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SECTION TWO (CONTINUED)

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MANAGEMENT'S  
DISCUSSION  
AND ANALYSIS



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## Management’s Discussion and Analysis

The following is a discussion and analysis of the state of Texas’ financial performance for the fiscal year ended Aug. 31, 2023. Use this section in conjunction with the state’s basic financial statements. Comparative data is presented for this 2023 report.

## Highlights

### Government-wide

#### *Net Position*

The assets and deferred outflows of resources of the state of Texas exceeded its liabilities and deferred inflows of resources by \$201.4 billion as of Aug. 31, 2023, a decrease of \$3.9 billion or 1.9 percent from fiscal 2022. The majority of the decrease is primarily due to a decrease of \$42.3 billion in restricted net position from the transfers of beginning asset and liability balances from Texas Education Agency to Texas Permanent School Fund Corporation. The net position is comprised of \$135 billion in net investment in capital assets, \$106.2 billion in restricted and negative \$39.7 billion in unrestricted.

## Fund Level

### Governmental Funds

As of Aug. 31, 2023, the state’s governmental funds reported a combined ending fund balance of \$92.4 billion, a decrease of \$31 billion from fiscal 2022, primarily due to a significant reduction of federal revenue associated with the Coronavirus Relief Fund as the additional funding, initially provided to address the costs of COVID-19, starts to come to an end.

### Proprietary Funds

The proprietary funds reported a net position of \$95.4 billion as of Aug. 31, 2023, an increase of \$3.4 billion or 3.7 percent from fiscal 2022, primarily due to increases in federal revenues and pledged revenues.

## Long-Term Debt

The state’s total bonds outstanding increased by \$1.5 billion or 2.4 percent during fiscal 2023. This amount represents the net difference between net issuances, payments and refunding of outstanding bond debt. During fiscal 2023, the state issued bonds totaling \$5.8 billion. Detailed information regarding the government-wide, fund level and long-term debt activities is stated in the debt administration section of this management’s discussion and analysis (MD&A).

## Overview of the Financial Statements

The focus of this report is on reporting for the state as a whole and on the major individual funds. This report presents a comprehensive view of the state’s financial activities and makes it easier to compare the performance of Texas state government to that of other governments.

The Financial Section of this report presents the state’s financial position and activities in four parts:

- MD&A (this part)
- The basic financial statements
- Required supplementary information other than MD&A
- Other supplementary information presenting combining statements and schedules

The report also includes statistical and economic data.

The basic financial statements include government-wide financial statements, fund financial statements and notes to financial statements, which provide more detailed information to supplement the basic financial statements.

## Reporting on the State as a Whole

The government-wide financial statements are designed to present an overall picture of the financial position of the state. These statements consist of the

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statement of net position and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that all the current year's revenues and expenses are included, regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private sector companies.

The statement of net position combines and consolidates the government's current financial resources with capital assets and long-term obligations. This statement includes all of the government's assets, deferred outflows of resources, liabilities and deferred inflows of resources.

Net position represents one measure of the state's financial health.

Other indicators of the state's financial health include the condition of its roads and highways (infrastructure) and economic trends affecting the state's future tax revenues.

The statement of activities focuses on both the gross and net cost of various activities (governmental, business-type and component units). These costs are paid by the state's general tax and other revenues. This statement summarizes the cost of providing (or the subsidy provided by) specific government services and includes all current year revenues and expenses.

The government-wide statement of net position and the statement of activities divide the state's activities into the following three types.

### **Governmental Activities**

The state's basic services are reported here, including general government, education, employee benefits, teacher retirement state contributions, health and human services, public safety and corrections, transportation, natural resources and recreation, and regulatory services. Taxes, fees and federal grants finance most of these activities.

### **Business-Type Activities**

Activities for which the state charges a fee to customers in order to pay for most or all of the costs of certain services it provides are reported as business-type activities. The state's institutions of higher education are included as business-type activities.

### **Component Units**

Component units are legally separate organizations for which the state is either financially accountable or the nature and significance of their relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. The state has 27 discretely presented component units. Financial information for these entities is presented separately in the supplemental statements and notes.

### **Reporting on the State's Most Significant Funds**

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Fund financial statements provide additional detail about the state's financial position and activities. Some information presented in the fund financial statements differs from the government-wide financial statements due to the perspective and basis of accounting used. Funds are presented on the fund-level statements as major or nonmajor based on criteria set by the Governmental Accounting Standards Board (GASB).

A fund is a separate accounting entity with a self-balancing set of accounts. The state uses funds to keep track of sources of funding and spending related to specific activities.

### **Governmental Funds**

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A majority of the state's activity is reported in governmental funds. Reporting of these funds focuses on the flow of money into and out of the funds and the amounts remaining at fiscal year-end for future spending.

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Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental fund financial statements provide a detailed short-term view of the state's general governmental operations and the basic services it provides. This information helps determine the level of resources available for the state's programs. The reconciliations following the fund financial statements explain the differences between the governmental activities column reported on the government-wide statement of net position and the government-wide statement of activities and the governmental funds reported on the fund financial statements. The general fund, state highway fund and permanent school fund are reported as major governmental funds.

### **Proprietary Funds**

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When the state charges customers for services it provides, these activities are generally reported in proprietary funds. Services provided to outside (non-governmental) customers are reported in enterprise funds, a component of proprietary funds, and are accounted for using the economic resources measurement focus and the accrual basis of accounting. These are the same business-type activities reported in the government-wide financial statements, but are reported here to provide information at the fund level.

The employees' life, accident and health insurance benefits fund is reported as an internal service fund and provides services on a cost reimbursement basis to other agencies of the financial reporting entity.

Colleges and universities, the unemployment trust fund, the lottery fund and the water development board funds are reported as major proprietary funds.

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

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The state is the trustee or fiduciary for ten defined benefit plans and one defined contribution plan. It is also responsible for other assets that can only be used for trust beneficiaries. All state fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. These activities are reported separately from other financial activities because the state cannot use the assets to finance its operations. The state's fiduciary responsibilities include ensuring that assets reported in these funds are used for their intended purposes.

### **Financial Analysis of the State as a Whole**

#### **Net Position**

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Total assets of the state were \$458.5 billion, a decrease of \$17 billion or 3.6 percent from fiscal 2022. Total liabilities of the state were \$216.9 billion, a decrease of \$4.2 billion or 1.9 percent from fiscal 2022. Cash and cash equivalents increased by \$14 billion in governmental activities and \$2.2 billion in business-type activities from fiscal 2022. There was a \$1.1 billion decrease in federal receivables primarily due to a significant reduction of federal revenue associated with COVID-19 related funding. There was a \$661.3 million increase in short-term debt primarily related to paid state unemployment benefits accrued from fiscal 2022. The state's bonded indebtedness was \$62 billion, which included new issuances of \$5.7 billion in state bonds to finance new construction, housing, water conservation and other projects. Approximately \$3.3 billion in bonded debt was retired or refunded. Net position was \$201.4 billion in fiscal 2023, a decrease of \$3.9 billion or 1.9 percent. Of the state's net position, \$135 billion was net investment in capital assets, while \$106.2 billion was restricted by the constitution or other legal requirements and was not available to finance day to day operations of the state. Unrestricted

net position was negative \$39.7 billion, a 43.3 percent increase from fiscal 2022. The majority of the net position decrease is primarily due to a decrease of \$44.8 billion in restricted net position.

## Changes in Net Position

The state's net position for fiscal 2023 decreased by \$3.9 billion. The state earned program revenues of \$149.9 billion and general revenues of \$96.3 billion, for total revenues of \$246.2 billion, a decrease of \$1 billion or 0.4 percent from fiscal 2022. The major components

of this decrease were operating grants and contributions, which had a decrease of \$12 billion, and tax revenues, with an increase of \$2.9 billion. Tax revenue for the year increased primarily due to increased collections of sales and use tax and franchise tax. The tax revenue increases were the result of increased business activity and higher prices caused by inflation in 2022. Federal revenues decreased by \$11.8 billion due to a significant reduction of COVID-19 related funding. Interest and investment income increased by \$1.1 billion compared to fiscal 2022 due to elevated interest rates and large cash balance in the state treasury.

<b>Statement of Net Position</b>						
<b>Table MDA-1</b>						
August 31, 2023 and 2022 (Amounts in Thousands)						
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
<b>ASSETS</b>						
Assets Other Than Capital Assets	\$ 126,418,585	\$ 157,297,634	\$ 145,339,666	\$ 139,152,273	\$271,758,251	\$296,449,907
Capital Assets	147,149,759	140,537,306	39,547,093	38,462,665	186,696,852	178,999,971
Total Assets	<u>273,568,344</u>	<u>297,834,940</u>	<u>184,886,759</u>	<u>177,614,938</u>	<u>458,455,103</u>	<u>475,449,878</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>22,870,946</u>	<u>21,806,304</u>	<u>8,573,847</u>	<u>8,523,774</u>	<u>31,444,793</u>	<u>30,330,078</u>
<b>LIABILITIES</b>						
Current Liabilities	27,001,963	31,626,149	18,829,261	17,906,681	45,831,224	49,532,830
Noncurrent Liabilities	104,119,469	102,338,167	66,976,716	69,303,857	171,096,185	171,642,024
Total Liabilities	<u>131,121,432</u>	<u>133,964,316</u>	<u>85,805,977</u>	<u>87,210,538</u>	<u>216,927,409</u>	<u>221,174,854</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>59,292,222</u>	<u>72,288,283</u>	<u>12,239,407</u>	<u>6,931,927</u>	<u>71,531,629</u>	<u>79,220,210</u>
<b>NET POSITION</b>						
Net Investment in Capital Assets	120,940,547	110,800,734	14,025,399	13,654,730	134,965,946	124,455,464
Restricted	32,351,977	80,532,659	73,868,236	70,464,877	106,220,213	150,997,536
Unrestricted	<u>(47,266,888)</u>	<u>(77,944,748)</u>	<u>7,521,587</u>	<u>7,876,640</u>	<u>(39,745,301)</u>	<u>(70,068,108)</u>
Total Net Position	<u>\$ 106,025,636</u>	<u>\$ 113,388,645</u>	<u>\$ 95,415,222</u>	<u>\$ 91,996,247</u>	<u>\$201,440,858</u>	<u>\$205,384,892</u>

## Changes in Net Position

Table MDA-2

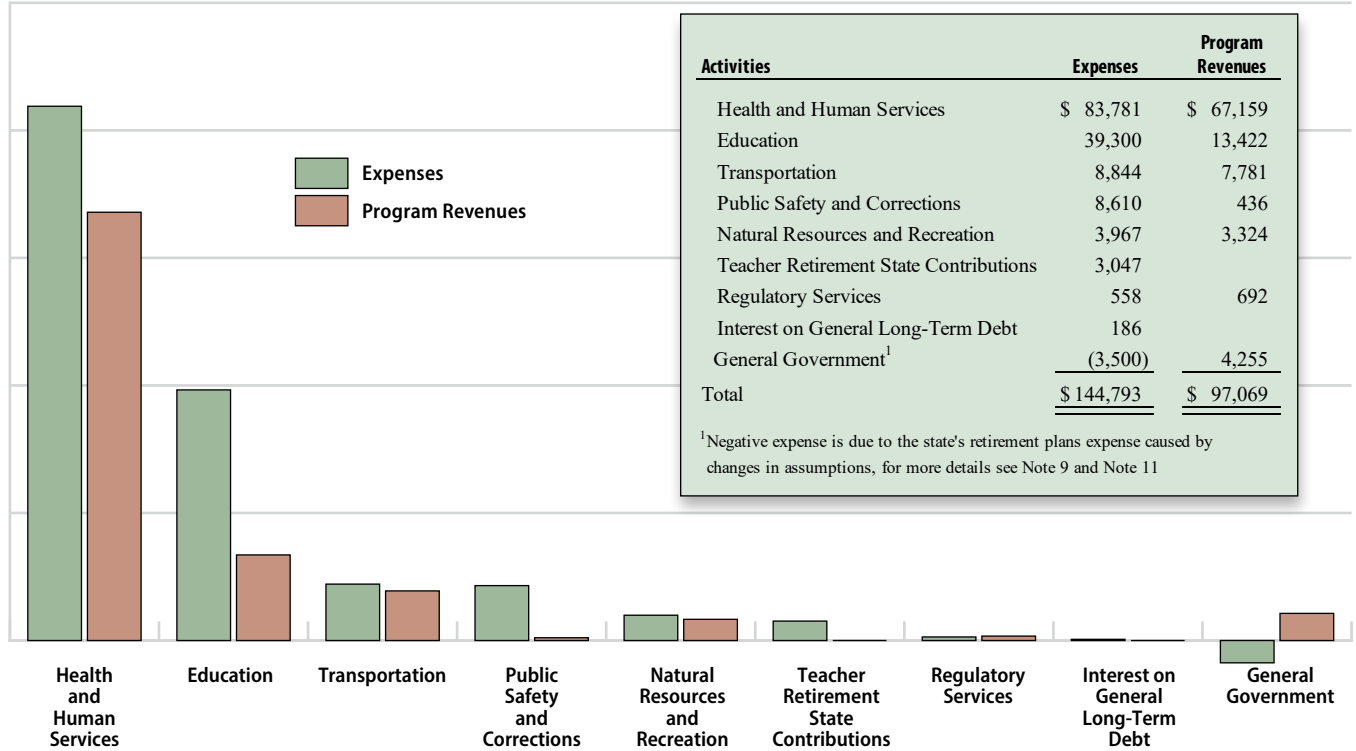
For the Fiscal Years Ended August 31, 2023 and 2022 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2023	2022	2023	2022	2023	2022
<b>REVENUES</b>						
Program Revenues						
Charges for Services	\$ 14,867,890	\$ 15,349,104	\$ 34,060,590	\$ 32,447,069	\$ 48,928,480	\$ 47,796,173
Operating Grants and Contributions	82,074,497	98,895,680	18,547,535	13,748,930	100,622,032	112,644,610
Capital Grants and Contributions	126,370	62,953	263,497	272,484	389,867	335,437
Total Program Revenues	97,068,757	114,307,737	52,871,622	46,468,483	149,940,379	160,776,220
General Revenues						
Taxes	82,479,444	79,543,742			82,479,444	79,543,742
Unrestricted Investment Earnings	2,769,371	(177,703)	223,262	(148,182)	2,992,633	(325,885)
Settlement of Claims	632,711	647,729	2,218	2,425	634,929	650,154
Gain on Sale of Capital Assets	5,565	5,983	6,680	18,442	12,245	24,425
Gain on Other Financial Activity	908	(5,436)	(162)		746	(5,436)
Other General Revenues	9,666,211	6,197,723	512,958	360,334	10,179,169	6,558,057
Total General Revenues	95,554,210	86,212,038	744,956	233,019	96,299,166	86,445,057
Total Revenues	192,622,967	200,519,775	53,616,578	46,701,502	246,239,545	247,221,277
<b>EXPENSES</b>						
General Government	(3,499,619)	(2,612,809)	284,849	297,264	(3,214,770)	(2,315,545)
Education	39,299,707	41,640,966	46,635,059	40,335,100	82,934,766	81,976,066
Teacher Retirement State Contributions	3,047,455	4,266,932			3,047,455	4,266,932
Health and Human Services	83,779,885	87,732,567	2,383,827	1,993,906	86,163,712	89,726,473
Public Safety and Corrections	8,609,501	7,682,429	117,332	132,361	8,726,833	7,814,790
Transportation	8,843,755	7,731,490	678,327	710,006	9,522,082	8,441,496
Natural Resources and Recreation	3,967,367	3,572,620	651,703	539,464	4,619,070	4,112,084
Regulatory Services	557,714	506,166			557,714	506,166
Lottery			6,435,017	6,187,899	6,435,017	6,187,899
Interest on General Long-Term Debt	186,242	147,235			186,242	147,235
Total Expenses	144,792,007	150,667,596	54,186,114	50,196,000	198,978,121	200,863,596
Excess (Deficiency) Before Contributions, Special Items and Transfers	47,830,960	49,852,179	(569,536)	(3,494,498)	47,261,424	46,357,681
Capital Contributions	508	2,473		95,804	508	98,277
Contributions to Permanent and Term Endowments	(8,553,136)		326,116	410,448	(8,227,020)	410,448
Distributions from Permanent Fund Principal	(23,197)	(15,457)			(23,197)	(15,457)
Transfers - Internal Activities	(6,891,397)	(9,708,156)	6,891,397	9,708,156		
Change in Net Position	32,363,738	40,131,039	6,647,977	6,719,910	39,011,715	46,850,949
Net Position, Beginning Balance	113,388,645	72,752,717	91,996,247	83,671,908	205,384,892	156,424,625
Restatements	(39,726,747)	504,889	(3,229,002)	1,604,429	(42,955,749)	2,109,318
Net Position, Beginning Balance, as Restated	73,661,898	73,257,606	88,767,245	85,276,337	162,429,143	158,533,943
Net Position, Ending Balance	\$ 106,025,636	\$ 113,388,645	\$ 95,415,222	\$ 91,996,247	\$ 201,440,858	\$ 205,384,892

## Expenses and Program Revenues: Governmental Activities

Graph MDA-3

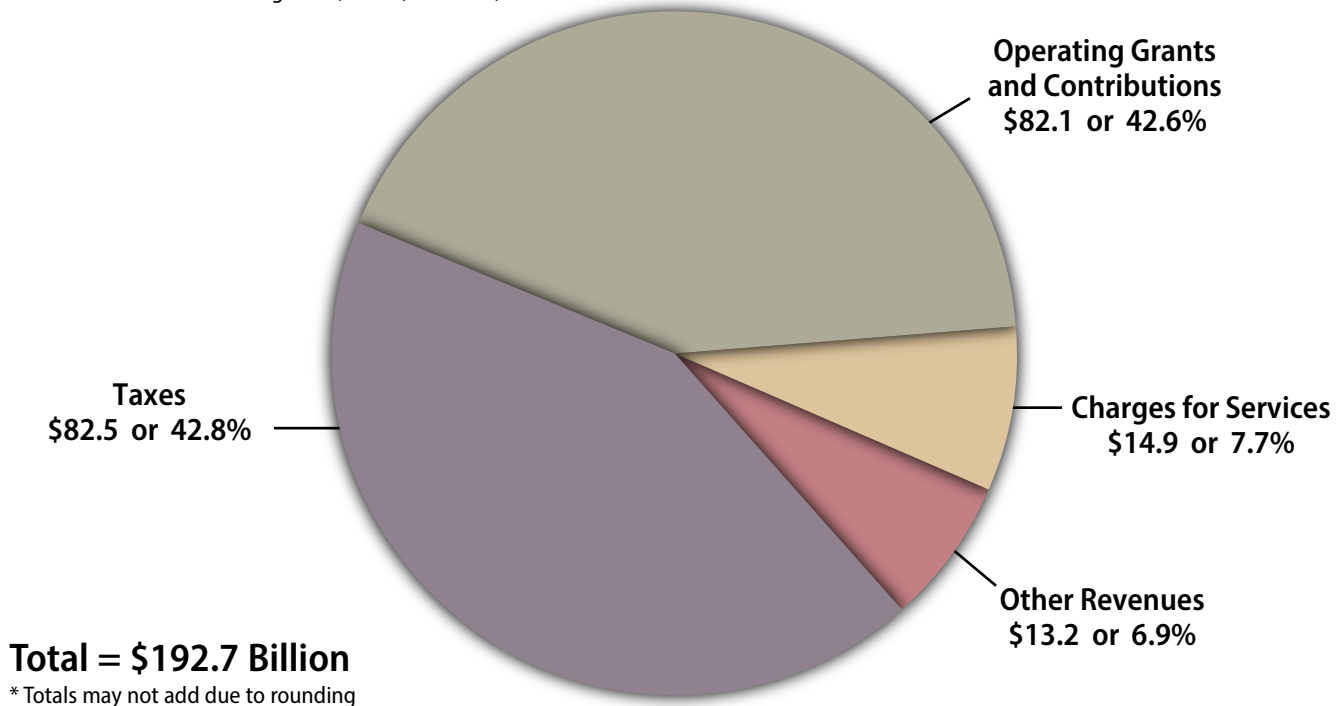
For the Fiscal Year Ended August 31, 2023 (In Millions)



## Revenue by Source: Governmental Activities

Graph MDA-4

For the Fiscal Year Ended August 31, 2023 (In Billions)\*

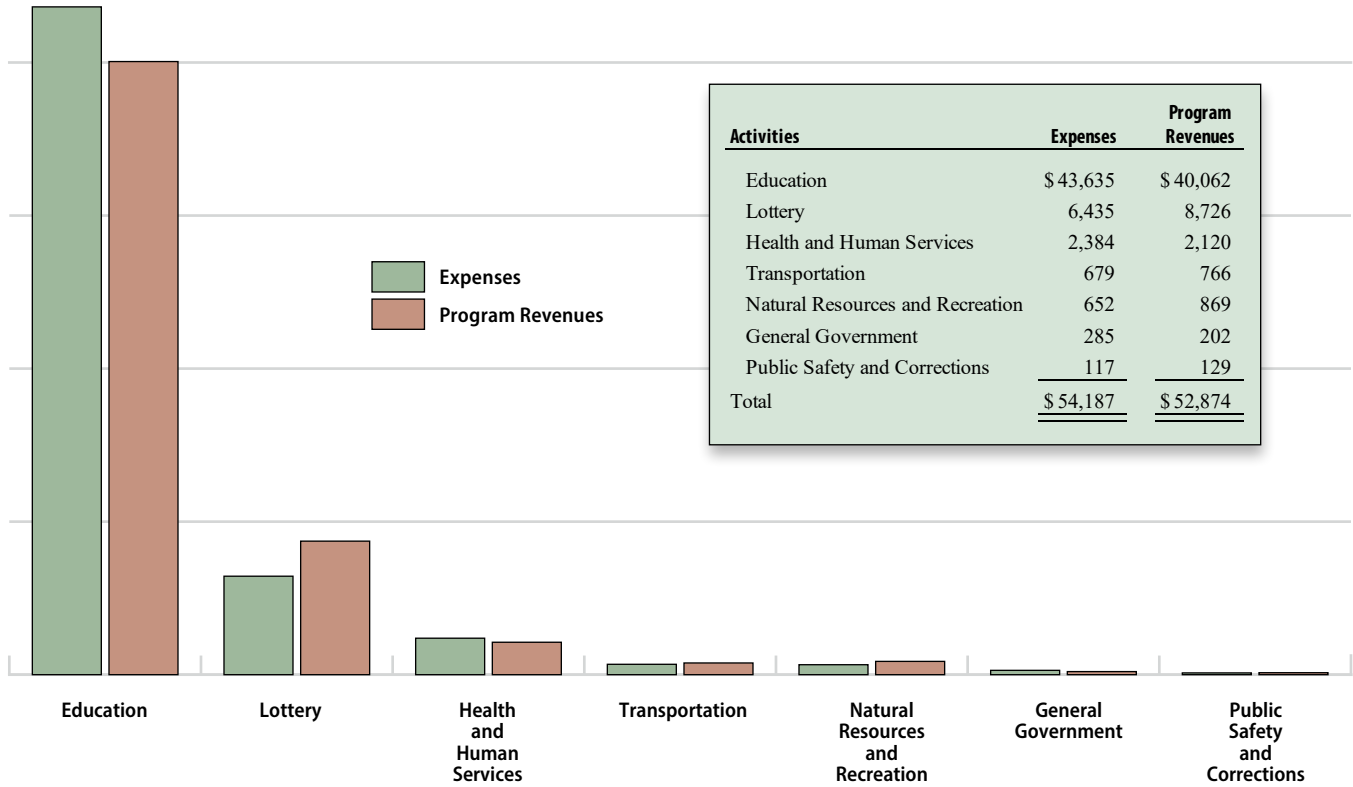




## Expenses and Program Revenues: Business-Type Activities

Graph MDA-5

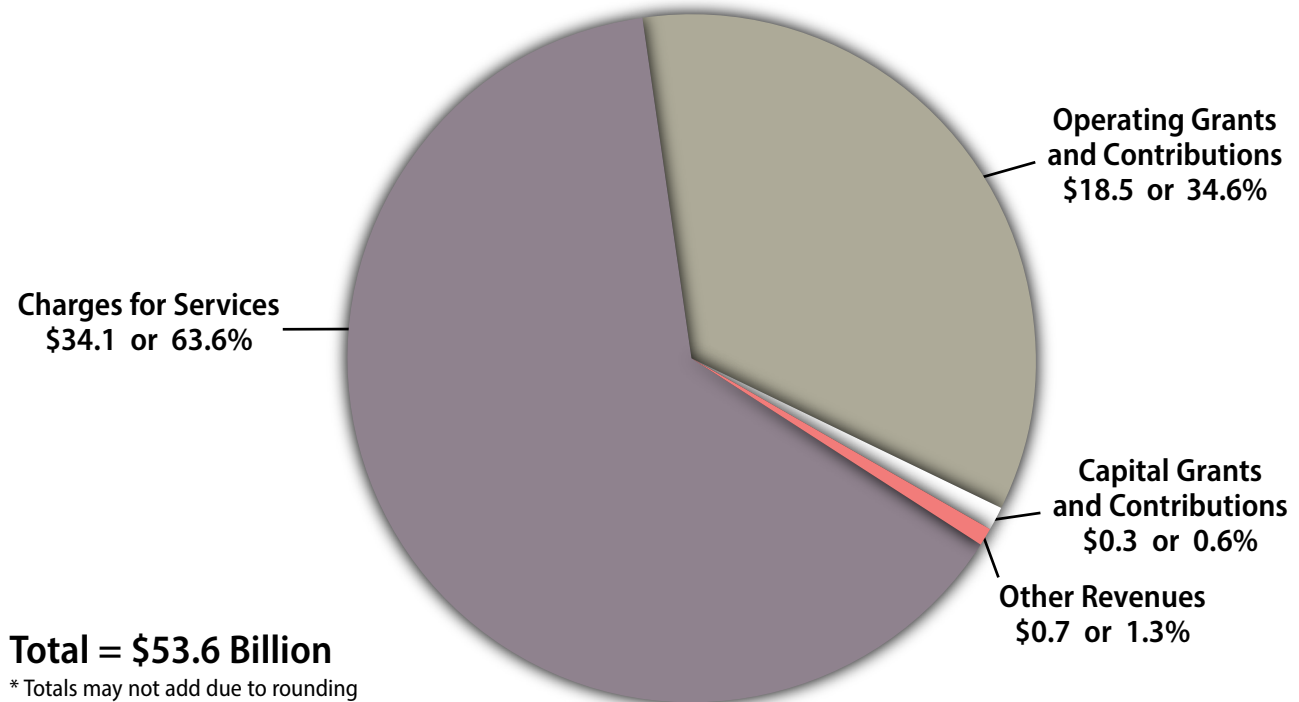
For the Fiscal Year Ended August 31, 2023 (In Millions)



## Revenue by Source: Business-Type Activities

Graph MDA-6

For the Fiscal Year Ended August 31, 2023 (In Billions)\*



The expenses of the state were \$199 billion, a decrease of \$2 billion, down 1 percent from fiscal 2022. The expense fluctuations in governmental activities are largely attributable to a \$4 billion decrease in health and human services. In business-type activities, there was a \$3.3 billion increase in education services and a \$389.9 million increase in health and human services.

The financial analysis of the state’s funds will further explain the results for changes in the state’s financial condition.

### Governmental Activities

Governmental activities program revenue was \$97.1 billion, including charges for services of \$14.9 billion, operating grants and contributions of \$82.1 billion and capital grants and contributions of \$126.4 million. Total program revenues decreased by \$17.2 billion for fiscal 2023 due to decreased federal revenues for COVID-19 related funding. Governmental activities expenses were \$144.8 billion. All functions of governmental activities in the government-wide statement of

activities have a net cost, except the general government which reported slight surpluses. The education function and the health and human services function account for 85 percent of governmental activities expenses and 86.9 percent of the net cost. The tax collections of the state provide the primary source of funding, which when added to program revenues, support the payment of governmental services.

### Business-Type Activities

Business-type activities generated program revenue of \$52.9 billion, including charges for services of \$34.1 billion, operating grants and contributions of \$18.5 billion and capital grants and contributions of \$263.5 million. The total expenses for business-type activities were \$54.2 billion. The largest changes occurred in education, with a \$3.3 billion increase for colleges and universities and in health and human services with a \$389.9 million increase. There was an increase in net position in the government’s business-type activities of \$3.4 billion from \$92 billion in fiscal 2022.

<b>Net Cost (Income) of the State's Activities</b>				
<b>Table MDA-7</b>				
For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)				
<b>Services</b>	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	<b>Total Cost</b>	<b>Net Cost (Income)</b>	<b>Total Cost</b>	<b>Net Cost (Income)</b>
General Government	\$ (3,499,619)	\$ (7,754,730)	\$ 284,849	\$ 83,142
Education	39,299,707	25,877,462	43,635,059	3,574,501
Teacher Retirement State Contributions	3,047,455	3,047,455		
Health and Human Services	83,779,885	16,620,909	2,383,827	264,177
Public Safety and Corrections	8,609,501	8,173,309	117,332	(12,009)
Transportation	8,843,755	1,063,538	678,327	(87,429)
Natural Resources and Recreation	3,967,367	643,589	651,703	(216,913)
Regulatory Services	557,714	(134,524)		
Lottery			6,435,017	(2,290,977)
Interest on General Long-Term Debt	186,242	186,242		
<b>Total of Services Provided</b>	<b>\$ 144,792,007</b>	<b>\$ 47,723,250</b>	<b>\$ 54,186,114</b>	<b>\$ 1,314,492</b>

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## Financial Analysis of the State's Funds

### Governmental Funds

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As of Aug. 31, 2023, governmental funds reported fund balances of \$92 billion. The general fund reported a positive \$65 billion fund balance, 70.3 percent of overall fund balance.

#### General Fund

The fund balance for the general fund as of Aug. 31, 2023, was \$65 billion, an increase of \$19.8 billion from fiscal 2022. The state constitution, state statute and federal rule or bond covenants constrain \$15.2 billion. The unassigned fund balance was \$49.8 billion, which includes \$17.5 billion in the economic stabilization fund, commonly called “the rainy day fund.” Contributing to the fund balance were decreases in spending for human and health services and education of \$4 billion and \$3.8 billion, respectively. There were decreases in federal revenues of \$14.6 billion, due to the decreased COVID-19 and public emergency funding. Other general revenues increased \$874.5 million or 9.1 percent from fiscal 2022. Investment earnings and sales and use tax increased 1,658.4 percent and 5.8 percent, respectively, due to increases in interest rates and the activities of businesses.

#### State Highway Fund

The fund balance for the state highway fund for fiscal 2023, was \$11.2 billion, a decrease of \$1.4 billion from \$12.6 billion in fiscal 2022. This decrease was primarily attributable to an increase in capital outlay expense of \$1.2 billion and \$418.8 million in transportation expense. The increases in capital outlay and transportation expenses due to increased utilization of Proposition 1 and 7 revenues during fiscal 2023. Cash and cash equivalents balance increased by \$1.9 billion as the net change in fund balance decreased by \$1.7 billion.

#### Permanent School Fund

The fund balance for the permanent school fund (PSF) in governmental funds as of Aug. 31, 2023, totaled \$6.5 billion, a decrease of \$50.3 billion from fiscal 2022. The decrease was primarily attributable to a change in reporting entity. On Sept. 1, 2022, the Texas Permanent School Fund Corporation began operating and reporting as a legally separate, special purpose government corporation, as authorized by Senate Bill 1232, 87th Legislature, Regular Session. The decrease in the fund balance was largely the result of transferring \$42.3 billion of the investment activities of the PSF from governmental permanent fund to the discretely presented component unit.

#### Proprietary Funds

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Proprietary funds reported net position of \$95.4 billion in fiscal 2023, an increase of \$3.4 billion from fiscal 2022. The state's public colleges and universities hold 93.2 percent of the reported net position in proprietary funds.

#### Colleges and Universities

Colleges and universities' net position for fiscal 2023 totaled \$88.9 billion, an increase of \$5.8 billion from fiscal 2022. Federal revenue and other revenues increased by \$283.6 million and \$53.7 million, respectively, for fiscal 2023. Pledged revenues increased \$3.2 billion, an increase of 9.1 percent. Payroll related costs increased by \$384.8 million and professional fees and services decreased by \$147.1 million for fiscal 2023. Salaries and wages increased by 9 percent to \$1.5 billion. These revenues and expenses primarily contributed to the net loss before capital contributions, endowments and transfers increase of \$2.7 billion from fiscal 2022. Change in net position was \$5.8 billion, an increase of \$6.7 billion from fiscal 2022. There was also \$1.9 million, a 12.2 percent decrease from fiscal 2022, collected from land mineral income (such as oil royalties) deposited into the Permanent University Fund (PUF) for

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the benefit of the University of Texas and Texas A&M University Systems. The PUF's net position after distributions increased by \$2.1 billion from \$30.9 billion in fiscal 2022 to \$33 billion in fiscal 2023. This endowment fund contributes to the support of 21 institutions and six agencies in the University of Texas System and the Texas A&M University System.

### **Unemployment Trust Fund**

The unemployment trust fund reports activity related to the administration of statewide unemployment benefits in proprietary funds. The fund reported a net position of \$2.1 billion for fiscal 2023, a decrease of \$106.2 million from \$2.2 billion from the prior fiscal year. Due to increased economic improvement the unemployment rate has declined during 2023. By the end of November 2023, the unemployment rate remained at close to 4 percent. Unemployment benefits paid for fiscal 2023 totaled \$2.4 billion, which represents a \$418.6 million increase or 21.3 percent compared to fiscal 2022. The increase in unemployment benefits paid was the result of an increase in the average weekly benefit in comparison to the prior fiscal year. During fiscal 2023, federal revenue decreased \$87.1 million in proportion to the decrease in unemployment benefit payments.

### **Lottery Fund**

The Texas Lottery Commission operates draw and scratch ticket lottery games to generate revenue for the state's foundation school fund. The lottery fund had a negative net position of \$1.2 million for fiscal 2023, an increase of \$19.6 million from the prior fiscal year. There was an increase in interest and investment income of \$29.1 million due to the change in the fair value of investments. Transfers to state agencies totaled \$2.2 billion. The commission recorded its highest level of total sales since ticket sales began in 1992 with collections of \$8.7 billion.

### **Water Development Board Funds**

The Water Development Board Funds reports activities from statewide water related projects that provide assistance to political subdivisions. The funds reported a net position of \$5.8 billion for fiscal 2023, an increase of \$427.9 million from fiscal 2022. An increase of \$917.5 million, or 9.4 percent, in overall bond liabilities occurred during fiscal 2023. The activities in these funds during fiscal 2022 resulted in a realignment of the Water Development Board Funds moving from a nonmajor reporting status to a discretely reported major fund in the proprietary fund financial statements.

### **Fiduciary Funds**

Fiduciary funds reported \$276.2 billion in net position for fiscal 2023, an increase of \$13.6 billion from \$262.5 billion in fiscal 2022, a 5.2 percent increase.

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

Total net position for pension and other employee benefit trust funds was \$227.2 billion for fiscal 2023, an increase of \$5.9 billion from the \$221.3 billion reported in fiscal 2022. The majority of plan assets are held as investments for the pension funds. In fiscal 2023, additions from all sources increased by \$24.6 billion, including a \$23.3 billion increase in total net investment income. Total deductions increased by \$22.8 million from \$19.2 billion in fiscal 2022. The return on investments for the state's two largest pension systems, the Teacher Retirement System of Texas and the Employees Retirement System of Texas was 3.85 percent and 6.7 percent, respectively, compared to the previous year's returns of (6.7) percent and (1.5) percent. The increase is primarily from the improved performance of investments.

### **External Investment Trust Fund**

The Treasury Pool, managed by the Texas Treasury Safekeeping Trust Company (Trust Company) is the

only external investment trust fund. The Trust Company administers and invests funds belonging to state and local entities as well as providing direct access to services of the Federal Reserve System. The Trust Company reported a total net position of \$40 billion in fiscal 2023, an increase of \$7.6 billion from fiscal 2022. The increase in net position is primarily due to an increase in interest, dividend and other investment income.

### Private-Purpose Trust Funds

Total net position for private-purpose trust funds was \$4.8 billion in fiscal 2023, an increase of \$342 million from fiscal 2022. Additions from all sources of \$856.8 million exceeded total deductions of \$514.8 million primarily due to increase in fair value of investments. The net increase in net position of \$337.8 million is an increase of 8,226.2 percent from the net increase of \$4.1 million in fiscal 2022.

### Custodial Funds

Total net position for custodial funds was \$4.2 billion for fiscal 2023, which includes \$529.5 million in nonexternal investment pool custodial funds. The total net position decreased by \$200.8 million from fiscal 2022 primarily due to increases in other expenses and settlement of claims.

## Budgetary Highlights

### Variations for the General Fund

The differences from original and final revenue budgets are due to both economic and legislative reasons. Budget mechanisms allow budget revisions for certain revenues when collections exceed the original budget. Accordingly, major revisions were made to both total revenues and expenditures for a net change of \$7.4 billion.

There was a negative \$10.2 billion variance between the actual and final budget revenues. The largest negative revenue variance occurred with federal revenues, which reported a negative \$17.6 billion difference.

The largest expenditure variances occurred in the general government and health and human services, \$7.9 billion and negative \$7.9 billion, respectively. The net change in these functions comprise 0.4 percent of the overall expenditure variance of negative \$2.2 billion.

## Capital Assets – Net of Depreciation and Amortization

Table MDA-8

For the Fiscal Years Ended August 31, 2023 and 2022 (Amounts in Thousands)

Capital Asset Type	Governmental Activities		Business-Type Activities		Total Primary Government	
	2023	2022	2023	2022	2023	2022
Land and Land Improvements	\$ 19,415,650	\$ 18,522,819	\$ 2,650,957	\$ 2,586,241	\$ 22,066,607	\$ 21,109,060
Infrastructure	97,222,188	92,679,749	3,232,091	3,143,977	100,454,279	95,823,726
Construction in Progress	25,403,208	25,190,689	3,701,110	3,283,297	29,104,318	28,473,986
Land Use Rights – Permanent	97,031	69,514	22,918	22,918	119,949	113,788
Buildings and Building Improvements	2,730,198	1,737,214	22,170,531	22,149,681	24,900,729	24,152,661
Facilities and Other Improvements	82,616	73,715	1,853,965	1,917,893	1,936,581	1,996,326
Furniture and Equipment	308,884	261,762	2,182,796	2,127,706	2,491,680	2,406,565
Vehicles, Boats and Aircraft	623,689	626,830	98,757	89,650	722,446	660,161
Other Capital Assets	116,062	124,428	1,821,419	1,704,738	1,937,481	1,825,135
Intangible Capital Assets, Net	182,376	83,506	182,673	265,588	365,049	472,960
Total Capital Assets	<u>\$ 146,181,902</u>	<u>\$ 139,742,679</u>	<u>\$ 37,917,217</u>	<u>\$ 37,291,689</u>	<u>\$ 184,099,119</u>	<u>\$ 177,034,368</u>

## Capital Assets and Debt Administration

### Capital Assets

For fiscal 2023, the state has \$184.1 billion in net capital assets. This total represents an increase of \$7.1 billion in total capital assets or 4 percent from fiscal 2022. Included in this amount are increases to infrastructure of \$4.6 billion and land purchases and improvements of \$957.5 million primarily by the Texas Department of Transportation (TxDOT). Institutions of higher education also added \$64.7 million to land and land improvements.

To ensure future availability of essential services and to finance capital improvements, TxDOT made commitments for construction contracts, comprehensive development agreements and pass-through toll agreements totaling an estimated \$14.1 billion. These commitments extend beyond fiscal year-end and represent future costs to the state.

Note 2 provides detail about the state's capital assets and Note 15 details the state's significant commitments related to future capital expenditures.

### Infrastructure Assets

The value of the state's infrastructure assets is included in the governmental activities column of the government-wide statement of net position. The state accounts for its system of roads and highways using the depreciation method. Additional detail is found in Note 2 for capital assets.

### Debt Administration

The state of Texas issues both general obligation bonds and revenue bonds. Each series of revenue bonds is backed by the pledged revenue source and restricted funds specified in the bond resolution. Most revenue bonds are designed to be self-supporting from a primary revenue source related to the program financed.

The state's general obligation bond issues were rated Aaa by Moody's Investors Service, AAA by Standard & Poor's, AAA by Fitch Ratings, and AAA by Kroll Bank Ratings Agency as of August 2023. During fiscal 2023, Texas' state agencies and institutions of higher education issued \$5.8 billion in state bonds to finance new construction, transportation, housing,

## Outstanding Bonded Debt

Table MDA-9

For the Fiscal Years Ended August 31, 2023 and 2022 (Amounts in Thousands)

Description of Issue	Governmental Activities		Business-Type Activities		Total Primary Government	
	2023	2022	2023	2022	2023	2022
General Obligation Bonds	\$ 13,785,354	\$ 13,955,727	\$ 4,098,692	\$ 3,884,198	\$ 17,884,046	\$ 17,839,925
General Obligation Bonds –						
Direct Placements	278,970	280,956	42,590	58,050	321,560	339,006
Revenue Bonds	3,949,128	4,300,470	39,531,679	37,388,647	43,480,807	41,689,117
Revenue Bonds - Direct Borrowings/ Placements			293,564	691,149	293,564	691,149
Total Bonds Payable	<u>\$ 18,013,452</u>	<u>\$ 18,537,153</u>	<u>\$ 43,966,525</u>	<u>\$ 42,022,044</u>	<u>\$ 61,979,977</u>	<u>\$ 60,559,197</u>

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water conservation and treatment and other projects. General obligation debt accounted for \$1.1 billion of state bonds issued in fiscal 2023. This debt, which can only be authorized by a constitutional amendment, carries the full faith and credit of the state. The remaining \$4.6 billion is due to new issuances of revenue bonds, which are serviced by the revenue flows of individual entity projects. Bonds retired during the fiscal year were composed of \$956.1 million in general obligation bonds and \$1.5 billion in revenue bonds. Also, \$76.4 million in general obligation bonds and \$718.5 million in revenue bonds were refunded. The total outstanding general obligation debt of the state after new issuances, retirements and refundings as of Aug. 31, 2023, was \$18.2 billion. This represents an increase of \$26.7 million or 0.1 percent from fiscal 2022. An additional \$15.3 billion of general obligation bonds were authorized but are unissued. Total revenue bonds outstanding were \$43.8 billion, which is an increase of \$1.4 billion or 3.3 percent from fiscal 2022. Note 5 discloses the details on the state's long-term liabilities and Note 6 provides detailed information on the state's bonded indebtedness.

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## Economic Condition

The Texas economy added 407,100 nonfarm jobs from November 2022 to November 2023, an increase of 3.6 percent, to reach 14,094,900. Texas added more new jobs than any other state over those 12 months. Private-sector employment rose by 3 percent while government employment (federal, state and local) grew by 2.7 percent. The state's rate of job growth was the third highest among the 50 states (behind Nevada and Idaho).

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## Contacting the State's Financial Management

This financial report is designed to provide the state's citizens, taxpayers, customers, investors and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial Reporting section of the Texas Comptroller of Public Accounts at 111 E. 17th Street, Austin, Texas 78774.