jobs) and education and health services (4.0 percent, 12,500 jobs) having the highest rates of increase.

The Dallas/Fort Worth area grew at a faster rate than the state as a whole over the past year (3.4 percent). Employment in the Fort Worth metro grew at a rate of 1.7 percent while Dallas area employment grew at 4.2 percent. Dallas growth was led by particularly strong percentage gains in leisure and hospitality employment (5.9 percent) and finance and insurance employment (7.0 percent). The Fort Worth area had its best job growth rates in financial activities (5.0 percent) and professional and business services (4.4 percent). Manufacturing employment declined in Fort Worth by 1.3 percent (1,200), and was unchanged in Dallas.

The Austin economy grew at a 3.2 percent rate over the past year, led by a 12.3 percent increase in mining, logging, and construction employment (employment totals for the mining and

construction sectors are not reported separately for the Austin MSA). Trade, transportation, and utilities employment was also up sharply (4.4 percent). Manufacturing employment, however, declined by 5.3 percent (3,100 jobs). The Austin area was the state's fastest-growing metropolitan area over the past decade, according to the U.S. Census Bureau.

San Antonio's employment increased by 2.9 percent over the past year. Job growth was led by the other services (10.7 percent) and construction (6.2 percent) sectors. Mining and logging lost 15 percent of its employment over the year (down 1,200). Manufacturing employment also declined over the past 12 months (by 3.0 percent, 14,000 jobs).

El Paso's employment generally declines less than the state average during recessions and grows more slowly during strong economic times. Over the past 12 months, El Paso's employment grew at a rate of 2.3 percent, moderately faster than statewide employment. The largest percentage increases were in the financial activities (5.7 percent) and the leisure and hospitality (6.2 percent) industries. Manufacturing employment declined by 2.9 percent over the year.

Among all the state's metropolitan areas, Amarillo (3.4 percent), Austin (3.5 percent), and Lubbock (3.8 percent) had the state's lowest unemployment rates in August 2016. Of the state's six largest metropolitan areas, Austin had the lowest rate, at 3.5 percent, followed by San Antonio and Dallas-Fort Worth, at 4.1 percent. Houston had the highest unemployment rate of the largest metros, at 5.8 percent. The metropolitan areas with the highest unemployment rates were Beaumont-Port Arthur (7.5 percent), Brownsville-Harlingen (7.6 percent), and McAllen-Edinburg-Mission (8.4 percent).

PROPERTY VALUES

State-wide property values in Texas increased in 2015. Taxable values increased 4.37 percent from 2014 to 2015. The total taxable property value in Texas on January 1, 2015, was \$2.129 trillion according to records maintained by the Comptroller's Property Tax Assistance Division.

Property value changes from 2014 to 2015 were varied from property category to property category. The total market value of single-family homes increased by 10.60 percent, to \$1.20 trillion. Multi-family residential property values increased by 15.72 percent from 2014, to \$138.0 billion. The value of residential inventory – new, unsold homes held for sale – increased 16.86 percent from 2014 to 2015 reflecting an increase in construction of these residential properties to meet increased demand.

The value of commercial and industrial real property was \$497.6 billion, an increase of 9.94 percent. Commercial and industrial personal property increased 5.16 percent to \$279.9 billion. The value of oil and gas reserves decreased from \$157.9 billion in 2014 to \$117.7 billion in 2015, a 25.44 percent decrease.

Table A-30
Taxable Value of Property
in Texas School Districts

Year	Billions	Percent Change
1995	660.47	3.44%
1996	691.49	4.70%
1997	694.85	0.49%
1998	736.46	5.99%
1999	779.01	5.78%
2000	847.82	8.83%
2001	943.29	11.26%
2002	1,000.72	6.09%
2003	1,043.82	4.31%
2004	1,109.85	6.32%
2005	1,204.54	8.53%
2006	1,355.22	12.51%
2007	1,505.45	11.09%
2008	1,668.89	10.86%
2009	1,686.05	1.03%
2010	1,654.84	-1.85%
2011	1,689.00	2.06%
2012	1,769.85	4.79%
2013	1,877.05	6.06%
2014	2,039.59	8.66%
2015	2,128.66	4.37%

Source: Texas Comptroller of Public
Accounts, Property Tax Assistance Division

AGRICULTURE

Agriculture is a key industry in Texas and the United States. Whether small or large, many businesses are related to farming by providing supplies, credit and services used in the processing and marketing of commodities.

In Fall 2016, commercial red meat indicators for cattle, hog, sheep and lamb in Texas included:

- Production of about 386 million pounds of commercial livestock, up 5.4 percent over September 2015, comprising 8.9 percent of total U.S. commercial livestock production.
- More than 478,000 commercial cattle were slaughtered, up 14.5 percent compared to August 2015.
- Nearly 27,000 hogs were slaughtered in Texas, up 16.5 percent compared to August 2015, comprising just 0.2 percent of the U.S. total of commercial hogs processed.
- 8,700 sheep and lambs were processed, down 2.2 percent compared to August 2015, comprising 4.5 percent of the U.S. total of sheep and lambs processed.

As of September 2016, commercial veal, lamb, beef, pork and mutton production in Texas was the fourth largest in the U.S., ranking behind Nebraska, Iowa and Kansas. Texas ranked third nationally with 469,000 commercial cattle slaughtered, trailing Nebraska (627,000) and Kansas (525,000). Texas slaughtered 25,000, or 5.7 percent, more commercial cattle in 2016 than in 2015.

The Texas hog and pig inventory in September 2016 was 910,000 head, a 5 percent increase over 2015. The total pig crop was 400,000 head, 9 percent less than 2015 total. The number of sows farrowed in the third quarter of 2016 was 43,000 head, a 12 percent decrease from 2015.

Texas has the largest number of cattle on feed in the nation, accounting for 24.6 percent of the nation's total. In August 2016, Texas ranchers put 395,000 head in commercial feedlots, an increase of 3 percent over the previous year, and commercial feeders marketed 415,000, an increase of 15 percent. In September 2016, calves and cattle on feed for the slaughter market in Texas feedlots totaled about 2.5 million head, an increase of 2 percent over 2015.

Other Texas Cattle Industry Facts:

- Texas leads the U.S. in beef and cattle production, ranching and related exports.
- About 11.8 million head of cattle were counted in Texas in 2015.
- Texas produces about 30 percent of the 25.5 billion pounds of beef consumed annually in the U.S.
- Generally, Central Texas counties have the state's highest number of cattle and cattle ranches.
- The county with the highest 5-year average number of cattle was Lavaca County (80,800), followed by Gonzales County (79,800) and Fayette County (76,000).
- In fiscal 2015, Texas had the 7th highest number (19,039) of registered Angus cattle in the U.S.

Texas Crop Production (2016):

- Texas produced 310 million bushels of corn, up 17 percent from the previous year.
- Corn yields in Texas averaged 124 bushels per acre, 11 fewer bushels per acre than in 2015.
- Two and a half million acres of corn were harvested, up 27 percent over the previous year.
- Texas produced 111 million bushels of sorghum, 26 percent less than in the previous year.
- Produced an average sorghum yield of 65 bushels per acre, up 4 bushels per acre from 2015.
- Harvested 1.7 million acres of sorghum, 31 percent less than 2015.
- Produced 750 million pounds of peanuts, up 42 percent over 2015.
- Produced an average peanut yield of 3,000 pounds per acre, a decrease of 200 pounds per acre compared to 2015.
- Harvested 250,000 acres of peanuts, 31 percent less than 2015.

Texas Wheat Production (2015):

- Texas is ranked fifth in the nation for wheat production.
- Texas produces 106.5 million bushels of grain annually.
- An abundant supply of wheat is forcing prices down and could lead to a drop in wheat planting in Fall 2016.
- Texas farmers planted 5.3 million acres of wheat in 2016, 13 percent more than the prior year.

Texas Cotton Production (2016):

- Texas growers are responsible for 56 percent of the U.S. acres planted to cotton and about 45 percent of total cotton production.
- About 63 percent of the Texas crop comes from the High Plains of Texas, which represents 30 percent of the total U.S. cotton crop.
- The USDA reports 5.7 million acres of cotton planted in Texas, or 57.3 percent of the amount of cotton planted nationally.
- Texas harvested 5.3 million acres of cotton, comprising 56 percent of the amount of harvested acres of cotton nationally.
- Texas produces 6.5 million bales of cotton, accounting for 42 percent of the total number of cotton bales nationally.

Texas Agriculture Industry Demographics (2015):

- The average age of Texas ranchers is 58.
- About 14 percent of employed Texans work in an agriculture-related job.
- Average annual wages for Texas ranchers, farmers and other agricultural managers was \$57,720; about 17 percent less than in the nation as a whole.

6. DEMOGRAPHIC INFORMATION

Within the Demographic Information section, United States and Texas population figures are from the U.S. Census Bureau (except where noted) as reported at the time of this publication. Texas' 25 Metropolitan Statistical Areas are based on U.S. Office of Management and Budget definitions as of February 2013.

GEOGRAPHY AND CITIES

The State of Texas is located in the West South Central United States and is bordered on the south by Mexico and the Gulf of Mexico and on the east, north, and west by the states of Louisiana, Arkansas, Oklahoma, and New Mexico. The State is the second largest by size among the states of the United States, covering approximately 268,596 square miles (including both land and water area).

The capital of Texas is Austin (with a population of 932,000 as of July 2015), and the largest city is Houston (2,296,000). Other major cities include Arlington (388,000), Corpus Christi (324,000), Dallas (1,300,000), El Paso (681,000), Fort Worth (833,000), Laredo (255,000), Plano (284,000), and San Antonio (1,470,000). Houston, San Antonio, Dallas, and Austin are respectively the fourth, seventh, ninth, and eleventh most populous cities in the United States.

Almost two-thirds of Texas' population (66 percent) in July 2015 resided in the four largest Metropolitan Statistical Areas: Dallas-Fort Worth-Arlington (population 7,103,000), Houston-The Woodlands-Sugar Land (6,657,000), San Antonio-New Braunfels (2,384,000) and Austin-Round Rock (2,001,000).

STATE POPULATION

Texas' population grew by 2.8 million between the April 1980 census and April 1990 census, an average annual growth rate of 1.8 percent, twice the national rate of 0.9 percent. Estimates prepared by the Texas State Data Center (TxSDC) at the University of Texas at San Antonio show that migration accounted for 34 percent of Texas' population growth during the 1980s, while in the preceding 1970-1980 decade migration accounted for 58 percent of the growth.

Between April 1990 and April 2000, Texas' population grew by 3.9 million, an average of 2.1 percent per year, compared to United States growth of 1.2 percent. Migration was a more important growth factor for Texas in the 1990s, accounting for 50 percent of the decade's population gains.

Between April 2000 and April 2010, Texas' population grew by 4.3 million to reach 25.1 million, an average annual increase of 1.9 percent, compared to the United States' population in April 2010 of 308.7 million and its average annual growth rate of 0.9 percent. Migration accounted for 46 percent of Texas' population gains during the decade.

As of July 2015, Texas' population was 27,469,000, an average annual increase of 1.7 percent from April 2010. The United States' population was 321,419,000, an average annual increase of

0.8 percent from April 2010. According to the U.S. Census Bureau, migration accounted for 52 percent of Texas' population gains between April 2010 and July 2015.

Over twenty-two years ago, in July 1994, Texas surpassed New York to become the nation's second most populous state, a ranking that became official with the release of the April 2000 census figures. As of July 2015, Texas had 7.7 million more residents than New York State. Table A-31 provides an historical review of the total Texas population since 1970.

The median age of Texas' population was 34.3 years in July 2015, 3.5 years younger than the national median of 37.8 years. Only Utah (30.7 years) and Alaska (33.3 years) had a younger median age than Texas. Table A-32 sets forth information concerning the composition of Texas' population by age group, along with comparable information for the United States.

Texas' population of persons less than 18 years of age in July 2015 was 7,212,000, the second largest population in this age group among the states. This rank applies as well for the college-age population (18 to 24), which stood at 2,772,000; the young adult population (25 to 44) at 7,706,000; and the older adult population (45 to 64) at 6,554,000. Texas' population of persons ages 65 and older, at 3,225,000, ranked 3rd among the states.

Texas' population has become increasingly urban. In the year 1900, the Census Bureau categorized 17 percent of Texas' residents as urban, compared to a national average of 40 percent. By 2010, 85 percent of Texas' residents lived in urban areas, while a smaller share of the nation's population—81 percent—was categorized as urban. As of July 2015, over 89 percent of Texas' population lived in its 25 metropolitan statistical areas.

The TxSDC estimated that the racial and ethnic population shares for Texas in July 2014 were as follows: 43 percent non-Hispanic White, 40 percent Hispanic, 12 percent non-Hispanic Black, and 6 percent non-Hispanic "Other." Between April 2000 and July 2014, the number of non-Hispanic "Other" Texans (primarily Asian and Pacific Islanders and Native Americans) increased by 149 percent (an average of over 7 percent per year), and the number of Hispanic Texans increased by 60 percent (3.6 percent per year).

Table A-31 sets forth information concerning the changes in Texas' total population since the 1970 census.

Table A-31
Historical Review of Texas Population

Month	Year	Texas Resident Population	Average Annual Percent Change	Population Rank Among States
April	1970	11,196,730	1.6	4
April	1980	14,229,191	2.4	3
April	1990	16,986,510	1.8	3
April	2000	20,851,820	2.1	2
April	2010	25,145,561	1.9	2
July	2010	25,244,000	1.6	2
July	2011	25,654,000	1.6	2
July	2012	26,090,000	1.7	2
July	2013	26,501,000	1.6	2
July	2014	26,979,000	1.8	2
July	2015	27,469,000	1.8	2

Table A-32 sets forth historical age group statistics for Texas and the United States.

Table A-32
Share of Texas and United States Populations by Age Group

Age Group	Texas Share April 1990	Texas Share April 2000	Texas Share April 2010	Texas Share July 2015	U.S. Share April 1990	U.S. Share April 2000	U.S. Share April 2010	U.S. Share July 2015
0-4	8.4%	7.8%	7.7%	7.2%	7.5%	6.8%	6.6%	6.2%
5-17	20.2%	20.4%	19.6%	19.0%	18.2%	18.9%	17.5%	16.7%
18-24	11.2%	10.6%	10.2%	10.1%	10.8%	9.7%	9.9%	9.7%
25-44	33.1%	31.1%	28.1%	28.1%	32.4%	30.2%	26.6%	26.4%
45-54	9.5%	12.5%	13.7%	12.8%	10.1%	13.4%	14.6%	13.4%
55-64	7.6%	7.7%	10.3%	11.1%	8.5%	8.6%	11.8%	12.7%
Over 64	10.1%	9.9%	10.4%	11.7%	12.5%	12.4%	13.0%	14.9%

7. EDUCATION

PRIMARY AND SECONDARY EDUCATION

Texas public schools are administered locally by elected school boards and on the State level by the State Board of Education, the State Commissioner of Education and the Texas Education Agency (TEA). The State Board of Education is the State's policy-making and planning body for the public school system. Members of the State Board of Education are elected for staggered four-year terms. The State Commissioner of Education is appointed by the Governor, and confirmed by the Senate and is the executive head of the Texas Education Agency.

All children between the ages of 6 and 18 are required to attend school. School districts are required to offer pre-kindergarten programs only for three-year olds and four-year olds that meet eligibility requirements under state law. School districts are required to offer full- or half-day kindergarten programs for all five-year-olds.

Texas Students: School Year 2014-15

- 5,232,065 total Texas student enrollment
- 52 percent Hispanic
- 28.9 percent White
- 12.6 percent African American
- 3.9 percent Asian
- 2 percent two or more Races
- 0.4 percent American Indian
- 0.1 percent Pacific Islander

Texas Educators: School Year 2014-15

- 342,192 full-time equivalent teachers
- 65,119 professional support staff
- 19,680 campus administrators
- 6,995 central administrators
- 64,641 educational aides in the public schools
- 174,514 auxiliary staff
- \$50,715 average teacher salary

Texas Primary and Secondary Public Education: School Year 2014-15

- 1,024 school districts and 195 charter districts
- 8,656 campuses
- 4,585 elementary schools
- 1,507 high schools
- 1,354 middle schools
- 903 combined elementary and secondary schools
- 299 junior high schools
- 8 campuses with other grade groupings

Note: These numbers do not include private schools

The state shares the cost of public primary and secondary education with local districts. State funding for primary and secondary education is provided through the Permanent School Fund, the Available School Fund and the Foundation School Program (FSP). The Permanent School Fund is an endowment fund consisting of state lands, the sale of lands, and royalty earnings. The fund is available for investment only; the investment income is deposited along with one-quarter of the motor fuels tax in the Available School Fund for distribution to school districts. Under the terms of the State Constitution, the Permanent School Fund may not be used for appropriation, but it may be used to guarantee bonds issued by school districts.

The bulk of funding for Texas's public schools comes from the Foundation School Program (FSP), a guaranteed yield school finance system comprised of state revenues and local property tax funds. The FSP allocates state funds to public schools according to a system of formulas based on various district and student characteristics. A series of allotments ensure that each school district can provide an adequate instructional program to meet the needs of its students, regardless of its local property tax base.

The FSP is not only the largest appropriation item for TEA, accounting for 77 percent of the agency's All Funds appropriation, it is also the largest single appropriation item in the state budget.

Texas has two debt tax rate equalization programs, the Instructional Facilities Allotment program, started in 1997, to assist low property wealth districts with new debt, and the Existing Debt Allotment Program, started in 1999, to help districts service existing debt. Both programs distribute state aid to equalize local interest and sinking tax efforts up to \$35.00 per penny per student in average daily attendance. The Instructional Facilities Allotment program is a sum-certain appropriation, with the Legislature making appropriation decisions regarding new grant awards each biennium. For Existing Debt Allotment, debt service is automatically eligible for support if a district makes a payment during the previous biennium. Existing Debt Allotment support is restricted to 29 cents of interest and sinking tax effort.

TOTAL ACTUAL EDUCATION REVENUES

For the 2014-15 school year, total actual revenues for public education from local, state, federal and other sources were \$56.1 billion. Of that total, \$25.2 billion from local tax revenues, \$22.8 billion came from state sources, \$5.8 billion from federal sources, and \$2.1 billion from other local and intermediate sources.

BUDGETED STATE EDUCATION FUNDING 2016–17 BIENNIUM

FSP funding for the 2016–17 biennium includes:

- \$35.5 billion in General Revenue Funds and
- \$42.3 billion in All Funds

This represents an increase of \$3.8 billion in General Revenue Funds, or 12.3 percent, and an increase of \$2.7 billion, or 6.8 percent, in All Funds compared to the 2014–15 biennium. The General Revenue Funds increase reflects provisions implementing property tax relief (\$1.2

billion), franchise tax relief (\$2.6 billion), and providing funding for schools (\$1.5 billion), partially offset by a lower state cost to fund current state school finance formulas compared to the 2014–15 biennium.

FSP funding is increased by \$1.5 billion over what is estimated to be required to fund the current law FSP entitlement. The additional funding consists of four elements:

- \$1.2 billion is attributable to increase in the Basic Allotment
- \$200.0 million is contingent on legislation that equalizes, within the school finance formulas, the treatment of similar tax effort across school districts
- \$55.5 million in new funding for the Instructional Facilities Allotment to provide tax relief for property-poor districts issuing bonds for local facility needs
- \$47.5 million for the New Instructional Facilities Allotment to provide startup funds for new district and charter school campuses

General Revenue funding for the FSP contains \$3.8 billion as a result of two tax relief provisions that passed in the November 2015 election:

- \$2.6 billion is contingent on franchise tax reform resulting in an equivalent savings and a corresponding reduction to the Property Tax Relief Fund; and
- \$1.2 billion is contingent on an equivalent amount of school district property tax relief.

Non-FSP program and administration funding for the 2016–17 biennium includes \$2 billion in General Revenue Fund appropriations, a \$229.2 million increase. The increase includes \$118 million for a high quality prekindergarten grant program, \$54.8 million for teacher academies and \$2.7 million for the Texas Education Agency’s Office of Complaints, Investigations, and Enforcement.

On November 3, 2015, voters approved a constitutional amendment which increased the mandated state homestead exemption on values used for local property taxes from \$15,000 to \$25,000. Effective for the tax year beginning January 1, 2015, the homestead exemption may result in a reduction of school district property tax revenue and, due to additional hold-harmless provisions, will increase state aid to public schools by an estimated \$1.2 billion over the 2016-17 biennium.

EDUCATIONAL ACHIEVEMENT

According to the U.S. Census Bureau, 2014 American Community Survey, 81.6 percent of the State’s population, age 25 and older, were high school graduates, as compared to an 86.3 percent share for the nation. In addition, 27.1 percent of the State’s population age 25 and older had received a bachelor’s degree, as compared to a national share of 29.3 percent.

HIGHER EDUCATION

The State of Texas has 147 public and independent institutions of higher education:

- 50 public community college districts (with multiple campuses),
- 38 public four-year universities and upper division centers,
- four campuses in the Texas State Technical College System (including three extension centers),
- 10 public health-related institutions,
- three public two-year, lower-division Lamar state colleges,
- 38 independent four-year colleges and universities,
- one independent medical school,
- one independent junior college, and
- two independent chiropractic institutions.

In addition, there are ten multi-institution teaching centers that offer courses at one central location or at several sites. Multi-institution teaching centers are partnerships between institutions of higher education and may include public community and technical colleges, public universities, and independent colleges and universities.

During the 83rd regular session of the Texas Legislature, lawmakers granted authorization to the University of Texas System (UT System) to make changes to its institutional structure. The UT System elected to merge two institutions in South Texas (UT-Brownsville and UT-Pan American) into UT-Rio Grande Valley. The UT System established new medical school as part of the UT-Rio Grande Valley institution and the Dell Medical School at UT-Austin—both welcoming their first classes in June 2016.

Certified statewide enrollment in all colleges and universities in the fall of 2014, the most recent semester for which data is available, was 1,465,870. Higher education in the state at public and, to a lesser extent, private institutions is supervised by the Texas Higher Education Coordinating Board, which has authority over program offerings and the use of certain funds appropriated by the Legislature for higher education. The higher education institutions are under the control of separate boards of regents.

Public higher education in the state is funded through a combination of tuition, student fees and other local funds (including gifts from benefactors), income from constitutional funds (the Permanent University Fund via the Available University Fund, the Higher Education Fund, and the National Research University Fund), appropriations made by the Legislature, and tuition revenue bonds.

There are two types of tuition at public institutions: statutory (set and regulated by the Legislature, currently \$50 per semester credit hour) and designated. In 2003, the State ended legislative control over designated tuition rates at public universities effective with the 2003 fall semester.

In the past, governing boards of institutions of higher education could set a designated tuition rate within statutory limits set by the Legislature. Effective with the 2003 fall semester, Section 54.0513, Education Code, allows the governing boards to charge any amount for designated

tuition and vary amounts by program and course level, and to set different rates “to increase graduation rates, encourage efficient use of facilities, or enhance employer performance.” Designated tuition levels vary widely by institution.

In addition to tuition, the boards of regents of the various colleges and universities set many student fees. An additional nonresident tuition is set annually by the Texas Higher Education Coordinating Board and is calculated to result in a total nonresident rate that is equal to the average nonresident tuition charged by the five most populous states, excluding Texas.

During the 84th Legislature, and for the first time since 2006, Texas lawmakers approved the use of tuition revenue bonds for specific campus construction projects at public institutions, health science centers, and university systems throughout the state, in the total amount of \$3.1 billion.

Additionally, the 84th Legislature appropriated \$19.9 billion to support higher education for the 2016-2017 biennium, according to the Legislative Budget Board. Including benefits, the Legislature appropriated \$19.9 billion in All Funds, with \$17.4 billion in General Revenue Funds and General Revenue-Dedicated Funds. These funding levels reflect a net increase of \$1.4 billion in All Funds, as well as an increase of \$1.4 billion in General Revenue from the 2014-2015 biennium. Funding levels for 2016-2017 include:

- TEXAS Grant Program, \$714.9 million
- Tuition Equalization Grant Program, \$192.3 million
- Professional Nursing Shortage Reduction Program, \$33.8 million
- B-On-Time Program (public institutions), \$63.4 million
- Texas Educational Opportunity Grant Program, \$86.5 million
- Graduate Medical Education expansion, \$53.0 million
- Joint Admission Medical Program, \$10.2 million
- Developmental Education Program, \$4.0 million
- Teach for Texas Loan Repayment Program, \$7.0 million
- Baylor College of Medicine Undergraduate Medical Education formula allocation, \$78.0 million

The Legislature appropriated \$18.2 million for Top Ten Percent Scholarships in the 2016-2017 biennium, a decrease of \$21.4 million from the 2014-2015 biennium. Higher education formula funding for the 2016-2017 biennium included funding for enrollment growth. As was the case in the 2014-2015 biennium, the Legislature did not allocate funding for new community college campuses or alternative teaching certification programs at community colleges.

The 82nd Legislature enacted House Bill 9, which requires the Texas Higher Education Coordinating Board to incorporate student success measures into the agency’s funding recommendations for higher education institutions to the Legislature. Under the legislation, no more than 10 percent of general revenue appropriated to undergraduate institutions from base funds will be distributed based on student success measures.

Beginning in 2003, in conjunction with the deregulation of designated tuition through House Bill 3015, the State enacted several changes to the Education Code relating to tuition set-asides, which are intended to lessen the financial burden of higher education costs on students demonstrating need. One prominent set-asides provision requires governing boards to set aside

20 percent of designated tuition charged above \$46 per semester credit hour for resident undergraduate and graduate financial assistance. Financial assistance funded through tuition set-asides may include grants, scholarships, work-study programs, student loans, and student loan repayment assistance. The following is a list of set-aside programs and their corresponding statutory authority in the Texas Education Code:

- B-On-Time Loan, 56.465(a)
- Dental School Tuition, 61.910(a)
- Doctoral Incentive Loan Repayment, 56.095(b)
- House Bill 3015 (Designated Tuition) Graduate, 56.012(a)
- House Bill 3015 (Designated Tuition) Undergraduate, 56.011(a)
- Medical School Tuition, 61.539(a)
- TPEG (Statutory Tuition) Graduate, 56.033
- TPEG (Statutory Tuition) Undergraduate, 56.033

In 2003, the State also enacted Subchapter Q, Chapter 56, Education Code, creating the Texas B-On-Time Loan program, referenced as a recipient of set-asides funds above. Under this program, students at public and private institutions of higher education have received no-interest student loans, provided that they complete the recommended or advanced high school program; the 80th Legislature through House Bill 1250 extended the eligibility to include students that complete an equivalent program. If a student who received a loan graduates from an institution of higher education in the customary amount of time allotted for the degree (i.e. four years for most bachelor degree programs) and has a cumulative grade point average of 3.0 on a four-point scale, the loan will be forgiven.

During the 84th session of the Texas Legislature, lawmakers passed H.B. 700, which phases out the B-On-Time Loan program by 2020 and eliminates the 5 percent set-aside requirement for designated tuition that has funded that particular program, beginning Fall 2015. Thus, the current set-aside requirement for designated tuition is 15 percent, equal to the set-aside requirement for statutory tuition.

The 80th Legislature passed House Bill 3900 adding Subchapter H to Chapter 54, Texas Education Code, establishing the Texas Tuition Promise Fund, also known as the Texas Tomorrow Fund II. The plan opened for enrollment in 2008 and is a prepaid tuition undergraduate education program financed by fund assets. The plan is not guaranteed by the State of Texas. Contract purchasers may buy “units” worth one percent of one year’s tuition and required fees at today’s rates that are redeemable at the time the student enrolls in the institution for an equivalent percentage of costs. As of August 31, 2015, the Texas Tuition Promise Fund (Plan) had approximately 30,178 active contracts and had a surplus of Assets over Liabilities of \$50,890,005 with a funded ratio of 107.4% (audited). As of August 31, 2014, the surplus was \$122,567,382.

Authorized by voters on November 4, 1997, Article VII, Section 19 was added to the Texas Constitution creating the Texas Tomorrow Fund, also known as the Texas Guaranteed Tuition Plan. The Texas Guaranteed Tuition Plan opened for enrollment in 1997 and plan benefits are guaranteed by the full faith and credit of the State of Texas. The plan closed for new enrollment in 2003 when tuition was deregulated; however, there were approximately 66,054 active

contracts as of August 31, 2015. The fund's unfunded liability (unaudited) as of August 31, 2014 was \$568,170,794 compared to \$535,517,043 as of August 31, 2015. The 84th Legislature passed House Bill 2 which appropriated \$87,671,644 from the general revenue fund for deposit in the Texas Tomorrow Fund in fiscal year 2015.

The Permanent University Fund (PUF) is a permanent endowment fund with a market value of \$18,094,879,309.62 (unaudited) as of September 30, 2016 according to The UT System, which administers the PUF. Income from the PUF is dedicated first to payment of debt service of PUF bonds, which may be used for capital improvement at certain institutions in the UT and Texas A&M University (TAMU) systems. The amount of PUF bonds that may be issued is limited to 30 percent of the book value of the PUF, which was \$15,320,707,232.78 (unaudited) as of September 30, 2016. The residual amount of income of the PUF, after debt service, is dedicated to excellence programs for The University of Texas at Austin, Texas A&M University (College Station) and Prairie View A&M University.

Under Section 66.08, Texas Education Code, the UT System Board of Regents may delegate investment authority and contract with a nonprofit corporation, allowing them to invest funds under the control and management of the board, including the PUF. The corporation may not engage in any business other than investing funds designated by the board under the contract. In March 1996, the University of Texas Investment Management Company (UTIMCO) was created as a 501(c) (3) investment-management corporation whose sole purpose is the management of investment assets under the fiduciary care of the UT System Board of Regents. UTIMCO, the first external investment corporation formed by a public university system, oversees investments of approximately \$37.11 billion (unaudited) as of September 30, 2016, including the PUF. UTIMCO is governed by a nine-member Board of Directors appointed by the UT System Board of Regents.

In November 1999, voters approved a constitutional amendment that allows the UT System Board of Regents to transfer the income from the PUF into the Available University Fund, including the gains from the sale of securities. The amendment includes safeguards designed to ensure that this change in policy does not affect the long-term ability of the PUF to support the two university systems as well as authorizes the UT System Board of Regents to manage any kind of investment of the PUF in accordance with the standards of a "prudent investor." This change allows the UT System Board of Regents to take into consideration the investment of all the assets of the Fund, rather than a single investment, when making investment decisions. This allows the Fund to increase its earnings over time without risking the Fund's principal.

The Higher Education Fund was established to provide support to institutions that are ineligible for PUF monies. Proceeds from the Higher Education Fund may be used for construction, land acquisition and to acquire capital equipment, and library books and library equipment. The 2016-2017 General Revenue appropriation for the HEF is \$656.3 million.

In 2003, the State enacted Subchapter E, Chapter 62, Texas Education Code, which merged the Texas Excellence Fund and the University Research Fund into a new Research Development Fund (RDF) beginning with the 2005 fiscal year. The RDF was intended to promote increased research capacity at universities other than the University of Texas at Austin, Texas A&M University (College Station) and Prairie View A&M University; the RDF, however, was never

created as a stand-alone fund. Instead, the Legislature has previously appropriated general revenue to each affected institution in a line item named “Research Development Fund.” RDF appropriations for the 2014-2015 biennium totaled \$73.1 million.

The 84th Legislature abolished the Research Development Fund, effective fiscal year 2016, and created two distinct funds in its stead: the Core Research Support Fund for emerging research universities, as well as the Texas Comprehensive Research Fund for public four-year institutions other than research or emerging research universities. 2016-2017 appropriations for the Core Research Support Fund total \$117.1 million, and biennial appropriations for the Texas Comprehensive Research Fund total \$14.3 million.

In a constitutional amendment election held in November 2009, Proposition 4 created the National Research University Fund. This change was designed to assist the state in developing more public universities into national research universities. The balance of the National Research University Fund was \$661,222,042.05 (unaudited) as of September 30, 2016.

8. RETIREMENT SYSTEMS

The State administers three defined-benefit retirement systems: the Teacher Retirement System of Texas (TRS), the Employees Retirement System of Texas (ERS) and the Judicial Retirement System of Texas (JRS). The state also administers three other defined-benefit plans and contributes to one defined-contribution plan. Further information on these plans may be found in Note 9 of the Comprehensive Annual Financial Report. In addition, State employees, except those compensated on a fee basis, are covered under the federal Social Security System. Political subdivisions of the State may voluntarily provide coverage for their employees under the State's agreement with the federal Social Security Administration.

TRS is the largest of the three retirement systems, with 1,081,505 current members and 377,738 retirement recipients as of August 31, 2015. TRS provides benefits to all employees of the public school system within the State as well as faculty and staff members of State-supported institutions of higher education. In addition, TRS administers the Texas Public School Retired Employees Group Insurance Program, which was established by legislation enacted in June 1985. This program provides healthcare benefits to Texas public school retirees. On September 1, 2002, TRS began administering the Texas Active School Employees Uniform Group Benefits Program, which provides healthcare benefits to active employees of school districts participating in the program.

ERS covers State employees and Law Enforcement and Custodial Officers System (LECOS) and, as of August 31, 2015 had 142,409 active contributing members for ERS and 38,526 for LECOS. ERS had 100,003 annuitants and LECOS had 10,845 annuitants. ERS also administers the Texas Employees Group Benefits Program, which provides insurance coverage to active and retired State employees and their families and employees of certain Texas higher education institutions. JRS provides benefits to judicial officers of the State and, with 573 active contributing members and 713 annuitants for JRS Plan One and Two. JRS is administered by ERS although, technically, it is a separate legal entity.

TRS and ERS are maintained on an actuarial basis. As of August 31, 2015, the unfunded actuarial accrued liability of the TRS plan as a whole was \$33.0 billion. ERS had an unfunded actuarial accrued liability of \$8.0 billion for funding purposes for the plan. The State's liability for both plans is reported using GASB Statement No.68, which defines the requirements for the financial reporting of the employer. The TRS fair value of investments, as of August 31, 2015, was \$127.9 billion. The ERS fair value of pooled investments as of August 31, 2015 was \$25.2 billion.

Under GASB Statement No. 68, which sets the rules for the financial reporting for the State, the State's portion of the net pension liability under the TRS plan as of the measurement date of August 31, 2014 was 77.3% or \$20.7 billion. The allocation percentage for the State for the FY 2015 measurement period is not yet available. The net pension liability for the State under the ERS plan as of the measurement date of August 31, 2015 was \$13.3 billion.

Prior to 1985, JRS was maintained on a pay-as-you-go basis. However, legislation enacted in 1985 divided JRS into two plans by changing the name of the existing plan and establishing a second, separate plan. The new plan, known as JRS Plan Two, is maintained on an actuarially

sound basis and covers individuals who become judicial officers after August 31, 1985. The unfunded actuarial liability of JRS Plan Two as of August 31, 2015, was \$31.0 million for funding purposes with a net pension liability of \$21 million for GASB 68 reporting purposes. The old plan, known as JRS Plan One, is maintained on a pay-as-you-go basis and covers judicial officers who were active on August 31, 1985, or had retired on or before that date.

Contributions to the retirement systems are made by both the State and covered employees. The Constitution mandates a State contribution rate of not less than 6 percent or more than 10 percent of payroll for ERS and TRS; member contributions may not be less than 6 percent of payroll. The Legislature, however, may appropriate additional funds as are actuarially determined to be needed to fund benefits authorized by law.

For the 2014-2015 biennium, the Legislature set the State's contribution rates to the retirement systems at the following rates: ERS at 8.0 percent, TRS at 6.8 percent, and JRS Plan Two at 15.663 percent of payroll. Member contribution rates for 2014-2015 are 6.6 percent and 6.9 percent, respectively, for ERS and JRS Plan Two and 6.4 percent in 2014 and 6.7 percent in 2015 for TRS.

The 84th Legislature passed HB 9 which increased contribution rates to ERS. The State's contribution rate for the 2016-2017 biennium is 10.0 percent and member contribution rate is 9.5 percent beginning September 1, 2015.

State laws prohibit by statute the implementation of changes in the ERS, JRS and TRS systems that would cause the period required to amortize the unfunded actuarial liability of the plans to exceed 30 years by one year or more.

Table A-33 sets forth selected financial information concerning each of the three State-operated retirement systems for the fiscal year ended August 31, 2015.

Table A-33
Selected Financial Information Regarding State-Operated Retirement Systems
(Amounts in Thousands)

	Teacher Retirement System	Employees Retirement System	Judicial Retirement System Plan II
Contributions, Investment Income & Other Revenue	\$5,207,749	\$1,103,778	\$18,744
Benefits and Refunds Paid	\$9,448,286	\$2,133,286	\$19,240
Plan Net Assets Available for Benefits	\$128,538,706	\$23,998,481	\$364,510
Plan Net Assets Available for Benefits to Benefits and Refunds Paid Ratio	13.60:1	11.25:1	18.95:1
Payout to Revenue Ratio	1.81:1	1.93:1	1.03:1

Sources: Comprehensive Annual Financial Report for Fiscal Year ended August 31, 2015, Employees Retirement System of Texas; Comprehensive Annual Financial Report for Fiscal Year ended August 31, 2015 and Actuarial Valuation report for Fiscal Year ended August 31, 2015, Teacher Retirement System of Texas

The State's retirement systems were created and are operated pursuant to statutes enacted by the Legislature. The Legislature has the authority to modify these statutes and, accordingly, contribution rates, benefits, benefit levels of each system, as it deems appropriate, including the provisions limiting changes that increase the amortization period for unfunded actuarial liability of any plan. The State's retirement systems are not subject to the funding and vesting requirements of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), although Congress has from time to time considered legislation that would regulate pension funds of public bodies.

POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to providing pension benefits, the State administers four programs which provide health care and life insurance benefits for retired employees, their spouses, and beneficiaries. Benefits are authorized by statute and contributions are determined by the General Appropriations Act.

The Employees Retirement System (ERS) administers the State Retiree Health Plan to provide postemployment health care benefits for State retirees with at least 10 years of combined state service under any of the programs in the Proportionate Retirement Program (PRP), including the Teacher Retirement System (TRS). Retirees from institutions of higher education who elected to participate in the Texas Higher Education Coordinating Board's (THECB) defined contribution plan, the Optional Retirement Program, are also eligible for these benefits, providing that their contributions have not been withdrawn. Public school district retirees that are members of TRS are also eligible for such benefits.

The University of Texas System and the Texas A&M University System provide separate postemployment health care and life insurance coverages to their retirees, surviving spouses, and beneficiaries. Substantially all of the employees under the university systems that reach normal retirement age while working for the State may become eligible for the health and life insurance benefits.

For the year ended August 31, 2015, the State made monthly contributions for health care and life insurance. Contribution rates are shown below. Costs are estimated by an actuary for claims expected to be paid during the year. The retiree contributes any premium over and above state contributions.

Table A-34
State Contribution Rates - Retiree Health and Basic Life Premium
For the Fiscal Year Ended August 31, 2015

Level of Coverage	TRS	ERS	Texas A&M University	University of Texas
Retiree Only	\$538	\$538	\$507	\$527
Retiree/Spouse	\$846	\$846	\$759	\$804
Retiree/Children	\$744	\$744	\$683	\$704
Retiree/Family	\$1,052	\$1,052	\$859	\$982

Sources: Comprehensive Annual Financial Report for Fiscal Year ended August 31, 2015, Employees Retirement System of Texas; Comprehensive Annual Financial Report for Fiscal Year ended August 31, 2015; University of Texas System Annual Financial Report for Fiscal Year ended August 31, 2015; Texas A&M University System Annual Financial Report for Fiscal Year ended August 31, 2015

TRS administers a program that provides benefits to public school district retirees with at least 10 years of service. The Texas Public School Retired Employees Group Insurance Program (TRS-Care) provides a free basic level of coverage for eligible retirees and optional coverage for eligible retirees and their dependents. Basic coverage includes participation in a major medical group health insurance plan with deductibles based upon enrollment in Part A or Part B of Medicare. The deductible is \$1,800 for those eligible for Part A, \$3,000 for those not eligible for Part A but eligible for Part B, and \$4,000 for those not eligible for either Part A or Part B. Funding for free basic coverage is provided based on public school district payroll. For fiscal year 2015, the State of Texas, active school employee and participating employer contribution rates are 1.0%, 0.65%, and 0.55% of school district payroll, respectively.

The cost of state retirees' health care and life insurance benefits and TRS-Care is financed on a pay-as-you-go-basis. The expenditures are recognized when reimbursements are made for claims paid by non-state entities or when premiums are paid.

TRS continues to study the long term sustainability of TRS-Care. In a presentation to the Joint Legislative Committee on TRS Health Benefit Plans on March 30, 2016, options were presented which may or may not carry an additional cost to the state and a potential impact on state appropriations for the 2018-2019 budget. Options discussed include pre-funding the long-term liability of TRS-Care, modifying the mix of contribution rates among the state, school districts and active employees or creating a single consumer directed plan design for non-Medicare enrollees.

Expenditures recognized for fiscal year 2015 for retiree health and life insurance benefits paid for by the State are shown below in Table A-35.

**Table A-35
Postemployment Health Care and Life Insurance**

Benefits Provided Through	Number of Retirees:	Cost (Thousands)
Employees Retirement System	109,311	\$612,769
University of Texas System	24,456	\$67,059
Texas A&M University System	8,259	\$62,620
Teacher Retirement System*	194,619	\$281,098
Total	336,645	\$1,023,546

*Public School District Employee

Sources: Comprehensive Annual Financial Report for Fiscal Year ended August 31, 2015, Employees Retirement System of Texas; Comprehensive Annual Financial Report for Fiscal Year ended August 31, 2015; University of Texas System Annual Financial Report for Fiscal Year ended August 31, 2015; Texas A&M University System Annual Financial Report for Fiscal Year ended August 31, 2015

Administrators of the ERS' and TRS' plans for Other Postemployment Benefits (OPEB) began reporting additional information concerning those plans in fiscal year 2007. As of August 31, 2015, the unfunded actuarial accrued liability of TRS-Care was \$43.2 billion. The State of Texas began including similar information in its financial statements in fiscal year 2008. As of August 31, 2015, the unfunded actuarial accrued liability of ERS was \$25.7 billion. The inclusion of this additional information to the financial statements does not signify any plans by the state to change its current funding of OPEB, which is on a pay-as-you-go basis. However, obtaining this additional information will require actuarial valuations and a calculation, for information purposes only, of an amount in excess of the annual contributions based on current funding methods. These disclosures are for informational purposes only and will not impact the net assets of the State.

9. LITIGATION

The State of Texas is a party to various cases concerning its operations and governmental functions but unrelated to the security for the Bonds. In the opinion of the Texas Comptroller, based on case information provided by the Texas Attorney General, none of the cases, except for *M.D., by her next friend, Sarah R. Stukenberg, et al. v. Greg Abbott, in his official capacity as Governor of the State of Texas, et al.*, and *Bailey et al. v. Livingston, Herrera and Texas Department of Criminal Justice*, as discussed below, if finally decided adversely to the State, could possibly have a materially adverse effect on the long term financial condition of the State.

M.D., by her next friend, Sarah R. Stukenberg, et al. v. Greg Abbott, in his official capacity as Governor of the State of Texas, et al. Plaintiffs allege the State's foster care system fails to adequately care for foster children in violation of various constitutional and federal statutory rights. The U.S. District Court certified a class of foster children, and issued a Memorandum Opinion and Verdict on December 17, 2015 finding Texas had violated Plaintiffs' Fourteenth Amendment due process right to be free from an unreasonable risk of harm while in foster care. The Court ordered appointment of a Special Master to create an Implementation Plan to reform Texas' foster care program, and issued an injunction prohibiting the State from placing children in permanent managing conservatorship in unsafe placements. On March 28, 2016 the U.S. District Court appointed two Special Masters, to be compensated by the State. On April 1, 2016, the State filed a Mandamus Petition requesting the Fifth Circuit Court of Appeals direct the District Court to vacate its order appointing a Special Master, which was denied on July 7, 2016. The two Special Masters filed a work plan with the U.S. District Court on June 10, 2016, and must file their Special Masters' Report on November 4, 2016.

Bailey v. Livingston and Texas Department of Criminal Justice, et al. In June 2014, Plaintiffs filed a class action lawsuit in the U.S. District Court, Southern District of Texas, on behalf of all inmates at the Wallace Pack (Prison) Unit alleging excessive heat and contaminants in the Unit's potable water. Plaintiffs sued the named officials in their official capacity, asserting Eighth and Fourteenth Amendment condition of confinement claims under 42 U.S.C. §1983 to require them to provide climate controlled facilities and improve the potable water. The Plaintiffs also alleged that the Texas Department of Criminal Justice failed to reasonably accommodate inmates under the American Disabilities Act, the Americans Disability Act Amendments Act and the Rehabilitation Act. On November 16, 2015, the State filed a Motion for Summary Judgment for all alleged claims, which is pending with the Federal District Court. In June 2016, the Court granted class action status on the heat issue, and the State appealed that decision to the Fifth Circuit Court of Appeals. The District Court has not granted class action status on the potable water issue. Discovery is on-going.

In addition, the Texas Comptroller of Public Accounts is a party to various state tax law cases that are unrelated to the security for Bonds. None of the individual tax cases, if finally decided against the State, would have a materially adverse effect on the long term financial condition of the State. However, if a negative precedent were applied to all similarly situated taxpayers, then there could possibly be an adverse effect on the financial condition of the State. The following cases, discussed below, are an example of this type of state tax law case: *Southwest Royalties*,

Inc. v. Hegar, et al.; Graphic Packaging Corporation v. Hegar, et al.; American Multi-Cinema, Inc. v. Hegar et al. and Trican Well Services, L.P. v. Hegar, et al.

In *Southwest Royalties, Inc. v. Hegar, et al.*, the Plaintiff requested a refund of sales tax paid to purchase certain drilling or mining equipment, claiming that it was exempt from sales tax based upon the manufacturing exemption in §151.318, Tax Code. The Comptroller denied the refund request and Plaintiff filed suit in District Court, which ruled in favor of the State. The Plaintiff appealed to the Third Court of Appeals which upheld the District Court ruling on August 13, 2014, finding that the manufacturing sales tax exemption does not apply to oil and gas extraction. The Supreme Court of Texas granted the Plaintiff's Petition for Review on January 22, 2016, and on June 17, 2016 unanimously affirmed the Third Court of Appeals in favor of the Comptroller. The Court held the Plaintiff failed to provide sufficient evidence to prove that downhole oil and gas extraction equipment was used in actual manufacturing, processing or fabricating of hydrocarbons under the manufacturing exception in §151.318, Tax Code. On October 21, 2016, the Supreme Court denied the Plaintiff's Motion for Rehearing.

In *Graphic Packaging Corporation v. Hegar, et al.*, the Plaintiff requested a refund of franchise taxes, based on apportioning its revenue using the three-factor apportionment method outlined in the Multistate Tax Compact, rather than using the single-factor apportionment method specified in §171.106(a), Tax Code. The Comptroller denied the refund request and the Plaintiff filed suit in District Court, which ruled in favor of the State. The Plaintiff appealed its case to the Third Court of Appeals, which affirmed the District Court's ruling in favor of the State on July 28, 2015, finding that Graphic Packaging was required to use the single factor formula method. On December 14, 2015, the Plaintiff filed a Petition for Review with the Supreme Court of Texas, and the State filed its Response on April 13, 2016. The Supreme Court requested the parties file briefs on the merits. The Plaintiff filed its brief on the merits on September 30, 2016, and the Comptroller's brief is due on November 30, 2016.

In *American Multi-Cinema, Inc. v. Hegar et al.*, the Plaintiff filed suit in District Court, seeking a refund of franchise taxes paid under protest for two reporting years, based upon the Comptroller's disallowance of AMC's costs of goods sold ("COGS") deduction for the cost of acquiring and using motion picture films under §171.1012, Tax Code. The District Court ruled that the Plaintiff was allowed a COGS deduction, but limited the recovery to the Comptroller's interpretation of the amount of the COGS deduction. The Comptroller appealed the District Court's inclusion of exhibition costs in the COGS deduction to the Third Court of Appeals and AMC appealed the limited deduction allowed by the District Court. On April 30, 2015, the Third Court of Appeals held the taxpayer may deduct the COGS for costs to exhibit films to moviegoers to determine its taxable margin for franchise tax purposes. The Comptroller filed a Motion for Rehearing and Reconsideration on June 5, 2015. The parties have filed their respective briefs, and are awaiting the Court's decision.

In *Trican Well Services, L.P. v. Hegar, et al.*, the Plaintiff requested a refund of sales and use tax for hydraulic fracturing materials under the sale-for-resale exemption in §§151.006 and 151.302, Tax Code. Trican Well Services, L.P. provides hydraulic fracturing services to the oil and gas industry. The Comptroller denied the refund request and the Plaintiff filed suit in District Court. The Plaintiff contends it qualifies for the resale exemption because the fracturing materials are

tangible personal property transferred to the well owners for consideration in the normal course of the Plaintiff's business, and in the form or condition in which they were acquired. The Defendants filed their answer denying the claims on February 4, 2016, and discovery is ongoing.